

# POC AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

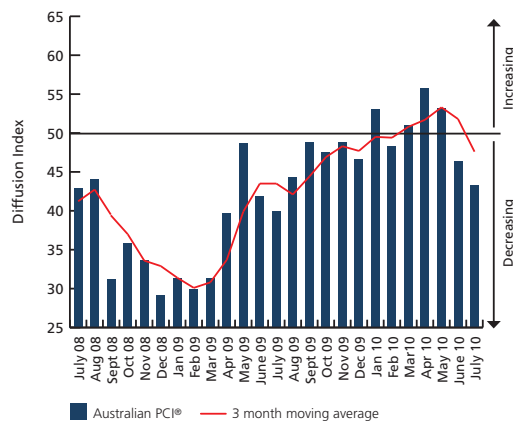


JULY 2010

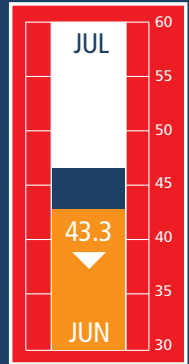
## CONSTRUCTION WEAKENS FURTHER IN JULY

### KEY FINDINGS

- The national construction industry contracted for a second consecutive month in July. The rate of decline increased with weakness evident across all of the major building sectors.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (**Australian PCI®**) fell by 3.1 points to 43.3 in July, to remain below the 50 points level separating expansion from contraction.
- The further decline in the industry's performance coincided with numerous reports of difficult market conditions, subdued demand and intense competition in securing new work. Residential builders also cited the negative impact on activity from recent interest rate rises, tight finance restrictions on new house building, and weak demand from first home buyers.
- Reductions in engineering and commercial construction were the principal sources of weakness with both sectors registering marked falls in activity during July, in part a reflection of the long lead times that typically exist between the development and construction of projects. Work on house building projects registered a second consecutive month of decline, while apartment building fell for third straight month.
- On an aggregate industry basis, the activity sub-index fell markedly in July extending the current period of decline to three months. Consistent with this, respondents reported a further decline in new orders and employment.

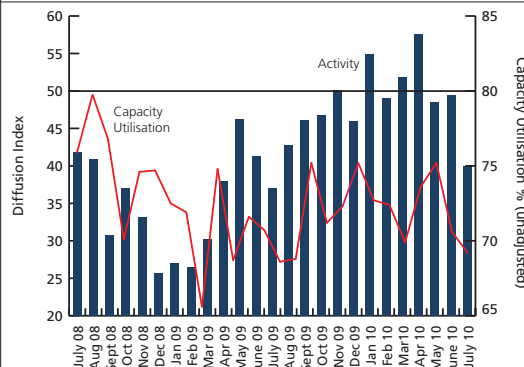


AUSTRALIAN PCI®

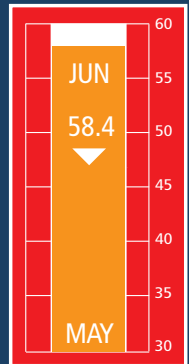


### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 40.0 in July.
- This was 9.4 points below the index reading in June, to signal a steeper rate of decline in total construction activity during the month.
- Underlying July's result were reductions in activity on a broad industry front, with the steeper decline driven by falls in engineering and commercial construction activity. This coincided with reports of a shortfall of new work to replace completed projects.
- The average rate of capacity utilisation registered 69.2% in July. This was 1.4 percentage points below the rate in June.

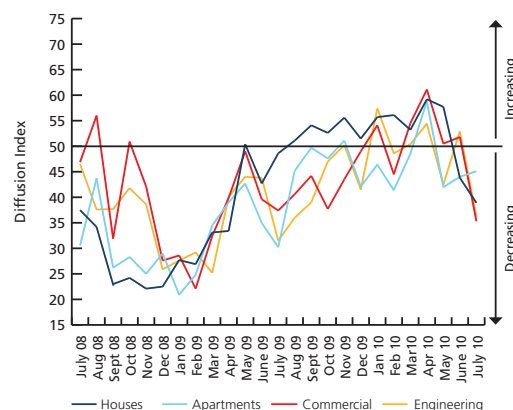


UK CONSTRUCTION INDEX\*

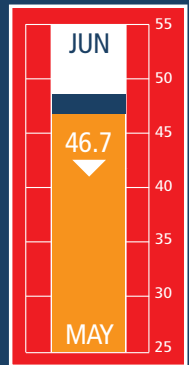


### ACTIVITY BY SECTOR

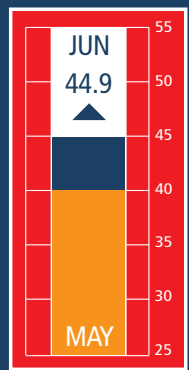
- House building contracted for a second consecutive month in July, with the sub-index registering 38.9. This was 4.9 points below the level of the previous month, and the lowest reading since April 2009.
- Activity in the apartment building sector fell for a third straight month, although at a slightly slower rate, as indicated by a rise in the sub-index of 1.1 points to 45.1.
- Engineering construction activity declined markedly to more than offset the recovery in work levels of the previous month with the sub-index falling by 16.7 points to 36.2.
- Commercial construction also registered a marked decline following four consecutive months of expanding activity, the sub-index registering 35.3 in July. This was the lowest reading for the sector in the past 17 months.



GERMANY CONSTRUCTION INDEX\*



IRELAND CONSTRUCTION INDEX\*



## NEW ORDERS

- New orders (seasonally adjusted) declined in July for a second consecutive month.
- The new orders index registered 43.0, a decline of 2.7 points on June to signal a steeper rate of decline.
- This result reflected decreases in new orders received by apartment, engineering and commercial construction businesses.
- The overall fall in new orders points to a continuation of tough operating conditions and subdued work levels in coming months.

## NEW ORDERS BY SECTOR

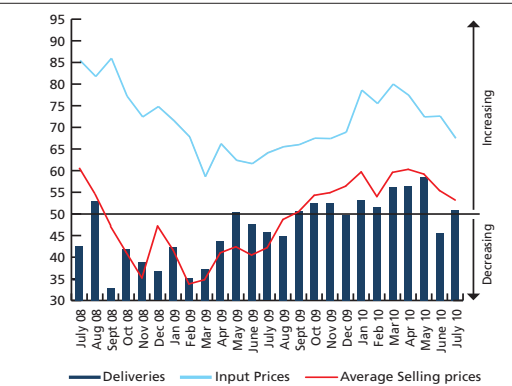
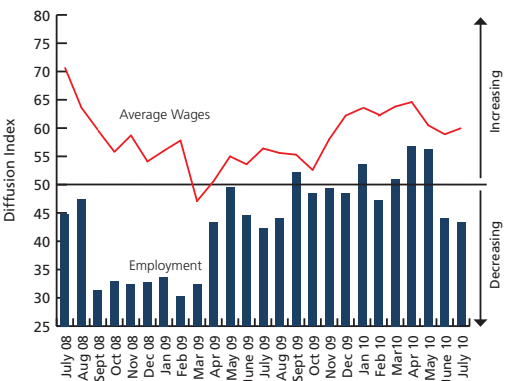
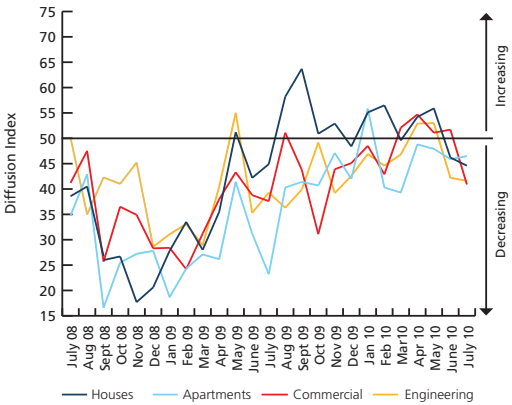
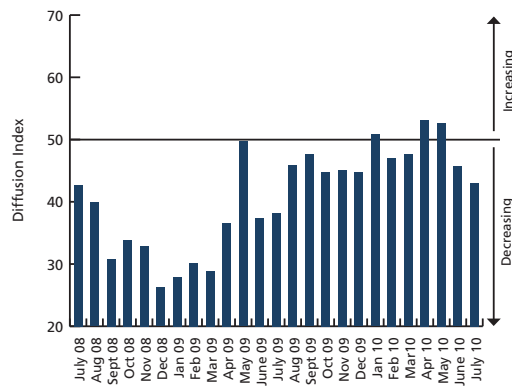
- New orders in house building declined for a second consecutive month, with a sub-index reading of 44.6. This was 1.6 points below the previous month to indicate a more marked rate of contraction.
- In the engineering construction sector, new orders also fell for a second straight month, with the sub-index falling by 0.6 points to 42.2.
- For the commercial construction sector, new orders declined following growth during the previous four months, with the sub-index falling by 10.8 points to 40.9. This was the lowest reading in the past 10 months and appears to be linked to a moderation in public building approvals following a strong lift in school buildings approved in the second half of 2009.
- New orders in the apartment sector continued to decline, although at a slower rate, with the index registering 46.5, an increase of 0.6 points on the previous month.

## EMPLOYMENT AND WAGES

- Employment continued to decline, and at a slightly faster rate than the previous month.
- The employment sub-index registered 43.3 in July, down by 0.8 points on June.
- This was also well below the average 57.0 growth level registered during the three months to May 2010.
- Growth in wages was reported at a slightly higher rate, the index registering 60.0, a rise of 1.1 points on the previous month.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers increased marginally in July.
- The supplier delivery index registered 50.9, up by 5.4 points on June, although still 7.6 points below the reading of two months ago.
- The rate of growth in input costs eased, with the input costs sub-index in July declining by 5.1 points to 67.7.
- Selling price growth moderated with the sub-index registering 53.2, a decrease of 2.2 points on June.



## AUSTRALIAN PCI®\*

	July 2010	June 2010	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	43.3	46.4	-3.1	Declining	Faster	2
<b>ACTIVITY</b>	40.0	49.4	-9.4	Declining	Faster	3
- HOUSES	38.9	43.8	-4.9	Declining	Faster	2
- APARTMENTS	45.1	44.0	+1.1	Declining	Slower	3
- COMMERCIAL	35.3	51.8	-16.5	Declining	From Expansion	4
- ENGINEERING	36.2	52.9	-16.7	Declining	From Expansion	1
<b>NEW ORDERS</b>	43.0	45.7	-2.7	Declining	Faster	2
<b>EMPLOYMENT</b>	43.3	44.1	-0.8	Declining	Faster	2
<b>DELIVERIES</b>	50.9	45.5	+5.4	Expanding	From Contraction	1
<b>INPUT PRICES</b>	67.7	72.8	-5.1	Expanding	Slower	59
<b>SELLING PRICES</b>	53.2	55.4	-2.2	Expanding	Slower	11
<b>WAGES</b>	60.0	58.9	+1.1	Expanding	Faster	16
<b>CAPACITY</b>	69.2	70.6	-1.4% points	Lower	na	na

\*Results are based on a sample of over 150 companies. Forward seasonal factors were generated by the ABS in April 2010.

\*\*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](http://www.aigroup.com.au)

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