

# POCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

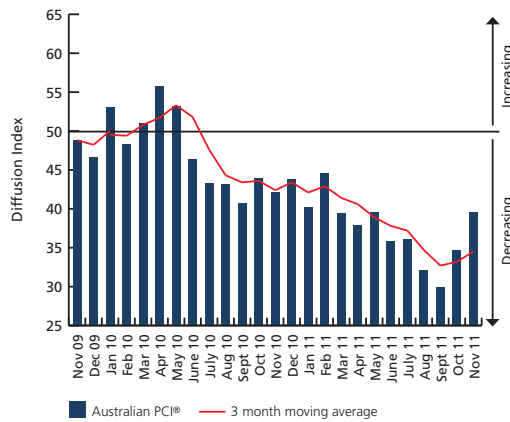


NOVEMBER 2011

## UNEVEN CONSTRUCTION SECTOR REMAINS SUBDUED

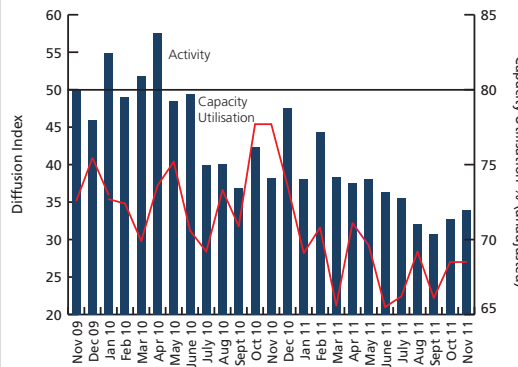
### KEY FINDINGS

- The weakness in the national construction industry continued in November, although the rate of contraction moderated for the second consecutive month.
- The Australian Industry Group Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association increased by 4.9 points to 39.6 in November. The index remained below the 50 point level separating expansion from contraction for the 18th consecutive month.
- While the sector as a whole recorded a reduction in activity during November, the pace of decline eased further in both house building and engineering construction. In contrast, commercial construction activity declined at a steeper rate and there was a more marked rate of contraction in apartment building activity.
- Encouragingly, there were reports of an improvement in workflows from resource-based projects and a rise in customer enquiries in the house building sector linked to the positive influence of the recent interest rate reduction.
- On an aggregate industry basis, new orders again declined, although the rate of contraction was the slowest in six months. Consistent with this, falls in activity, supplier deliveries and employment all moderated.



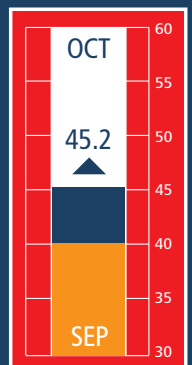
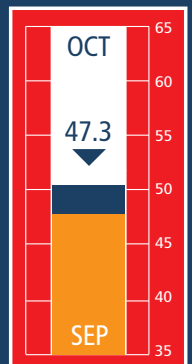
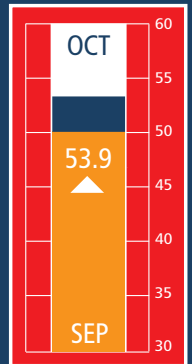
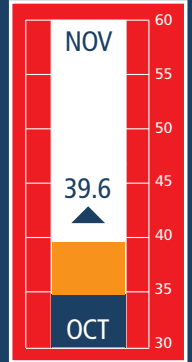
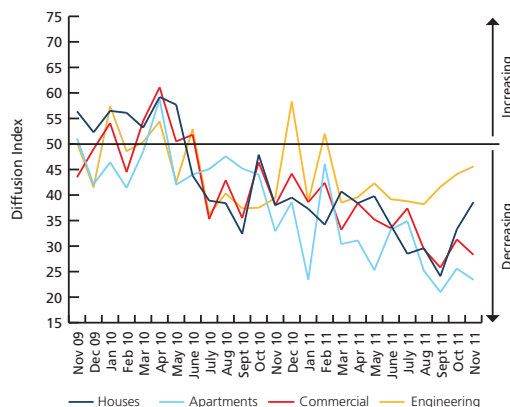
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 33.9 in November.
- This was 1.2 points above the reading of the previous month signalling a slower rate of decline in total industry activity.
- Underlying this result were reductions in activity on a broad industry front, with the slower pace of decline reflecting less marked falls in engineering and house building activity.
- The rate of capacity utilisation was unchanged from the previous month at 68.5%.



### ACTIVITY BY SECTOR

- House building activity fell again in November, although the sub-index rose by 5.3 points to 38.6, the slowest pace of contraction in six months.
- Consistent with the trend of recent months, engineering construction declined at the slowest rate of all sectors with a sub-index reading of 45.6, an increase of 1.5 points on October.
- The rate of decline in apartment building activity was more pronounced with the sub-index falling by 2.2 points to 23.4. This extended the sector's current sequence of declines to 19 months.
- Commercial construction declined for a 17th straight month, and at a steeper rate, with a sub-index reading of 28.3, down by 3.0 points from the previous month.



## NEW ORDERS

- New orders (seasonally adjusted) declined in November for the 18th consecutive month.
- Nevertheless, there was a further marked easing in the rate of decline. The new orders index increased by 6.7 points in November to 38.6 following a rise of 8.0 points in the previous month.
- This reflected a slower rate of decline in new orders across all broad industry sectors, with the most distinct easing for businesses engaged in engineering construction.
- The result signals that new orders are gaining ground after hitting a low point two months ago. This is likely to translate to improvements in overall activity in coming months.

## NEW ORDERS BY SECTOR

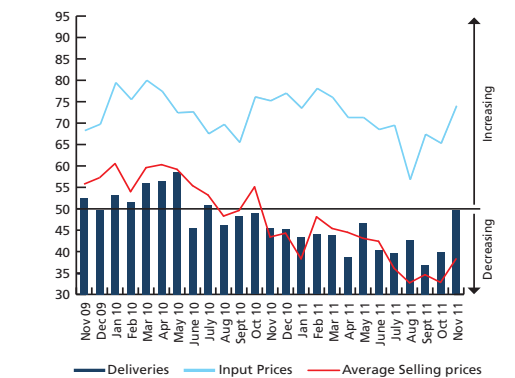
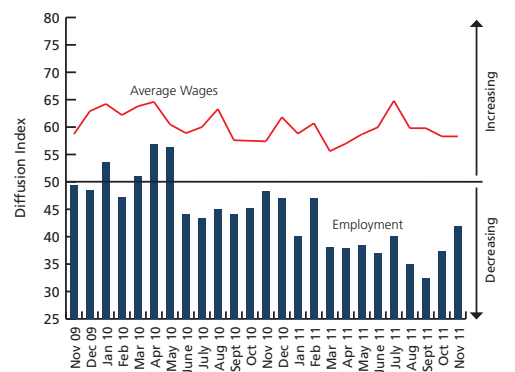
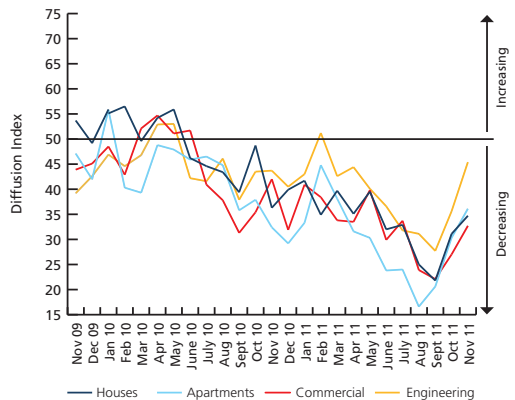
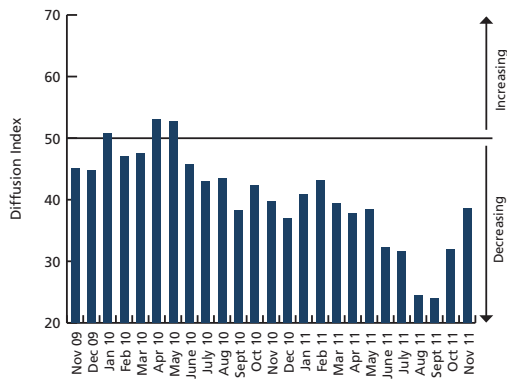
- New orders in house building maintained the decline evident since June 2010, with a sub-index reading of 34.7. However, this was 3.6 points above the level in October, indicating a slower pace of contraction.
- Demand within the commercial construction sector remained subdued reflecting low levels of private investment and weakening public construction. However, the rate of decline in new orders moderated with the sub-index rising by 5.7 points to 32.7.
- In the apartment sector, the new orders sub-index increased by 5.8 points to 36.1. This marked the slowest pace of decline in eight months.
- Reflecting a reported improvement in the flow of work from the resources sector and a corresponding rise in tender opportunities, the engineering new orders sub-index rose strongly by 9.8 points to 45.4.

## EMPLOYMENT AND WAGES

- Employment continued to fall, although at a slower pace for the second consecutive month.
- The employment sub-index registered 41.9 in November, up by 4.6 points on October.
- Despite this, the sub-index remained 6.4 points below the level recorded a year ago.
- Growth in wages continued in November, although the rate of growth was unchanged from the previous month, with the index steady at 58.3.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers continued to decline in November, although at a slower rate, consistent with the decelerating pace of decline in new orders.
- The supplier delivery index registered 49.6 in November, a rise of 9.8 points on the reading for October.
- Input price inflation was sharper, with the input costs sub-index rising by 8.7 points in November to 74.2, the highest pace of growth since March 2011.
- Amid highly competitive market conditions, selling prices continued to decline, although at a less marked rate with the sub-index increasing by 5.5 points to 38.3.



## AUSTRALIAN PCI®\*

	November 2011	October 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	39.6	34.7	+4.9	Contracting	Slower	18
<b>ACTIVITY</b>	33.9	32.7	+1.2	Contracting	Slower	19
- HOUSES	38.6	33.3	+5.3	Contracting	Slower	18
- APARTMENTS	23.4	25.6	-2.2	Contracting	Faster	19
- COMMERCIAL	28.3	31.3	-3.0	Contracting	Faster	17
- ENGINEERING	45.6	44.1	+1.5	Contracting	Slower	9
<b>NEW ORDERS</b>	38.6	31.9	+6.7	Contracting	Slower	18
<b>EMPLOYMENT</b>	41.9	37.3	+4.6	Contracting	Slower	18
<b>DELIVERIES</b>	49.6	39.8	+9.8	Contracting	Slower	16
<b>INPUT PRICES</b>	74.2	65.5	+8.7	Expanding	Faster	75
<b>SELLING PRICES</b>	38.3	32.8	+5.5	Contracting	Slower	13
<b>WAGES</b>	58.3	58.3	0.0	Expanding	Unchanged	32
<b>CAPACITY</b>	68.5	68.5	0.0	Steady	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 0408 081 977

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

© The Australian Industry Group, 2011

This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group.

**Disclaimer** – The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. The Australian Industry Group has compiled this information in conjunction with information provided by HIA. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.

\*\*Prepared by Markit Economics