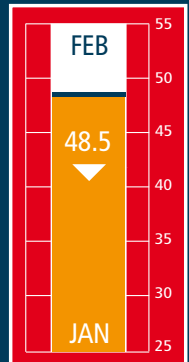
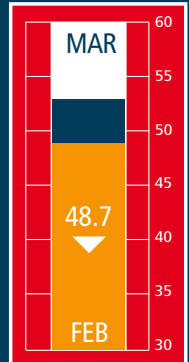
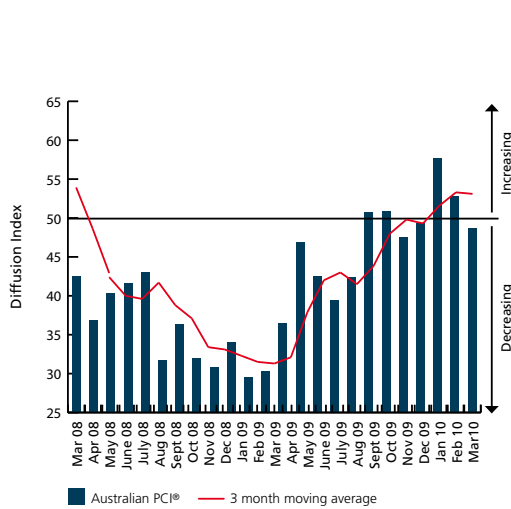




## CONSTRUCTION DEMAND WEAKENS

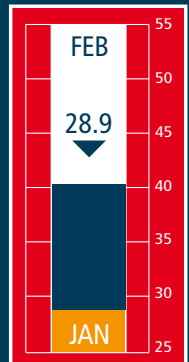
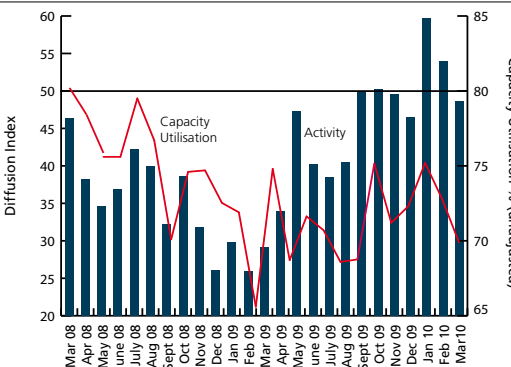
### KEY FINDINGS

- The national construction industry contracted slightly in March following the moderation in growth of the previous month. This weaker result was underpinned by falls in new orders and activity and highlighted the on-going toughness of industry conditions.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index® fell by 4.1 points to 48.7 in March, placing it below the critical 50 points level separating expansion from contraction. Nevertheless, this represented a marked improvement on the level of contraction registered a year ago.
- By industry sector, house building activity was flat overall in March after the notable strength exhibited in the first two months of the year, while activity fell in both the apartment building and engineering construction sectors. In contrast, commercial building expanded for a third consecutive month, albeit at a modest rate.
- Firms noted that operating conditions remained difficult, with tight credit conditions, subdued client demand and project delays resulting in intense competition to secure existing contracts. Residential builders also indicated that higher interest rates and weaker first home buyers demand had dampened both activity and incoming new business during the month.
- On an aggregate industry basis, activity and new orders declined in March following two consecutive months of growth. This was reflected in a slower rate of increase in deliveries from suppliers and employment.



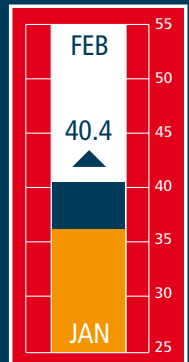
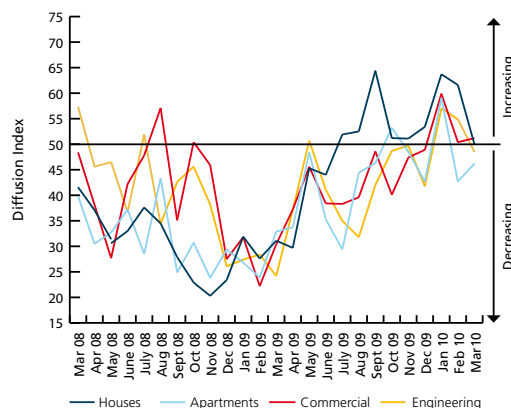
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 48.6 in March.
- This was 5.4 points below the index reading in February, and signalled a contraction in total construction activity following the return to growth over the previous two months.
- Underlying this result was a decline in new orders, driven by weakening levels of incoming new business in the house building, apartment and engineering construction sectors.
- Consistent with this, the average rate of capacity utilisation registered 69.9% in March, down by 2.5 percentage points on February.



### ACTIVITY BY SECTOR

- House building posted flat conditions following growth over the previous eight months. This was indicated in the sub-index moving to a position of stabilisation at 50.0, a marked 11.6 points lower than in February.
- The apartment building sector continued to decline with a sub-index reading of 46.2. However, this was 3.5 points above the level for February, to signal a slower rate of contraction.
- Engineering construction activity fell after recording growth during the previous two months, the sub-index registering 48.5, to be down by 6.4 points on the reading in February. This coincided with firms recording a higher rate of decline in new orders during the month.
- Commercial construction was the only sector to register growth, albeit at a modest rate, with the sub-index rising by 0.8 points to 51.2. Most firms linked this growth to support from Government stimulus spending on education building projects.



## NEW ORDERS

- New orders (seasonally adjusted) declined in March following growth over the previous two months.
- The new orders index registered 46.0, down 5.3 points on the level in February to signal a weakening in the overall project pipeline for firms.
- Underlying this result were reductions in new orders received by house building, apartment and engineering construction firms.
- The overall decline in new orders points to the likelihood of on-going subdued operating conditions during coming months.

## NEW ORDERS BY SECTOR

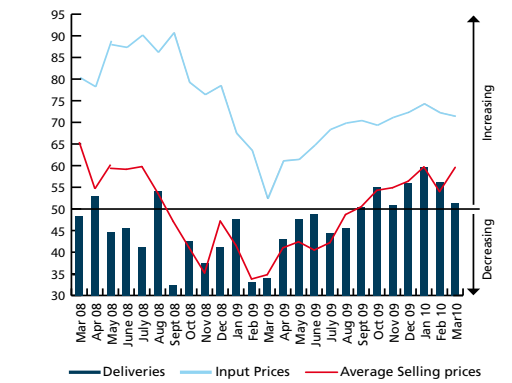
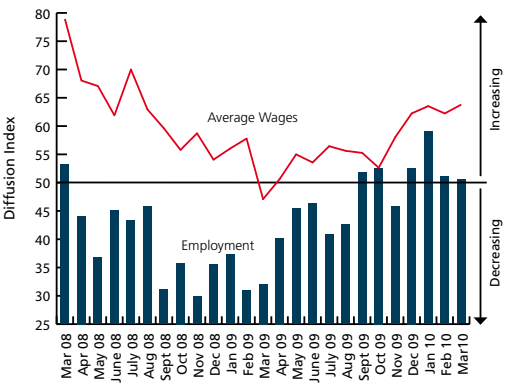
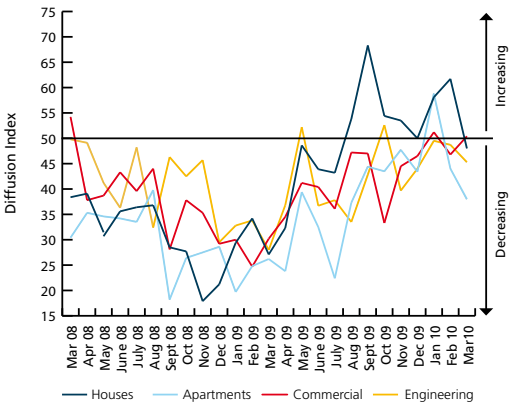
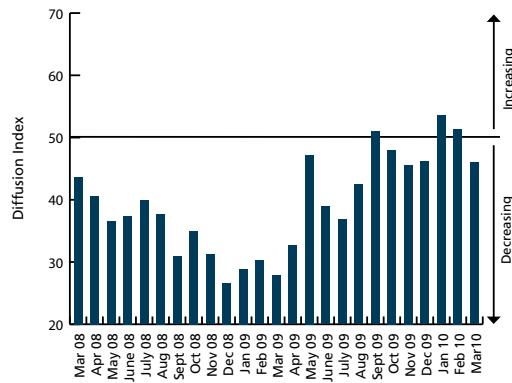
- New orders in house building contracted for the first time in eight months with the sub-index falling markedly by 13.7 points to 48.0. This coincided with numerous reports of lower customer enquiries, and was linked by firms to higher interest rates and the winding back of the First Home Owners Grant at the start of the year.
- In the engineering construction sector, new orders registered a fifth consecutive month of decline with the index registering 45.3. This was 3.4 points down on the previous month, indicating a higher rate of contraction.
- For the commercial construction sector, new orders posted marginal growth following the decrease of the previous month, with the index rising by 3.5 points to 50.4.
- New orders in the apartment sector declined at a higher rate, with the index falling by 6.0 points to 38.0, the weakest reading since July 2009.

## EMPLOYMENT AND WAGES

- The overall reduction in activity and the fall in new orders contributed to a moderation in the growth of employment levels.
- The employment sub-index registered 50.5 in March, a decrease of 0.6 points on the level of the previous month.
- This reduction followed a two month period where firms increased employment as a consequence of an improvement in demand.
- Growth in wages was reported at a slightly higher rate, the index registering 63.8, an increase of 1.6 points on the previous month.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

- In line with the fall in activity, growth in demand for deliveries of inputs from suppliers weakened in March.
- The supplier delivery index registered 51.4, a decrease of 4.9 points on the previous month.
- Firms reported an easing in the growth rate of input costs in March with the input costs sub-index falling by 0.8 points to 71.6.
- Selling prices posted an increase for a seventh consecutive month, with the sub-index registering 59.6, an increase of 5.6 points on February.



## AUSTRALIAN PCI®\*

	March 2010	February 2010	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	48.7	52.8	-4.1	Contracting	From Expansion	1
<b>ACTIVITY</b>	48.6	54.0	-5.4	Contracting	From Expansion	1
-HOUSES	50.0	61.6	-11.6	Flat	From Expansion	na
-APARTMENTS	46.2	42.7	+3.5	Contracting	Slower	2
-COMMERCIAL	51.2	50.4	+0.8	Expanding	Faster	3
-ENGINEERING	48.5	54.9	-6.4	Contracting	From Expansion	1
<b>NEW ORDERS</b>	46.0	51.3	-5.3	Contracting	From Expansion	1
<b>EMPLOYMENT</b>	50.5	51.1	-0.6	Expanding	Slower	4
<b>DELIVERIES</b>	51.4	56.3	-4.9	Expanding	Slower	7
<b>INPUT PRICES</b>	71.6	72.4	-0.8	Expanding	Slower	26
<b>SELLING PRICES</b>	59.6	54.0	+5.6	Expanding	Faster	7
<b>WAGES</b>	63.8	62.2	+1.6	Expanding	Faster	12
<b>CAPACITY</b>	69.9	72.4	-2.5% points	Contracting	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](http://www.aigroup.com.au)

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