

POC AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

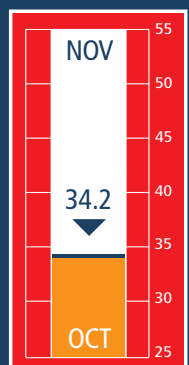
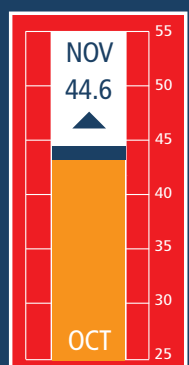
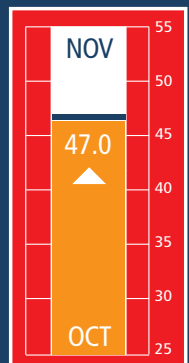
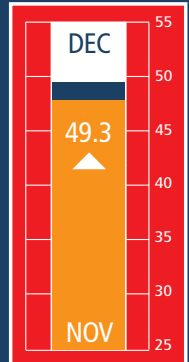
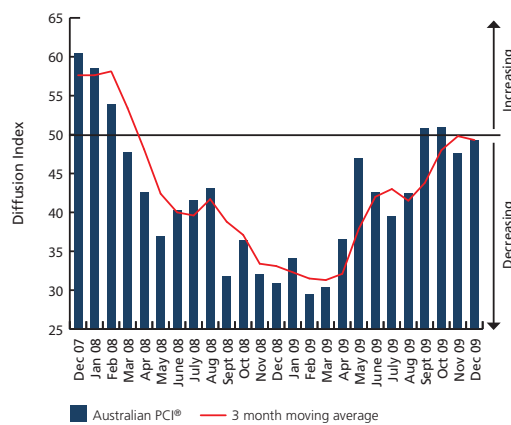


DECEMBER 2009

CONSTRUCTION DECLINE EASES AS HOUSE BUILDING STRENGTHENS

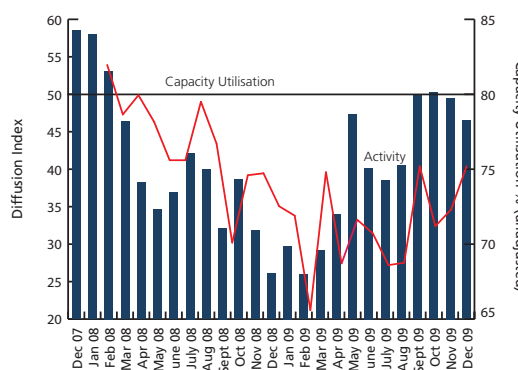
KEY FINDINGS

- The contraction of the national construction industry eased in December with house building improving at a stronger rate.
- This was indicated by a rise of 1.7 points in the seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (Australian PCI®) from 47.6 to 49.3 in December. Nevertheless, this reading remained below the critical 50 points no change level, to signal on-going weakness in overall industry conditions.
- Reductions in apartment building and engineering construction were the main negative influences on activity. However, house building expanded for a sixth consecutive month, while the decline in commercial construction moderated for a second straight month.
- A number of firms reported that activity continued to be adversely affected by subdued market demand and tight credit conditions. Residential firms, however, noted that activity had strengthened in response to improved buying levels and the recent upturn in new business. The phasing out of the additional Government incentive for first home buyers on the 31st December was also cited as having a pull-forward effect on sales and work levels during the month.
- On an aggregate industry basis, both activity and new orders registered declines in December. Despite this, firms increased their employment levels and supplier deliveries, an outcome that would appear to reflect the lagged impact of the trend improvement in activity during the three months to November.



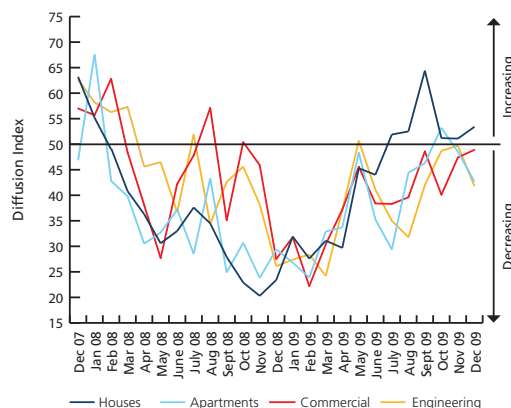
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 46.5 in December.
- This was 3.0 points below the index reading in November, pointing to a faster rate of contraction in total industry activity.
- Underlying this result was a further reduction in the level of new orders received by construction firms, driven mainly by a higher rate of contraction in new business received in the apartment building sector.
- The average rate of capacity utilisation registered 75.2% in December. This was up 2.9 percentage points on November, a result that was influenced by the prevalence of higher readings within the house building sector.



ACTIVITY BY SECTOR

- House building maintained growth in December for a sixth straight month, and at a stronger rate, with the sub-index increasing by 2.3 points to 53.4.
- Engineering construction activity fell for a seventh consecutive month, and at a higher rate than in November, with the sub-index declining by 7.9 points to 41.8.
- The apartment building sector exhibited the weakest conditions, posting an index reading of 42.7. This was down by 5.8 points on the previous month and continued the pattern of falling activity evident over much of the past four years.
- Although commercial construction posted its 20th decline in the past 22 months, the pace of decline moderated for a second consecutive month, with the sub-index lifting by 1.5 points to 48.9.



NEW ORDERS

- New orders (seasonally adjusted) contracted for a third consecutive month in December.
- However, the new orders index increased by 0.5 points to 46.1, indicating a slightly slower rate of decline.
- Firms linked the decline to subdued client demand in all sectors other than housing. A high level of unsuccessful tendering was also mentioned.
- The overall fall in new orders points to the likelihood of a continuation of subdued activity during coming months.

NEW ORDERS BY SECTOR

- Following five consecutive months of growth, new orders in house building moved to a position of stabilisation with the index declining by 3.5 points to a level of 50.0.
- In the apartment sector, new orders declined at a faster pace, the index decreasing by 4.3 points to 43.4, the most subdued result over the past four months.
- For the engineering construction sector, new orders registered a second straight month of decline, albeit at a slower pace with the index rising by 4.4 points to 44.4.
- New orders in commercial construction also declined at a slower rate, the index rising by 2.1 points to 46.5, although respondents continued to report that access to finance remained a key factor constraining demand in the sector.

EMPLOYMENT AND WAGES

- Firms expanded their workforces in December as indicated by a lift in the employment sub-index of 6.8 points to 52.6.
- This rise would appear to reflect the lagged impact of firms adjusting capacity to meet the firmer work level requirements of the preceding three months. Increases in employment were also more frequently reported by respondents operating in the expanding house building sector.
- The increase in employment, which followed a reduction in November, saw the rate of jobs growth return to the level of October 2009.
- Growth in wages was reported at a higher rate, the index registering 62.2, an increase of 4.2 points on the previous month.

DELIVERIES, INPUT COSTS AND SELLING PRICES

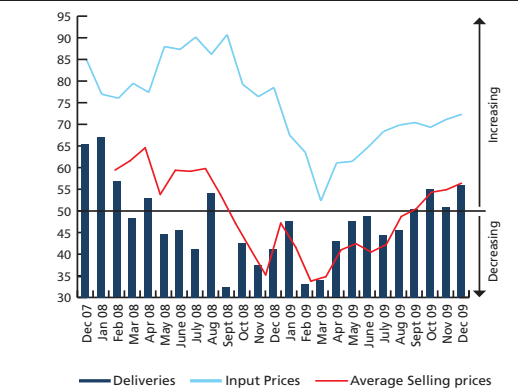
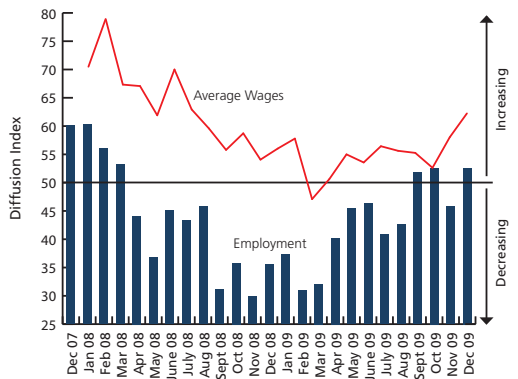
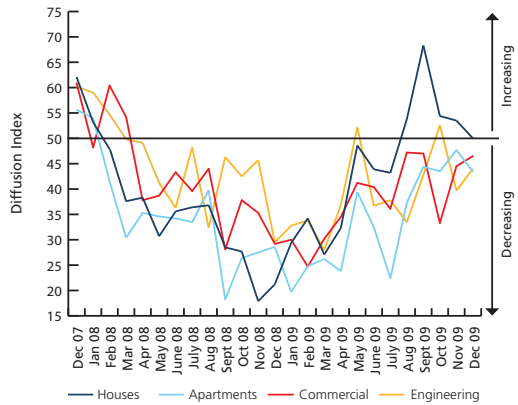
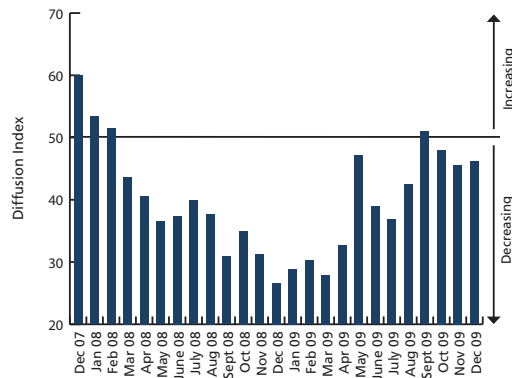
- Deliveries of inputs from suppliers increased at a higher rate in December.
- The supplier delivery index registered 55.9, an increase of 5.1 points on the previous month.
- Firms reported a lift in the growth rate of input costs in December with the input costs sub-index rising by 1.2 points to 72.5.
- Selling prices posted an increase for a fourth consecutive month, with the sub-index registering 56.4, an increase of 1.5 points on November.

AUSTRALIAN PCI®*

	December 09	November 09	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	49.3	47.6	+1.7	Contracting	Slower	2
ACTIVITY	46.5	49.5	-3.0	Contracting	Faster	2
- HOUSES	53.4	51.1	+2.3	Expanding	Faster	6
- APARTMENTS	42.7	48.5	-5.8	Contracting	Faster	2
- COMMERCIAL	48.9	47.4	+1.5	Contracting	Slower	14
- ENGINEERING	41.8	49.7	-7.9	Contracting	Faster	7
NEW ORDERS	46.1	45.6	+0.5	Contracting	Slower	3
EMPLOYMENT	52.6	45.8	+6.8	Expanding	From Contraction	1
DELIVERIES	55.9	50.8	+5.1	Expanding	Faster	4
INPUT PRICES	72.5	71.3	+1.2	Expanding	Faster	23
SELLING PRICES	56.4	54.9	+1.5	Expanding	Faster	4
WAGES	62.2	58.0	+4.2	Expanding	Faster	9
CAPACITY	75.2	72.3	+2.9 % 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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