

PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Australian Industry Group

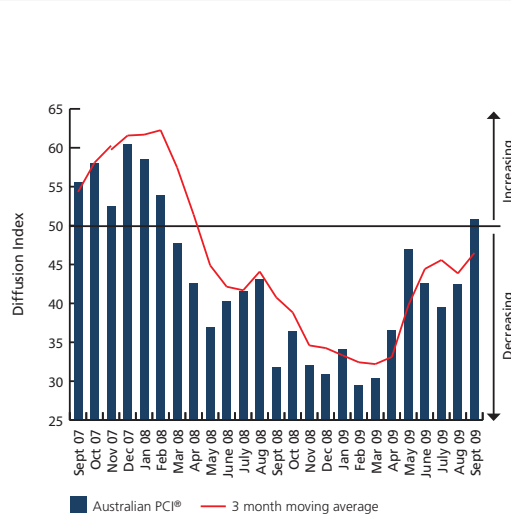


SEPTEMBER 2009

CONSTRUCTION RESUMES GROWTH AS HOUSE BUILDING STRENGTHENS

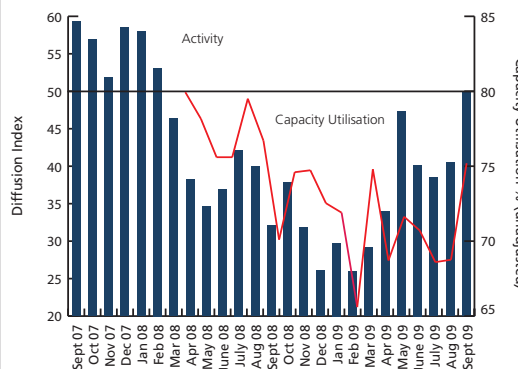
KEY FINDINGS

- The national construction industry returned to modest growth in September 2009 following 18 months of contraction, with the improvement driven by stronger demand, most notably in the house building sector.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index® rose by 8.4 points to 50.8, to be above the critical 50 points no-change level for the first time since February 2008.
- By industry sector, growth was confined to house building where the rate of growth in activity increased to its highest level since December 2007. The other key sectors, apartments, engineering and commercial construction, continued to register falls in activity, although rates of decline were less marked.
- A number of firms in the house building sector indicated that the pipeline of work was returning to higher levels, with customer enquiries and order books maintaining growth in response to low interest rates and the stimulus from the First Home Owners Grant. Nevertheless, operating conditions remained difficult overall, with frequent reports of tight credit conditions and poor investor sentiment having an on-going negative impact on activity.
- On an aggregate industry basis, activity was on par with the 50 points no-change level, having been in decline for the previous 18 months, while new orders and supplier deliveries posted slight growth to signal firmer overall demand conditions.



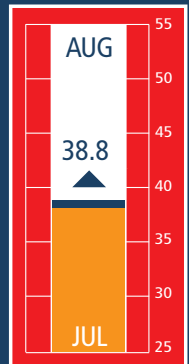
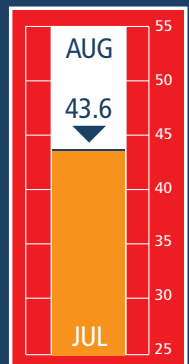
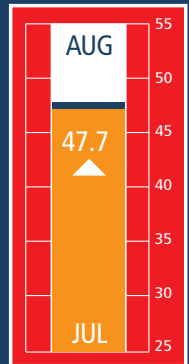
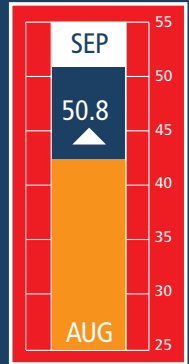
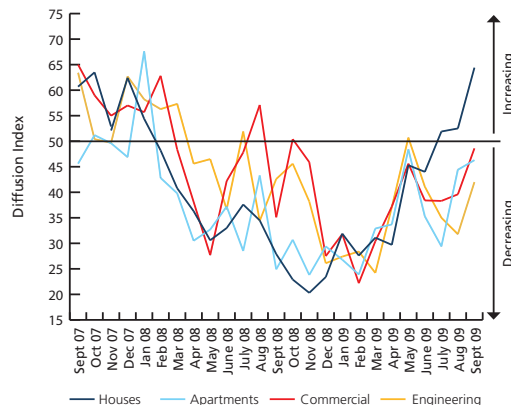
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 50.0 in September.
- This was 9.5 points above the index reading in August, and indicated that total industry activity, had moved from negative territory to a position of stabilisation.
- Underlying this improved result was stronger growth in house building combined with less marked rates of decline in the apartments, engineering and commercial construction sectors.
- The average rate of capacity utilisation registered 75.2% in September, up by 6.4 percentage points on the previous month.



ACTIVITY BY SECTOR

- House building exhibited solid improvement in September, the sub-index rising by 11.9 points to 64.4, to signal the third consecutive month of growth in housing output.
- Engineering construction activity registered a further fall in activity, although the pace of decline eased with the sub-index lifting by 10.2 points in September to 42.0. This coincided with firms securing a higher level of new orders during the month.
- Commercial construction registered its 17th decline in the past 19 months, with a sub-index reading of 48.6. However, the pace of decline moderated with the sub-index rising by 9.0 points, the least marked rate of contraction during the past 11 months.
- While apartment building posted a 20th straight month of falling activity, the rate of reduction eased for a second consecutive month, the sub-index lifting by 1.9 points to 46.3.



NEW ORDERS

- New orders (seasonally adjusted) increased in September, although overall growth was at a modest level.
- At 51.0 in September, the new orders index was up by 8.5 points on August, to signal the first rise in incoming new work since February 2008.
- While this result was mainly due to a strong pick-up in new orders received by house building firms, a moderation in the rate of decline was evident in both the apartment and engineering construction sectors.
- The overall improvement in new orders provides tentative signs of improved pipeline demand for construction firms.

NEW ORDERS BY SECTOR

- New orders in house building registered a second consecutive month of growth with the index rising by 14.5 points to 68.3. Moreover, this reading was a significant 50.4 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.
- For the engineering construction sector, new orders posted a further decline with the index registering 42.8, although this was up by 9.3 points, signalling the slowest rate of reduction over the past four months.
- For the apartment sector, new orders remained in negative territory, registering a 20th straight month of decline. However, the index reading of 44.4 was 7.1 points above the previous month and represented the slowest rate of contraction during the past 20 months.
- New orders declined at a marginally higher rate in the commercial sector, the index falling by 0.2 points to 47.0 following a more substantial easing in the previous month.

EMPLOYMENT AND WAGES

- Employment expanded in September as an increased number of firms adjusted capacity to accommodate higher workload requirements.
- The employment sub-index registered 51.8, to be up by 9.2 points on the reading for August
- Moreover, this was the first rise in employment since March 2008, and follows the slower rate of decline registered in the previous month.
- Growth in wages was reported at a slightly slower rate, the index registering 55.3, a decrease of 0.3 points on the previous month.

DELIVERIES, INPUT COSTS AND SELLING PRICES

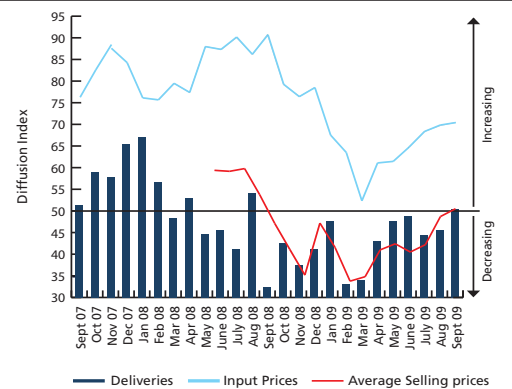
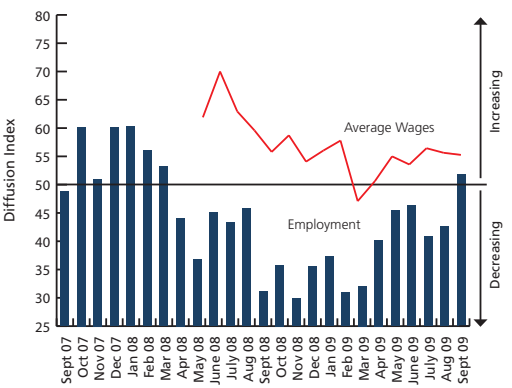
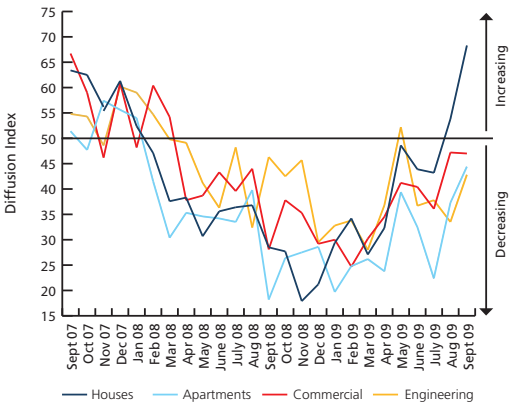
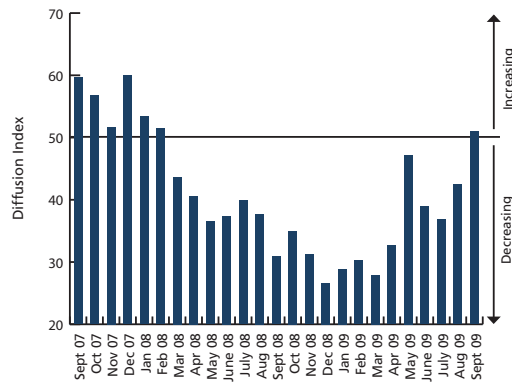
- In line with the improvement in overall market demand, deliveries from suppliers increased in September, although growth was at a marginal level.
- The supplier delivery index registered 50.4 in September, a rise of 4.7 points on the previous month, and the first increase in the past 13 months.
- Although still below levels recorded throughout 2008, input costs rose at a slightly higher pace in September 2009 with the input cost sub-index increasing by 0.6 points to 70.6.
- Selling prices posted a modest increase following declines over the previous 12 months, with the sub-index registering 50.5, an increase of 1.8 points on August.

AUSTRALIAN PCI®*

	September 09	August 09	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	50.8	42.4	+8.4	Expanding	From Contraction	1
ACTIVITY	50.0	40.5	+9.5	Stable	From Contraction	1
- HOUSES	64.4	52.5	+11.9	Expanding	Faster	3
- APARTMENTS	46.3	44.4	+1.9	Contracting	Slower	20
- COMMERCIAL	48.6	39.6	+9.0	Contracting	Slower	11
- ENGINEERING	42.0	31.8	+10.2	Contracting	Slower	4
NEW ORDERS	51.0	42.5	+8.5	Expanding	From Contraction	1
EMPLOYMENT	51.8	42.6	+9.2	Expanding	From Contraction	1
DELIVERIES	50.4	45.7	+4.7	Expanding	From Contraction	1
INPUT PRICES	70.6	70.0	+0.6	Expanding	Faster	20
SELLING PRICES	50.5	48.7	+1.8	Expanding	From Contraction	1
WAGES	55.3	55.6	-0.3	Expanding	Slower	6
CAPACITY (% pts)	75.2	68.8	+6.4% points	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.

*Seasonally 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

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