

PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Australian Industry Group

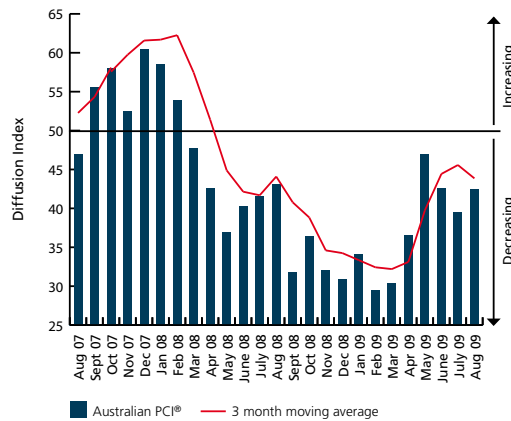


AUGUST 2009

FURTHER FALL IN CONSTRUCTION, BUT PACE OF DECLINE EASES

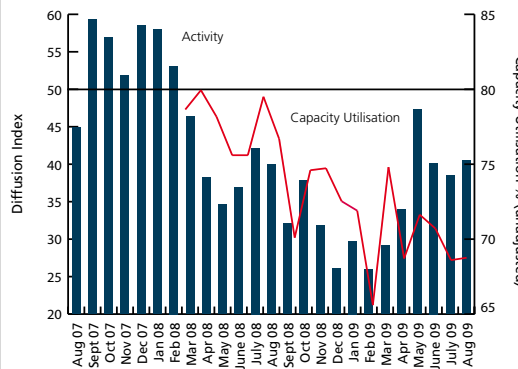
KEY FINDINGS

- The national construction industry continued to decline in August 2009, although the rate of contraction was less marked than the previous month.
- This was indicated by a rise of 2.9 points in the seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (Australian PCI®) from 39.5 to 42.4 in August. Nevertheless, this reading remained below the critical 50 points no change level, to signal on-going weakness in overall industry conditions.
- Reductions in engineering and commercial construction were the main negative influences on activity in August. However, work on house building projects exhibited further resilience and increased for a second consecutive month, while the pace of decline eased considerably in the apartment sector.
- A number of firms reported that market demand continued to be adversely affected by low investor confidence and tight credit conditions and that this had resulted in further delays in tenders and intense competition to secure new contracts. In contrast, residential builders frequently noted that customer enquiries and buying levels had continued to improve as a consequence of low interest rates and the stimulus from the First Home Owners grant.
- On an aggregate industry basis, declines in activity and new orders continued in August, albeit at a slower pace. However, with workloads still falling and companies facing ongoing difficulties in securing new business, employment declined for a 17th consecutive month.



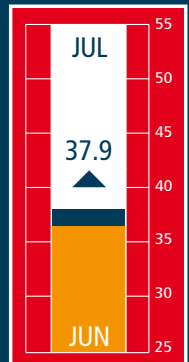
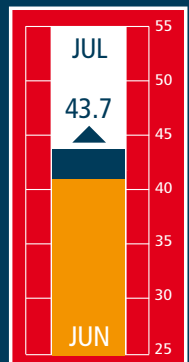
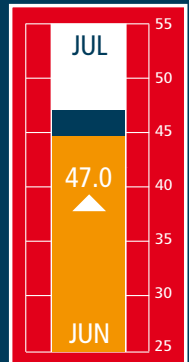
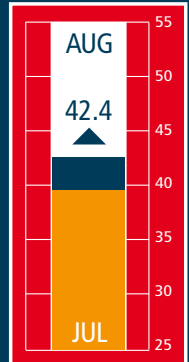
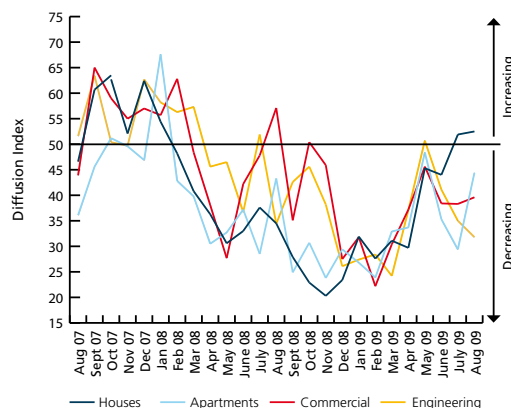
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 40.5 in August.
- This was 2.0 points above the index reading for July, pointing to a slight moderation in the rate of contraction in industry activity.
- Underlying this result were falls in activity at a less marked rate in both the apartment and commercial construction sectors, and a further lift in house building activity. This helped to lessen the impact of a pick-up in the pace of decline in engineering construction.
- The average rate of capacity utilisation registered 68.8% in August, up by 0.2 percentage points on the previous month.



ACTIVITY BY SECTOR

- House building exhibited further improvement in August, the sub-index rising slightly by 0.6 points to 52.5, to signal the second consecutive month of growth in housing output.
- Engineering construction activity registered a further, and accelerated, fall in activity with the sub-index declining by 3.2 points to 31.8. Firms attributed this to the impact of weak private sector demand, the completion of existing projects and cutbacks on new projects.
- Commercial construction registered its 16th decline in the past 18 months, with a sub-index reading of 39.6, although the pace of decline moderated with the sub-index rising by 1.3 points.
- While apartment building posted a 19th straight month of falling activity, the rate of reduction eased markedly with the sub-index lifting by 15.0 points to 44.4.



NEW ORDERS

- New orders (seasonally adjusted) declined in August to extend the current period of contraction to 18 months.
- However, the new orders index at 42.5 was up by 5.7 points on July, to signal a slower rate of decline in the level of incoming work.
- This result reflected a pick-up in new orders received by house building firms, combined with weaker rates of decline in incoming business within the apartment and commercial construction sectors.
- Nevertheless, the further fall in total new orders indicates that industry conditions on aggregate will remain subdued in coming months.

NEW ORDERS BY SECTOR

- New orders in house building increased for the first time since January 2008 with the index rising by 10.6 points to 53.8. Moreover, this reading was 35.9 points above the low point of November 2008 to demonstrate the positive flow-on impact of low interest rates and the First Home Owners Grant.
- Reflecting a continued scaling back in the project pipeline, new orders in engineering construction again fell, and at an increased rate, as indicated by a fall in the index of 4.3 points to 33.5.
- For the apartment sector, new orders remained in negative territory, registering a 19th straight month of decline. However, the index reading of 37.3 was 14.9 points above the previous month to signal a decrease in the rate of contraction.
- New orders also declined at a slower pace in the commercial sector, the index rising by 11.1 points to 47.2, the lowest level of decline in incoming business over the past 17 months.

EMPLOYMENT AND WAGES

- The further decline in workloads across most sectors led to continued cutbacks in employment levels during August.
- The employment sub-index remained in negative territory registering 42.6, although this was 1.8 points above July's reading, to signal a slower rate of job shedding.
- This was the 17th consecutive month that construction firms have reduced their workforces, reflecting on-going adjustment to declining activity levels.
- Growth in wages was reported at a slightly slower rate, the index registering 55.6, a decrease of 0.8 points on the previous month.

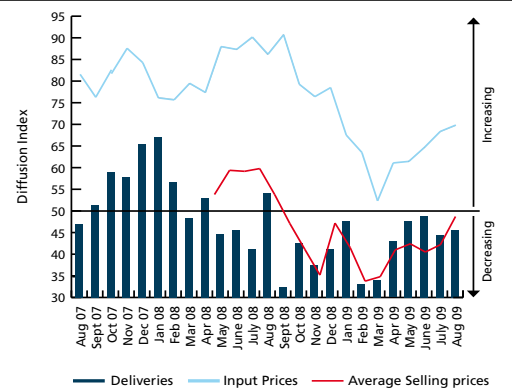
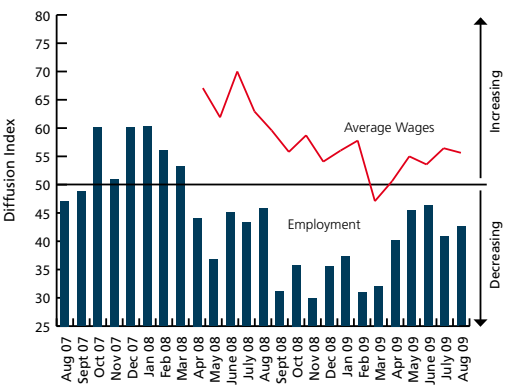
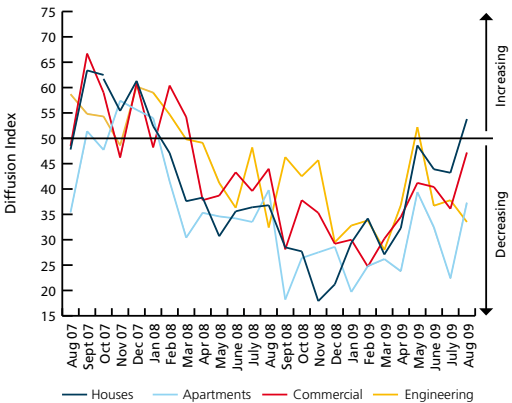
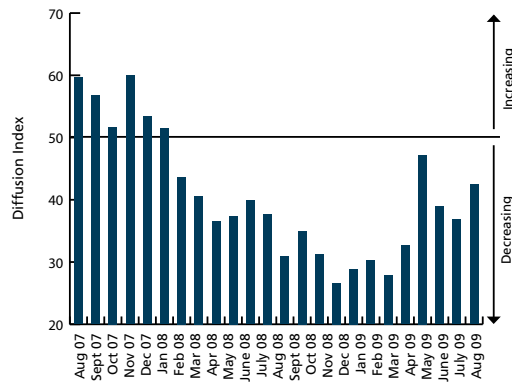
DELIVERIES, INPUT COSTS AND SELLING PRICES

- Firms continued to respond to falling activity levels by scaling back their deliveries from suppliers.
- However, the pace of reduction decreased with the supplier delivery index registering 45.7 in August, a rise of 1.3 points on the previous month.
- Although still below levels recorded throughout 2008, input costs rose at a higher pace in August 2009 with the input cost sub-index increasing by 1.5 points to 70.0.
- Selling prices posted a further decline to signal continued pressure on margins, although the rate of decline moderated with the sub-index registering 48.7, an increase of 6.5 points on July.

AUSTRALIAN PCI®*

	August 09	July 09	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	42.4	39.5	+2.9	Contracting	Slower	18
ACTIVITY	40.5	38.5	+2.0	Contracting	Slower	18
- HOUSES	52.5	51.9	+0.6	Expanding	Faster	2
- APARTMENTS	44.4	29.4	+15.0	Contracting	Slower	19
- COMMERCIAL	39.6	38.3	+1.3	Contracting	Slower	10
- ENGINEERING	31.8	35.0	-3.2	Contracting	Faster	3
NEW ORDERS	42.5	36.8	+5.7	Contracting	Slower	18
EMPLOYMENT	42.6	40.8	+1.8	Contracting	Slower	17
DELIVERIES	45.7	44.4	+1.3	Contracting	Slower	12
INPUT PRICES	70.0	68.5	+1.5	Expanding	Faster	19
SELLING PRICES	48.7	42.2	+6.5	Contracting	Slower	12
WAGES	55.6	56.4	-0.8	Expanding	Slower	5
CAPACITY (% pts)	68.8	68.6	+0.2% pts	Expanding	na	na

Results are based on a sample of approximately 100 companies. New monthly seasonal adjustment factors derived directly from an X-12 estimation process, introduced in April 2009. *Seasonal adjusted results are based on factors derived from NTC Economics construction indexes, adjusted for Australian conditions. ** 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

CONTACT

Heather Ridout
Chief Executive,
Ai Group
work 02 9466 5504

Harley Dale
Chief Economist
HIA
work 02 6245 1300

Markit Economics
www.markiteconomics.com

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