

# PCI AUSTRALIAN

## PERFORMANCE OF CONSTRUCTION INDEX®

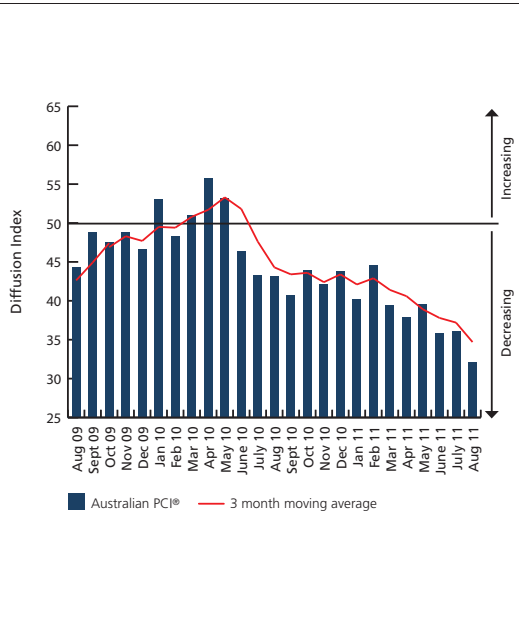


AUGUST 2011

### CONSTRUCTION INDUSTRY DOWNTURN DEEPENS

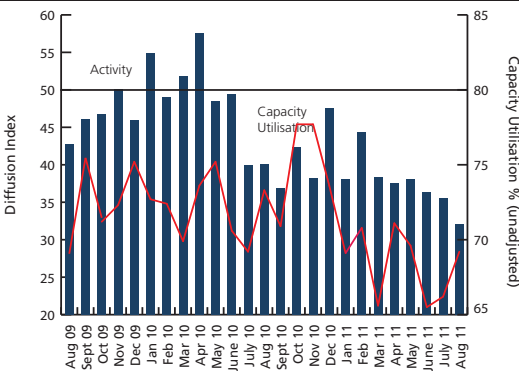
#### KEY FINDINGS

- The downturn in the national construction industry deepened in August 2011 driven by a further fall in activity and a sharp reduction in new orders.
- The seasonally adjusted Australian Industry Group Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association declined by 4.0 points to 32.1. This marked the 15th consecutive month that the index has been below the critical 50 points level separating expansion from contraction. Moreover, it represented the weakest reading on the overall state of the construction industry in almost 2 1/2 years.
- The four broad sectors of the construction industry continued to register reductions in activity, with apartment and commercial construction recording the sharpest declines in the month. House building activity remained weak, despite a slight moderation in the rate of reduction in August, while engineering construction fell at a similar pace to the previous two months.
- Businesses attributed the on-going decline in activity to a lack of incoming work and an associated shortage of new tender opportunities. Survey respondents also widely indicated that weak consumer and investor confidence together with uncertainty about future interest rate moves and concerns about the economic outlook were having a significant adverse impact on levels of incoming business.
- On an aggregate industry basis, the sequence of decline in activity and new orders was extended to 16 and 15 months, respectively. Employment also fell markedly as businesses sought to reduce overheads.



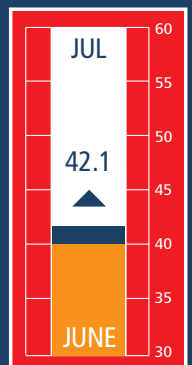
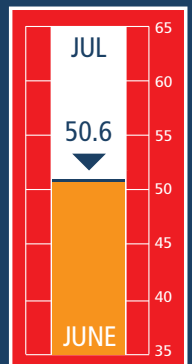
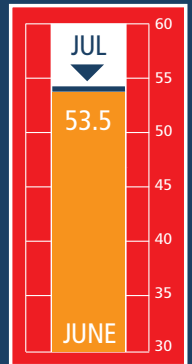
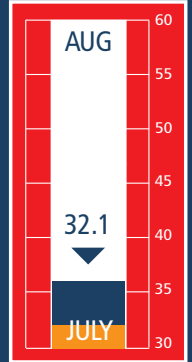
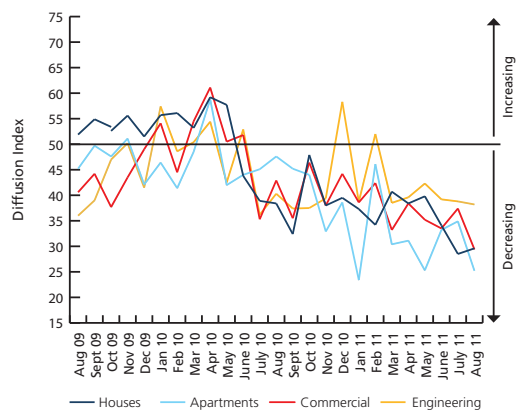
#### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 32.1 in August.
- This was 3.5 points below the reading of the previous month to signal a steeper rate of decline in total industry activity.
- Underlying this result were reductions in activity on a broad industry front, with particular weakness centred on the sharper falls in apartment building and commercial construction activity.
- The rate of capacity utilisation remained subdued. Despite rising from 66.2% in July to 69.2%, it was still 1.2 points below the average level of the previous 12 months.



#### ACTIVITY BY SECTOR

- House building activity fell for a 15th consecutive month in August, although at a slightly slower rate, with the sub-index rising by 1.1 points to 29.6.
- Apartment building activity exhibited a marked weakening with the sub-index falling by 9.7 points to 25.2, the most subdued reading over the past seven months. This was linked by businesses to the insufficient inflow of new work to replace completed projects.
- Commercial construction declined for a 14th straight month, and at an accelerated rate, with the sub-index falling by 8.0 points to 29.4, reflecting a diminishing level of government backed projects and subdued private sector investment in offices, hotels, retail premises and other commercial building projects.
- The fall in engineering construction was maintained for a sixth straight month, although the rate of decline was broadly unchanged on the previous month with a sub-index reading of 38.2, a fall of 0.6 points on July.



## NEW ORDERS

- New orders (seasonally adjusted) declined for a 15<sup>th</sup> straight month and at the steepest rate recorded since the inception of the survey in September 2005.
- The new orders index fell by 7.1 points in August to 24.5 to indicate a more pronounced rate of reduction.
- This result reflected falls in new orders on a broad industry front, with all sectors recording a more marked rate of decline.
- The further fall in new orders points to tougher operating conditions for the industry as a whole 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 25.0. This was 7.9 points below the level in July, pointing to a much steeper pace of contraction.
- For the commercial construction sector demand conditions also continued to contract at a steeper rate, as reflected in a fall in the sub-index of 9.9 points to 23.9.
- New orders in the apartment sector declined for a 19<sup>th</sup> consecutive month, with the sub-index registering a particularly subdued 16.6. This was down by 7.4 points on the previous month.
- In the engineering construction sector, new orders fell for a sixth straight month with the sub-index falling by 0.7 points to 31.1, pointing to continued lags in the flow of new resources/infrastructure work to respondent businesses.

## EMPLOYMENT AND WAGES

- With continued declines in activity and new orders industry employment also fell further.
- The employment sub-index registered 34.9 in August, down by 5.1 points on July.
- This was the lowest reading since March 2009, and well below the average level (48.4) recorded during 2010.
- Growth in wages continued in August, although at a slower rate than in the previous month, with the index declining by 5.0 points to 59.8.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

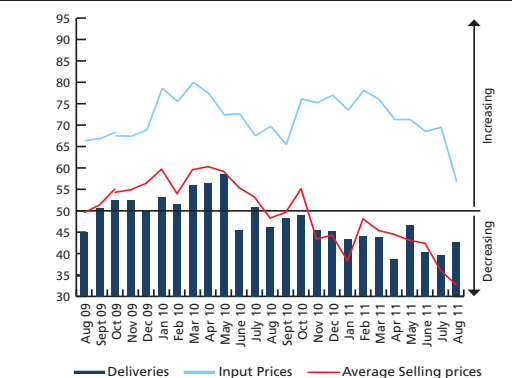
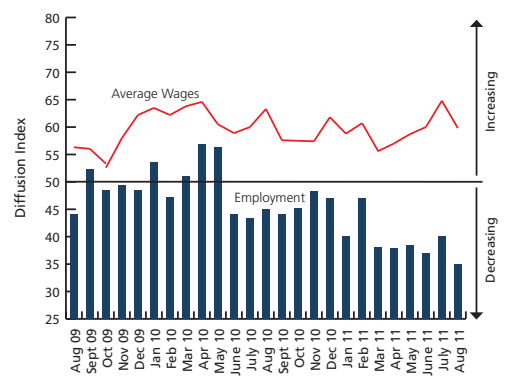
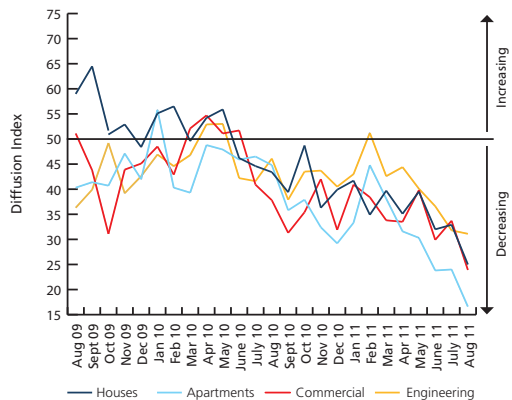
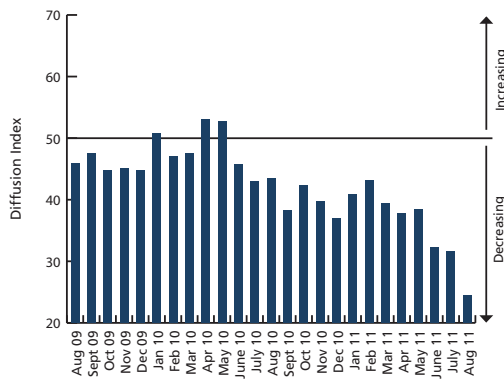
- Deliveries of inputs from suppliers continued to decline in August, although the rate of reduction was slower than the previous month.
- The supplier delivery index registered 42.6 in August, an increase of 3.0 points on the reading for July.
- The rate of increase in input costs moderated with the input costs sub-index in August falling by 12.7 points to 57.0.
- Selling prices declined for a 10<sup>th</sup> consecutive month amid highly competitive market conditions. Moreover, the rate of decline was more marked with the sub-index falling by 3.4 points to 32.7.

## AUSTRALIAN PCI®\*

	August 2011	July 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	32.1	36.1	-4.0	Contracting	Faster	15
<b>ACTIVITY</b>	32.1	35.6	-3.5	Contracting	Faster	16
-HOUSES	29.6	28.5	+1.1	Contracting	Slower	15
-APARTMENTS	25.2	34.9	-9.7	Contracting	Faster	16
-COMMERCIAL	29.4	37.4	-8.0	Contracting	Faster	14
-ENGINEERING	38.2	38.8	-0.6	Contracting	Faster	6
<b>NEW ORDERS</b>	24.5	31.6	-7.1	Contracting	Faster	15
<b>EMPLOYMENT</b>	34.9	40.0	-5.1	Contracting	Faster	15
<b>DELIVERIES</b>	42.6	39.6	+3.0	Contracting	Slower	13
<b>INPUT PRICES</b>	57.0	69.7	-12.7	Expanding	Slower	72
<b>SELLING PRICES</b>	32.7	36.1	-3.4	Contracting	Faster	10
<b>WAGES</b>	59.8	64.8	-5.0	Expanding	Slower	29
<b>CAPACITY</b>	69.2	66.2	+3.0	Higher	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