AUSTRALIAN INDUSTRY GROUP

# pci AUSTRALIAN

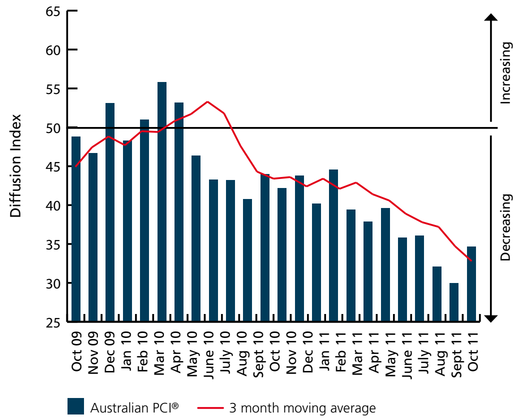
PERFORMANCE OF CONSTRUCTION INDEX®

OCTOBER 2011

# DECLINE IN CONSTRUCTION INDUSTRY MODERATES

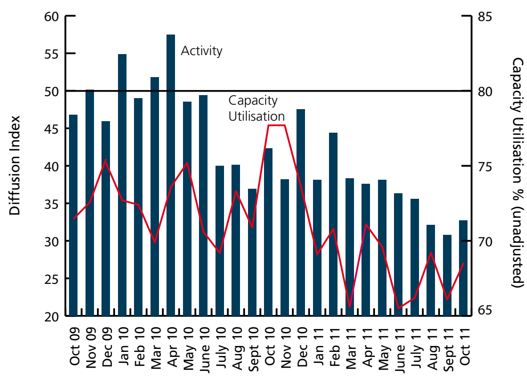
## KEY FINDINGS

- The national construction industry continued to decline in October, although the rate of contraction moderated.
- The Australian Industry Group Performance of Construction Index (**Australian PCI®**) in conjunction with the Housing Industry Association increased by 4.7 points to 34.7 in October. Nevertheless, it remained firmly below the 50 point level separating expansion from contraction for the 17th consecutive month.
- Despite all four broad sectors experiencing a reduction in activity during October, there was a distinct moderation in the pace of decline in the house building sector. Declines in apartments and commercial construction were also less pronounced. Engineering construction remained the most resilient sector recording its firmest activity reading in eight months.
- Declines in activity were attributed to subdued market demand, and the undermining influences of low consumer confidence, funding constraints and uncertainty about the economic outlook. Various engineering construction businesses, however, pointed to the positive support from infrastructure and resource-based projects.
- On an aggregate industry basis, the decline in new orders was notably slower than the previous month. Consistent with this, falls in activity, supplier deliveries and employment all moderated.



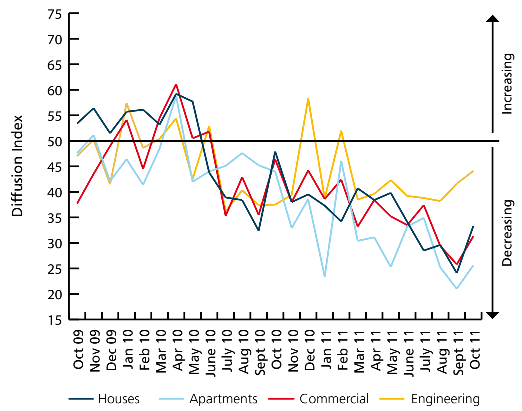

## CONSTRUCTION ACTIVITY AND CAPACITY

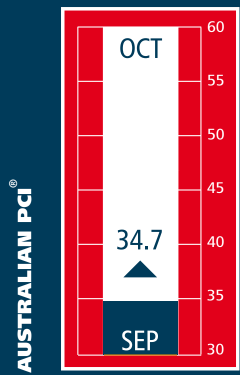
- In seasonally adjusted terms, the activity sub-index registered 32.7 in October.
- This was 1.9 points above the reading of the previous month, signalling a slower rate of decline in total industry activity.
- Underlying this result were less marked rates of decline across all the broad industry sectors.
- Coinciding with these trends, the rate of capacity utilisation rose by 2.4 points from 66.1% in September to 68.5%.

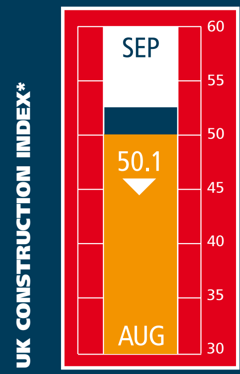


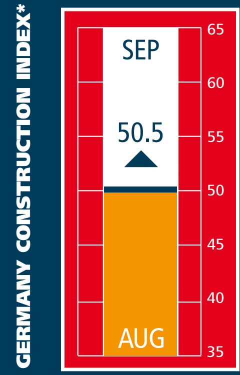

## ACTIVITY BY SECTOR

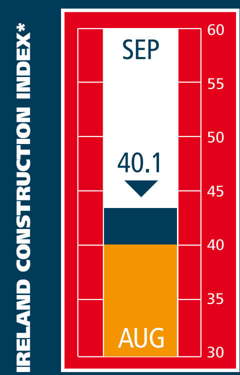
- House building activity fell for the 17th consecutive month in October, although the sub-index rose by 9.2 points to 33.3, the least pronounced pace of contraction in four months.
- The rate of decline in apartment building activity moderated with the sub-index rising by 4.6 points to 25.6. However, this extended the sector's current sequence of decline to 18 months.
- The decline in commercial construction was sustained for the 16th straight month, although at 31.3, the sub-index was 5.5 points above September's reading.
- Following the trend of recent months, engineering construction declined at the slowest rate of all sectors with a sub-index reading of 44.1, an increase of 2.5 points on September.




*Prepared by Markit Economics

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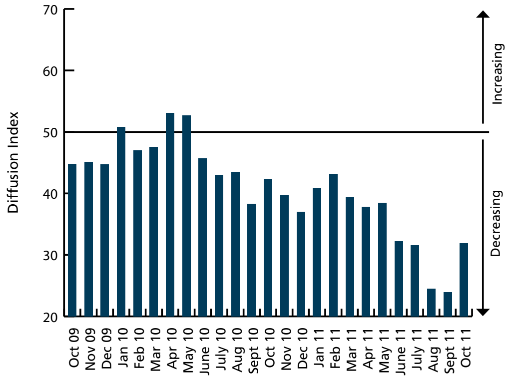
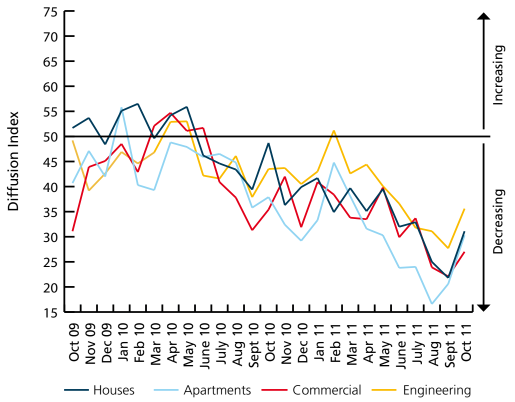
## NEW ORDERS

- New orders (seasonally adjusted) declined in October for a 17th consecutive month.
- Nevertheless, there was a marked easing in the rate of decline with the new orders index rising by 8.0 points to 31.9.
- This result reflected a slower rate of decline in new orders received across all broad industry sectors, with the most distinct easing evident for businesses engaged in house building, apartments and engineering construction.
- The result suggests that the decline in new orders has passed a low point and may signal an improvement in overall activity in coming months.



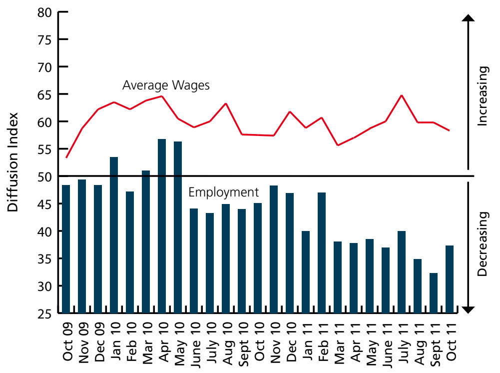

## NEW ORDERS BY SECTOR

- New orders in house building maintained the decline evident since June 2010, with a sub-index reading of 31.1. However, this was 9.3 points above the level in September, signalling a slower pace of contraction.
- Demand conditions remained subdued in the commercial construction sector. However, consistent with the recent improvement in non-residential building approvals, the rate of decline in new orders moderated with the sub-index rising by 4.9 points to 27.0.
- In the apartment sector, the new orders sub-index increased by 9.7 points to 30.3. This marked the slowest pace of decline for five months.
- New orders in engineering construction fell for the eighth straight month, although due to the reported improved in-flow of new work from resources/infrastructure projects, the sub-index rose by 7.9 points to 35.6.



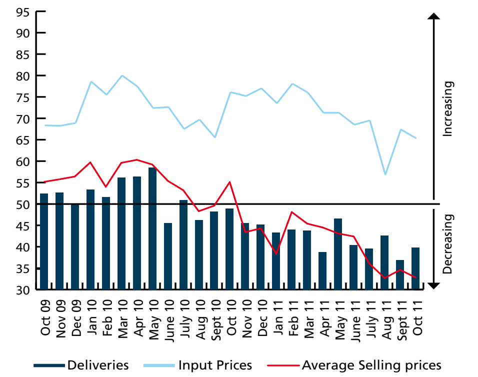

## EMPLOYMENT AND WAGES

- Employment continued to fall, albeit at a slower pace.
- The employment sub-index registered 37.3 in October, up by 5.0 points on September.
- Despite this moderation in decline, the sub-index remained 10.0 points below the level recorded just eight months ago.
- Growth in wages continued in October, although the rate of growth eased slightly on the previous month, with the index falling by 1.5 points to 58.3.




## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers continued to decline in October, although at a slower rate, consistent with the decelerating pace of decline in new orders.
- The supplier delivery index registered 39.8 in October, a rise of 2.9 points on the reading for September.
- The rate of increase in input costs remained elevated in October, although the input costs sub-index fell by 2.1 points in October to 65.5, signalling a slight easing in the rate of growth.
- Amid highly competitive market conditions, selling prices declined for the 12th consecutive month and at a steeper rate with the sub-index declining by 1.8 points to 32.8.




## AUSTRALIAN PCI®*

| | October 2011 | September 2011 | Monthly Change | Direction | Rate of Change | Trend ** (Months) |
|---|---|---|---|---|---|---|
| **AUSTRALIAN PCI®** | 34.7 | 30.0 | +4.7 | Contracting | Slower | 17 |
| **ACTIVITY** | 32.7 | 30.8 | +1.9 | Contracting | Slower | 18 |
| -HOUSES | 33.3 | 24.1 | +9.2 | Contracting | Slower | 17 |
| -APARTMENTS | 25.6 | 21.0 | +4.6 | Contracting | Slower | 18 |
| -COMMERCIAL | 31.3 | 25.8 | +5.5 | Contracting | Slower | 16 |
| -ENGINEERING | 44.1 | 41.6 | +2.5 | Contracting | Slower | 8 |
| **NEW ORDERS** | 31.9 | 23.9 | +8.0 | Contracting | Slower | 17 |
| **EMPLOYMENT** | 37.3 | 32.3 | +5.0 | Contracting | Slower | 17 |
| **DELIVERIES** | 39.8 | 36.9 | +2.9 | Contracting | Slower | 15 |
| **INPUT PRICES** | 65.5 | 67.6 | -2.1 | Expanding | Slower | 74 |
| **SELLING PRICES** | 32.8 | 34.6 | -1.8 | Contracting | Faster | 12 |
| **WAGES** | 58.3 | 59.8 | -1.5 | Expanding | Slower | 31 |
| **CAPACITY** | 68.5 | 66.1 | +2.4 | 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

## CONTACT


**Peter Burn**
Director – Public Policy
Ai Group
work 02 9466 5503

**Andrew Harvey**
Senior Economist
Housing Industry Association
work 0408 081 977

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www.markiteconomics.com




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