

PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

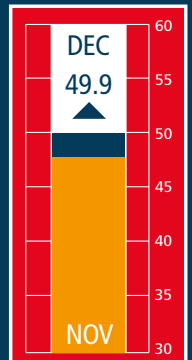
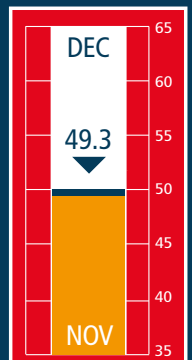
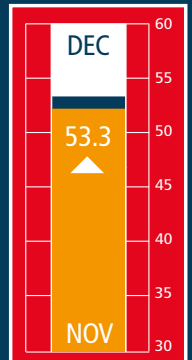
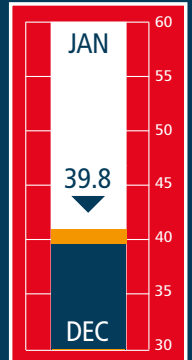
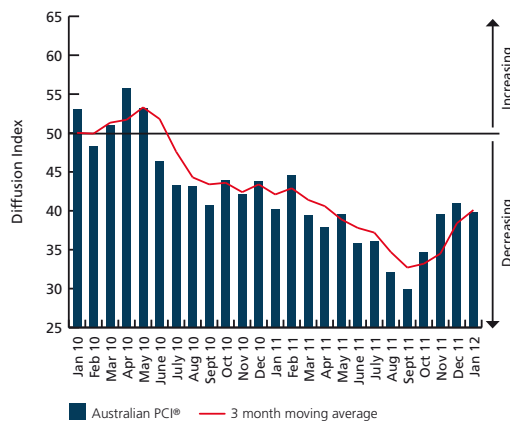


JANUARY 2012

CONSTRUCTION DECLINE CONTINUES AS NEW ORDERS WEAKEN

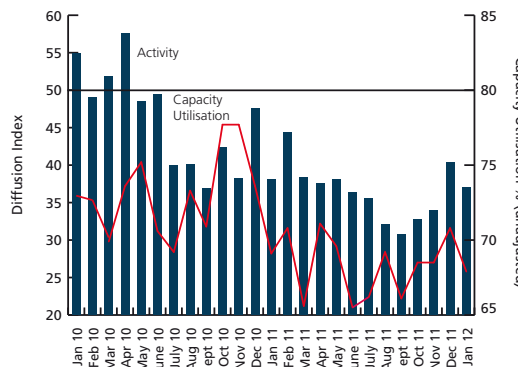
KEY FINDINGS

- The national construction industry declined again in January amid further falls in activity and new orders.
- The Australian Industry Group Performance of Construction Index (Australian PCI®) in conjunction with the Housing Industry Association decreased by 1.2 points to 39.8 in January. This reading remained below the critical 50 point level separating expansion from contraction for a 20th consecutive month.
- Commercial and apartment building activity remained particularly subdued. However, the decline in house building activity eased markedly. Engineering construction activity turned negative, although it remained the best performing sector.
- Most businesses linked the weakness in activity levels to tight credit conditions, a lack of new tender opportunities and strong competition for existing work. On a positive note, various house building businesses indicated that the successive interest rate cuts in November and December last year had helped to support an improvement in both customer enquiries and activity.
- For the industry as a whole, activity and new orders declined at a steeper pace during the month. Despite employment continuing to contract, the rate of decline moderated.



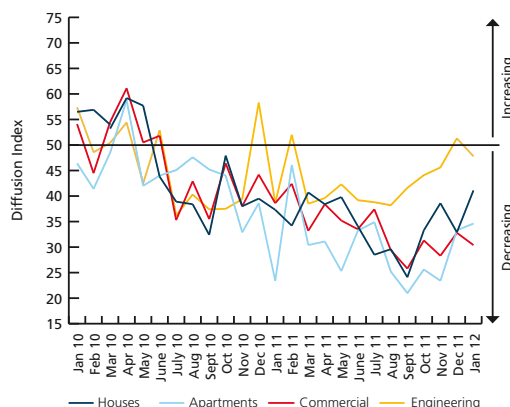
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 37.0 in January.
- This was 3.4 points below the reading of the previous month, signalling a steeper rate of decline in total industry activity.
- Underlying this result was a more pronounced fall in new orders reflecting a weakening in overall industry demand.
- Consistent with this, the rate of capacity utilisation was 67.9%, down from 70.8% in the previous month.



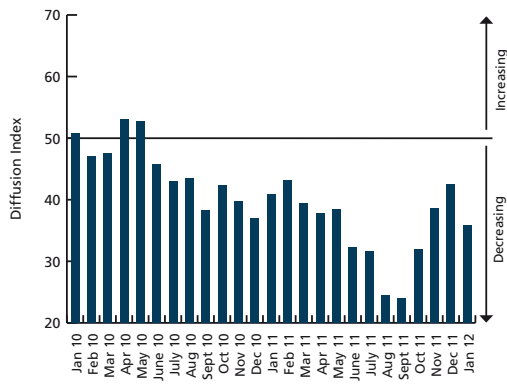
ACTIVITY BY SECTOR

- House building continued to exhibit weakness, although the sector's sub-index reading of 41.1 was 8.2 points above the previous month to signal a slower pace of decline in activity.
- The decline in commercial construction was sustained for a 19th consecutive month with the sub-index falling by 2.4 points to 30.4 amid a further scaling back in public building work and overall weakness in approvals.
- Apartment building activity also remained weak, although the sub-index rose by 1.3 points to 34.6, to indicate a slightly slower pace of decline.
- The engineering construction sub-index fell by 3.5 points to 47.8. Nevertheless, the pace of contraction was the slowest of all sectors.



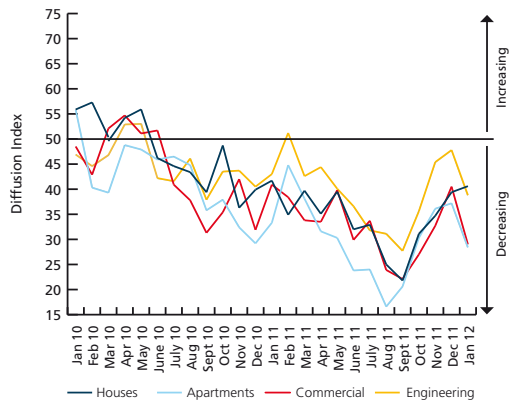
NEW ORDERS

- New orders (seasonally adjusted) declined in January for the 20th consecutive month.
- Moreover, the rate of contraction was more pronounced with the new orders index falling by 6.6 points to 35.9.
- All of the four broad sub-sectors recorded a decline in new orders, with the pace of decline easing only in house building.
- The further fall in new orders indicates that the industry is likely to remain in a state of contraction over coming months.



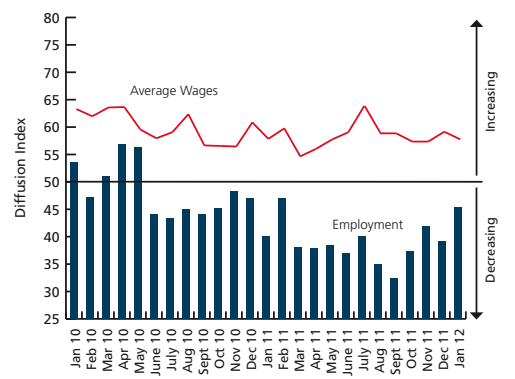
NEW ORDERS BY SECTOR

- New orders in house building continued to decline with a sub-index reading of 40.6. However, this was 1.2 points above the level in December, maintaining the easing evident since September 2011.
- For businesses operating in the commercial construction sector, new orders declined at a sharp and accelerated pace in January with the sub-index falling by 11.4 points to 29.0.
- In the apartment sector, the new orders sub-index decreased by a marked 8.9 points to 28.4. This was the steepest pace of decline in four months.
- The engineering new orders sub-index fell by 9.0 points to 38.8. There were reports of delays in the letting of orders for some projects.



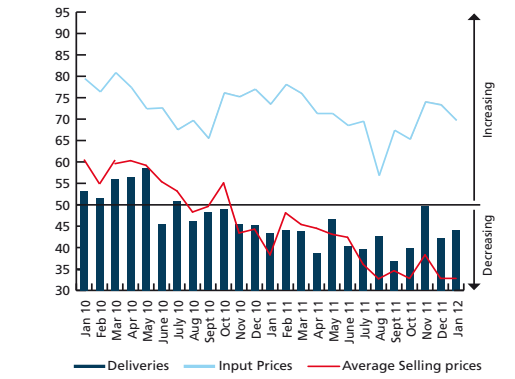
EMPLOYMENT AND WAGES

- Employment continued to fall, although the pace of decline continues to ease.
- The employment sub-index registered 45.3 in January, up by 6.1 points on December.
- This was the slowest rate of decline in employment since February 2011.
- Growth in wages continued in January, albeit at a slower rate than in the previous month, with the sub-index falling by 1.4 points to 58.7.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries of inputs from suppliers declined again in January.
- The supplier delivery index registered 44.1, a rise of 1.8 points on the reading for December.
- Input price inflation eased, with the input costs sub-index falling by 3.6 points in December to 69.9.
- Indicative of the strong competition for available work, the decline in selling prices continued with the sub-index registering 32.8, unchanged on the previous month's rate of decline.



AUSTRALIAN PCI®*

	January 2012	December 2011	Monthly Change	Direction	Rate of Change	Trend ** (Months)
AUSTRALIAN PCI®	39.8	41.0	-1.2	Contracting	Faster	20
ACTIVITY	37.0	40.4	-3.4	Contracting	Faster	21
- HOUSES	41.1	32.9	+8.2	Contracting	Slower	20
- APARTMENTS	34.6	33.3	+1.3	Contracting	Slower	21
- COMMERCIAL	30.4	32.8	-2.4	Contracting	Faster	19
- ENGINEERING	47.8	51.3	-3.5	Contracting	From expansion	1
NEW ORDERS	35.9	42.5	-6.6	Contracting	Faster	20
EMPLOYMENT	45.3	39.2	+6.1	Contracting	Slower	20
DELIVERIES	44.1	42.3	+1.8	Contracting	Slower	18
INPUT PRICES	69.9	73.5	-3.6	Expanding	Slower	77
SELLING PRICES	32.8	32.8	0.0	Contracting	Unchanged	15
WAGES	58.7	60.1	-1.4	Expanding	Slower	34
CAPACITY	67.9	70.8	-2.9 points	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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**Prepared by Markit Economics