AUSTRALIAN INDUSTRY GROUP

pci AUSTRALIAN

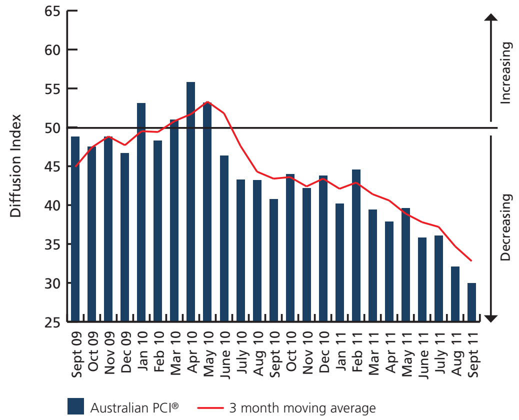
PERFORMANCE OF CONSTRUCTION INDEX®

SEPTEMBER 2011

CONSTRUCTION DECLINE DEEPENS FURTHER IN SEPTEMBER

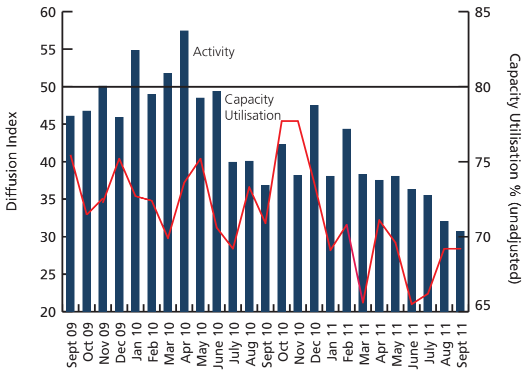
KEY FINDINGS

- The downturn in the national construction industry continued in September amid further marked falls in activity, new orders and employment.
- The seasonally adjusted Australian Industry Group Performance of Construction Index (**Australian PCI**®) in conjunction with the Housing Industry Association fell by 2.1 points to 30.0 in September, to remain below the 50 point level separating expansion from contraction for a 16th consecutive month. It was also the most subdued reading on industry conditions since February 2009.
- At the sectoral level, house building, apartments and commercial construction all recorded sharper declines in activity during the month. Despite a further reduction in engineering construction, it remained the most resilient of the four broad sectors of the industry, with activity falling at its slowest pace over the past four months.
- Most businesses linked the on-going decline in activity to subdued market demand, citing a shortage of new work and intense competition in the securing of contracts. It was also widely reported that investor and consumer confidence remained subdued, whilst uncertainty about the economic outlook and funding constraints were also having a negative impact on activity.
- On an aggregate industry basis, the sequence of decline in activity and new orders was extended to 17 and 16 months respectively. Deliveries from suppliers also fell markedly in response to contracting demand, with workforces declining accordingly.



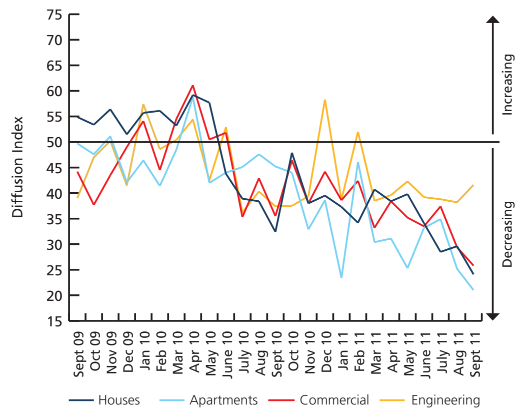
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 30.8 in September.
- This was 1.3 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 sharper falls in apartments, house building and commercial construction weighing heavily on the industry's overall performance.
- Consistent with this, the rate of capacity utilisation fell by 3.1 points from 69.2% in August to 66.1%.



ACTIVITY BY SECTOR

- House building activity fell for a 16th consecutive month in September with the sub-index falling by 5.5 points to 24.1, the most marked rate of decline since December 2008.
- Apartment building activity was particularly subdued in September. The sector's sub-index declined by 4.2 points to 21.0, only slightly above the six-year low point of 20.9 recorded in January 2009.
- Commercial construction declined for a 15th straight month, and at an accelerated rate, with the sub-index falling by 3.6 points to 25.8, reflecting low levels of work in planning across hotels, retail premises and other commercial building projects.
- The fall in engineering construction was maintained for a seventh straight month, although the rate of decline moderated with a sub-index reading of 41.6, a rise of 3.4 points on August.



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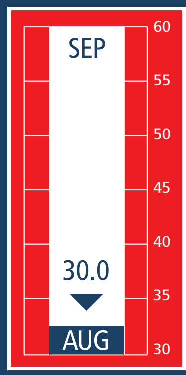
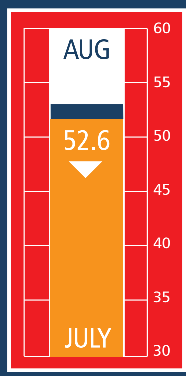
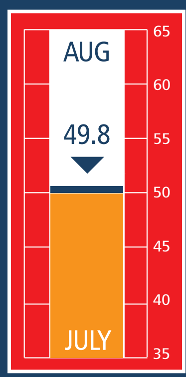


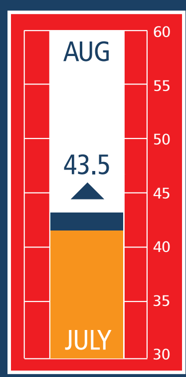
UK CONSTRUCTION INDEX*



GERMANY CONSTRUCTION INDEX*



IRELAND CONSTRUCTION INDEX*



*Prepared by Markit Economics

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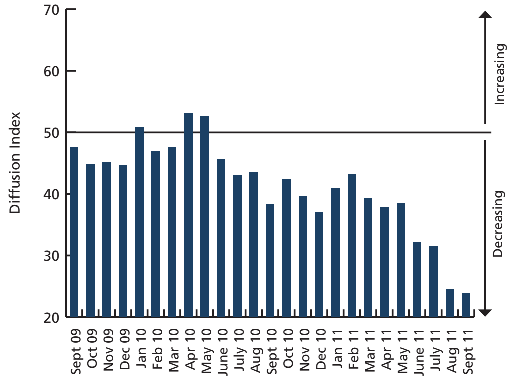
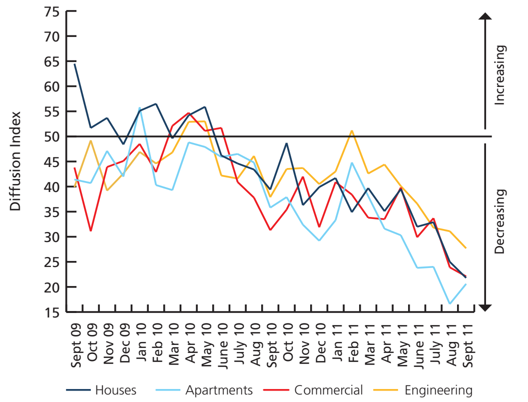
NEW ORDERS

- New orders (seasonally adjusted) declined for a 16th straight month and at the steepest rate recorded since the inception of the survey in September 2005.
- The new orders index registered 23.9 in September, a fall of 0.6 points on August.
- This result reflected a broad based fall in new orders, with all sectors recording a more marked rate of decline.
- The further fall in new orders indicates that the industry is likely to remain in a state of contraction over coming months.



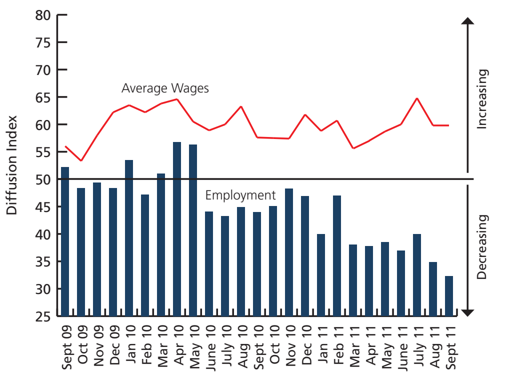
NEW ORDERS BY SECTOR

- New orders in house building maintained the decline evident since June 2010, with a sub-index reading of 21.8. This was 3.2 points below the level in August, pointing to a steeper pace of contraction.
- For the commercial construction sector, demand conditions remained subdued. New orders declined at a steeper rate for a second consecutive month, with the sub-index falling by 1.8 points to 22.1.
- New orders in the apartment sector declined for a 20th consecutive month, with the sub-index registering 20.6. However, this was a rise of 4.0 points on the previous month, to indicate a slower pace of decline.
- In the engineering construction sector, new orders fell for a seventh straight month with the sub-index falling by 3.4 points to 27.7, suggesting that there are lags in the in-flow of new work from resources/energy expansions.



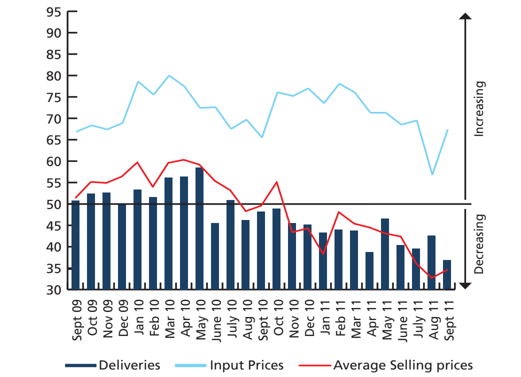
EMPLOYMENT AND WAGES

- The on-going falls in both activity and new orders led to a further decline in employment.
- The employment sub-index registered 32.3 in September, down by 2.6 points on August.
- This was the lowest reading since February 2009, and well below the average level (48.4) recorded during 2010.
- Growth in wages continued in September, although the rate of growth was unchanged on the previous month, with the index steady at 59.8.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers continued to decline in September, and at a steeper rate as businesses adjusted their purchasing activity to weaker new orders.
- The supplier delivery index registered 36.9 in September, a fall of 5.7 points on the reading for August.
- The rate of increase in input costs increased with the input costs sub-index in September rising by 10.6 points to 67.6, with businesses largely attributing this to higher fuel prices.
- Amid highly competitive market conditions, selling prices declined for an 11th consecutive month. However, the rate of decline moderated slightly with the sub-index rising by 1.9 points to 34.6.



AUSTRALIAN PCI®*

	September 2011	August 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	30.0	32.1	-2.1	Contracting	Faster	16
ACTIVITY	30.8	32.1	-1.3	Contracting	Faster	17
-HOUSES	24.1	29.6	-5.5	Contracting	Faster	16
-APARTMENTS	21.0	25.2	-4.2	Contracting	Faster	17
-COMMERCIAL	25.8	29.4	-3.6	Contracting	Faster	15
-ENGINEERING	41.6	38.2	+3.4	Contracting	Slower	7
NEW ORDERS	23.9	24.5	-0.6	Contracting	Faster	16
EMPLOYMENT	32.3	34.9	-2.6	Contracting	Faster	16
DELIVERIES	36.9	42.6	-5.7	Contracting	Faster	14
INPUT PRICES	67.6	57.0	+10.6	Expanding	Faster	73
SELLING PRICES	34.6	32.7	+1.9	Contracting	Slower	11
WAGES	59.8	59.8	0.0	Expanding	Unchanged	30
CAPACITY	66.1	69.2	-3.1	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

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