

July 2022

# Construction sector contracts for second month

## MEDIA CONTACTS

Tom Devitt, HIA  
Tel: 0421 0480038



Tony Melville, Ai Group  
Tel: 0419 190 347

## Key findings

- Three of the four construction sectors – housing, commercial and engineering – were in contraction in July. Activity indexes were higher than in June for the apartments and commercial sectors.
- House builders reported higher interest rates constraining new orders, which fell again in July.
- Increased interest rates were the main concern for respondents across all sectors. Labour shortages and delays in supplier deliveries continued to inhibit activity.
- Capacity utilisation moderated slightly to 80.6% the lowest it has been since August 2021.

The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) fell slightly by 0.9 points to 45.3 points in July (seasonally adjusted). This indicates contraction in activity across the construction sector for the second month following four months of positive or stable conditions. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

<b>Australian PCI®</b> ▼ 0.9 points (seasonally adjusted)	<b>45.3</b>
---	-------------

<b>Australian PCI®</b> ▼ 1.9 point (trend)	<b>47.7</b>
--	-------------

<b>Activity</b> ▼ -3.5 points (seas. adj.)	<b>42.7</b>
---	-------------

<b>Employment</b> ▲ 2.2 points (seas. adj.)	<b>53.0</b>
--	-------------

<b>New orders</b> ▼ -2.7 points (seas. adj.)	<b>43.1</b>
---	-------------

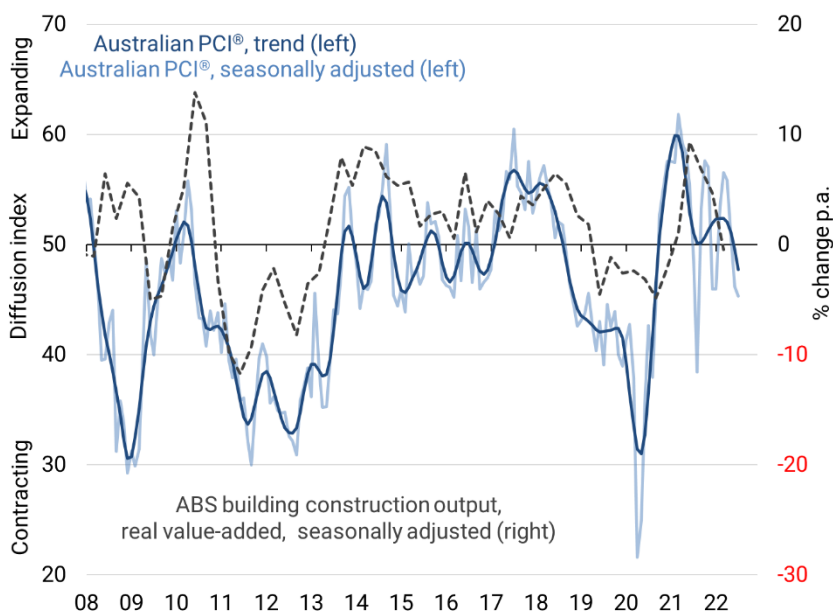
<b>Housing activity</b> ▼ -4.6 points (seas. adj.)	<b>34.6</b>
---	-------------

<b>Apartments activity</b> ▲ -8.3 points (seas. adj.)	<b>50.0</b>
--	-------------

<b>Commercial activity</b> ▲ 4.4 points (seas. adj.)	<b>42.9</b>
---	-------------

<b>Engineering activity</b> ▼ 11.3 points (seas. adj.)	<b>45.8</b>
---	-------------

## Australian PCI® and ABS building industry output



**Construction sector activity:** The activity indexes for three of the four sectors in the **Australian PCI®** indicated contraction in July (seasonally adjusted). Activity declined for the third month in housing. Apartments rose from contraction to stability, the rate of deterioration eased in commercial construction and engineering fell from robustly positive results in June to a weaker reading in July.

**Construction sector new orders:** The new orders index in the **Australian PCI®** contracted again falling by 2.7 points to 43.1 points in July, the lowest reading since August 2021 (seasonally adjusted). New orders deteriorated most in the housing construction sector. The effect of rising interest rates was evident across house building and as more builders reported a drop in enquiries. The effect of rising costs and increased uncertainty may also be constraining new orders.

**Construction prices:** The input price index eased to 93.8 in July after reaching a series high in June (seasonally adjusted). Input prices have been extremely elevated for over a year with little indication of easing. The selling prices index marked twenty-one months of increases, and reached a series high in July, a peak in an elevated period for the series (seasonally adjusted).

**Construction wages and employment:** The average wages index moderated but remained elevated marking a year of elevated wage pressures. The employment index rose and expanded in July, but remains well below the series high in March. The volatility in employment persists; all construction sectors continue to report labour shortages, and the number of respondents reporting staff unable to work due to illness remains high.

**Construction supplier deliveries:** The fall in supplier deliveries eased slightly in July compared to June increasing by 3.2 points to 42.2 points (seasonally adjusted). Delivery delays and supplier stock shortages were again reported across all sectors and locations in July.

**Construction capacity utilisation:** The capacity utilisation index fell 1.8 percentage points to 80.6% in July. The index has been elevated for well over a year, averaging 83.0% of capacity being used across the industry since January 2021 compared to the long-run average of 73.8% (since January 2008) the July 2022 reading is the lowest since August 2021.

**Construction highlights:** There were bright spots of demand as some builders in various locations reported ongoing strong demand and robust pipelines of work, particularly in larger projects.

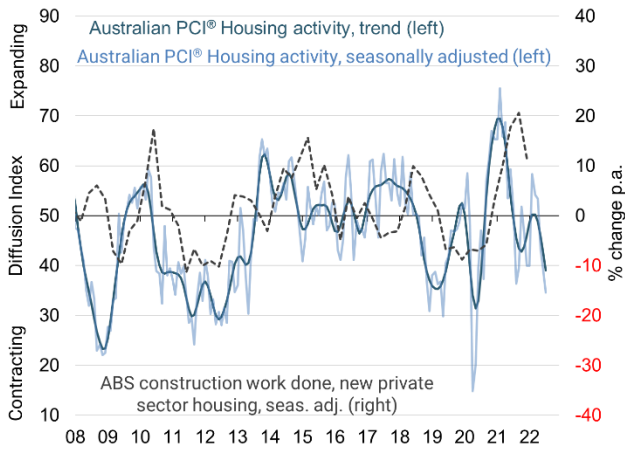
**Construction concerns:** Most respondents to the **Australian PCI®** reported increasing concerns as rising interest rates weakened customer demand. Ongoing elevated input costs, supply shortages and labour shortages remain key concerns for builders in engineering and commercial construction sectors.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average	AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average
<b>Australian PCI®</b>	<b>45.3</b>	<b>-0.9</b>	<b>50.5</b>				
Activity	42.7	-3.5	49.5	House building activity	34.6	-4.6	44.8
Employment	53.0	2.2	56.1	Apartment building activity	50.0	8.3	45.3
New Orders	43.1	-2.7	51.7	Commercial building activity	42.9	4.4	49.3
Supplier Deliveries	42.2	3.2	40.8	Engineering construction	45.8	-11.3	54.5
Input Prices	93.8	-2.2	95.2	<b>Capacity utilisation</b>			
Selling Prices	87.1	4.4	80.9	<i>Seasonally adjusted</i>			
Average Wages	76.4	-7.3	76.1	% of total capacity being utilised	80.6	-1.8	83.3
<b>CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted</b>				<b>Level</b>	<b>Change</b>	<b>Change</b>	<b>Share of total</b>
<b>Construction work done</b> , \$bn per quarter, March 2022				\$bn	% q/q	% y/y	% of construction activity
Volume of residential building				18.4	-2.1	1.4	34.4
Volume of non-residential building				12.1	1.1	3.0	22.5
Volume of engineering construction				23.1	0.7	4.2	43.1
<b>Construction output</b> , real value-added, \$bn per quarter, Mar 2022				37.0	0.2	4.2	7.1% of total GDP
<b>Construction employment</b> , million people employed, May 2022				1165	1.3	0.9	8.6% of employed people
<b>Building approvals</b> , \$bn per month, March 2022				\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals				8.5	40.3	7.4	58.1
Value of non-residential building approvals				6.1	116.4	39.7	41.9

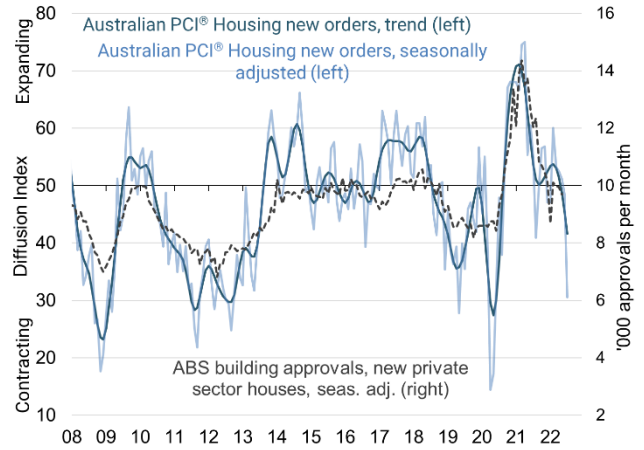
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

For more detail about the Ai Group Australian PCI® visit: <https://www.aigroup.com.au/resourcecentre/economics/>

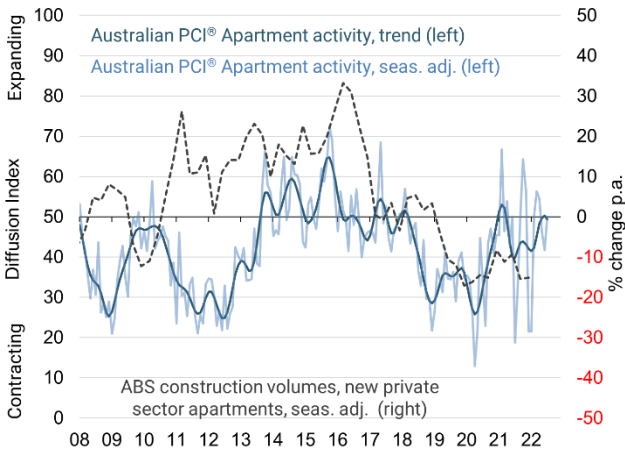
### House building activity



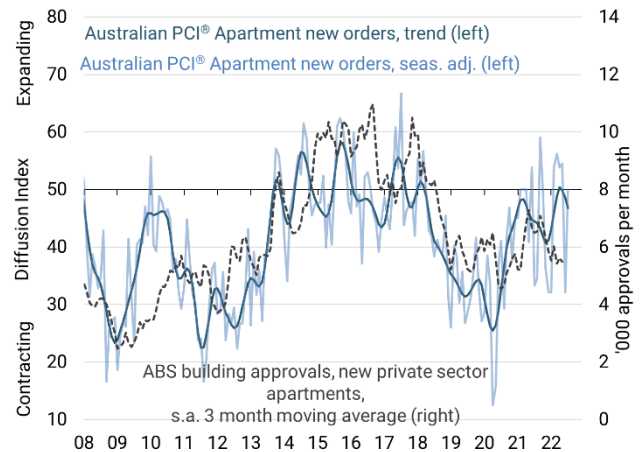
### House building new orders



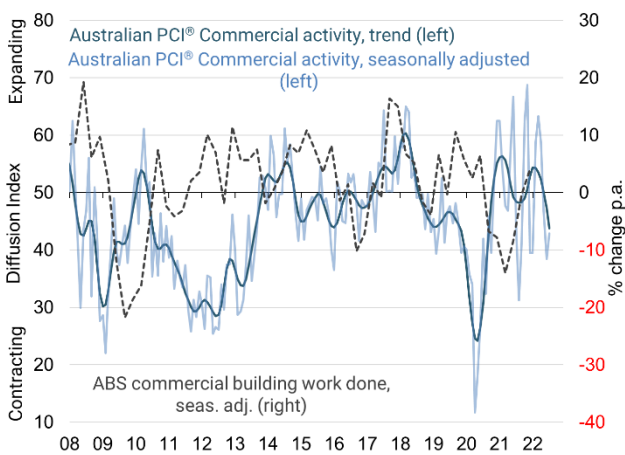
### Apartment building activity



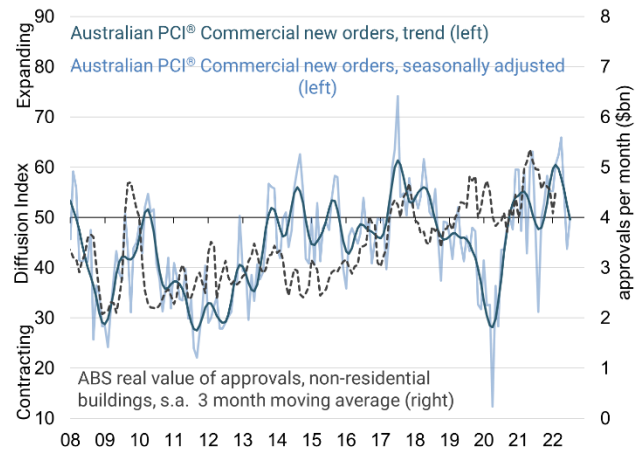
### Apartment building new orders



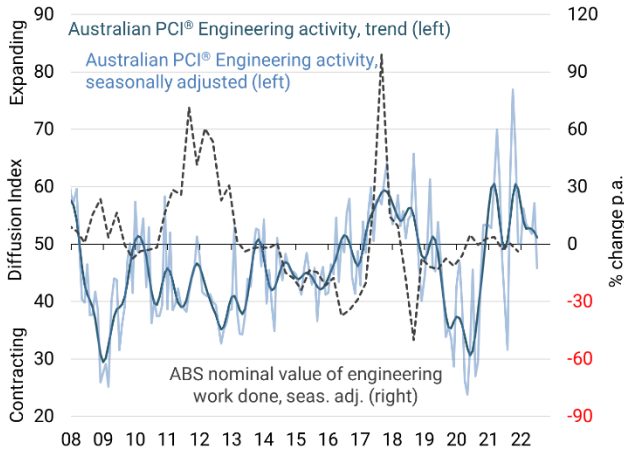
### Commercial construction activity



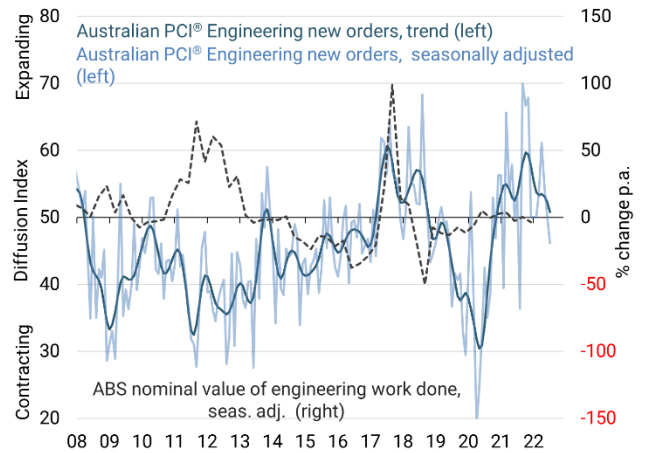
### Commercial construction new orders



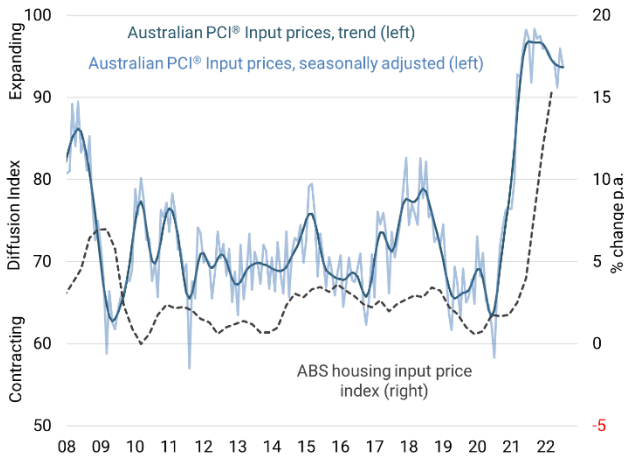
## Engineering activity



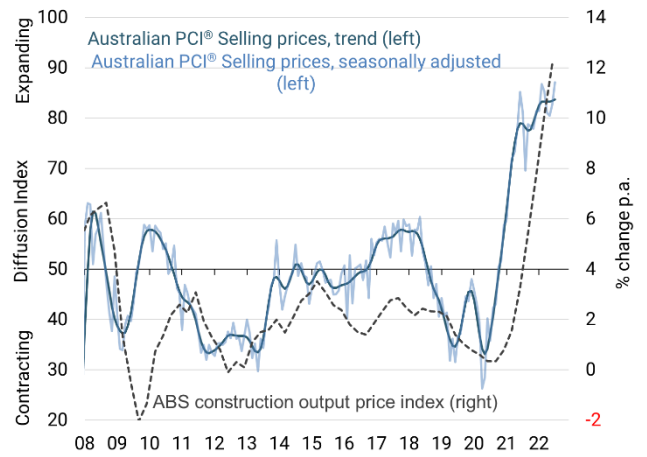
## Engineering new orders



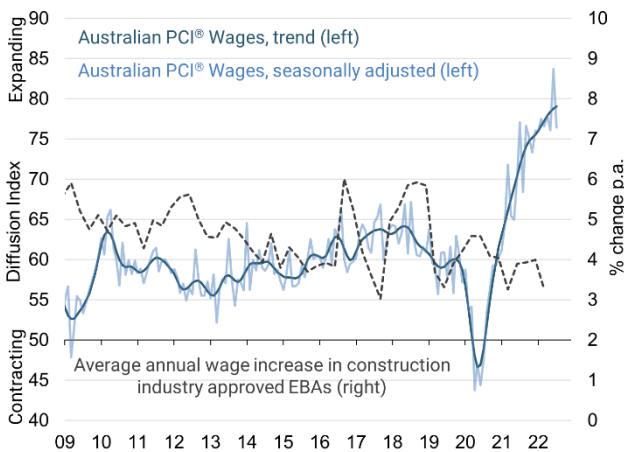
## Input prices



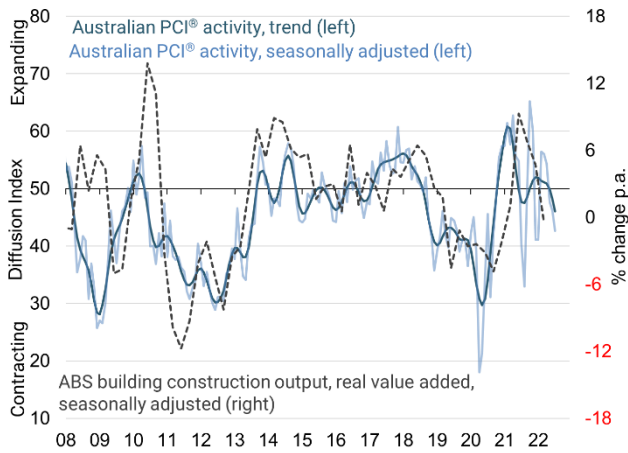
## Selling prices



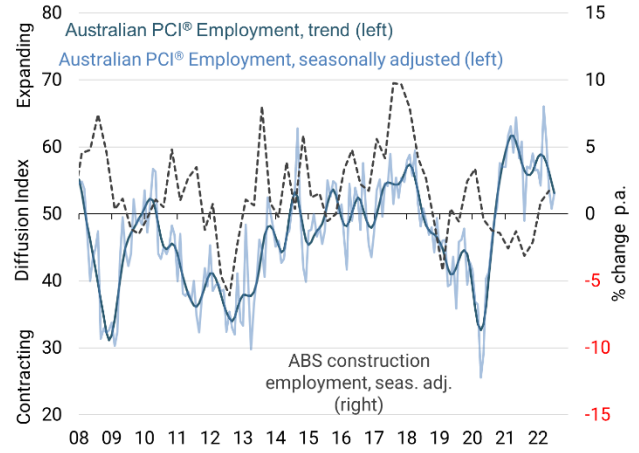
## Average wages



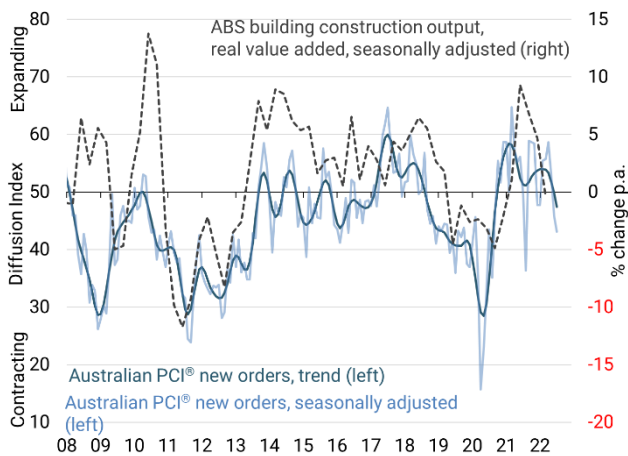
Activity



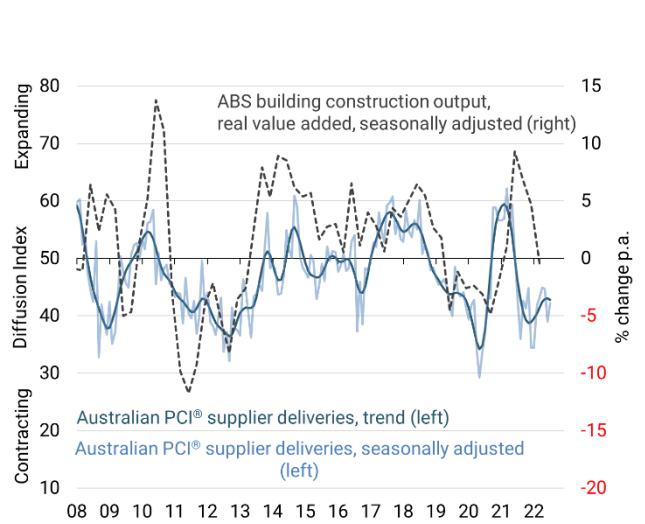
Employment



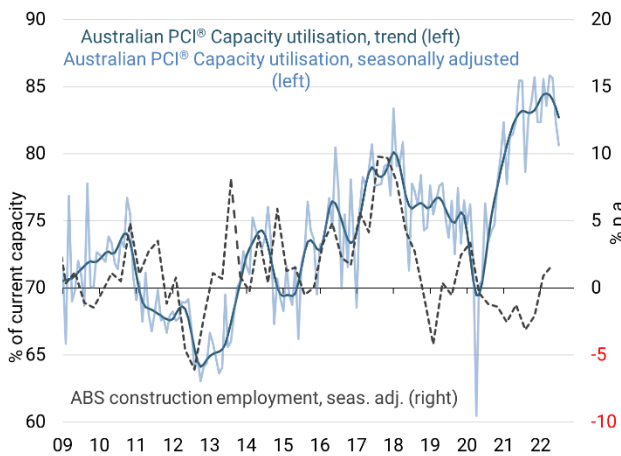
New orders



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.

© The Australian Industry Group, 2022. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part is to be reproduced by any process or means without the prior written permission of The Australian Industry Group.

Disclaimer: The Australian Industry Group provides information services to its members and others, including economic policy and information services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or inference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.

For further economic analysis and information from the Australian Industry Group, visit [www.aigroup.com.au/resourcecentre/economics/](http://www.aigroup.com.au/resourcecentre/economics/)