



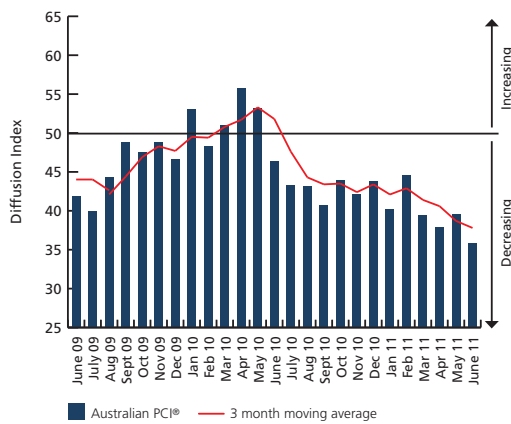
# POC AUSTRALIAN PERFORMANCE OF CONSTRUCTION INDEX®

JUNE 2011

## CONSTRUCTION DECLINE CONTINUES AMID WEAKER DEMAND

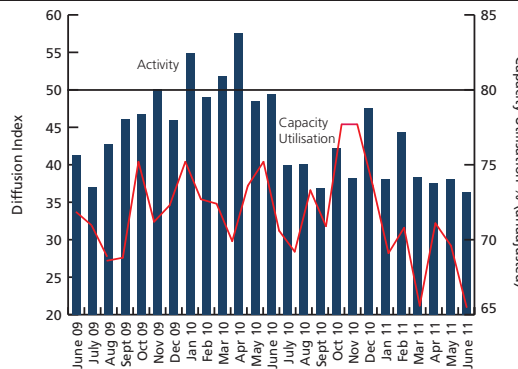
### KEY FINDINGS

- The national construction industry continued to contract in June with new orders registering a solid 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 3.8 points to 35.8 in June, to remain below the 50 point level separating expansion from contraction for a 13th consecutive month.
- June data pointed to particular weakness in the house building sector which registered its lowest activity reading in eight months. The rate of contraction in activity was also steeper in engineering and commercial construction with the latter continuing to be hampered by the failure of private demand to offset diminishing government stimulus. The reduction in apartment building work continued, although at a less marked rate than in May.
- Most businesses linked the on-going decline in activity to subdued levels of incoming work and an associated shortage of new tender opportunities. Businesses also reported that uncertainty over future interest rate moves and continued difficulties in funding construction work were having a dampening influence on levels of new business.
- On an aggregate industry basis, the sequence of declines in activity and new orders was extended to 14 and 13 months respectively. Deliveries from suppliers also fell markedly in response to contracting demand, while businesses continued to reduce employment.



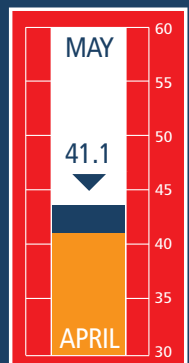
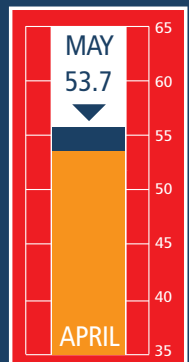
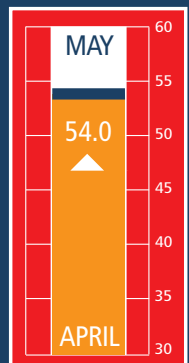
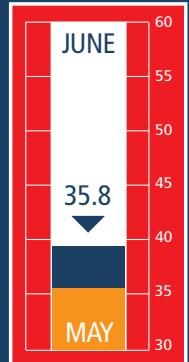
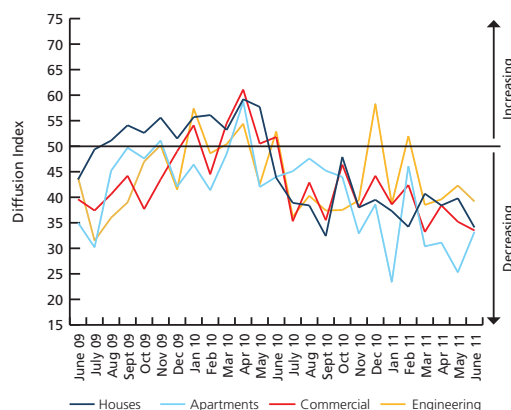
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 36.3 in June.
- This was 1.8 points below the reading of the previous month to signal a steeper rate of decline in total industry activity during the month.
- House building weakness weighed heavily on overall industry activity with the sector registering a marked acceleration in its rate of contraction during the month.
- In line with reduced workloads, the average rate of capacity utilisation decreased from 69.6% in May to 65.5%.



### ACTIVITY BY SECTOR

- House building activity fell for a 13th straight month, with the sub-index registering 34.1. This was 5.7 points below the reading in May to indicate a steeper rate of decline.
- Apartment building remained subdued in June. However, at 33.2, the sub-index was 7.9 points above the level in May, to mark the slowest rate of contraction over the past four months.
- Commercial construction declined for a 12th consecutive month, and at a steeper rate, with the sub-index falling by 1.7 points to 33.5.
- The fall in engineering construction was extended to a fourth straight month with a sub-index reading of 39.2, a fall of 3.1 points on May. Nevertheless, the pace of contraction remained the slowest of all sectors.



## NEW ORDERS

- New orders (seasonally adjusted) continued to decline in line with the persistent weakness and fragility of overall industry demand.
- The new orders index registered 32.2, a decline of 6.3 points on May to signal a more marked rate of decline.
- This result reflected falls in new orders on a broad industry front, with the steepest declines registered by businesses engaged in house building, apartments and commercial construction 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 of last year, with a sub-index reading of 32.0. This was 7.5 points below the reading of the previous month to indicate the steepest pace of decline over the past eight months.
- For the commercial construction sector demand conditions continued to contract, and at a steeper rate, as reflected in a fall in the sub-index of 9.9 points to 29.9. Respondents mainly linked this to a lack of new work to replace the dwindling level of school building projects.
- In the engineering construction sector, new orders fell for a fourth straight month with the sub-index falling by 3.5 points to 36.6.
- New orders in the apartment sector declined for a 17th consecutive month, with the sub-index registering 23.8. This rate of contraction is the steepest for two years.

## EMPLOYMENT AND WAGES

- The declines in activity and new orders resulted in a further reduction in industry employment.
- The employment sub-index registered 37.0 in June, down by 1.5 points on the previous month.
- This was the most marked rate of decline since March 2009, and the 13th consecutive month of contracting employment.
- Growth in wages continued in June, and rose at a faster rate than in the previous month, with the index rising by 1.3 points to 60.0.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

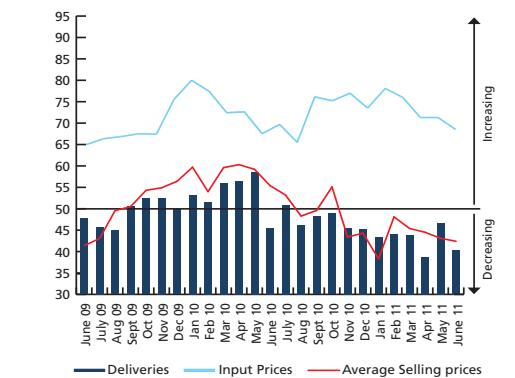
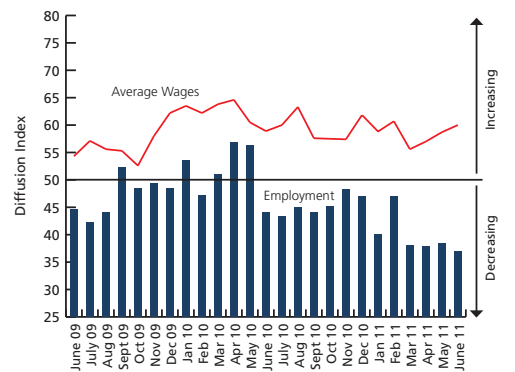
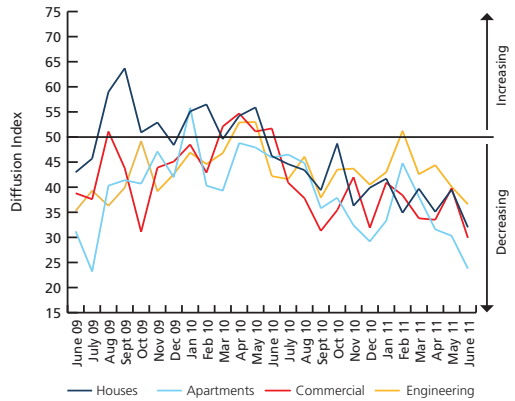
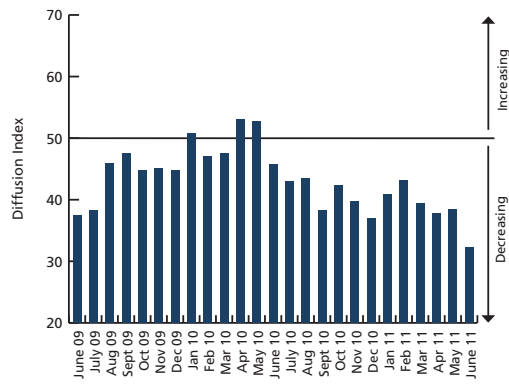
- Consistent with ongoing falls in new orders, deliveries of inputs from suppliers continued to decline in June, and at a more marked rate than the previous month.
- The supplier delivery index registered 40.4, a fall of 6.2 points on May.
- The rate of increase in input costs remained at an elevated level, although the input costs sub-index in June fell by 2.8 points to 68.7, indicating a moderation in growth.
- Selling prices contracted at a faster rate than in May, the sub-index falling by 0.7 points to 42.4, pointing to ongoing pressure on construction margins.

## AUSTRALIAN PCI®\*

	June 2011	May 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	35.8	39.6	-3.8	Contracting	Faster	13
<b>ACTIVITY</b>	36.3	38.1	-1.8	Contracting	Faster	14
- HOUSES	34.1	39.8	-5.7	Contracting	Faster	13
- APARTMENTS	33.2	25.3	+7.9	Contracting	Slower	14
- COMMERCIAL	33.5	35.2	-1.7	Contracting	Faster	12
- ENGINEERING	39.2	42.3	-3.1	Contracting	Faster	4
<b>NEW ORDERS</b>	32.2	38.5	-6.3	Contracting	Faster	13
<b>EMPLOYMENT</b>	37.0	38.5	-1.5	Contracting	Faster	13
<b>DELIVERIES</b>	40.4	46.6	-6.2	Contracting	Faster	11
<b>INPUT PRICES</b>	68.7	71.5	-2.8	Expanding	Slower	70
<b>SELLING PRICES</b>	42.4	43.1	-0.7	Contracting	Faster	8
<b>WAGES</b>	60.0	58.7	+1.3	Expanding	Faster	27
<b>CAPACITY</b>	65.5	69.6	-4.1	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)

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\*\*Prepared by Markit Economics