

PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

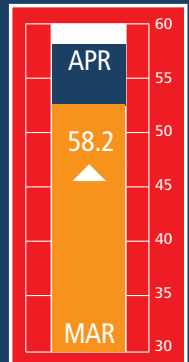
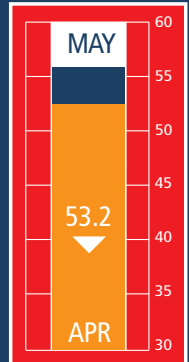
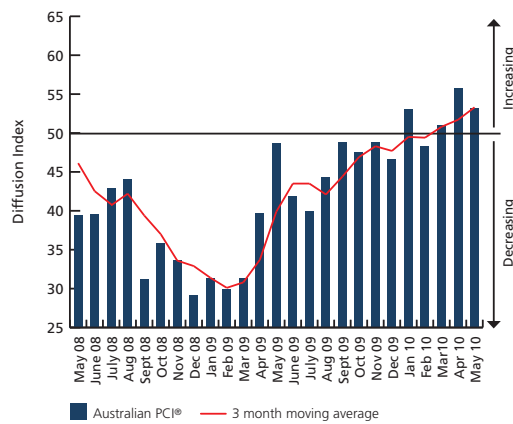


MAY 2010

CONSTRUCTION MAINTAINS GROWTH IN MAY

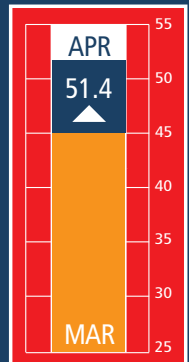
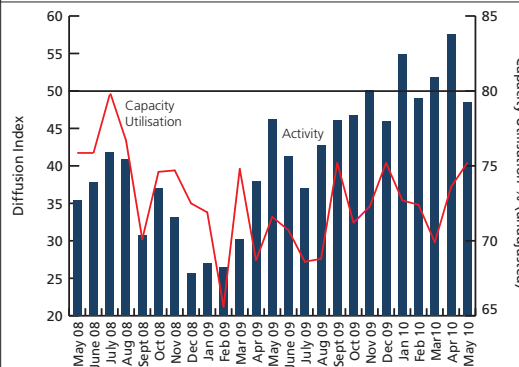
KEY FINDINGS

- The national construction industry expanded for a third consecutive month in May, although the pace of growth was slower than in April, due to tougher operating conditions across most of the major building sectors.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (**Australian PCI®**) registered 53.2 in May, a decline of 2.6 points on the previous month. Nevertheless, this reading remained above the 50 points level separating expansion from contraction.
- Of the four broad construction sub-sectors, house building experienced the strongest conditions, with activity expanding for a 10th consecutive month, albeit at a lower rate of growth. In contrast, the rate of increase in commercial construction slowed markedly, while both engineering and apartment construction activity declined following rises in April.
- Respondents indicated that while public building projects continued to provide critical support for activity, work from private sector clients was more subdued as a result of project delays, tight credit conditions and uncertainty surrounding the economic outlook.
- A number of companies in the house building sector reported that the rising levels of new business in recent months and increased investor activity were continuing to impact positively on work levels.
- On an aggregate industry basis, activity declined in May following increases in the previous two months. However, new orders expanded, along with supplier deliveries and employment.



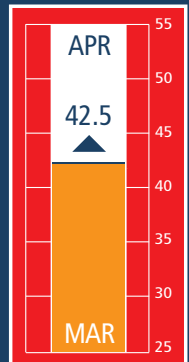
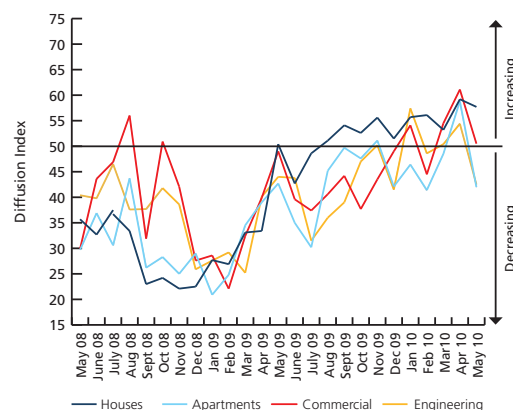
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 48.5 in May.
- This was 9.0 points below the index reading in April, to signal a decline in total construction activity following the growth outcomes in March and April.
- Declines in apartment building and engineering construction activity represented the main negative influences on activity in May.
- The average rate of capacity utilisation registered 75.2% in May, up by 1.6 percentage points on April.



ACTIVITY BY SECTOR

- House building grew in May for a 10th consecutive month, with the sub-index registering 57.7. This was, however, 1.5 points below the reading in April, to indicate a slight easing in the rate of growth.
- Commercial construction expanded for a third consecutive month, although the pace of growth eased markedly as evident by a fall of 10.6 points in the sub-index to 50.5. Businesses linked the subdued conditions to on-going weakness in private sector building activity.
- The apartment building sector posted a sharp decline in activity, with the sub-index declining by 16.8 points to 42.0. This more than offset the strong increase in activity in April and was only slightly above the seven month low level of February 2010.
- Engineering construction activity also declined following two consecutive months of growth. At 42.5, the sub-index was 11.9 points below the reading in April with firms citing project delays as a key negative influence.



NEW ORDERS

- New orders (seasonally adjusted) increased in May for a second consecutive month.
- The new orders index registered 52.7, a decrease of 0.4 points on the level in April to signal only a slight easing in growth in the overall project pipeline for firms.
- Underlying this result were continued increases in new orders received by house building, engineering and commercial construction firms.
- The overall rise in new orders points to aggregate industry workloads improving in coming months.

NEW ORDERS BY SECTOR

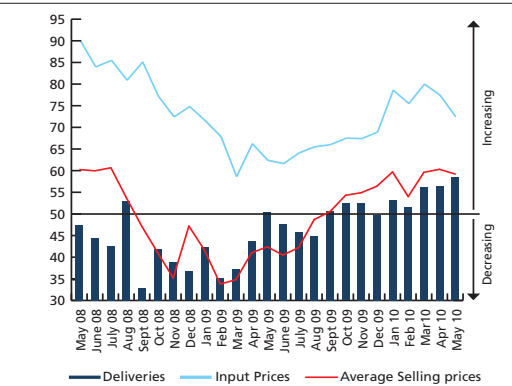
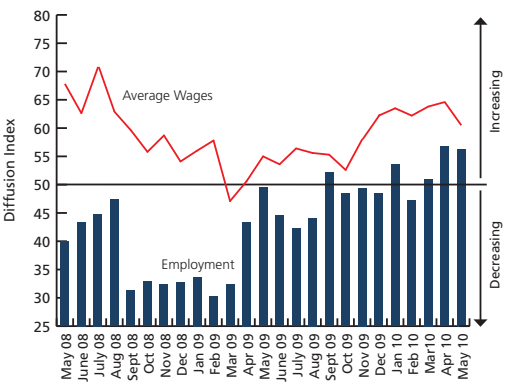
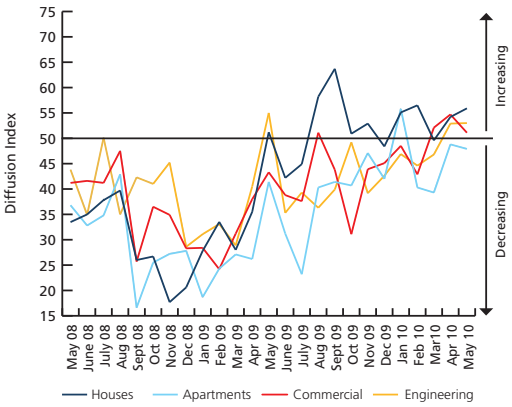
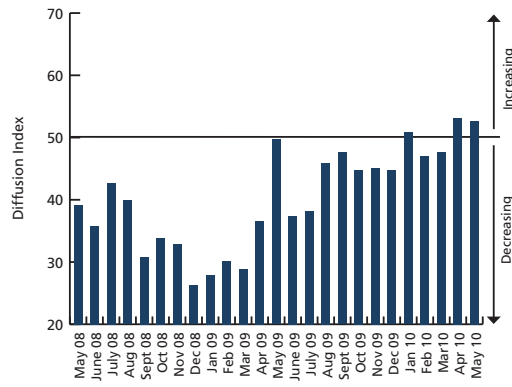
- New orders in house building expanded for a second straight month, with the sub-index registering 55.9. This was 1.7 points above the reading for April, indicating an increase in the rate of growth.
- In the engineering construction sector, new orders also maintained growth, and at a similar rate as in April, the sub-index rising slightly by 0.1 points to 53.0. The further rise in new orders was mainly linked to tender wins in the resources sector.
- For the commercial construction sector, new orders grew for a third consecutive month, although at a slower rate than the previous month with the sub-index declining by 3.6 points to 51.1. However, businesses continued to point to the positive impact on demand from education building projects.
- New orders in the apartment sector continued to decline, and at a higher rate, with the index registering 47.9, a decrease of 0.9 points on the previous month.

EMPLOYMENT AND WAGES

- The continued expansion in new orders supported on-going growth in employment levels.
- The employment sub-index registered 56.3 in May, only slightly (0.5 points) below the level of the previous month.
- The reading for May represented the third consecutive month that businesses had increased their workforce levels and was the second highest rate of increase since January 2006.
- Growth in wages was reported at a slower rate, the index registering 60.5, a decrease of 4.1 points on the previous month.

DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers increased at a higher rate in May.
- The supplier delivery index registered 58.5, an increase of 2.1 points on the previous month.
- Businesses reported an easing in the growth rate of input costs in May with the input costs sub-index falling by 5.0 points to 72.6.
- Selling price growth moderated with the sub-index registering 59.2, a decrease of 1.1 points on April.



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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AUSTRALIAN PCI®*

	May 2010	April 2010	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	53.2	55.8	-2.6	Expanding	Slower	3
ACTIVITY	48.5	57.5	-9.0	Declining	From Expansion	1
- HOUSES	57.7	59.2	-1.5	Expanding	Slower	10
- APARTMENTS	42.0	58.8	-16.8	Declining	From Expansion	1
- COMMERCIAL	50.5	61.1	-10.6	Expanding	Slower	3
- ENGINEERING	42.5	54.4	-11.9	Declining	From Expansion	1
NEW ORDERS	52.7	53.1	-0.4	Expanding	Slower	2
EMPLOYMENT	56.3	56.8	-0.5	Expanding	Slower	3
DELIVERIES	58.5	56.4	+2.1	Expanding	Faster	5
INPUT PRICES	72.6	77.6	-5.0	Expanding	Slower	57
SELLING PRICES	59.2	60.3	-1.1	Expanding	Slower	9
WAGES	60.5	64.6	-4.1	Expanding	Slower	14
CAPACITY	75.2	73.6	+1.6 % points	Expanding	na	na

*Results are based on a sample of over 150 companies. New monthly seasonal adjustment factors derived directly from a TRAMO-SEATS estimation process were applied in April 2010.

**Number of months moving in current direction