

# Construction shrinks for third month

August 2022

## MEDIA CONTACTS

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## Key findings

- Three of the four construction sectors – housing, apartments and commercial – were in contraction in August. Activity improved in the engineering and commercial sectors.
- Demand side pressures – arising from rising interest rates and lower customer demand – are an emerging concern for respondents across all sectors.
- Supply side constraints, including labour and input costs, continue to inhibit the sector.
- The selling prices indicator eased but remains elevated.
- Capacity utilisation rose slightly to 82.6% and remains elevated as it has been since the start of 2021.

The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) rose by 2.6 points to 47.9 points in August (seasonally adjusted). This indicates contraction in activity across the construction sector for the third month, but the rate of decline eased compared to July. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

<b>Australian PCI®</b> ▲ 2.6 points (seasonally adjusted)	<b>47.9</b>
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<b>Australian PCI®</b> ▼ 1.7 points (trend)	<b>46.0</b>
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<b>Activity</b> ▲ 3.5 points (seas. adj.)	<b>46.2</b>
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<b>Employment</b> ▼ -5.3 points (seas. adj.)	<b>47.7</b>
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<b>New orders</b> ▲ 7.9 points (seas. adj.)	<b>51.0</b>
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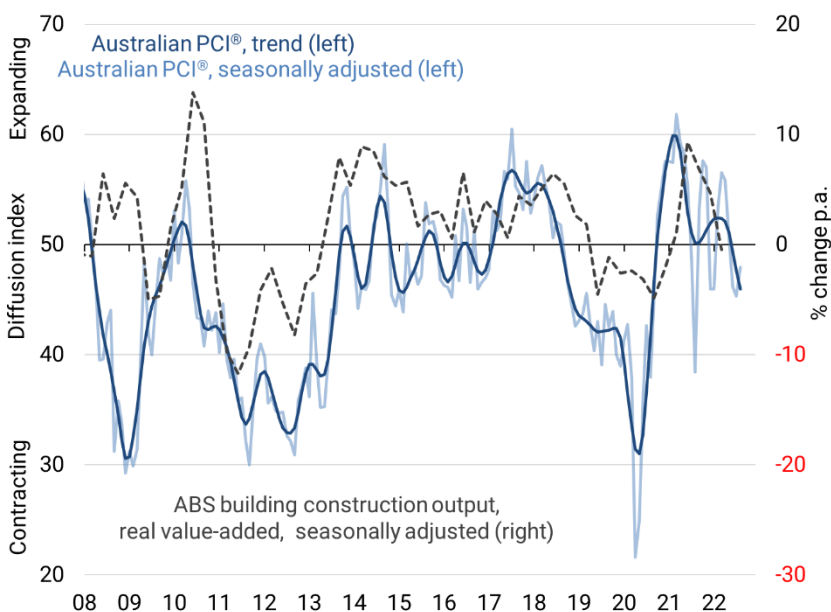
<b>Housing activity</b> ▼ -1.3 points (seas. adj.)	<b>33.3</b>
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<b>Apartments activity</b> ▼ -12.5 points (seas. adj.)	<b>37.5</b>
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<b>Commercial activity</b> ▲ 2.9 points (seas. adj.)	<b>45.8</b>
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<b>Engineering activity</b> ▲ 13.3 points (seas. adj.)	<b>59.1</b>
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## Australian PCI® and ABS building industry output



**Construction sector activity:** The activity indexes for three of the four sectors in the **Australian PCI®** indicated contraction in August (seasonally adjusted). Activity declined for the fourth month in housing; and apartments fell from stability to contraction. The rate of deterioration eased in commercial construction; engineering was positive as it grew and improved.

**Construction sector new orders:** The new orders index in the **Australian PCI®** rose by 7.9 points to 51.0 points in August, following two months of contraction (seasonally adjusted). New orders were strongest in the apartments and engineering construction sectors. Higher interest rates along with uncertainty about future increases reduced demand across house building as more builders reported a drop in enquiries.

**Construction prices:** The input prices index eased again (dropping slightly to 92.6) but remained very high in August after reaching a series peak in June (seasonally adjusted). Input prices have been extremely elevated for over a year with few signs of easing. The selling prices index eased but marked twenty-two months of growth following a peak in July.

**Construction wages and employment:** The average wages index rose again after easing in July; wage pressures have been significant for well over a year. The employment index fell and contracted in August - it remains well below the series high in March. All construction sectors continued to report labour shortages, and the number of staff unable to work due to illness remains a key concern for respondents.

**Construction supplier deliveries:** The fall in supplier deliveries eased in August compared to July, rising by 3.4 points to 45.6 points (seasonally adjusted). Delivery delays and supplier stock shortages were again reported across all sectors and locations in August. Some respondents noted an easing in supplies compared to previous months.

**Construction capacity utilisation:** The capacity utilisation index rose 2.0 percentage points to 82.6% in August. The index has been elevated for well over a year, averaging 83.0% of capacity being used across the industry since January 2021 compared to the long-run average of 73.8% (since January 2008).

**Construction highlights:** Some builders reported ongoing solid demand particularly in large projects. There were some signs of supply constraints easing in the month; activity and new orders were positive for apartment builders and engineering projects as demand was consistent in larger projects with longer timelines and funding cycles.

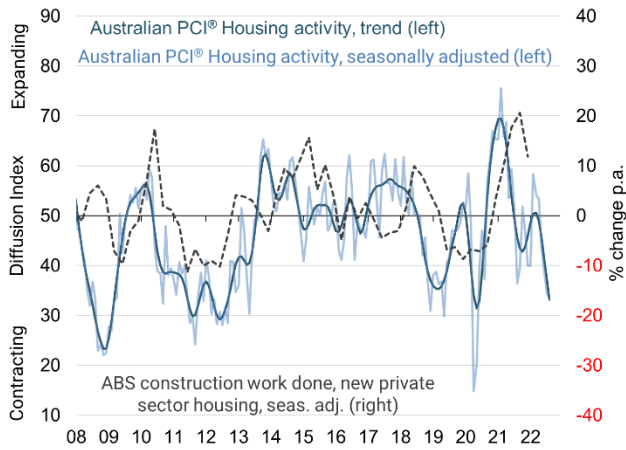
**Construction concerns:** Builders reported lower customer demand due to higher interest rates and increased uncertainty in August. Respondents to the **Australian PCI®** continued to report labour shortages, supply delays and high input costs. While remaining positive the selling prices index fell to its lowest level in a year as fewer businesses were able to pass on input cost increases.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average	AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average
<b>Australian PCI®</b>	<b>47.9</b>	<b>2.6</b>	<b>51.3</b>				
Activity	46.2	3.5	50.6	House building activity	33.3	-1.3	44.5
Employment	47.7	-5.3	56.0	Apartment building activity	37.5	-12.5	45.8
New Orders	51.0	7.9	52.9	Commercial building activity	45.8	2.9	50.5
Supplier Deliveries	45.6	3.4	41.6	Engineering construction	59.1	13.3	56.8
Input Prices	92.6	-1.2	95.3	<b>Capacity utilisation</b>			
Selling Prices	68.5	-18.6	80.8	<i>Seasonally adjusted</i>			
Average Wages	77.6	1.2	76.9	% of total capacity being utilised	82.6	2.0	83.6
<b>CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted</b>				<b>Level</b>	<b>Change</b>	<b>Change</b>	<b>Share of total</b>
<b>Construction work done</b> , \$bn per quarter, June 2022				\$bn	% q/q	% y/y	% of construction activity
Volume of residential building				17.4	-6.8	-7.6	33.5
Volume of non-residential building				12.2	-1.1	0.6	23.3
Volume of engineering construction				22.5	-2.7	-4.1	43.2
<b>Construction output</b> , real value-added, \$bn per quarter, Mar 2022				37.0	0.2	4.2	7.1% of total GDP
<b>Construction employment</b> , million people employed, May 2022				1165	1.3	0.9	8.6% of employed people
<b>Building approvals</b> , \$bn per month, June 2022				\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals				7.3	-5.1	-8.6	59.0
Value of non-residential building approvals				5.1	-7.6	-9.3	41.0

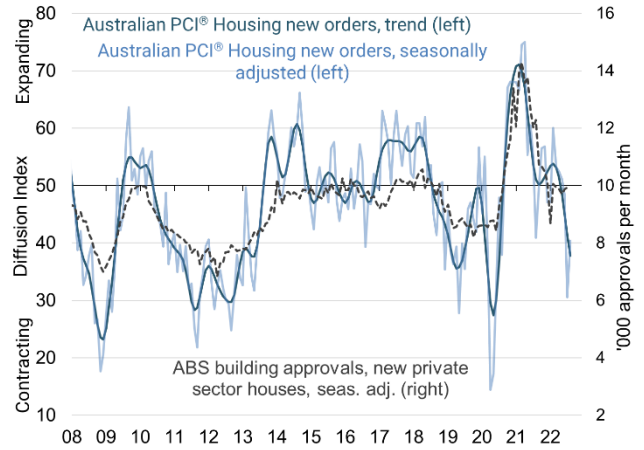
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

For more detail about the Ai Group Australian PCI® visit: <https://www.aigroup.com.au/resourcecentre/economics/>

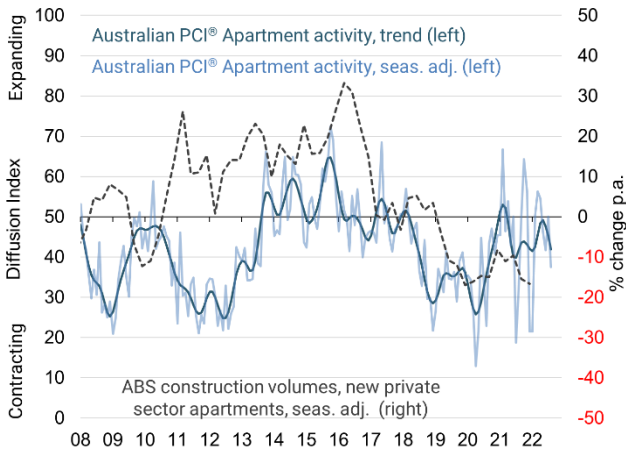
### House building activity



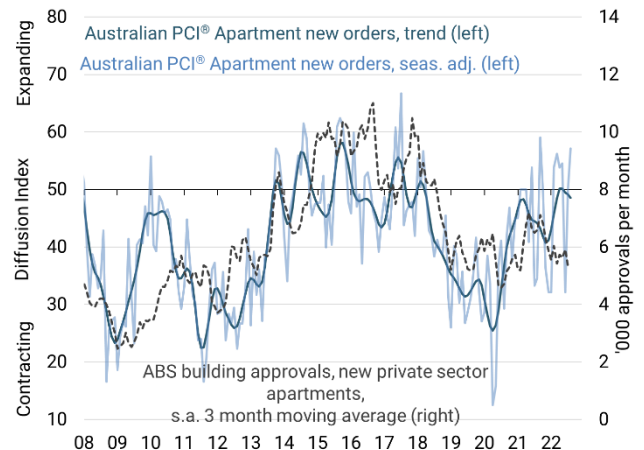
### House building new orders



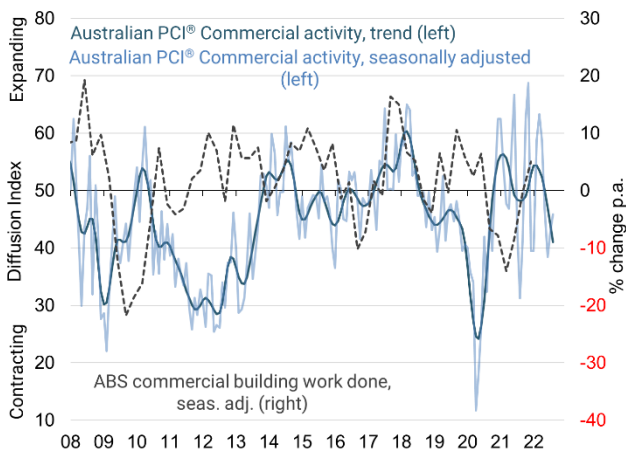
### Apartment building activity



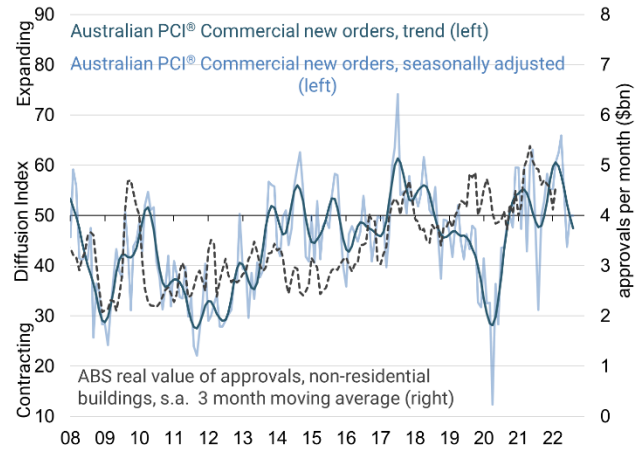
### Apartment building new orders



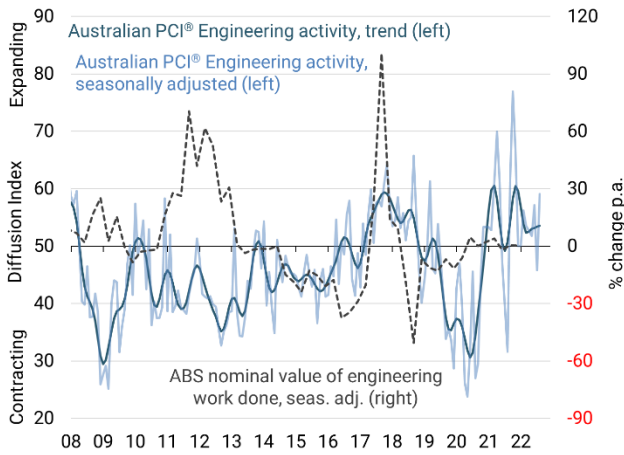
### Commercial construction activity



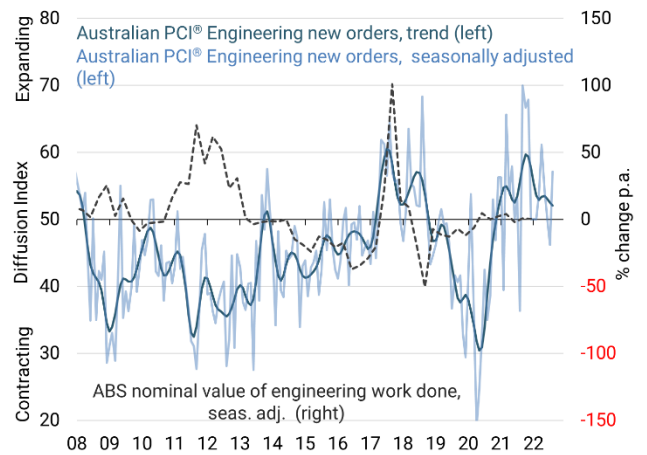
### Commercial construction new orders



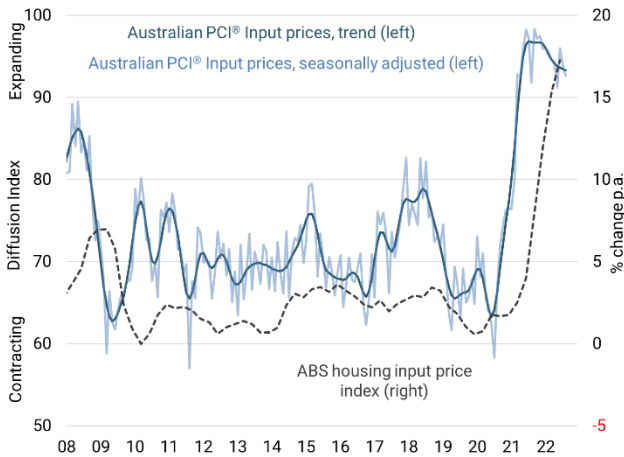
## Engineering activity



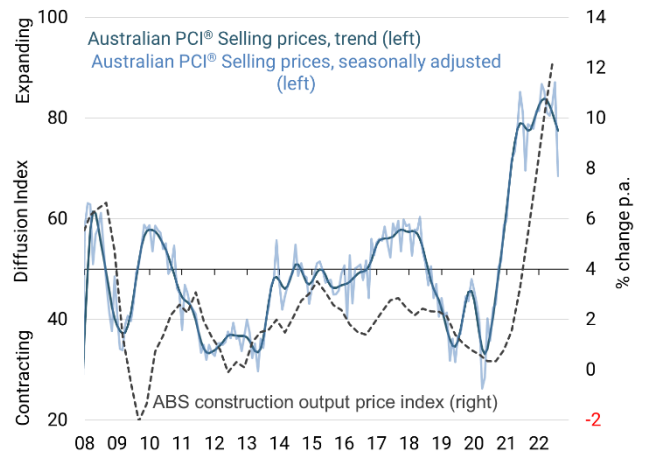
## Engineering new orders



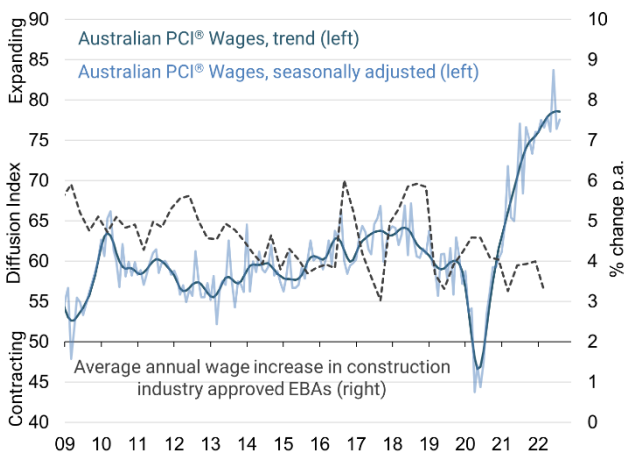
## Input prices



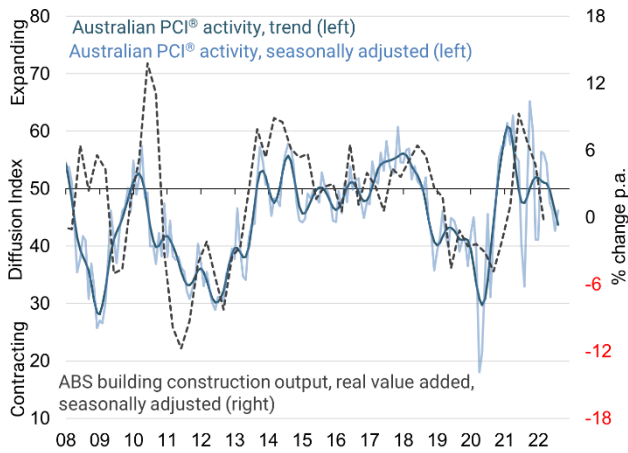
## Selling prices



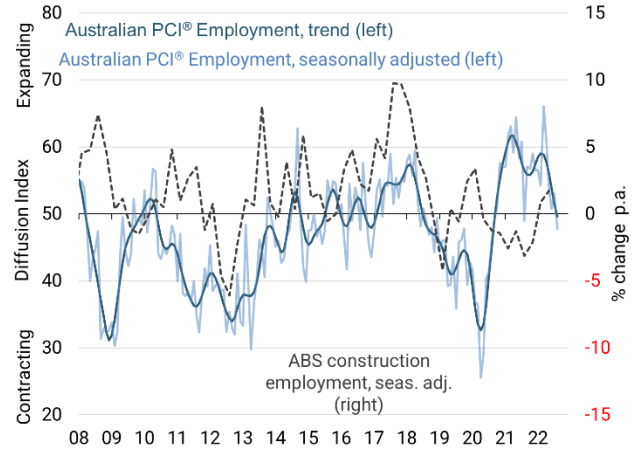
## Average wages



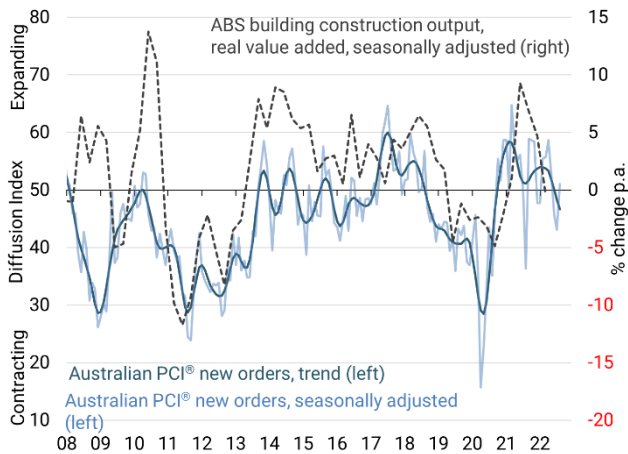
Activity



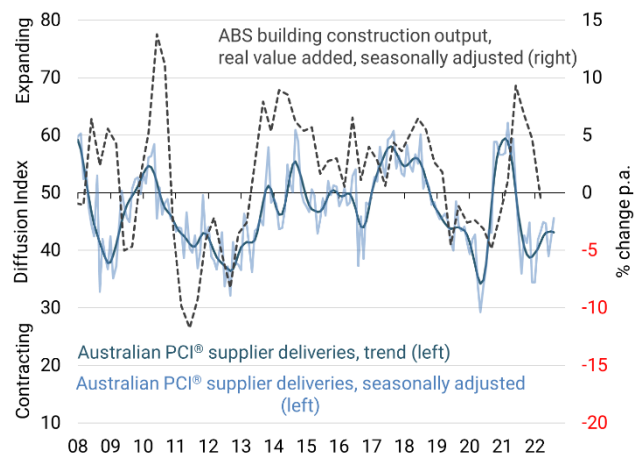
Employment



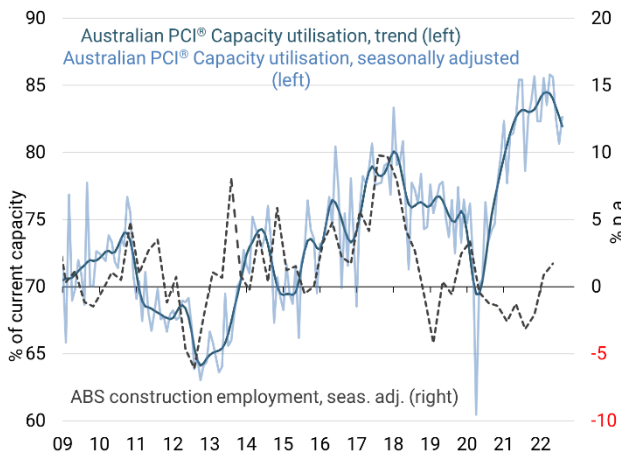
New orders



Supplier deliveries



Capacity utilisation



## Australian PCI® data definitions

The Australian PCI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes.

In the Australian PCI, the definitions of the four sectors are:

1. **House building** (ANZSIC code 3011 “House construction”) includes the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), organising or managing construction as the prime contractor.
2. **Apartment building** (ANZSIC code 3019 “Other residential building construction”) includes the construction of residential buildings other than a house primarily used for long-term residential purposes, such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. **Commercial construction** (ANZSIC code 3020 “Non-residential building construction”) includes the construction of offices, industrial premises, hotels, hospitals, aged care facilities, education buildings, entertainment and recreation developments, and in carrying out alterations, additions, renovation, and in organising or managing these types of non-residential buildings.
4. **Engineering construction** (ANZSIC code 3101 “Road and bridge construction” and ANZSIC code 3109 “other heavy and civil engineering construction”) includes the construction of transport infrastructure projects, telecommunications facilities, bridges, water and gas supply systems, pipelines, sports complexes, heavy industry constructions and other large-scale construction projects that do not generally involve the construction of buildings.



### What is the Australian PCI®?

The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) is a national composite index based on the diffusion of indices for activity, new orders, supplier deliveries and employment with varying weights. An Australian PCI® result above 50 points indicates that construction is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PCI® results are based on responses from a national sample of construction businesses that includes all states and all sectors. The Australian PCI® uses the ANZSIC industry classifications for construction sectors. Sector weights are derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology.

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