

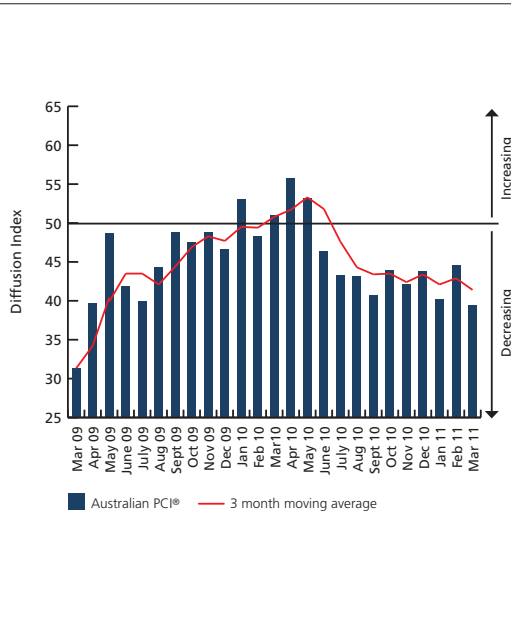


MARCH 2011

## CONSTRUCTION INDUSTRY DECLINE WORSENS

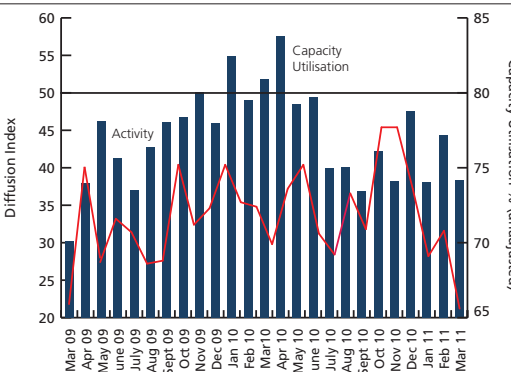
### KEY FINDINGS

- The decline in the national construction industry worsened in March 2011 driven by steeper falls in activity, new orders and employment.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Performance of Construction Index (**Australian PCI®**) in conjunction with the Housing Industry Association declined by 5.2 points to 39.4 in March, to remain below the critical 50 points level separating expansion from contraction for a 10th consecutive month. Moreover, it represented the weakest reading on the overall state of the construction industry in two years.
- All four major sectors of the construction industry registered reductions in activity, with apartment building recording the sharpest decline. Commercial construction fell at the most marked pace since February 2009 while the lumpy nature of engineering construction work was reflected in a reversal of the previous month's solid improvement in activity. House building activity continued to decline, although the rate of reduction in March was the slowest over the past five months.
- Businesses that reported a decline in activity generally attributed this to subdued levels of incoming work and an associated shortage of new tender opportunities. In addition, residential builders continued to cite the impact of higher interest rates and weak levels of buyer confidence as key factors undermining activity.
- On an aggregate industry basis, both activity and new orders continued to contract in March and at steeper rates. Consistent with this, deliveries from suppliers were again reduced while employment levels fell more sharply as businesses sought to keep overheads to a minimum.



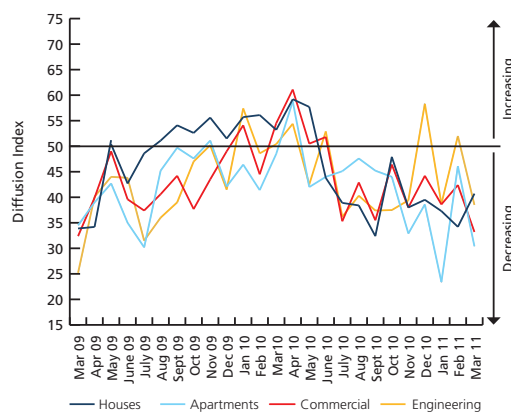
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 38.3 in March.
- This was 6.1 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 the pick-up in the pace of decline driven by sharper falls in apartment building, engineering and commercial construction activity.
- As a consequence, the average rate of capacity utilisation declined from 70.8% in February to 65.6%.

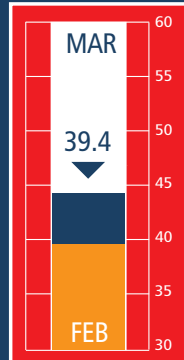


### ACTIVITY BY SECTOR

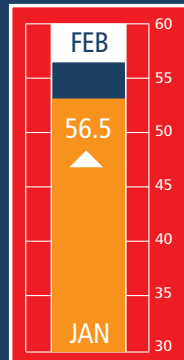
- House building activity fell for a 10th consecutive month in March, although at a slower rate with the sub-index rising by 6.5 points to 40.7. This coincided with a less pronounced decline in incoming business for house builders.
- Engineering construction activity maintained its recent pattern of strong variability with the sub-index falling by a marked 13.5 points to 38.5. In some instances, this was linked to the insufficient inflow of new work to replace completed projects.
- Apartment building activity exhibited a marked weakening with the sub-index falling by 15.7 points to 30.4, to largely offset the extent of the sizeable rise (22.7 points) recorded in February.
- Commercial construction declined for a ninth straight month, and at an accelerated rate, with the sub-index falling by 9.2 points to 33.2, reflecting the unwinding of fiscal stimulus and a lack of impetus from private sector investment.



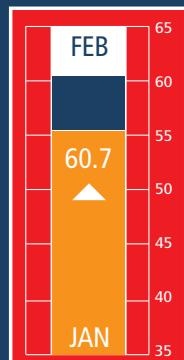
AUSTRALIAN PCI®



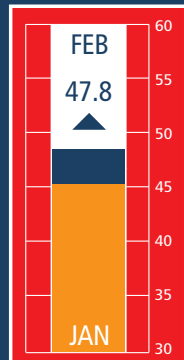
UK CONSTRUCTION INDEX\*



GERMANY CONSTRUCTION INDEX\*



IRELAND CONSTRUCTION INDEX\*



## NEW ORDERS

- New orders (seasonally adjusted) declined for a 10th straight month.
- The new orders index fell by 3.8 points in March to 39.4, to indicate a more marked rate of decline.
- This reflected falls in new orders across all four major industry sectors with a pick-up in the pace of decline evident for businesses engaged in apartment, engineering 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 2010, with a sub-index reading of 34.9. This was, however, 6.8 points above the level in February, pointing to a slower pace of contraction.
- In the engineering construction sector, new orders declined by 8.6 points to 42.0. This more than offset the upturn of the previous month, reflecting the sector's exposure to wide variability in the inflow of new work.
- 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 6.6 points to 42.0.
- New orders in the apartment sector declined for a 14th consecutive month, with the sub-index registering 44.5. Moreover, this was 1.2 points below the previous month to indicate a more marked rate of contraction.

## EMPLOYMENT AND WAGES

- Employment continued to decline, and at a steeper rate.
- The employment sub-index registered 38.1 in March, down by 8.9 points on February.
- This was the lowest reading since March 2009, and well below the average level (48.4) recorded during 2010.
- Growth in wages continued in February, although at a slower rate than in the previous month, with the index declining by 5.1 points to 55.6.

## DELIVERIES, INPUT COSTS AND SELLING PRICES

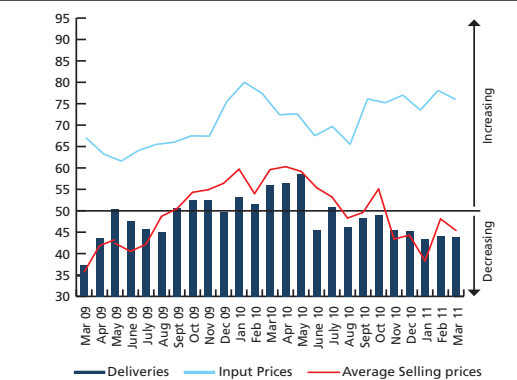
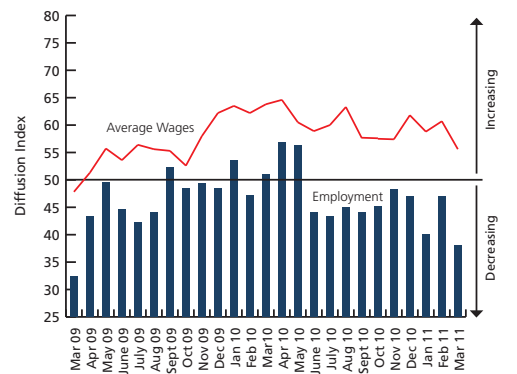
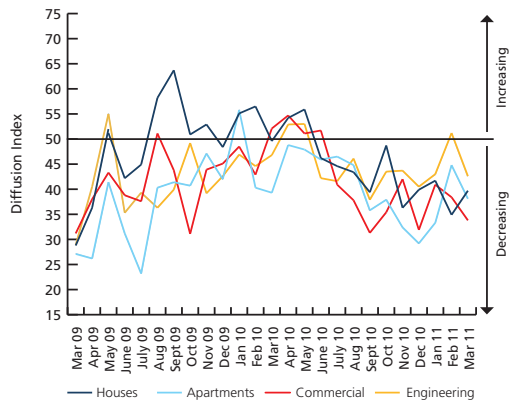
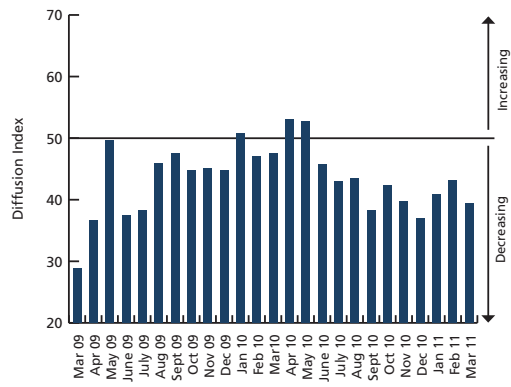
- Deliveries of inputs from suppliers continued to decline in March, although the rate of reduction was broadly unchanged from the previous month.
- The supplier delivery index registered 43.8 in March, a decrease of 0.2 points on the reading for February.
- Reflecting the strength in commodity prices, input costs faced by businesses continued to rise at a solid rate. However, respondents reported a slight easing in the pace of growth with the input costs sub-index in March falling by 2.1 points to 76.2.
- Selling prices declined for a fifth consecutive month. Moreover, the rate of decline was more marked (the sub-index falling by 2.7 points to 45.4), indicating on-going pressure on construction margins amid highly competitive market conditions.

## AUSTRALIAN PCI®\*

	March 2011	February 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
<b>AUSTRALIAN PCI®</b>	39.4	44.6	-5.2	Contracting	Faster	10
<b>ACTIVITY</b>	38.3	44.4	-6.1	Contracting	Faster	11
- HOUSES	40.7	34.2	+6.5	Contracting	Slower	10
- APARTMENTS	30.4	46.1	-15.7	Contracting	Faster	11
- COMMERCIAL	33.2	42.4	-9.2	Contracting	Faster	9
- ENGINEERING	38.5	52.0	-13.5	Contracting	From Expansion	1
<b>NEW ORDERS</b>	39.4	43.2	-3.8	Contracting	Faster	10
<b>EMPLOYMENT</b>	38.1	47.0	-8.9	Contracting	Faster	10
<b>DELIVERIES</b>	43.8	44.0	-0.2	Contracting	Faster	8
<b>INPUT PRICES</b>	76.2	78.3	-2.1	Expanding	Slower	67
<b>SELLING PRICES</b>	45.4	48.1	-2.7	Contracting	Faster	5
<b>WAGES</b>	55.6	60.7	-5.1	Expanding	Slower	24
<b>CAPACITY</b>	65.6	70.8	-5.2	Lower	na	na

\*Results are based on a sample of over 150 companies. Forward seasonal factors were generated by the ABS in April 2010.

\*\* 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

**Harley Dale**  
Chief Economist  
Housing Industry Association  
work 02 6245 1329

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

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\*\*Prepared by Markit Economics