

# PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Australian Industry Group

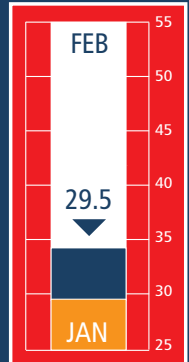
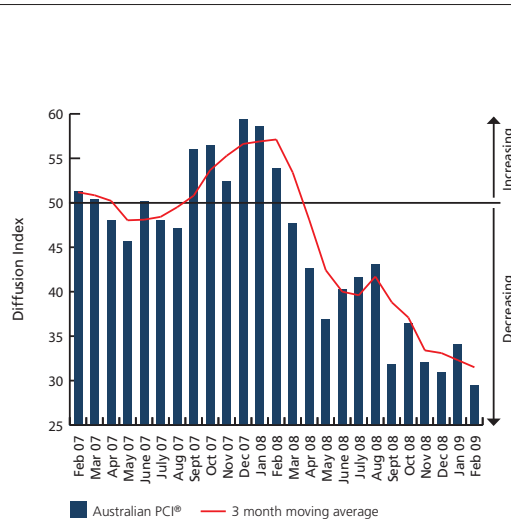


FEBRUARY 2009

## CONSTRUCTION CONTINUES TO POST BROAD-BASED INDUSTRY DECLINE

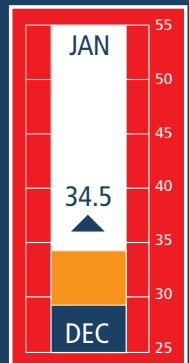
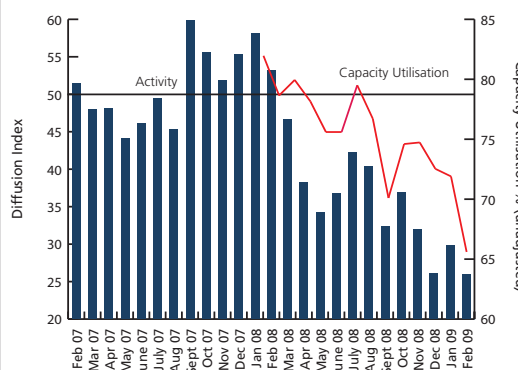
### KEY FINDINGS

- The national construction industry continued to contract in February 2009, and at a more rapid rate than the previous month, as weak market demand and confidence led to further cutbacks in new project work.
- The seasonally adjusted Australian Industry Group/Housing Industry Association Performance of Construction Index fell by 4.6 points in February to 29.5, to remain below the 50 point no change level (which separates expansion from contraction), for a 12th consecutive month.
- The downturn continued on a broad industry front, although the worst conditions were experienced in the apartment and commercial construction sectors, with commercial activity in February falling to a new survey low. While house building activity continued to contract, it would appear that lower interest rates and increases to the first home owners grant underpinned a third straight month of abatement in the rate of decline in new orders.
- The principal issues facing the industry remained a lack of funding availability, delays in planned building works, and a reluctance by clients to commit to new projects. Firms also noted that competition to secure new contracts had intensified, resulting in a high level of unsuccessful tenders and shrinking order books.
- For the industry as a whole, levels of activity and new orders registered further marked reductions in February (despite a slight easing in the rate of decline in new business). This resulted in further cutbacks in employment and deliveries from suppliers.



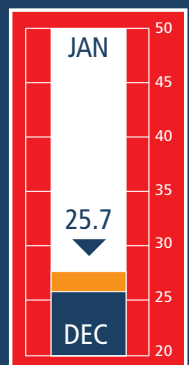
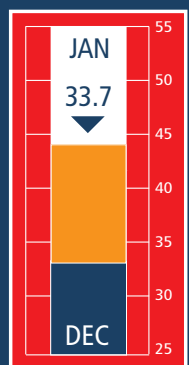
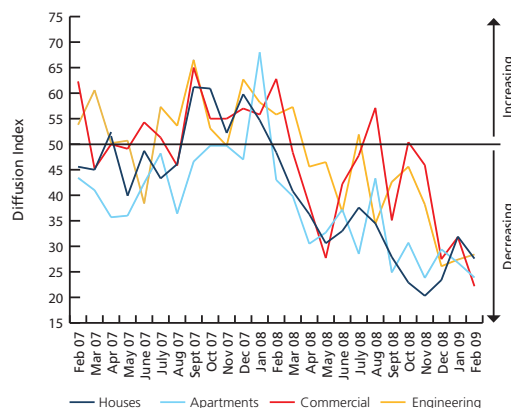
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in February registered a new survey low of 25.9.
- This was 4.0 points below the index reading for January, pointing to a more rapid decline in industry activity since the previous month.
- Underlying February's result were falls in activity across all major industry sectors, with engineering construction the only sector to record an easing (albeit to a slight extent) in the rate of decline.
- The average rate of capacity utilisation registered 65.6% in February, down by 6.3 percentage points on the previous month, and the lowest level since capacity data was first collected in January 2008.



### ACTIVITY BY SECTOR

- Commercial construction registered its 10th decline in the past 12 months, with a sub-index reading of 22.2. This was down by 9.6 points on the previous month and marked a new survey low in commercial project activity.
- Apartment building also posted a substantial decline, falling for a 13th straight month, with the sub-index down by 2.9 points in February to 23.9.
- Following an easing in the rate of decline during the previous two months, housing market conditions posted a more pronounced deterioration in February, with the house building index falling by 4.3 points to 27.6.
- The decline in engineering construction was extended to a seventh straight month in February. However, the engineering sub-index rose by 1.0 point to 28.4, to signal a slight moderation in the rate of contraction.



## NEW ORDERS

- With the ongoing economic and financial crisis continuing to hit demand for construction projects, new orders (seasonally adjusted) posted a 12th consecutive month of decline in February.
- However, at 30.2, the new orders index was up by 1.3 points on the previous month, signalling a slight easing in the rate of contraction.
- The decline in new orders reflected reductions in levels of incoming business across all four sub-sectors, although a moderation in the pace of decline was evident in the house building, apartments and engineering construction sectors.
- The further overall fall in new orders, however, points to persistent weakness in demand and total activity during coming months.

## NEW ORDERS BY SECTOR

- The commercial building sector registered the most marked rate of decline of all sectors, the index falling by 5.3 points to 24.7, the most subdued level of incoming new business since data for this series was first collected in August 2006.
- For the house building sector, new orders continued to exhibit weakness with the index registering 34.2. However, this was an increase of 4.8 points on January's reading, indicating a slower rate of decline for a third straight month, and tentative signs of firmer market conditions in the months ahead.
- New orders in the apartment sector also posted a further decline, albeit at a slower rate, with the index increasing by 5.1 points in February to 24.8.
- In the engineering construction sector, new orders maintained the deterioration evident since March 2008, although the pace of decline also moderated, the sub-index rising slightly by 1.0 point to 33.8.

## EMPLOYMENT AND WAGES

- In response to the continued reduction in activity requirements, the pace of labour shedding increased.
- The employment sub-index in February registered 31.0, down by 6.3 points on January's reading.
- Moreover, it marked the 11th consecutive month that construction firms have reduced their workforces.
- Firms reported growth in wages at a slightly higher rate than the previous month, the index registering 57.8, a rise of 1.8 points on the previous month.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

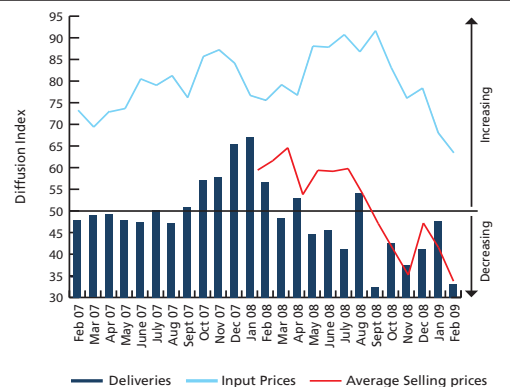
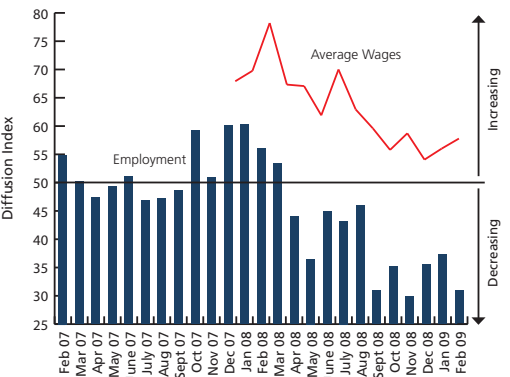
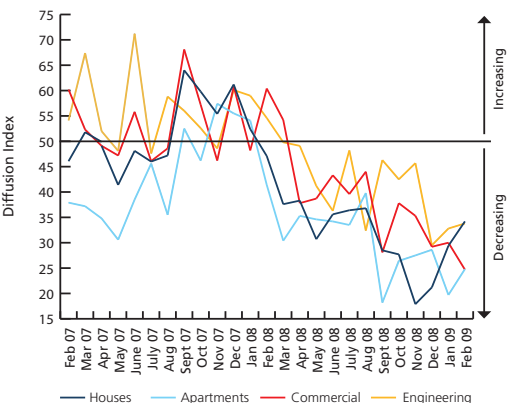
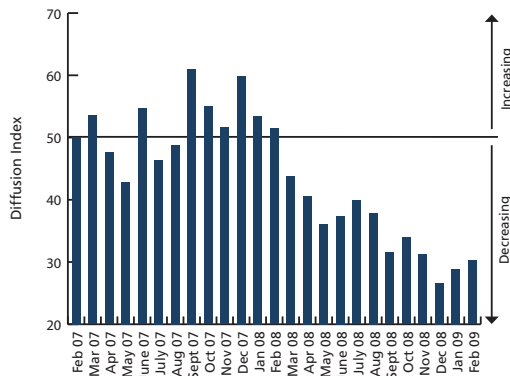
- The ongoing falls in activity led to a marked decline in supplier deliveries.
- The supplier delivery index declined by 14.6 points in February to 33.0, the second highest rate of decline since the survey's inception in September 2005.
- Cost pressures moderated in February as a consequence of the weak demand levels, with the input cost sub-index declining by 4.6 points to 63.6.
- Growth in selling prices of construction firms decreased at a higher rate, the sub-index registering 33.8, a fall of 7.8 points on the previous month, signalling continued strong pressure on margins.

## NATIONAL INDEXES

	Feb 09	Feb 08	Jan 09	Dec 08	Nov 08	Oct 08	Sep 08	Aug 08	Jul 08	Jun 08	May 08	Apr 08	Mar 08
<b>AUSTRALIAN PCI</b>	29.5	53.9	34.1	30.9	32.0	36.4	31.8	43.1	41.6	40.3	36.9	42.6	47.7
<b>ACTIVITY</b>	25.9	53.1	29.9	26.1	31.9	36.9	32.4	40.3	42.2	36.8	34.3	38.2	46.6
- HOUSES	27.6	48.4	31.9	23.4	20.3	22.9	27.9	34.5	37.6	33.0	30.6	36.3	40.8
- APARTMENTS	23.9	43.0	26.8	29.4	23.8	30.7	24.9	43.3	28.5	37.2	32.7	30.5	39.8
- COMMERCIAL	22.2	62.8	31.8	27.5	45.9	50.4	35.1	57.1	47.8	42.2	27.7	38.1	48.4
- ENGINEERING	28.4	55.8	27.4	26.1	38.2	45.6	42.6	34.4	51.9	36.7	46.5	45.6	57.3
<b>CAPACITY (%)</b>	65.6	78.7	71.9	72.5	74.7	74.6	70.1	76.7	79.5	75.6	75.6	78.2	79.9
<b>NEW ORDERS</b>	30.2	51.5	28.9	26.6	31.2	33.9	31.5	37.9	39.9	37.4	36.1	40.6	43.8
<b>WAGES</b>	57.8	69.8	56.0	54.1	58.7	55.8	59.6	62.9	70.0	61.9	67.1	67.3	78.2
<b>EMPLOYMENT</b>	31.0	56.1	37.3	35.5	29.8	35.2	30.9	45.9	43.2	44.9	36.5	44.1	53.3
<b>DELIVERIES</b>	33.0	56.6	47.6	41.3	37.5	42.6	32.4	54.2	41.2	45.5	44.6	53.0	48.4
<b>INPUT PRICES</b>	63.6	75.8	68.2	78.6	76.3	83.3	91.8	87.0	90.9	88.0	88.3	77.0	79.3
<b>SELLING PRICES</b>	33.8	61.6	41.6	47.2	35.2	41.1	47.1	53.8	59.8	59.1	59.4	53.8	64.6

Results are based on the responses of approximately 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<sup>®</sup>) 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<sup>®</sup> 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.com.au](http://www.aigroup.com.au)

## CONTACT

**Heather Ridout**  
Chief Executive,  
Ai Group  
work 02 9466 5504

**Harley Dale**  
Chief Economist,  
HIA  
work 02 6245 1393

**Markit Economics**  
[www.markiteconomics.com](http://www.markiteconomics.com)

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