



PCI AUSTRALIAN

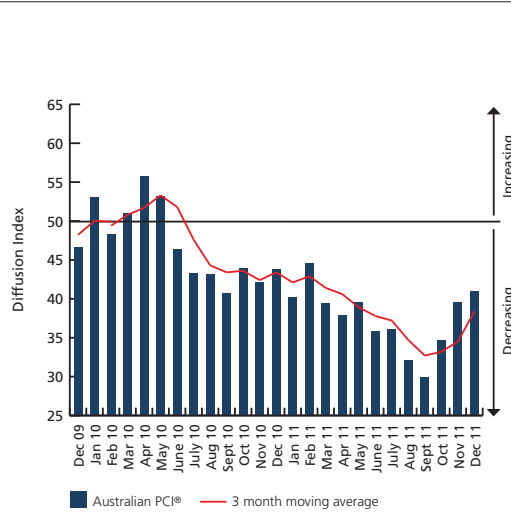
PERFORMANCE OF CONSTRUCTION INDEX®

DECEMBER 2011

DECLINE IN CONSTRUCTION MODERATES AS RESOURCES SECTOR WORK STRENGTHENS

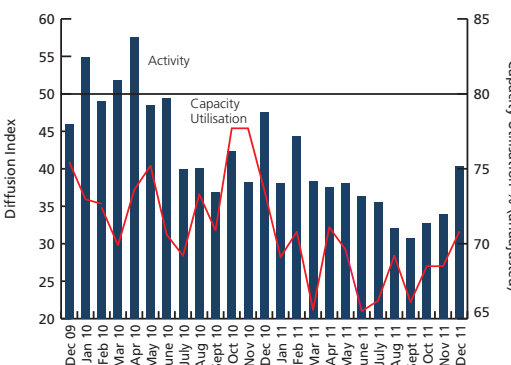
KEY FINDINGS

- The national construction industry continued to decline in December. However, the rate of contraction was less marked than in the previous month, largely due to a higher level of engineering construction work.
- The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association increased by 1.4 points to 41.0 in December. Nevertheless, it remained below the critical 50 point level separating expansion from contraction for a 19th consecutive month.
- Of the four major sectors, the strongest conditions were registered in engineering construction where activity expanded in the month. The data for December also pointed to a slower rate of contraction in the commercial and apartment building sectors. However, house building activity declined at a steeper pace in line with recent subdued updates on housing finance and approvals.
- Businesses that reported a reduction in activity levels largely attributed this to tight credit conditions, a lack of new tender opportunities and strong competition for existing work. However, various engineering construction businesses cited the positive impact on activity from increases in work generated from resources sector construction projects.
- For the industry as a whole, activity and new orders declined at a slower pace during the month. However, the sustained weakness in industry conditions and uncertainty among businesses resulted in a more marked pace of reduction in employment.



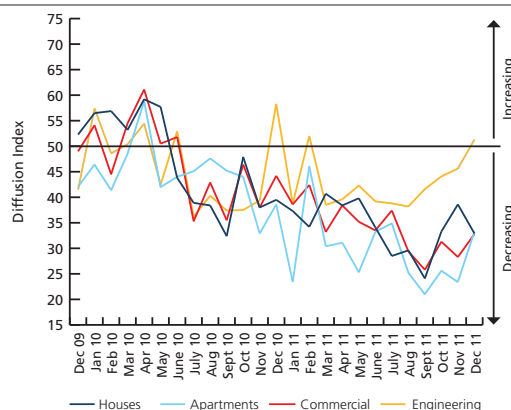
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 40.4 in December.
- This was 6.5 points above the reading of the previous month, signalling a further moderation in the rate of decline in total industry activity.
- Underlying this result was an upturn in engineering construction and less marked rates of decline in the commercial and apartment construction sectors.
- The rate of capacity utilisation was 70.8%, up from 68.5% in the previous month.

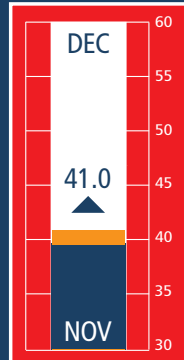


ACTIVITY BY SECTOR

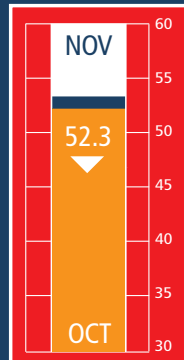
- House building continued to contract, and at a more marked rate, with the sector's sub-index declining by 5.7 points to 32.9.
- Commercial construction again exhibited weakness, although the sub-index reading of 32.8 was 4.5 points above the previous month to signal a slower rate of contraction.
- The rate of decline in apartment building activity also moderated with the sub-index rising by 9.9 points to 33.3, the sector's slowest rate of decline in five months.
- The engineering construction sub-index rose by 5.7 points to 51.3 to signal a return to growth for the sector consistent with the current strength of the resources-related investment pipeline.



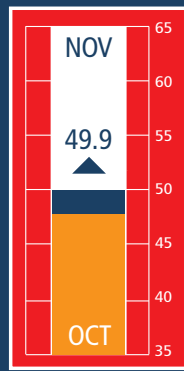
AUSTRALIAN PCI®



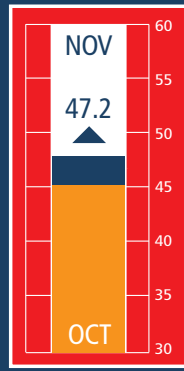
UK CONSTRUCTION INDEX*



GERMANY CONSTRUCTION INDEX*



IRELAND CONSTRUCTION INDEX*



NEW ORDERS

- New orders (seasonally adjusted) declined in December for the 19th consecutive month.
- However, the rate of contraction moderated for a third consecutive month with the new orders index rising by 3.9 points to 42.5.
- This reflected a slower rate of contraction in new orders across all broad industry sectors with the most distinct easing occurring for businesses engaged in commercial construction.
- As a consequence of the further overall moderation in the rate of contraction in new orders, it is likely that the trend in overall industry activity will continue to improve in coming months.

NEW ORDERS BY SECTOR

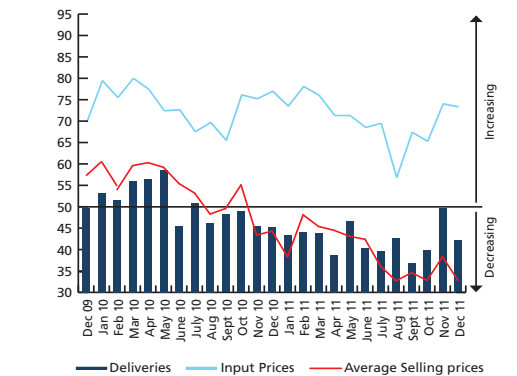
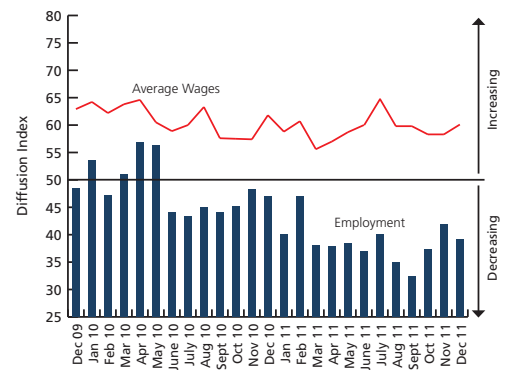
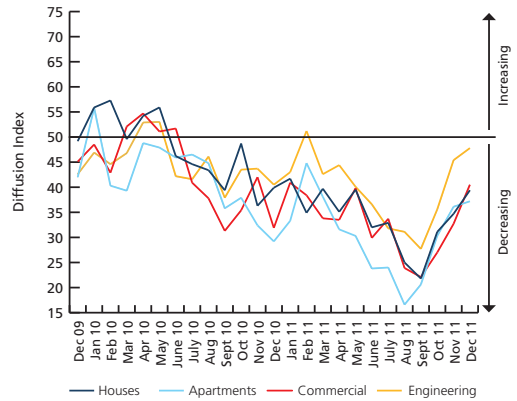
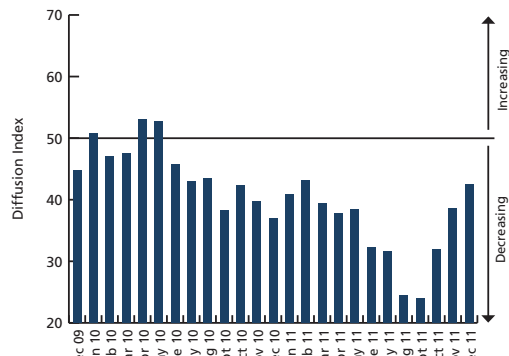
- New orders in house building maintained the decline evident since June 2010, with a sub-index reading of 39.4. However, this was 4.7 points above the level in November, indicating a slower pace of contraction.
- Although demand within the commercial construction sector remains subdued, the rate of decline in new orders moderated in December with the sub-index rising by 7.8 points to 40.5, pointing to an improvement in private building investment.
- In the apartment sector, the new orders sub-index increased by 1.1 points to 37.2. This marked the slowest pace of decline in nine months.
- Reflecting a further 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 by 2.5 points to 47.8.

EMPLOYMENT AND WAGES

- Reflective of the overall subdued state of the industry, employment continued to fall and at a more marked rate.
- The employment sub-index registered 39.2 in December, down by 2.7 points on November.
- Moreover, this sub-index reading was 7.7 points below the level recorded a year ago.
- Growth in wages continued in December, and at a higher rate than in the previous month, with the index rising by 1.8 points to 60.1.

DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers declined at a steeper rate in December.
- The supplier delivery index registered 42.3, a decrease of 7.3 points on the reading for November.
- Input price inflation was only slightly weaker, with the input costs sub-index falling by 0.7 points in December to 73.5.
- Indicative of the highly competitive market conditions, selling prices continued to decline and at a more marked rate with the sub-index falling by 5.5 points to 32.8.



AUSTRALIAN PCI®*

	December 2011	November 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	41.0	39.6	+1.4	Contracting	Slower	19
ACTIVITY	40.4	33.9	+6.5	Contracting	Slower	20
- HOUSES	32.9	38.6	-5.7	Contracting	Faster	19
- APARTMENTS	33.3	23.4	+9.9	Contracting	Slower	20
- COMMERCIAL	32.8	28.3	+4.5	Contracting	Slower	18
- ENGINEERING	51.3	45.6	+5.7	Expanding	From contraction	1
NEW ORDERS	42.5	38.6	+3.9	Contracting	Slower	19
EMPLOYMENT	39.2	41.9	-2.7	Contracting	Faster	19
DELIVERIES	42.3	49.6	-7.3	Contracting	Faster	17
INPUT PRICES	73.5	74.2	-0.7	Expanding	Slower	76
SELLING PRICES	32.8	38.3	-5.5	Contracting	Faster	14
WAGES	60.1	58.3	+1.8	Expanding	Faster	33
CAPACITY	70.8	68.5	+2.3	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

Markit Economics
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