

PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

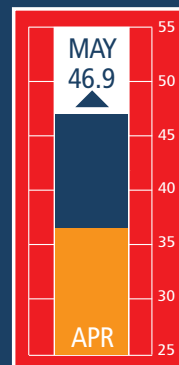
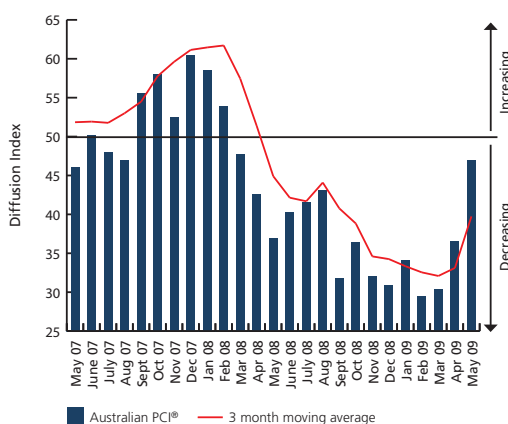


MAY 2009

CONSTRUCTION FALLS AT SLOWEST RATE IN 14 MONTHS

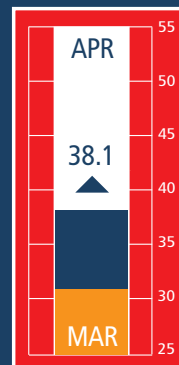
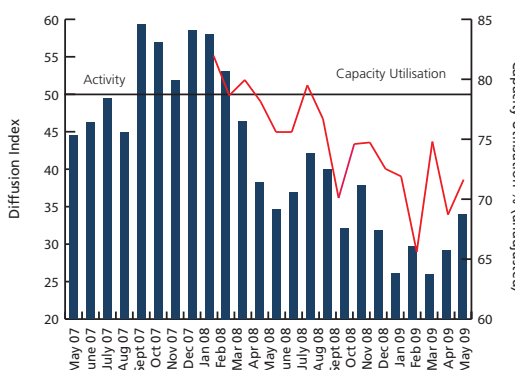
KEY FINDINGS

- The national construction industry continued to decline in May 2009, although the rate of contraction was the slowest in the past 14 months.
- This was indicated by a rise of 10.4 points in the seasonally adjusted Australian Industry Group/Housing Industry Association Performance of Construction Index® from 36.5 to 46.9 in May. Nevertheless, this reading remained below the 50 points no-change level, to signal on-going weakness in overall industry conditions.
- Despite most sectors registering continued falls in activity, the rate of decline moderated for work undertaken on commercial, house, and apartment building projects, while engineering construction activity posted its first increase in the past 10 months, albeit at a marginal pace.
- Where falls in activity were recorded, this was mainly linked by firms to strong competition for available work, the postponement of projects and low investor confidence. However, helping to moderate the rate of decline in the house builder sector, were reports of an improvement in customer enquiries and sales due to the impact of low interest rates and the First Home Owners Grant.
- On an aggregate industry basis both activity and new orders posted on-going declines in May, resulting in firms continuing to reduce their workforces although at a less marked rate than the previous month.



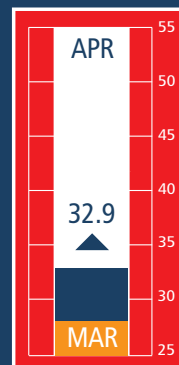
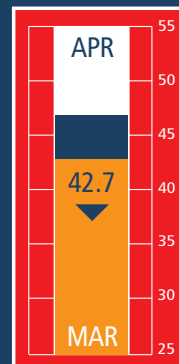
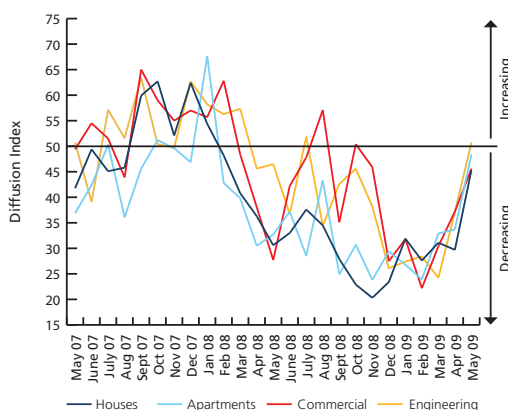
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 47.3 in May.
- This was 13.3 points above the index reading for April, pointing to a slower pace of contraction in industry activity for a second consecutive month.
- Underlying this result was less marked rates of decline in the house, commercial and apartment building sectors, combined with an increase in work on engineering projects.
- Reflecting the slower rate of decline in work levels, the average rate of capacity utilisation registered 71.6% in May, up by 2.9 percentage points on the previous month.



ACTIVITY BY SECTOR

- While house building activity contracted for a 16th consecutive month in May, the pace of decline eased markedly, with the sub-index lifting by 15.6 points to 45.3, the slowest rate of decline since March 2008.
- Apartment building also fell for a 16th straight month. However, the sub-index rose by 14.7 points to 48.4, to mark the least subdued conditions since February 2008.
- Commercial construction registered its 13th decline in the past 15 months, with a sub-index reading of 45.6. Nevertheless, this was up by 8.4 points on April, and represented the third consecutive month that the decline in commercial project activity has moderated.
- In contrast, engineering construction activity expanded with the sub-index increasing by 13.6 points to 50.7. Although this represented a marginal rate of growth in May, it was the first increase registered over the past 10 past months.



NEW ORDERS

- New orders (seasonally adjusted) contracted in May for a 15th consecutive month.
- Nevertheless, the new orders index for May rose by 14.5 points to 47.2 indicating an easing in the rate of decline for a second straight month, and the least subdued reading since February 2008.
- The continued decline in new orders reflected reductions in levels of incoming business across the house building, commercial and apartment sectors, although rates of decline moderated in each sector.
- The further moderation in the rate of reduction in new orders is likely to limit the degree of any decline in activity during coming months.

NEW ORDERS BY SECTOR

- New orders in house building continued to fall, although the rate of decline was considerably weaker than in the previous month, with the index rising by 16.4 points to 48.6. This also marked the slowest rate of decline in new orders since January 2008.
- In commercial construction, new orders declined at a slower pace for a third consecutive month, the index posting a reading of 41.2, up by 6.6 points on April.
- For the apartment sector, new orders remained in negative territory, registering a 16th straight month of decline. However, the index reading of 39.4 was 15.5 points above the previous month and the least marked rate of decline recorded during the past nine months.
- New orders in the engineering sector expanded for the first time since March 2008, the index lifting by 15.4 points to 52.2, suggesting that the current expansion in activity levels within the sector will be sustained in coming months.

EMPLOYMENT AND WAGES

- With most sectors continuing to report declines in workloads, employment posted a further fall in May, although the pace of decline moderated for a third straight month.
- The employment sub-index in May registered 45.5, up by 5.3 points on April's reading.
- This was the 14th consecutive month that construction firms have reduced their workforces, mainly due to falling new order volumes.
- Growth in wages was reported at a higher rate, the index registering 55.0, an increase of 4.4 points on the previous month.

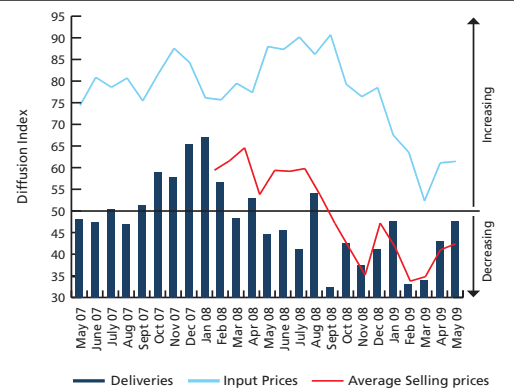
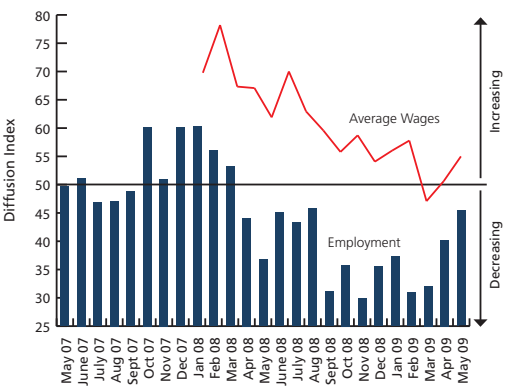
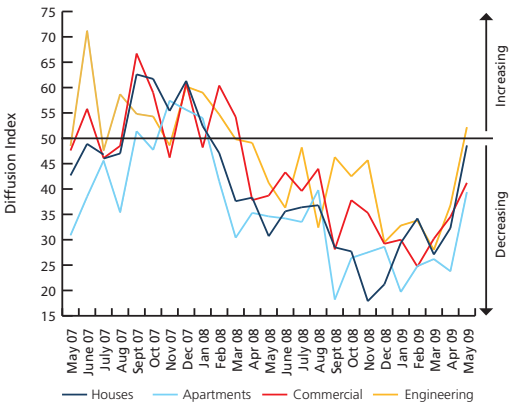
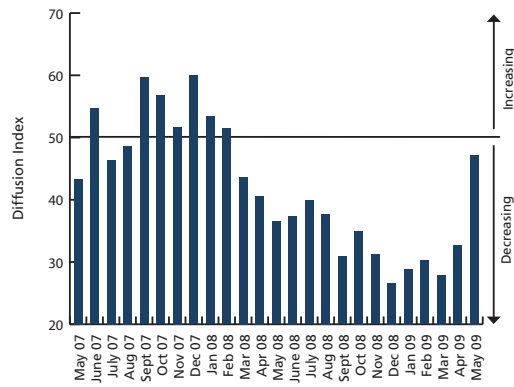
DELIVERIES, INPUT COSTS AND SELLING PRICES

- Firms continued to respond to falling activity levels by scaling back their deliveries from suppliers.
- However, the pace of reduction moderated for a third consecutive month with the supplier delivery index registering 47.7 in May, a rise of 4.8 points on the previous month, and the least marked decline since August 2008.
- Although still below levels recorded throughout 2008, input costs edged higher in May 2009 (following the strong lift in April), with the input cost sub-index rising by 0.3 points to 61.6.
- The rate of decline in selling prices was at a lesser rate, the sub-index registering 42.4, a rise of 1.4 points on the previous month, although this continued decline signalled continued strong pressure on margins.

AUSTRALIAN PCI®*

	May 2009	April 2009	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PCI®	46.9	36.5	+10.4	Contracting	Slower	15
ACTIVITY	47.3	34.0	+13.3	Contracting	Slower	15
- HOUSES	45.3	29.7	+15.6	Contracting	Slower	16
- APARTMENTS	48.4	33.7	+14.7	Contracting	Slower	16
- COMMERCIAL	45.6	37.2	+8.4	Contracting	Slower	7
- ENGINEERING	50.7	37.1	+13.6	Expanding	From contraction	1
NEW ORDERS	47.2	32.7	+14.5	Contracting	Slower	15
EMPLOYMENT	45.5	40.2	+5.3	Contracting	Slower	14
DELIVERIES	47.7	42.9	+4.8	Contracting	Slower	9
INPUT PRICES	61.6	61.3	+0.3	Expanding	Faster	16
SELLING PRICES	42.4	41.0	+1.4	Contracting	Slower	9
WAGES	55.0	50.6	+4.4	Expanding	Faster	2
CAPACITY (%)	71.6	68.7	+2.9	Expanding	na	na

Results are based on a sample of approximately 120 companies. New monthly seasonal adjustment factors derived directly from an X-12 estimation process, introduced in April 2009. *Australian PCI data is seasonally adjusted for activity, new orders, employment, deliveries and input prices. ** Number of months moving in current direction.



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.com.au

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