



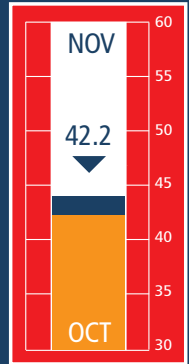
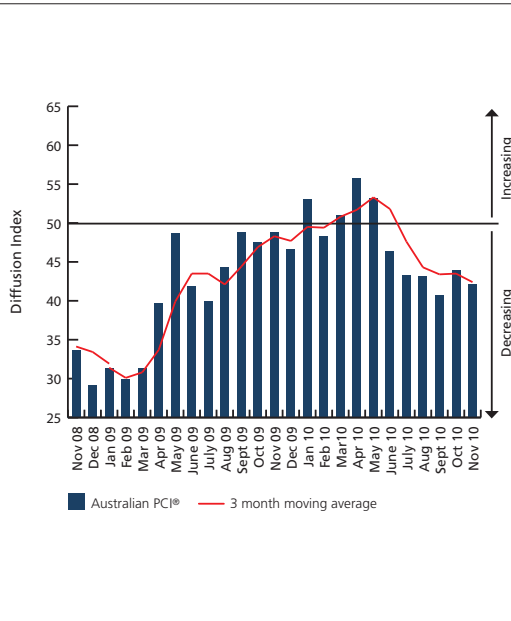
# PCI AUSTRALIAN PERFORMANCE OF CONSTRUCTION INDEX®

NOVEMBER 2010

## CONSTRUCTION DECLINE CONTINUES AMID FRAGILE DEMAND

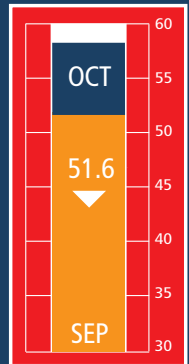
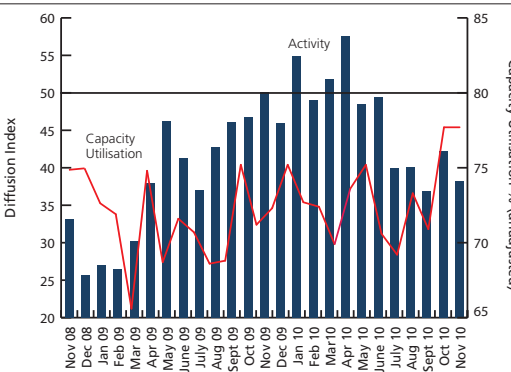
### KEY FINDINGS

- The national construction industry contracted for a sixth consecutive month in November with new orders registering a further decline and activity falling across all the major sectors.
- The seasonally adjusted Australian Industry Group Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association fell by 1.8 points to 42.2 to remain below the 50 points level separating expansion from contraction.
- November data pointed to particular weakness in the apartment building sector which registered its lowest activity reading in the past 16 months. The rate of contraction in activity was also steeper in house building and commercial construction with the latter continuing to be hampered by the failure of private demand to offset reducing government stimulus. The reduction in engineering construction work continued, although at a less marked rate than the previous month.
- The further decline in the industry's performance coincided with numerous reports of difficult market conditions, intense competition to secure new contracts and a dwindling level of work from school building projects. Residential builders also cited the negative impact on activity from recent interest rate rises and weak demand from first home buyers.
- On an aggregate industry basis, both activity and new orders contracted in November, extending the sequence of decline to seven and six months respectively. Consistent with this, deliveries from suppliers continued to decline while businesses again reduced employment, albeit at a lesser rate than the previous month.



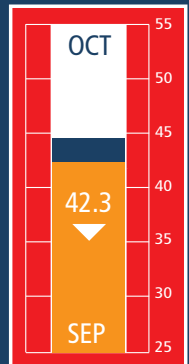
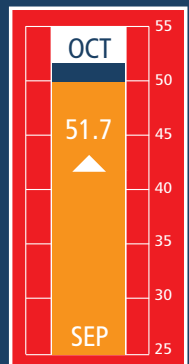
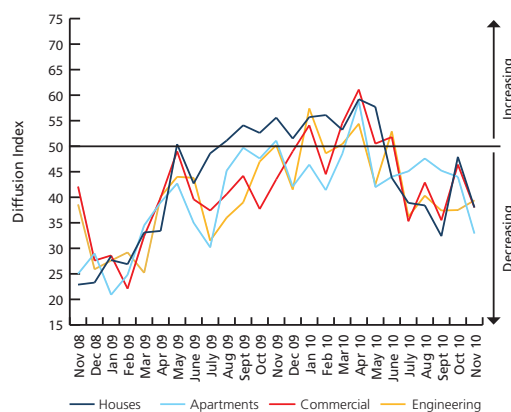
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 38.2 in November.
- This was 4.0 points below the reading of the previous month to signal a steeper rate of decline in total construction activity during the month.
- Underlying this result were reductions in activity across the four major sectors of the industry as businesses experienced a continued shortfall of new work to replace completed projects.
- The average rate of capacity utilisation registered 77.7% in November, unchanged on the previous month.



### ACTIVITY BY SECTOR

- House building declined for a sixth consecutive month in November. The easing in the rate of contraction in October (reflected in last month's rise in the sub-index of 15.5 points) faltered with the sub-index falling by 9.9 points to 38.0 in November.
- The rate of decline in apartment building activity accelerated to its steepest rate since July 2009 with a fall of 11.1 points in the sub-index to 32.9. This also marked the seventh consecutive month of falling apartment activity.
- Commercial construction also registered a marked decline with the sub-index registering 38.0 in November. This was 8.4 points below the reading in October and extended the current sequence of decline to five months.
- Engineering construction also declined for a fifth straight month, although the pace of contraction moderated with the sub-index rising by 1.9 points to 39.4.



## NEW ORDERS

- New orders (seasonally adjusted) declined in November for a sixth consecutive month.
- The new orders index registered 39.7, a fall of 2.7 points on October to signal a more marked rate of decline.
- This was driven by steeper declines in new orders received by companies engaged in both house 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

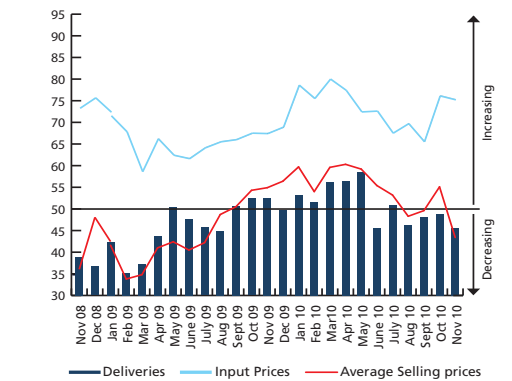
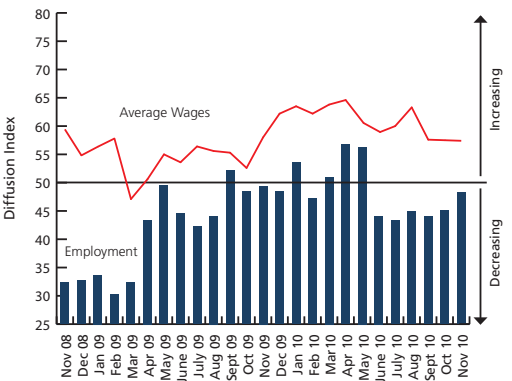
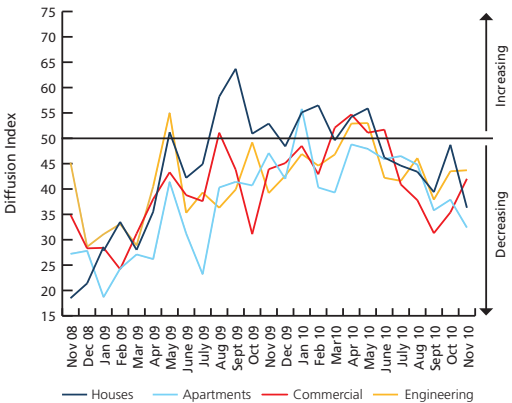
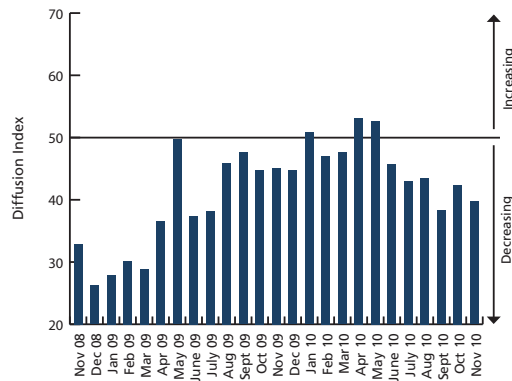
- New orders in house building maintained the decline evident since June 2010, with a sub-index reading of 36.3. This was 12.4 points below the level of the previous month and the steepest rate of decline in activity since April 2009.
- In the engineering construction sector, new orders fell for a sixth straight month. The rate of decline was broadly unchanged from the previous month with the sub-index rising by 0.2 points to 43.7.
- For the commercial construction sector, demand conditions remained subdued. While new orders declined at a slower rate with the sub-index increasing by 6.6 points to 42.0, this reading was almost 10 points below the level registered in mid-2010.
- New orders in the apartment sector declined for a 10th consecutive month, with the sub-index registering 32.4, a decrease of 5.5 points on the previous month and the most subdued reading since July 2009.

## EMPLOYMENT AND WAGES

- Employment continued to decline, although the rate of contraction moderated for a second consecutive month.
- The employment sub-index registered 48.3 in November, up by 3.2 points on October.
- Despite this moderation in decline, the sub-index remained well down on the 56.8 level registered eight months ago.
- Growth in wages continued in November. However, there was no acceleration in the rate of increase, with the index registering 57.4, broadly in line with the previous month's rate of growth (57.5).

## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Reflecting the overall reduction in workloads, deliveries of inputs from suppliers continued to decline.
- The supplier delivery index registered 45.5 in November. This was a fall of 3.4 points on October, to signal a steeper rate of decline.
- Input costs faced by companies continued to increase at a high rate. This was despite a slight easing in the pace of increase with the input costs sub-index in November falling by 0.9 points to 75.4.
- Selling prices were raised at a lesser rate with the sub-index registering 43.4, a decline of 11.7 points on October. This was indicative of a narrowing of construction margins amid highly competitive market pressures.



## AUSTRALIAN PCI®\*

	November 2010	October 2010	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	42.2	44.0	-1.8	Declining	Faster	6
<b>ACTIVITY</b>	38.2	42.2	-4.0	Declining	Faster	7
- HOUSES	38.0	47.9	-9.9	Declining	Faster	6
- APARTMENTS	32.9	44.0	-11.1	Declining	Faster	7
- COMMERCIAL	38.0	46.4	-8.4	Declining	Faster	5
- ENGINEERING	39.4	37.5	+1.9	Declining	Slower	5
<b>NEW ORDERS</b>	39.7	42.4	-2.7	Declining	Faster	6
<b>EMPLOYMENT</b>	48.3	45.1	+3.2	Declining	Slower	6
<b>DELIVERIES</b>	45.5	48.9	-3.4	Declining	Faster	4
<b>INPUT PRICES</b>	75.4	76.3	-0.9	Expanding	Slower	63
<b>SELLING PRICES</b>	43.4	55.1	-11.7	Declining	From Expansion	1
<b>WAGES</b>	57.4	57.5	-0.1	Expanding	Slower	20
<b>CAPACITY</b>	77.7	77.7	0.0	Steady	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 Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association 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](http://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](http://www.markiteconomics.com)

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\*\*Prepared by Markit Economics