

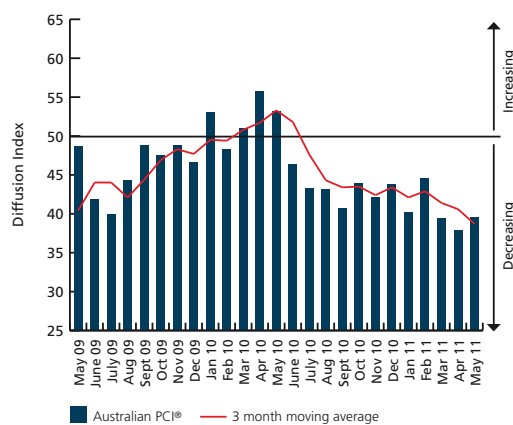


MAY 2011

## WEAKNESS CONTINUES IN THE CONSTRUCTION INDUSTRY

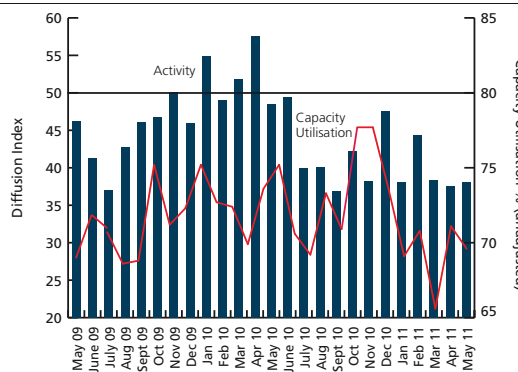
### KEY FINDINGS

- The weakness in the national construction industry continued in May, although the rate of reduction was less marked than in April.
- The seasonally adjusted Australian Industry Group Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association registered 39.6 in May, an increase of 1.7 points from the previous month. This reading remained below the 50 point level separating expansion from contraction for a 12th consecutive month.
- All four major industry sub-sectors posted a fall in activity during May. The decline in activity in the apartment building sector was particularly sharp and the steepest over the past five months. The data for May also pointed to a faster rate of contraction in commercial construction reflecting the winding back of fiscal stimulus and a lack of impetus from private investment in projects including offices and retail premises. In contrast, the rate of decline in both house building activity and engineering construction moderated during the month.
- Most companies linked the ongoing decline in activity to subdued market demand, citing a shortage of new work to replace the diminishing level of school building projects. It was also widely reported that intense competition to secure contracts and continued difficulties in funding construction work had impacted negatively upon new business.
- On an aggregate industry basis, activity, new orders and employment continued to contract at similar rates to the previous month. This contrasted with a less marked rate of reduction in supplier deliveries, signalling a higher degree of stock replenishment during the month.



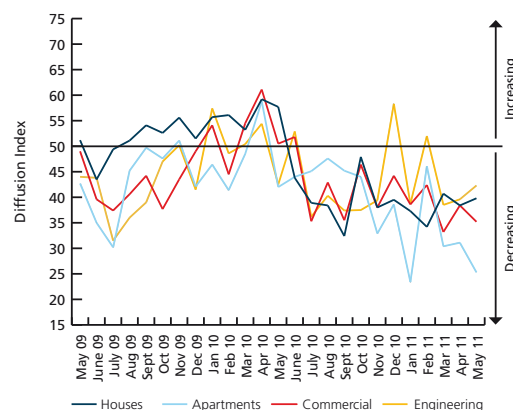
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 38.1 in May.
- This was marginally (0.5 points) above the reading of the previous month to signal that the rate of decline in total industry activity was broadly unchanged from the previous month.
- Underlying this result were steeper declines in apartment and commercial construction activity which were largely counter-balanced by the moderating influence of slower rates of reduction in house building and engineering construction.
- The average rate of capacity utilisation decreased from 71.1% in April to 69.6%.

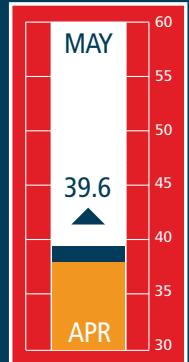


### ACTIVITY BY SECTOR

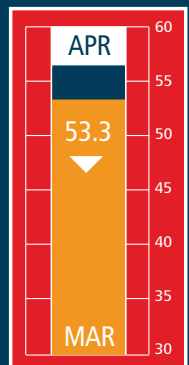
- House building activity fell for a 12th straight month, with the sub-index registering 39.8. This was 1.4 points above the reading in April to indicate a slower rate of decline.
- Apartment building was particularly subdued in May. The sector's sub-index declined by 5.8 points to 25.3, to be only slightly above the two year low level recorded in January 2011 (23.4).
- Commercial construction declined for an 11th consecutive month, and at a steeper rate, with the sub-index falling by 3.2 points to 35.2.
- The engineering construction sector recorded a slower rate of contraction for a second straight month, with a sub-index reading of 42.3, a rise of 2.7 points on April.



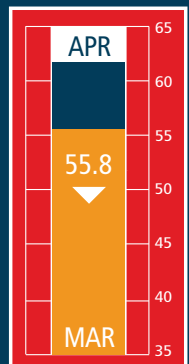
AUSTRALIAN PCI®



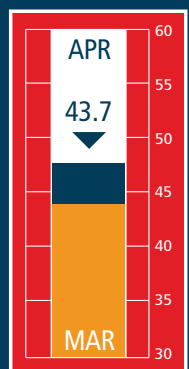
UK CONSTRUCTION INDEX\*



GERMANY CONSTRUCTION INDEX\*



IRELAND CONSTRUCTION INDEX\*



## NEW ORDERS

- New orders (seasonally adjusted) continued to decline in line with the persistent weakness and fragility of overall industry demand.
- The decline in new orders in May broadly matched the rate of decline over the previous two months with the sub-index rising by a marginal 0.7 points to 38.5.
- This reflected the impact of ongoing declines in new orders across the four major sectors, with the most marked rate of decline evident for businesses engaged in apartment building work.
- 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 maintained the decline evident since June 2010, with a sub-index reading of 39.5. However, this was 4.4 points above the previous month, pointing to a slower pace of decline.
- In the engineering construction sector, new orders fell for a third straight month with the sub-index falling by 4.3 points to 40.1. Nevertheless, the pace of reduction remained the slowest of all sectors.
- New orders in the apartment sector declined for a 16th consecutive month, with the sub-index registering 30.3. This was 1.3 points below the previous month to indicate a more marked rate of contraction.
- For the commercial construction sector demand conditions remained subdued, although the pace of decline moderated as evident by a 6.3 point monthly rise in the sub-index to 39.8.

## EMPLOYMENT AND WAGES

- The ongoing falls in both activity and new orders led to a further decline in employment.
- The employment sub-index registered 38.5 in May, to maintain the decline evident since mid 2010.
- While this was only slightly above (0.7 points) the reading in April, it remained well down on the level of a year ago.
- Growth in wages continued in May, and at a faster rate than in the previous month, with the index rising by 1.7 points to 58.7.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

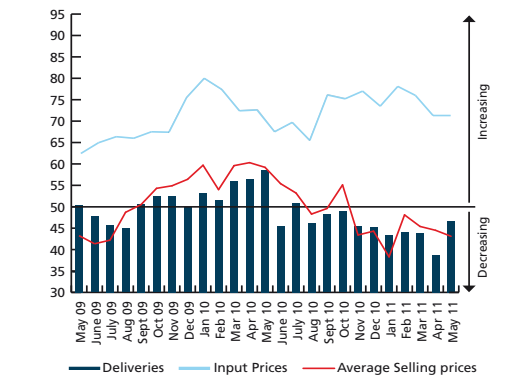
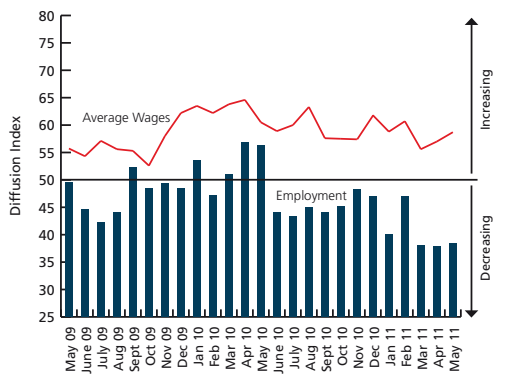
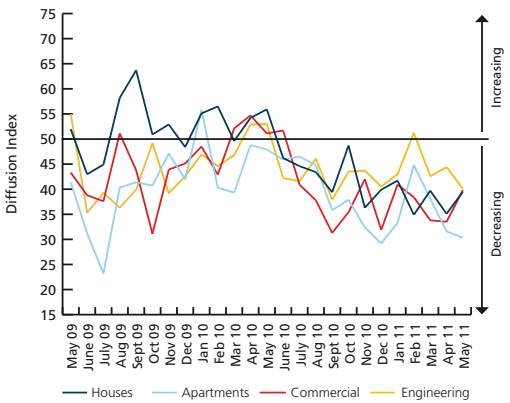
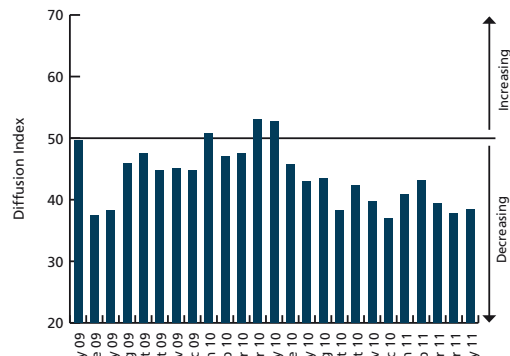
- Deliveries of inputs from suppliers continued to decline in May, although at a less marked rate than the previous month.
- The supplier delivery index registered 46.6 in May. This was a rise of 7.9 points on April to represent the slowest rate of decline in the past seven months.
- The rate of growth in input costs remained at an elevated level, with the input costs sub-index in May registering 71.5, unchanged on the previous month.
- Selling prices were raised at a lesser rate than in April, the sub-index falling by 1.4 points to 43.1, indicating ongoing pressure on construction margins amid highly competitive market conditions.

## AUSTRALIAN PCI®\*

	May 2011	April 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	39.6	37.9	+1.7	Contracting	Slower	12
<b>ACTIVITY</b>	38.1	37.6	+0.5	Contracting	Slower	13
- HOUSES	39.8	38.4	+1.4	Contracting	Slower	12
- APARTMENTS	25.3	31.1	-5.8	Contracting	Faster	13
- COMMERCIAL	35.2	38.4	-3.2	Contracting	Faster	11
- ENGINEERING	42.3	39.6	+2.7	Contracting	Slower	3
<b>NEW ORDERS</b>	38.5	37.8	+0.7	Contracting	Slower	12
<b>EMPLOYMENT</b>	38.5	37.8	+0.7	Contracting	Slower	12
<b>DELIVERIES</b>	46.6	38.7	+7.9	Contracting	Slower	10
<b>INPUT PRICES</b>	71.5	71.5	0.0	Expanding	Unchanged	69
<b>SELLING PRICES</b>	43.1	44.5	-1.4	Contracting	Faster	7
<b>WAGES</b>	58.7	57.0	+1.7	Expanding	Faster	26
<b>CAPACITY</b>	69.6	71.1	-1.5	Lower	na	na

\*Results are based on a sample of over 150 companies. Forward seasonal factors were generated by the ABS in April 2011.

\*\* 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

**Andrew Harvey**  
Senior Economist  
Housing Industry Association  
work 02 6245 1318

**Markit Economics**  
[www.markiteconomics.com](http://www.markiteconomics.com)

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\*\*Prepared by Markit Economics