

# Construction expansion hit with high prices and capacity squeeze

June 2021

## MEDIA CONTACTS

Thomas Devitt, HIA  
Tel: 0439 514 656



Tony Melville, Ai Group  
Tel: 0419 190 347

The Australian Industry Group and HIA Australian Performance of Construction Index (**Australian PCI®**) fell by a further 2.8 points to 55.5 points in June 2021 (seasonally adjusted). It is trending lower after hitting a record high in March 2021 (highest since this survey commenced in 2005). The **Australian PCI®** remained extremely elevated in June but the deceleration from recent highs confirms that growth rates are slowing. Results above 50 points indicate expansion in this survey, with higher results indicating a stronger pace of expansion.

Current activity in housing, engineering and commercial construction remained strong in June (trend). The indexes for housing and engineering activity moderated from recent highs but are still relatively elevated. Apartment construction moved back into mild contraction. New orders remain relatively strong in housing, commercial and engineering construction but indicated mild contraction in apartment construction (results a touch below 50 points, trend).

Strong demand for housing construction and renovations - combined with supply disruptions and bottlenecks in building materials - pushed both the input and selling price indexes to new highs in June. Average capacity utilisation also hit a record high in June. Nationwide, construction businesses are reporting ongoing supply disruptions and sudden price hikes, as well as difficulty finding skilled staff in building trades, project management, estimation and materials procurement. This month's survey includes the period of the latest COVID-19 lockdown in Victoria (commencing on 28 May). Responses from Victoria indicate the local lockdown disrupted but did not reduce building and construction activity.

<b>Australian PCI®</b> ▼ -2.8 points (seasonally adjusted)	<b>55.5</b>
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<b>Australian PCI®</b> ▼ -0.6 points (trend)	<b>57.8</b>
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<b>Activity</b> ▼ -0.9 points (seas. adj.)	<b>54.8</b>
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<b>Employment</b> ▼ -6.1 points (seas. adj.)	<b>58.3</b>
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<b>New orders</b> ▲ +0.9 points (seas. adj.)	<b>56.1</b>
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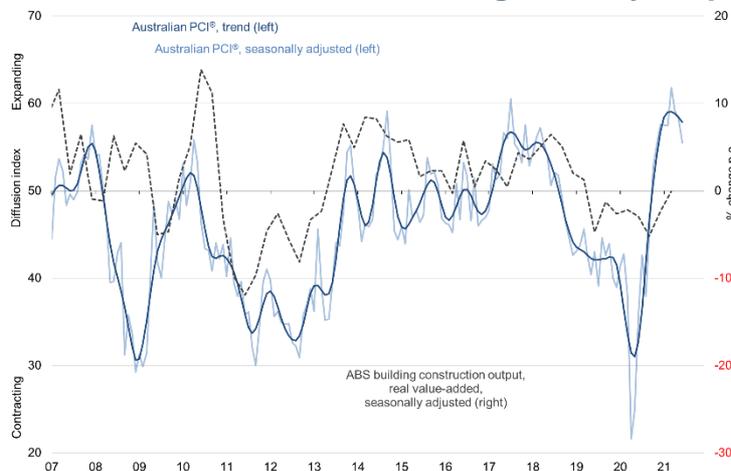
<b>Housing activity</b> ▼ -2.3 points (trend)	<b>59.6</b>
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<b>Apartments activity</b> ▼ -1.3 points (trend)	<b>48.9</b>
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<b>Commercial activity</b> ▲ +1.4 points (trend)	<b>56.8</b>
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<b>Engineering activity</b> ▼ -1.0 points (trend)	<b>58.4</b>
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## Australian PCI® and ABS building industry output



**Construction sectors:** Current activity in housing, engineering and commercial construction remained strong in June. The indexes for housing and engineering activity moderated from recent highs. Apartment construction moved into mild contraction (trend). New orders remained strong (results well above 50 points) in housing, commercial and engineering construction but continued to indicate mild contraction in apartment construction (results a touch below 50 points, trend).

**Construction prices:** The indexes for input prices and selling prices both hit new record highs in June (index series commencing in 2005 and 2008 respectively), with near-universal nationwide reports of price rises from suppliers of materials and components and widespread reports of builders needing to pass on these cost increases to their customers.

**Construction wages and employment:** The **Australian PCI®** index for employment slowed from its record high in May but it was still extremely elevated in June. Reports of skill shortages are becoming more widespread across construction occupations and locations. The wages index rose to 70.4 points in June. It is below its own record high but well above the long-term average for this series (59.6 points).

**Construction activity and new orders:** The **Australian PCI®** index for activity moderated very slightly from high levels in June, indicating that activity was still expanding relatively rapidly. New orders accelerated, with more orders being added to the existing pipeline of future work. Home builders in the most popular 'hot' regional locations noted that customers are accepting longer delivery times but are keen to join their waiting list for new homes and renovations due to 'FOMO' and a renewed surge of interest in relocating from locked-down Melbourne (and to a lesser extent, other cities) to regional towns.

**Construction supplier deliveries:** supplier deliveries were stable in June compared May, with this index close to neutral at 50.9 points. Builders across all sectors and locations continue to report delivery delays and elevated freight pricing.

**Construction capacity utilisation** rose to a new record high at 85.4% of total capacity being utilised in June. Together with a surge in new orders, this suggests further growth in employment and investment will be needed over coming months.

**Construction highlights:** Builders pointed to ongoing support from low interest rates, reactions to rising house prices and "local FOMO" in popular regional locations in June. However, some builders felt that with the end of HomeBuilder, the sense of urgency and impatience among customers is waning. Some Victoria-based home builders attributed a renewed surge in inquiries about regional locations to Melburnian's reaction to the latest lockdown. This pattern could be replicated nationwide in coming months, with Sydney and other capital cities placed into lockdown for extended periods from late June.

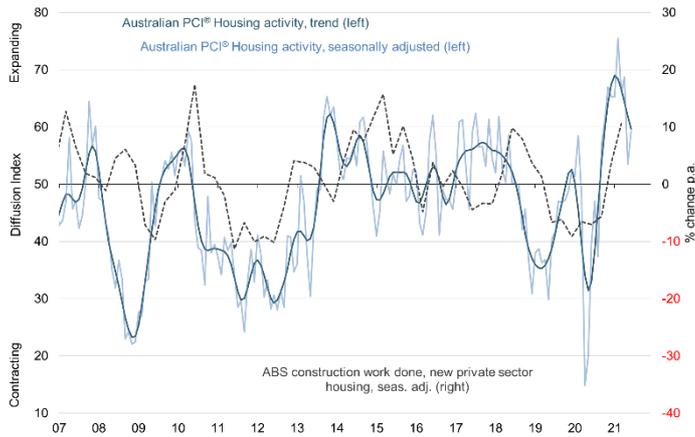
**Construction concerns:** Nationwide, construction businesses are reporting ongoing supply disruptions and price hikes, as well as difficulty finding skilled staff. Home builders said 'FOMO' is still a factor but the market 'feels less hot and urgent'.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average	AUSTRALIAN PCI® TREND	Index this month	Change from last month	12-month average
Australian PCI®	55.5	-2.8	53.4	Australian PCI®	57.8	-0.6	53.4
Activity	54.8	-0.9	52.5	House building activity	59.6	-2.3	60.2
Employment	58.3	-6.1	55.5	Apartment building activity	48.9	-1.3	44.9
New Orders	56.1	0.9	52.7	Commercial building activity	56.8	1.4	50.9
Supplier Deliveries	50.9	-8.5	53.3	Engineering construction	58.4	-1.0	49.9
Input Prices	98.3	2.5	80.1	<b>Capacity utilisation</b>			
Selling Prices	85.2	7.0	59.7	<i>Seasonally adjusted</i>			
Average Wages	70.4	5.4	61.2	% of total capacity being utilised	85.4	2.9	78.9

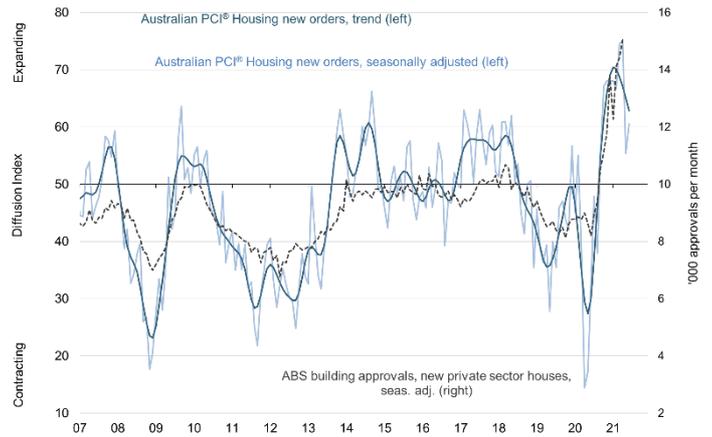
CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted	Level	Change	Change	Share of total
<b>Construction work done</b> , \$bn per quarter, Mar 2021	\$bn	% q/q	% y/y	% of construction activity
Volume of residential building	19.0	5.1	4.2	36.5%
Volume of non-residential building	11.2	-1.6	-10.4	21.6%
Volume of engineering construction	21.8	2.2	-0.3	41.9%
<b>Construction output</b> , real value-added, \$bn per quarter, Mar 2021	34.6	4.4	-0.8	6.9% of total GDP
<b>Construction employment</b> , million people employed, May 2021	1,157	0.3	-1.5	9.2% of employed people
<b>Building approvals</b> , \$bn per month, April 2021	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals	8.4	-7.1	41.4	68.6
Value of non-residential building approvals	3.8	-43.2	1.2	31.4

ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

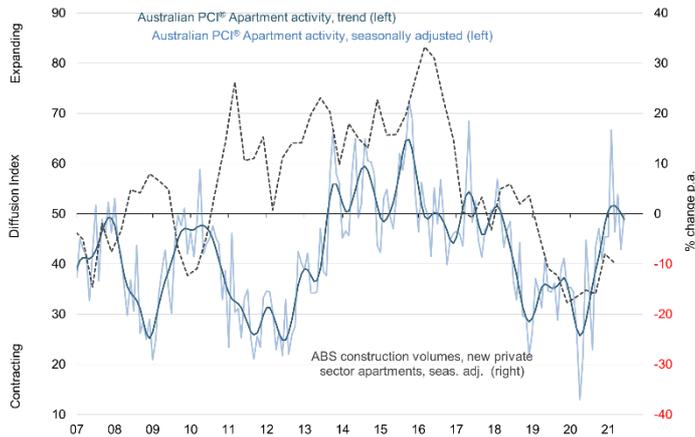
**House building activity**



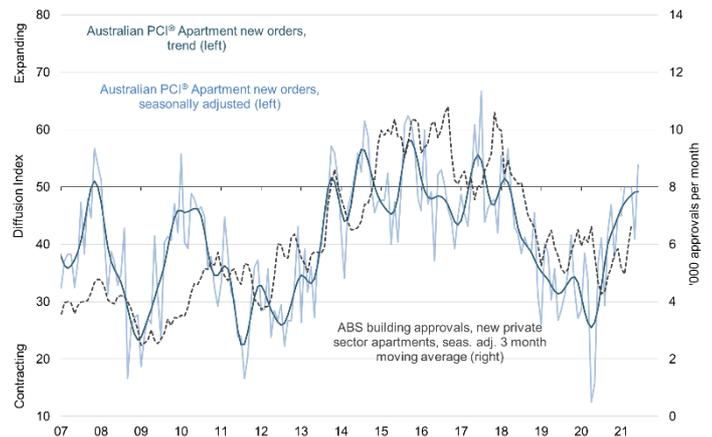
**House building new orders**



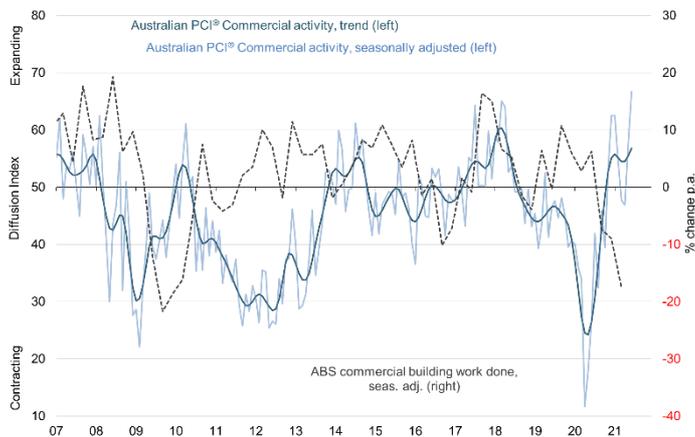
**Apartment building activity**



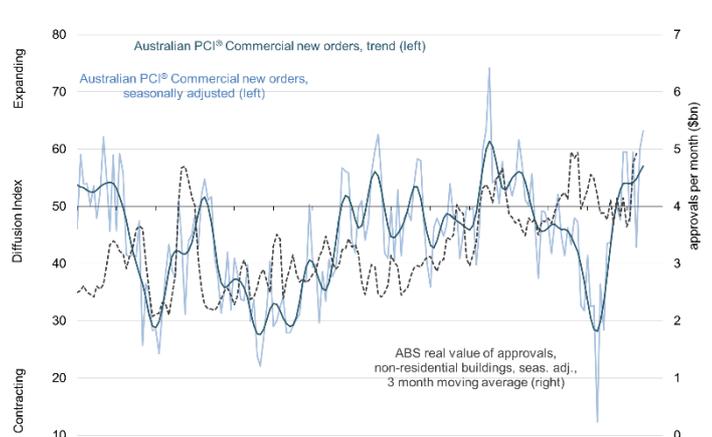
**Apartment building new orders**



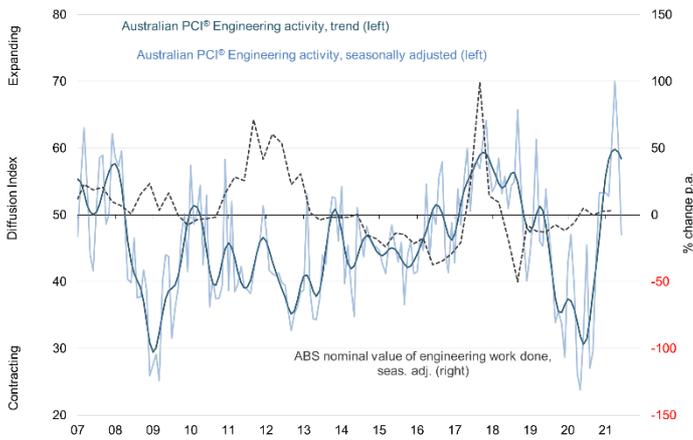
**Commercial construction activity**



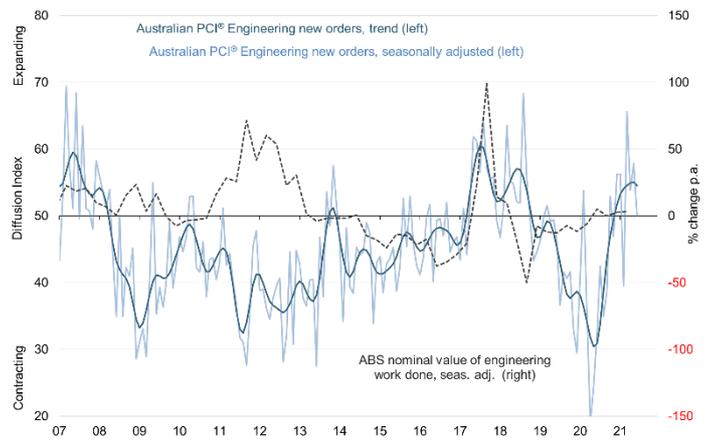
**Commercial construction new orders**



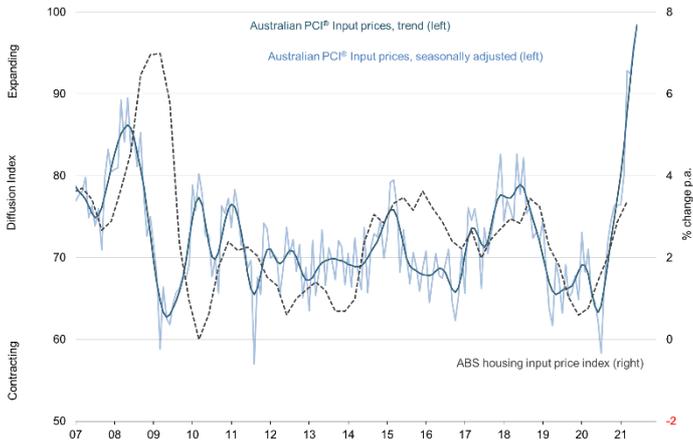
### Engineering activity



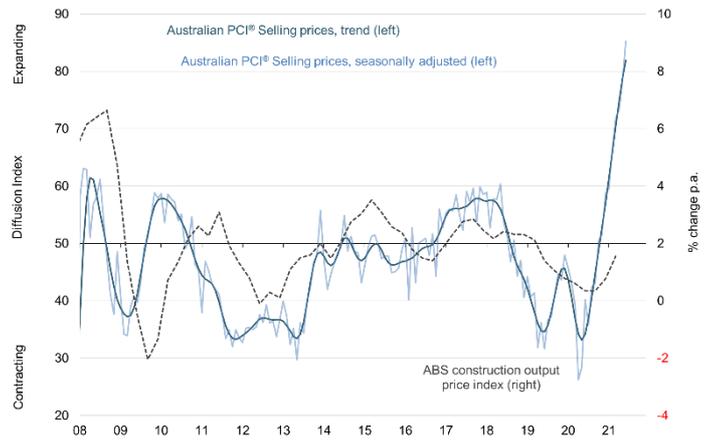
### Engineering new orders



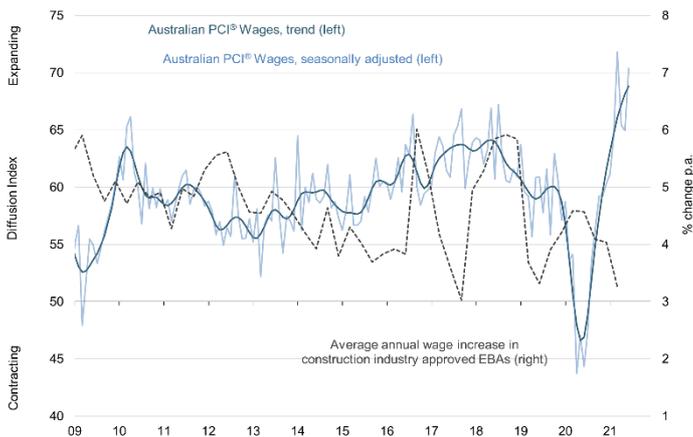
### Input prices



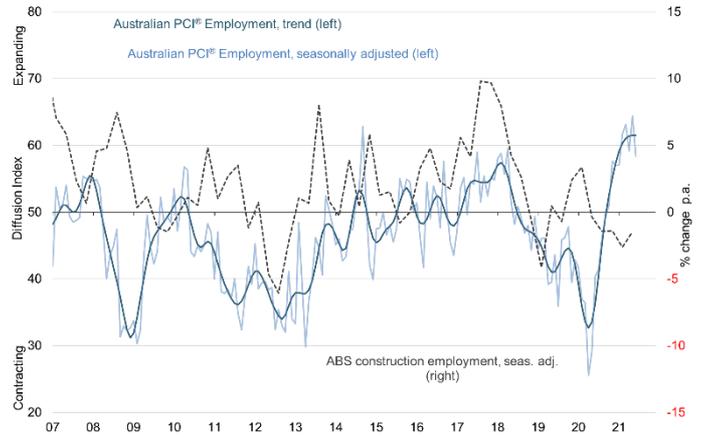
### Selling prices



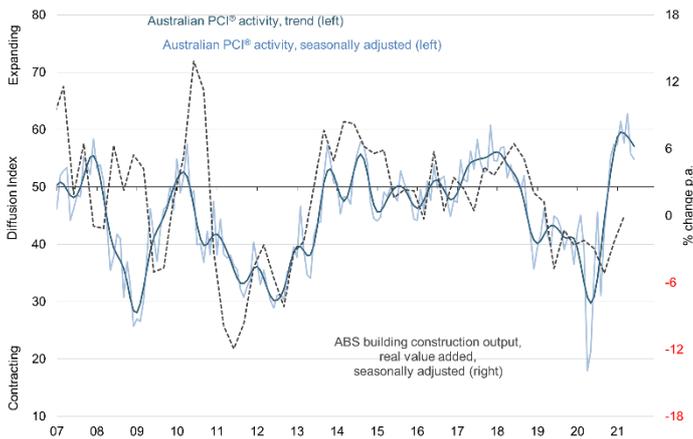
Average wages



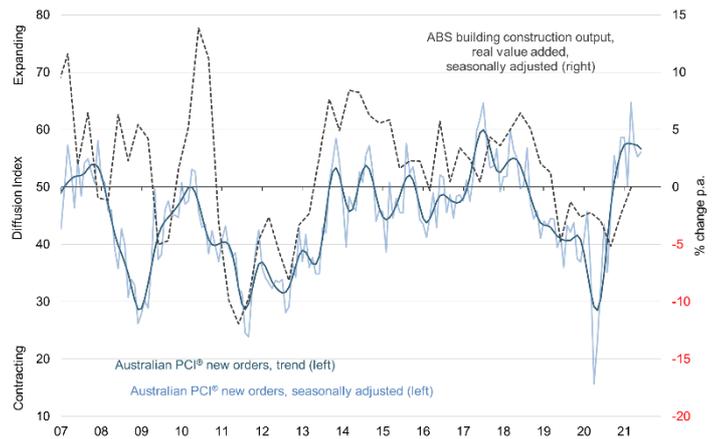
Employment



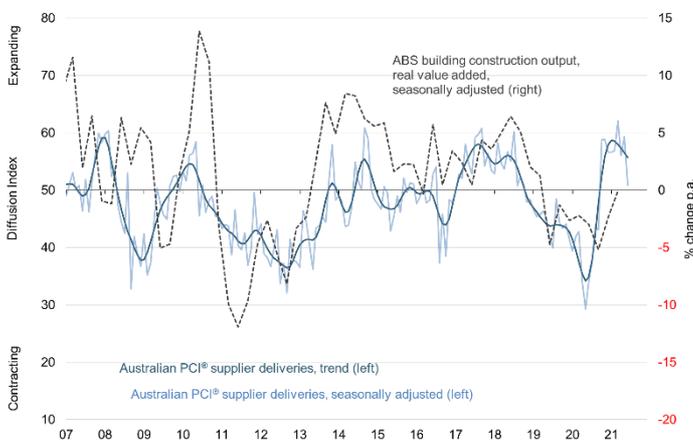
Activity



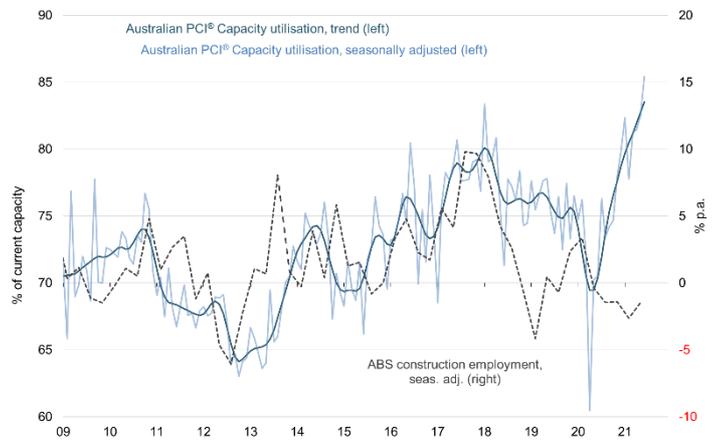
New orders



Supplier deliveries



Capacity utilisation



## Australian PCI® data definitions

The Australian PCI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes.

In the Australian PCI, the definitions of the four sectors are:

1. **House building** (ANZSIC code 3011 “House construction”) includes the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), organising or managing construction as the prime contractor.
2. **Apartment building** (ANZSIC code 3019 “Other residential building construction”) includes the construction of residential buildings other than a house primarily used for long-term residential purposes, such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. **Commercial construction** (ANZSIC code 3020 “Non-residential building construction”) includes the construction of offices, industrial premises, hotels, hospitals, aged care facilities, education buildings, entertainment and recreation developments, and in carrying out alterations, additions, renovation, and in organising or managing these types of non-residential buildings.
4. **Engineering construction** (ANZSIC code 3101 “Road and bridge construction” and ANZSIC code 3109 “other heavy and civil engineering construction”) includes the construction of transport infrastructure projects, telecommunications facilities, bridges, water and gas supply systems, pipelines, sports complexes, heavy industry constructions and other large-scale construction projects that do not generally involve the construction of buildings.



### What is the Australian PCI®?

The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) is a national composite index based on the diffusion of indices for activity, new orders, supplier deliveries and employment with varying weights. An Australian PCI® result above 50 points indicates that construction is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PCI® results are based on responses from a national sample of construction businesses that includes all states and all sectors. The Australian PCI® uses the ANZSIC industry classifications for construction sectors. Sector weights are derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology.

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