



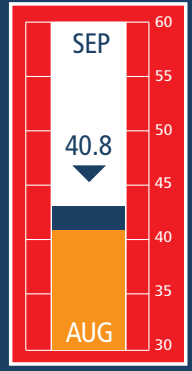
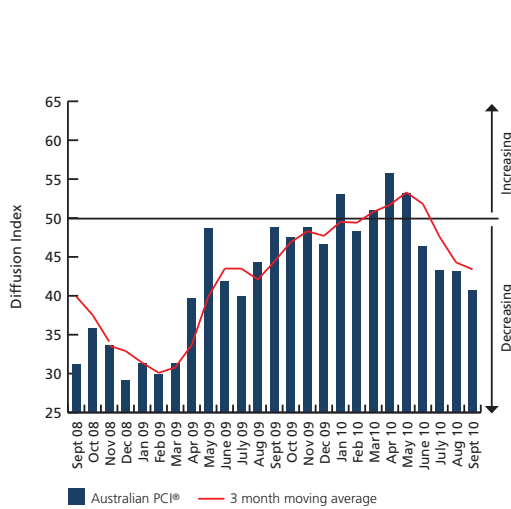
POC AUSTRALIAN PERFORMANCE OF CONSTRUCTION INDEX®

SEPTEMBER 2010

CONSTRUCTION INDUSTRY DECLINES AGAIN IN SEPTEMBER

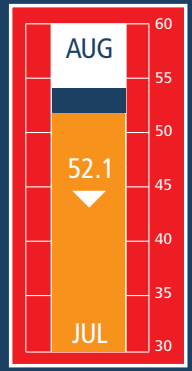
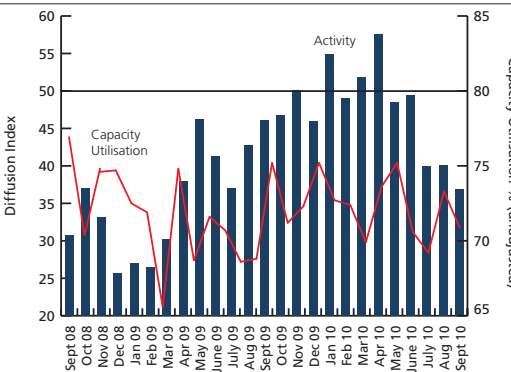
KEY FINDINGS

- The national construction industry contracted for a fourth consecutive month in September with new orders continuing to decline and activity falling across all the major sectors.
- The seasonally adjusted Australian Industry Group Australian Performance of Construction Index (**Australian PCI®**), in conjunction with the Housing Industry Association, declined by 2.4 points to 40.8 in September to remain below the 50 points level separating expansion from contraction.
- By sector, the weakest conditions were evident in house building where activity fell to its lowest level in the past 18 months. The rate of contraction in activity was also steeper during September in engineering, apartment building and commercial construction, with the latter sector particularly hampered by the failure of private demand to offset contracting government stimulus.
- The further decline in the industry's performance coincided with numerous reports of poor market demand, on-going delays in development activity and intense competition in securing contracts. Companies also reported that impending rises in interest rates, tight credit conditions, and the waning influence of the Federal Government's school building program had impacted negatively on work levels.
- On an aggregate industry basis, both activity and new orders contracted in September, extending the sequence of decline to five and four months, respectively. As a consequence, deliveries from suppliers were again reduced while employment levels fell as companies continued to review their costs.



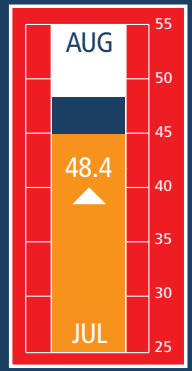
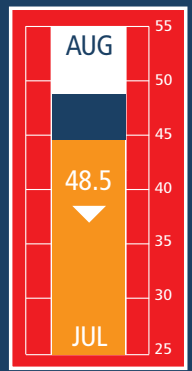
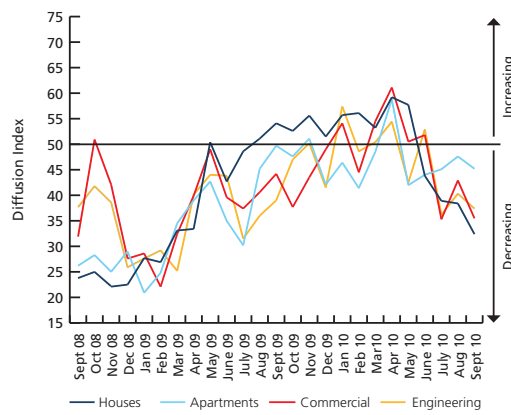
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 36.9 in September.
- This was 3.2 points below the reading of the previous month and marked the fifth straight month of declining industry activity.
- Underlying this result were continued reductions in activity on a broad industry front with all sectors registering steeper rates of decline during the month.
- In line with the reduction in work levels, the average rate of capacity utilisation registered 70.9% in September, down by 2.4 percentage points on the previous month.



ACTIVITY BY SECTOR

- House building contracted for a fourth consecutive month in September. At 32.4, the sub-index was 6.0 points below the level in August, and the lowest reading since March 2009.
- Engineering construction activity declined for a third consecutive month with the sub-index registering 37.4 in September, a decrease of 2.9 points on August.
- Activity in the apartment building sector continued to contract as indicated by a fall in the sub-index of 2.4 points to 45.2. This also marked a fifth consecutive month of contracting activity.
- Commercial construction declined for a third straight month and at the steepest rate of all sectors' with the index falling by 7.4 points to 35.5.



NEW ORDERS

- New orders (seasonally adjusted) declined in September for a fourth consecutive month.
- The new orders index registered 38.3, a decline of 5.2 points on August to signal a more marked rate of decline.
- This result reflected decreases in new orders received across all of the major building sectors, with the steepest rate of contraction evident for companies engaged in engineering and apartment building work.
- The overall fall in new orders points to tough operating conditions and subdued work levels persisting in coming months.

NEW ORDERS BY SECTOR

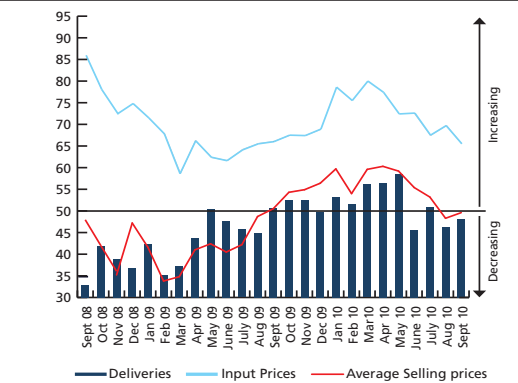
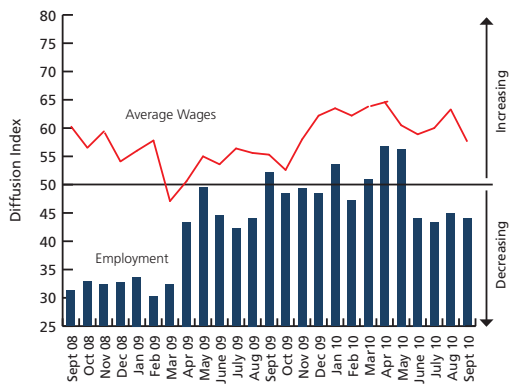
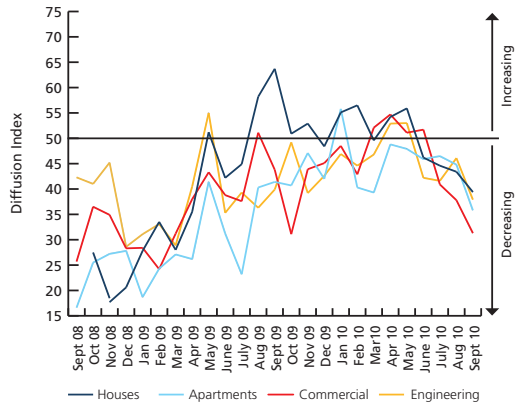
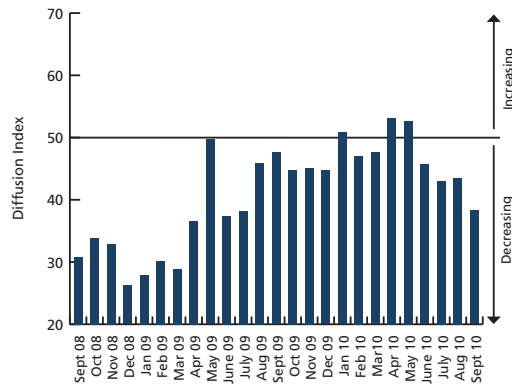
- New orders in house building declined for a fourth consecutive month, with a sub-index reading of 39.4. This was 4.0 points below the previous month to indicate a more marked rate of contraction.
- In the engineering construction sector, new orders fell for a fourth straight month with the sub-index falling by 8.2 points to 37.9.
- For the commercial construction sector, new orders declined at a steeper rate with the sub-index falling by 6.5 points to 31.3. This was the lowest reading in the past 11 months and appears to be linked to a moderation in public building works following a strong lift in school buildings approved in the second half of 2009.
- New orders in the apartment sector declined for an eighth consecutive month, with the index registering 35.8, a decrease of 9.0 points on the previous month.

EMPLOYMENT AND WAGES

- Employment continued to decline, and at a slightly steeper rate than the previous month.
- The employment sub-index registered 44.0 in September, down by 0.9 points on August.
- This also remained well below the average 57.0 growth level registered during the three months to May 2010.
- Growth in wages increased, albeit at a lesser rate, with the index registering 57.6, a decrease of 5.7 points on the previous month.

DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers continued to decline in September.
- The supplier delivery index registered 48.2, up by 2.0 points on August, although still well below (10.3 points) the reading of four months ago.
- The rate of growth in input costs moderated, with the input costs sub-index in September falling by 4.2 points to 65.7.
- Selling prices again contracted, although at a lesser rate with the sub-index registering 49.6, an increase of 1.3 points on August, pointing to continued pressure on margins.



AUSTRALIAN PCI®*

	September 2010	August 2010	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	40.8	43.2	-2.4	Declining	Faster	4
ACTIVITY	36.9	40.1	-3.2	Declining	Faster	5
- HOUSES	32.4	38.4	-6.0	Declining	Faster	4
- APARTMENTS	45.2	47.6	-2.4	Declining	Faster	5
- COMMERCIAL	35.5	42.9	-7.4	Declining	Faster	3
- ENGINEERING	37.4	40.3	-2.9	Declining	Faster	3
NEW ORDERS	38.3	43.5	-5.2	Declining	Faster	4
EMPLOYMENT	44.0	44.9	-0.9	Declining	Faster	4
DELIVERIES	48.2	46.2	+2.0	Declining	Slower	2
INPUT PRICES	65.7	69.9	-4.2	Expanding	Slower	61
SELLING PRICES	49.6	48.3	+1.3	Declining	Slower	2
WAGES	57.6	63.3	-5.7	Expanding	Slower	18
CAPACITY	70.9	73.3	-2.4% 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 website www.aigroup.com.au

CONTACT

Peter Burn
Director – Public Policy
Ai Group
work 02 9466 5503

Harley Dale
Chief Economist
Housing Industry Association
work 02 6245 1329

Markit Economics
www.markiteconomics.com

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**Prepared by Markit Economics