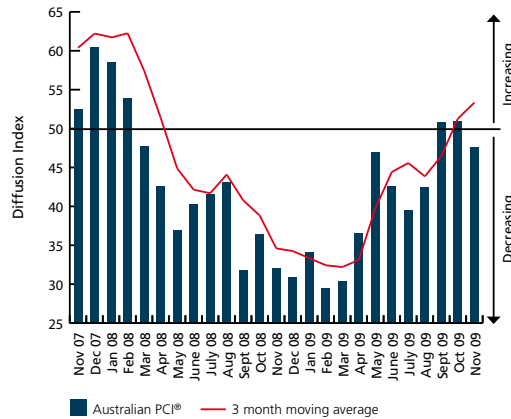




CONSTRUCTION FALLS AS DEMAND WEAKENS

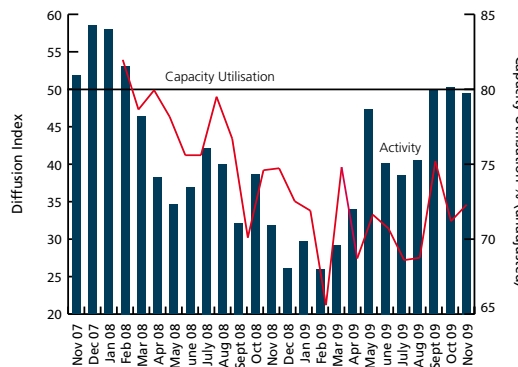
KEY FINDINGS

- The national construction industry contracted slightly in November following the return to modest growth over the previous two months. This weaker result was underpinned by falls in new orders, activity and employment and highlighted the fragility and ongoing toughness of industry conditions.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index® fell by 3.3 points to 47.6 in November, placing it below the critical 50 points level separating expansion from contraction.
- Nevertheless, the magnitude of the decline was considerably less than at the start of the year, with industry conditions having maintained an improving trend over much of the period since the low point of February 2009 (as indicated by the three month moving average of the Australian PCI®).
- By industry sector, levels of activity fell in apartment building (following an upturn in the previous month) and in engineering and commercial construction, although both of these sectors posted slower rates of decline. In contrast, house building activity increased for a fifth consecutive month, with the sector maintaining the modest level of growth of the previous month.
- On an aggregate industry basis, new orders declined for a second consecutive month, resulting in a reduction in employment and slower growth in deliveries from suppliers.
- Firms linked the weaker level of demand to on-going tight credit conditions, project delays and fewer client enquiries.



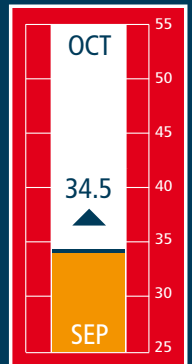
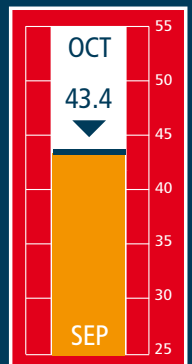
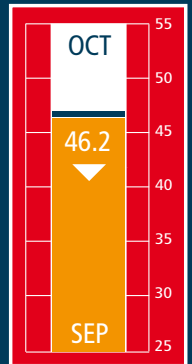
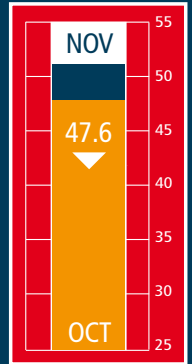
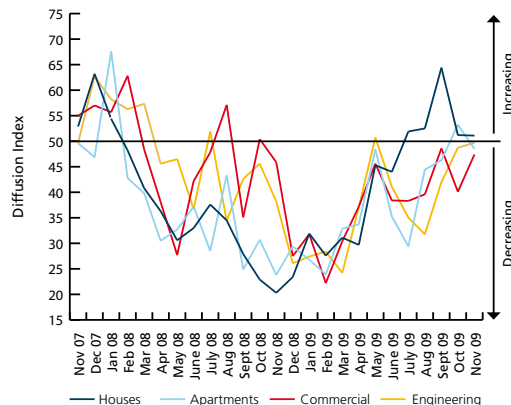
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 49.5 in November.
- This was 0.7 points below the index reading in October, and indicated a slight decline in total construction activity during November.
- Underlying this result was a further reduction in demand as reflected in a second straight month of decline in the level of new orders received by construction firms.
- The average rate of capacity utilisation registered 72.3% in November. While this was a modest rise of 1.1 percentage points on October, it remained 2.0 percentage points lower than the reading two months ago.



ACTIVITY BY SECTOR

- House building maintained growth in November for a fifth straight month, and at a similar rate as in October, with the sub-index declining marginally by 0.1 points to 51.1.
- Apartment building activity contracted following the short-lived expansion of the previous month, as indicated by a decline in the sub-index of 4.7 points to 48.5.
- Engineering construction activity posted a further fall in activity, although the pace of decline continued to moderate with the sub-index lifting by 1.0 points to 49.7. This reflected the flow-through effect of higher orders received in the previous month.
- While commercial construction posted its 19th decline in the past 21 months, the pace of decline also moderated, with the sub-index lifting by 7.3 points to 47.4.



NEW ORDERS

- New orders (seasonally adjusted) declined for a second consecutive month in November, coinciding with widespread reports that client demand remained subdued.
- The new orders index registered 45.6. This was down by 2.4 points on October, and was the lowest reading over the past three months.
- This result was mainly driven by a sizeable reduction in new business received by engineering construction firms. Declines in new orders were also maintained in the apartment building and commercial construction sectors.
- The reduction in new orders signals that soft market conditions are likely to persist in the near term.

NEW ORDERS BY SECTOR

- New orders in house building registered a fourth consecutive month of growth, although the rate of increase eased for a second straight month with the index falling by 0.9 points to 53.5. A number of firms continued to link the moderation in demand to the winding back of the First Home Owners Grant.
- For the engineering construction sector, new orders returned to negative territory (after expanding in the previous month for the first time since May 2009), with the index declining by 12.9 points to 39.7. This was mainly attributed to project delays and lower tender activity.
- New orders in commercial construction declined at a slower rate, the index rising by 11.2 points to 44.5, although respondents continued to report that access to finance remained a key factor constraining demand in the sector.
- In the apartment sector, new orders also declined at a slower rate with the index increasing by 4.2 points to 47.7.

EMPLOYMENT AND WAGES

- The overall reduction in activity and the fall in new orders contributed to a cutback in employment levels.
- The employment sub-index registered 45.8 in November, a decline of 6.8 points on the level of the previous month.
- This reduction followed a two month period where firms increased employment as a consequence of an improvement in demand.
- Growth in wages was reported at a higher rate, the index registering 58.0, an increase of 5.4 points on the previous month.

DELIVERIES, INPUT COSTS AND SELLING PRICES

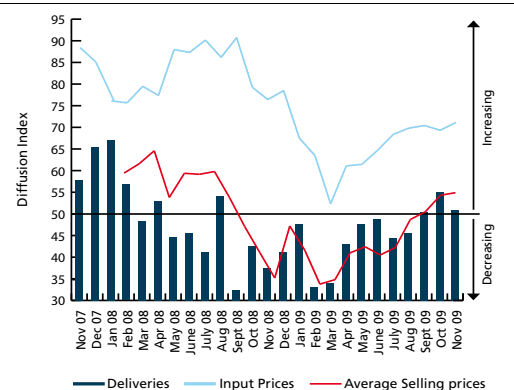
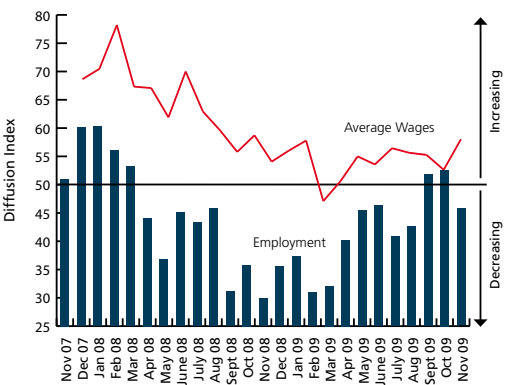
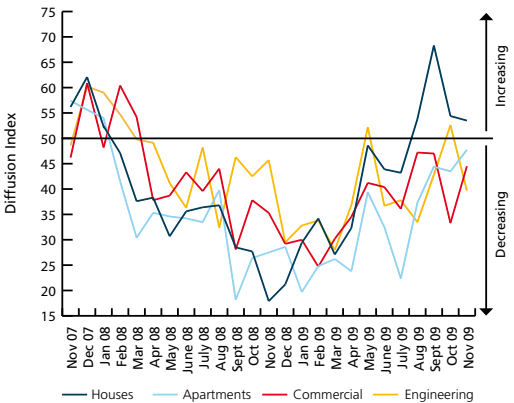
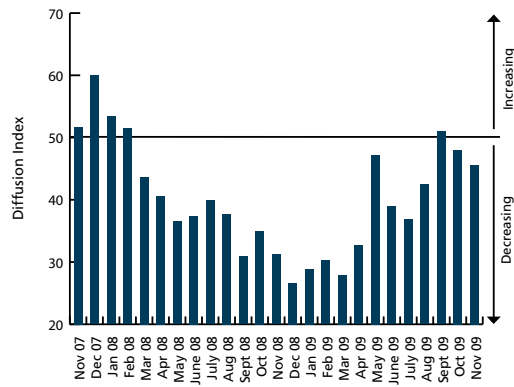
- In line with the further decline in new orders, demand for deliveries of inputs from suppliers increased at slower rate in November.
- The supplier delivery index registered 50.8, a decrease of 4.3 points on the previous month.
- Growth in input costs increased in November with the input costs sub-index rising by 1.8 points to 71.3.
- Selling prices posted an increase for a third consecutive month, with the sub-index registering 54.9, an increase of 0.6 points on October.

AUSTRALIAN PCI®*

	November 09	October 09	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	47.6	50.9	-3.3	Contracting	From Expansion	1
ACTIVITY	49.5	50.2	-0.7	Contracting	From Expansion	1
- HOUSES	51.1	51.2	-0.1	Expanding	Slower	5
- APARTMENTS	48.5	53.2	-4.7	Contracting	From Expansion	1
- COMMERCIAL	47.4	40.1	+7.3	Contracting	Slower	13
- ENGINEERING	49.7	48.7	+1.0	Contracting	Slower	6
NEW ORDERS	45.6	48.0	-2.4	Contracting	Faster	2
EMPLOYMENT	45.8	52.6	-6.8	Contracting	From Expansion	1
DELIVERIES	50.8	55.1	-4.3	Expanding	Slower	3
INPUT PRICES	71.3	69.5	+1.8	Expanding	Faster	22
SELLING PRICES	54.9	54.3	+0.6	Expanding	Faster	3
WAGES	58.0	52.6	+5.4	Expanding	Faster	8
CAPACITY	72.3	71.2	+1.1% points	Expanding	na	na

Results are based on a sample of over 120 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

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