

# PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX™

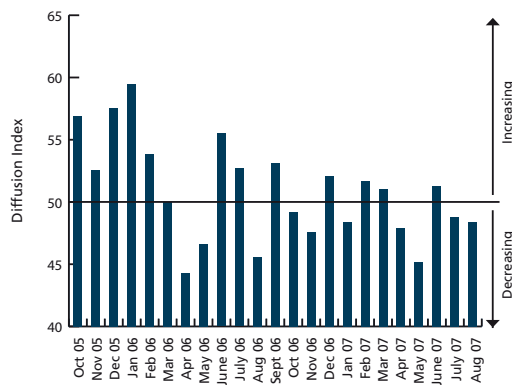


AUGUST 2007

## CONSTRUCTION MAINTAINS WEAKNESS WITH OUTLOOK SUBDUED

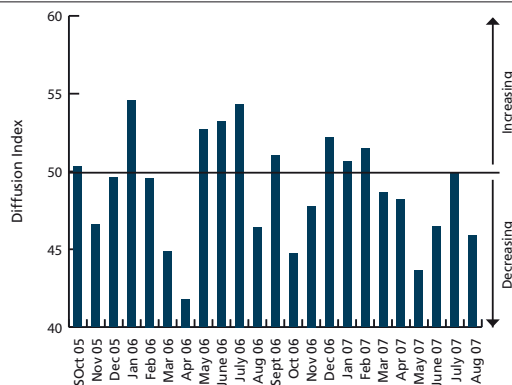
### KEY FINDINGS

- The performance of the national construction industry deteriorated for a second consecutive month in August 2007, underpinned by further contraction in house and apartment building, and weaker commercial construction activity.
- At 48.4 in August, down slightly by 0.4 points on the previous month, the seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (Australian PCI™) remained below the critical 50.0 points level separating expansion from contraction.
- Firms mainly attributed the subdued market conditions to a low level of customer enquiries and fewer invitations to tender. Residential builders continued to report the negative influences of weakness in new home starts, low housing affordability and land supply shortages.
- The activity sub-index declined in August, as a consequence of weakness in new orders during the previous month, with this leading to a further fall in employment and a cut back in deliveries.
- While new orders increased in August, this improvement was due solely to increased new business in engineering construction, signalling that the current mixed and fragile state of the industry as a whole will persist in coming months.



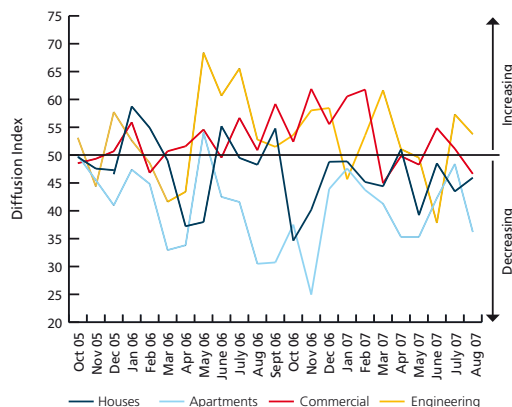
### CONSTRUCTION ACTIVITY

- In seasonally adjusted terms, the activity sub-index in August registered 45.9.
- This was 4.0 points below the index reading for July 2007, signalling a higher rate of decline in total construction activity during August.
- The weaker activity outcome for August reflected a decline in new orders in the previous month, although engineering construction benefited from the flow-on impact of a sizeable lift in new orders registered in June 2007.
- The continued growth in engineering construction was, however, insufficient to offset a fall in commercial construction activity (following growth over the previous two months), and a further reduction in both house and apartment building.

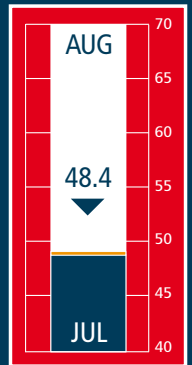


### ACTIVITY BY SECTOR

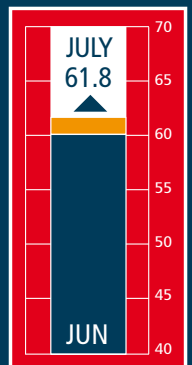
- House building activity (seasonally adjusted) continued to contract in August 2007, although the sub-index reading of 45.9 was up by 2.4 points on July 2007, indicating a slower rate of decline during the month.
- Apartment building was the most subdued sector in August, the sub-index registering 36.2, a fall of 12.2 points on July.
- Activity also deteriorated during August in the commercial construction sector, although the fall in the sub index by 4.5 points to 46.6, was from a solid base of activity, and follows increases over the previous two months.
- Engineering construction was the best performing sector in August, the sub-index registering 53.8. This was, however 3.5 points below the reading for July, signalling a moderation in the rate of growth.



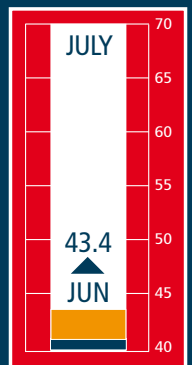
AUSTRALIAN PCI™



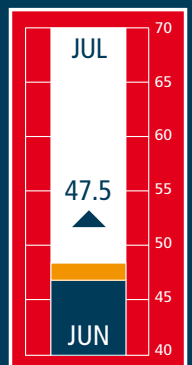
UK CONSTRUCTION INDEX\*



GERMANY CONSTRUCTION INDEX\*



IRELAND CONSTRUCTION INDEX\*



## NEW ORDERS

- New orders (seasonally adjusted) increased in August, driven by a solid pick-up in levels of new business in engineering construction.
- The new orders index registered 51.1 in August, an increase of 2.8 points on the reading in July 2007.
- Nevertheless, the new orders sub-index was higher than the reading of 12 months ago.
- Despite this rise, any flow through to higher activity in coming months is likely to be mainly centred on new engineering construction work.

## NEW ORDERS BY SECTOR

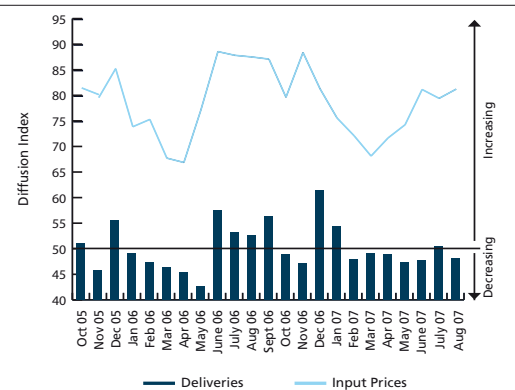
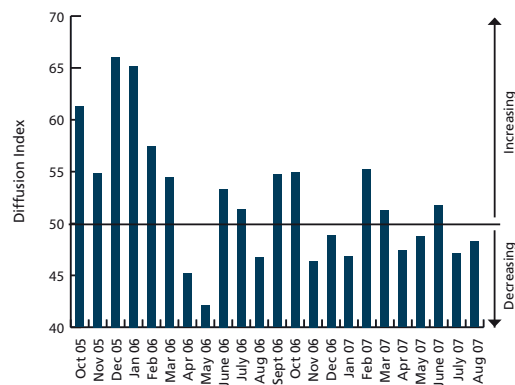
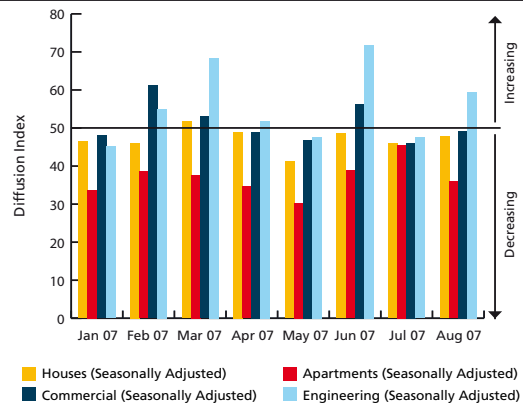
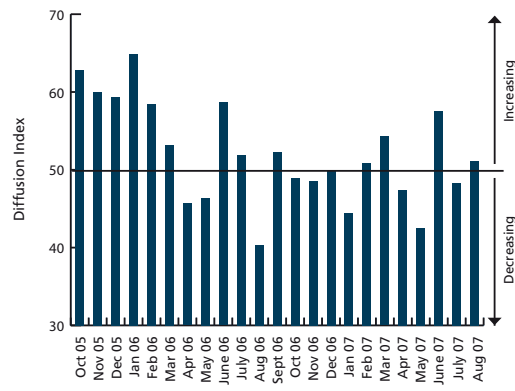
- In the apartment sector, new orders were at the lowest level of all sectors (for a 10th consecutive month), with an index reading of 35.9, down 9.6 points on the previous month.
- New orders in the house building sector also continued to decline, although at a slightly lesser rate, with the index registering 47.7 in August, a rise of 1.8 points on the previous month.
- For commercial construction, the index stood at 49.2. While this was 3.2 points higher than in July 2007, it represented the second consecutive monthly fall in new orders, and was in line with reports by firms of a lower acquisition of new contracts.
- In contrast to the above sectors, new orders in the engineering construction sector expanded in August, with the index registering 59.5, a rise of 12.0 points on July. This was the second solid rate of increase in the past three months, consistent with the current strength of the investment pipeline.

## EMPLOYMENT

- A deterioration in activity resulted in a decline in employment levels during August.
- The employment sub-index in August registered 48.2. This was, however, 1.1 points above the July reading, indicating an easing in the rate of decline.
- Employment levels have now contracted in four of the past five months, with reductions over this period most prevalent among firms with the highest concentration of work in the house building and apartment sectors.

## DELIVERIES AND INPUT COSTS

- Lower orders in August across three of the four sectors monitored, contributed to a decline in supplier deliveries.
- The supplier delivery index fell by 2.3 points to 48.2.
- Constraints on labour and material supplies, resulted in a higher rate of increase in construction costs in August, the sub-index rising to 81.4 from 79.6, an increase of 1.8 points.
- The current level of increase is the highest recorded over the past nine months.



## NATIONAL INDEXES

	Aug 07	Aug 06	Jul 07	Jun 07	May 07	Apr 07	Mar 07	Feb 07	Jan 07	Dec 06	Nov 06	Oct 06	Sept 06
<b>AUSTRALIAN PCI™</b>	48.4	45.6	48.8	51.3	45.1	47.9	51.1	51.7	48.4	52.1	47.6	49.2	53.1
<b>ACTIVITY</b>	45.9	46.4	49.9	46.4	43.7	48.2	48.6	51.5	50.6	52.2	47.8	44.7	51.0
- HOUSES	45.9	48.3	43.5	48.5	39.2	51.0	44.4	45.2	48.9	48.8	40.2	34.6	54.8
- APARTMENTS	36.2	30.5	48.4	42.3	35.3	35.3	41.3	43.7	47.6	43.9	25.0	37.5	30.7
- COMMERCIAL	46.6	50.9	51.1	54.9	48.3	49.8	45.0	61.8	60.5	55.5	61.9	52.4	59.2
- ENGINEERING	53.8	52.8	57.3	37.8	49.5	51.1	61.7	53.5	45.7	58.5	58.0	53.6	51.5
<b>NEW ORDERS</b>	51.1	40.3	48.3	57.6	42.5	47.4	54.3	50.9	44.4	49.9	48.6	48.9	52.2
<b>EMPLOYMENT</b>	48.2	46.8	47.1	51.7	48.8	47.4	51.3	55.2	46.8	48.9	46.4	55.0	54.7
<b>DELIVERIES</b>	48.2	52.6	50.5	47.7	47.3	49.0	49.2	47.9	54.4	61.4	47.1	48.9	56.3
<b>INPUT PRICES</b>	81.4	87.7	79.6	81.3	74.4	71.8	68.3	72.3	75.7	81.5	88.5	79.8	87.2

Results are based on a sample of 120 companies.

\* Seasonal adjusted results are based on factors derived from NTC Economics construction indexes, adjusted for Australian conditions.

## WHAT IS THE AUSTRALIAN PCI™?

The Australian Industry Group – Housing Industry Association Australian Performance of Construction Index (Australian PCI™) is a seasonally adjusted national composite index based on the diffusion indexes for activity, orders/new business, deliveries and employment with varying weights. An Australian PCI™ reading above 50 points indicates construction activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

More information can be obtained from the Ai Group web site [www.aigroup.asn.au](http://www.aigroup.asn.au)

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