

Construction falls into contraction in June

June 2022

MEDIA CONTACTS

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Key findings

- Three of the four construction sectors – housing, apartments and commercial – contracted in June. These sectors saw activity decrease significantly from the previous month.
- House builders reported higher interest rates constraining new orders, which fell significantly again in June.
- Labour shortages and delays in supplier deliveries continued to constrain activity. Builders reported ongoing concerns about increases in inputs (including fuel) and labour prices.
- Capacity utilisation moderated slightly to 82.4% but remains elevated as it has been for much of 2021 and 2022.

The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) fell by 4.2 points to 46.2 points in June (seasonally adjusted). This indicates contraction in activity across the construction sector following months of positive or stable conditions. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

Australian PCI® ▼ 4.2 points (seasonally adjusted)	46.2
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Australian PCI® ▼ 0.4 point (trend)	51.4
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Activity ▼-1.5 points (seas. adj.)	46.2
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Employment ▼-2.9 points (seas. adj.)	50.8
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New orders ▼-7.5 points (seas. adj.)	45.8
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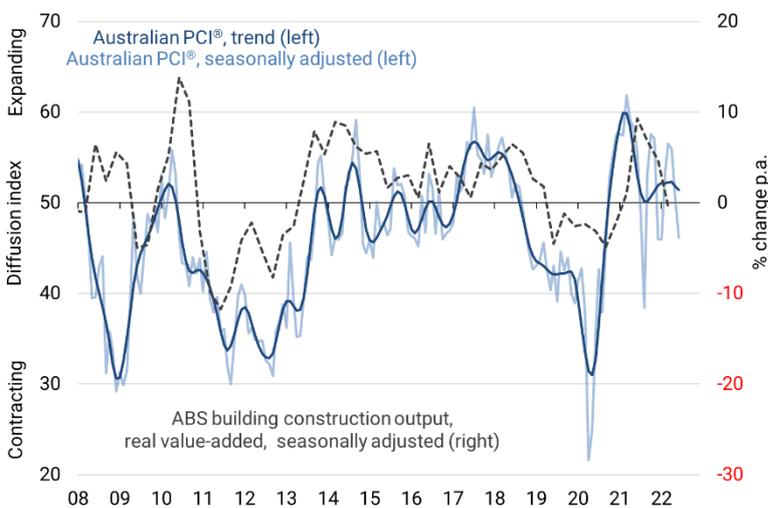
Housing activity ▼-4.3 points (seas. adj.)	39.2
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Apartments activity ▼-4.5 points (seas. adj.)	41.7
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Commercial activity ▼-8.4 points (seas. adj.)	38.5
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Engineering activity ▲5.3 points (seas. adj.)	57.1
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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 June. Activity fell substantially in housing, apartments and commercial construction (seasonally adjusted). Engineering construction was positive and improved from May after three months of moderation. It remains well below the peaks seen in late 2021 but stands as the bright pocket of construction activity in June.

Construction sector new orders: The new orders index in the **Australian PCI®** fell substantially into contraction decreasing by 7.5 points to 45.8 points in June (seasonally adjusted). New orders contracted in house building, apartments and commercial, but were stable in engineering construction compared to the previous month. The effects of rising interest rates, higher costs and delays were evident across house building and apartments as builders reported a drop in new orders.

Construction prices: The input price index rose to 96.0 in June after moderating in May (seasonally adjusted). Input prices have been extremely elevated for over a year with little indication of easing. The selling prices index marked twenty months of increases, however it remains under the recent peak of November 2021 (seasonally adjusted).

Construction wages and employment: The average wages index rose to a new series high marking almost a year of elevated wage pressures. The employment index fell and was stable in June, it has been trending down since the recent series high in March. Employment has been volatile since the middle of 2021; all construction sectors continue to report labour shortages, and the number of respondents reporting staff unable to work due to illness has increased.

Construction supplier deliveries: Supplier deliveries deteriorated further in June decreasing by 5.6 points to 39.0 points (seasonally adjusted). Delivery delays and supplier stock shortages were reported across all sectors and locations in June.

Construction capacity utilisation: The capacity utilisation index fell 3.2 percentage points to 82.4% in June. The index has been elevated for 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 respondents reported an increase in customer confidence following the Federal election in late May. Engineering respondents continue to report steady activity and new orders were stable in June. Some house builders reported stronger demand from customers substituting knock-down-rebuild for renovations.

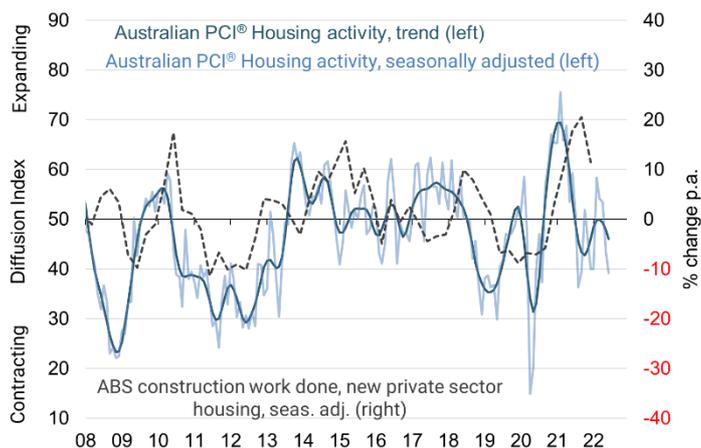
Construction concerns: Builders reported weaker customer demand in June due to the effects of higher interest rates and ongoing elevated input costs and labour shortages. Some builders are reducing the number of projects they commit to due to uncertainty surrounding completions.

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
Australian PCI®	46.2	-4.2	50.8				
Activity	46.2	-1.5	49.3	House building activity	39.2	-4.3	46.2
Employment	50.8	-2.9	56.8	Apartment building activity	41.7	-4.5	42.7
New Orders	45.8	-7.5	52.2	Commercial building activity	38.5	-8.4	49.3
Supplier Deliveries	39.0	-5.6	40.9	Engineering construction	57.1	5.3	54.0
Input Prices	96.0	4.8	95.5	Capacity utilisation			
Selling Prices	82.7	2.3	80.4	<i>Seasonally adjusted</i>			
Average Wages	83.7	7.6	76.2	% of total capacity being utilised	82.4	-3.2	83.7
CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted				Level	Change	Change	Share of total
Construction work done , \$bn per quarter, December 2021				\$bn	% q/q	% y/y	% of construction activity
Volume of residential building				18.4	-2.1	1.4	34.4
Volume of non-residential building				12.1	1.1	3.0	22.5
Volume of engineering construction				23.1	0.7	4.2	43.1
Construction output , real value-added, \$bn per quarter, Dec 2021				37.0	0.2	4.2	7.1% of total GDP
Construction employment , million people employed, Feb 2022				1,165	1.3	0.5	8.6% of employed people
Building approvals , \$bn per month, April 2022				\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals				8.3	36.4	7.4	57.8
Value of non-residential building approvals				6.1	115.4	39.2	42.2

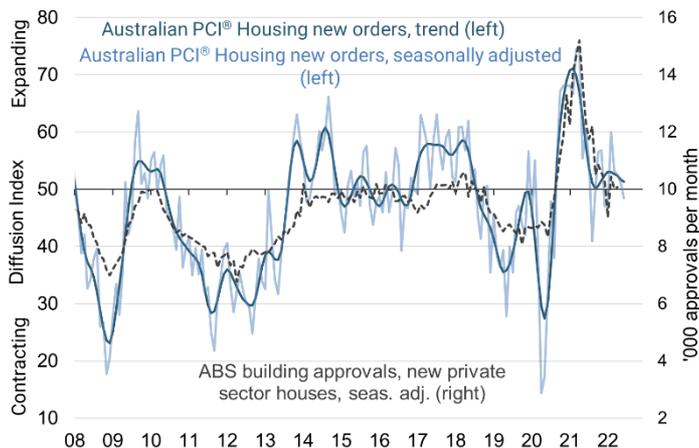
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

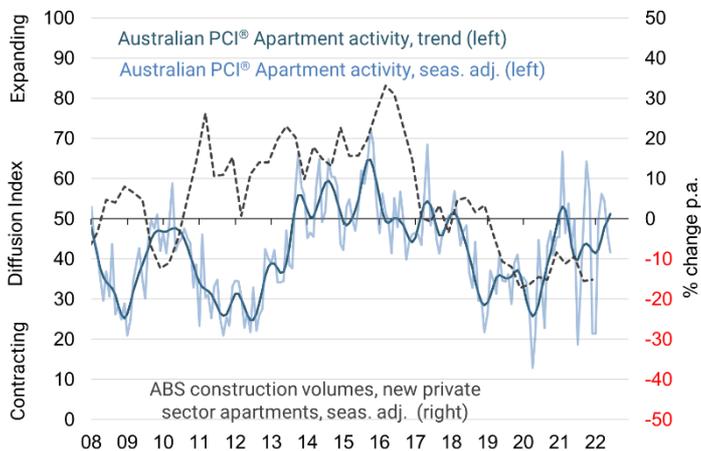
House building activity



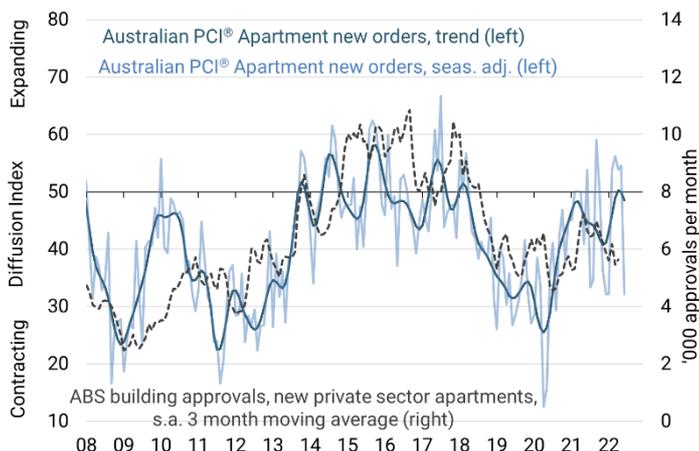
House building new orders



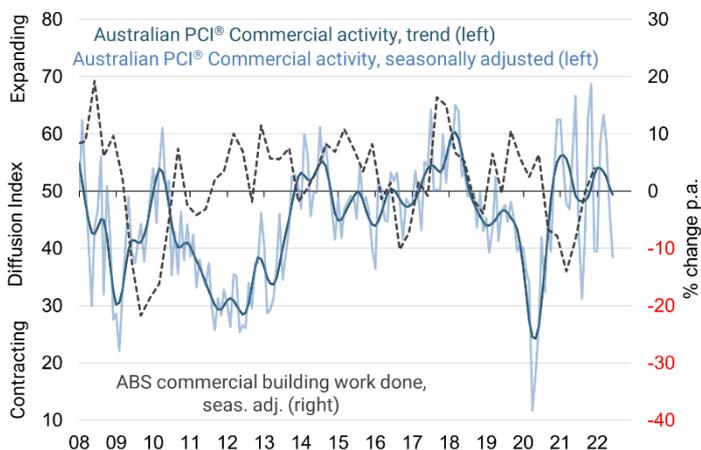
Apartment building activity



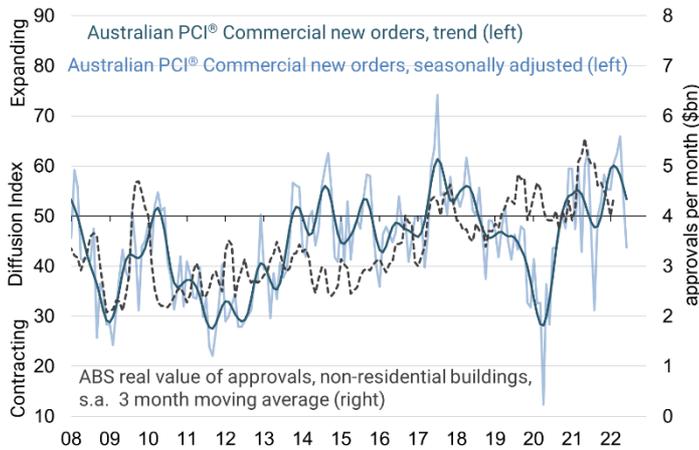
Apartment building new orders



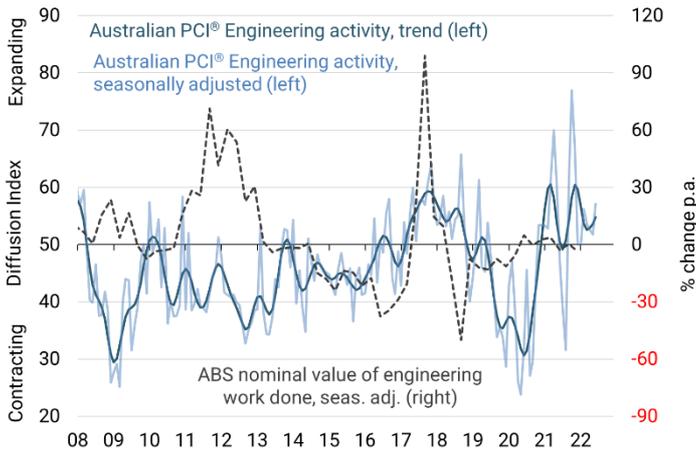
Commercial construction activity



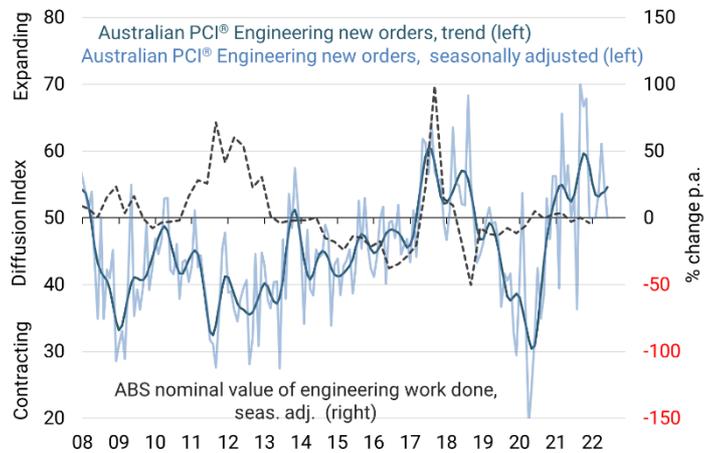
Commercial construction new orders



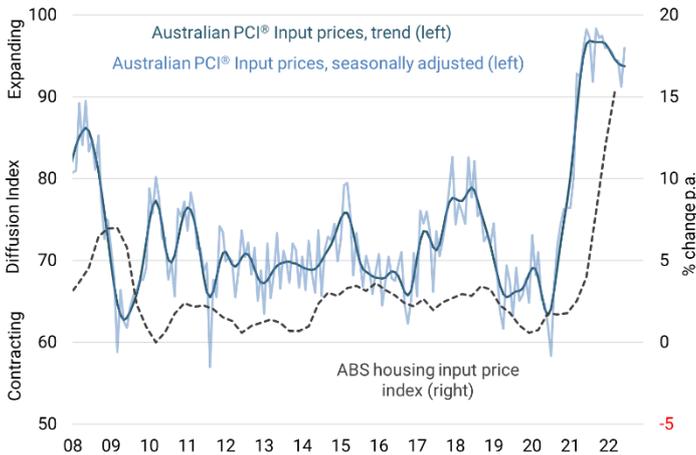
Engineering activity



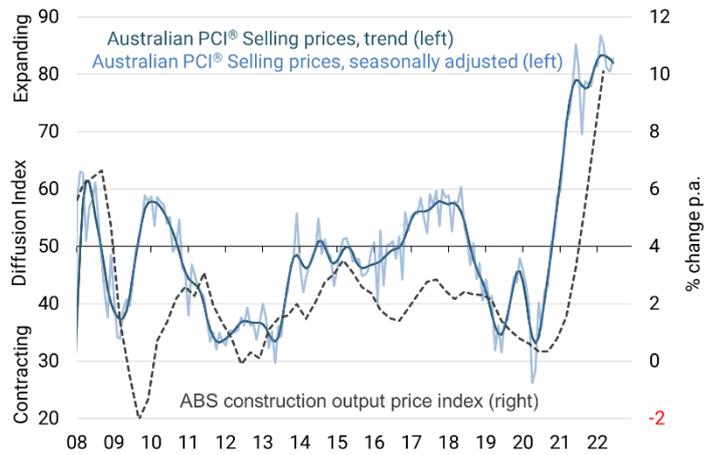
Engineering new orders



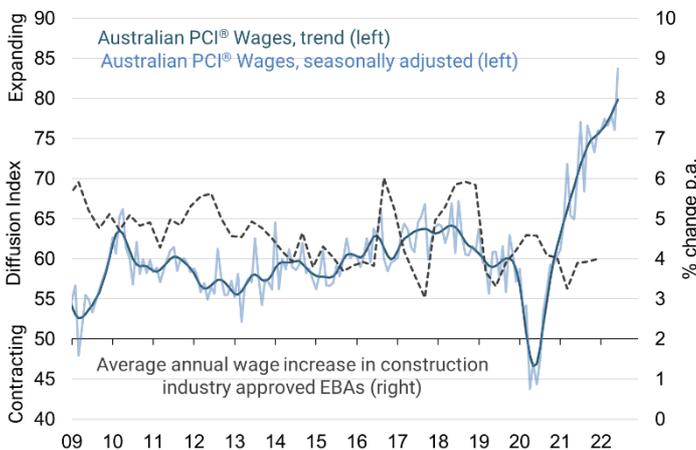
Input prices



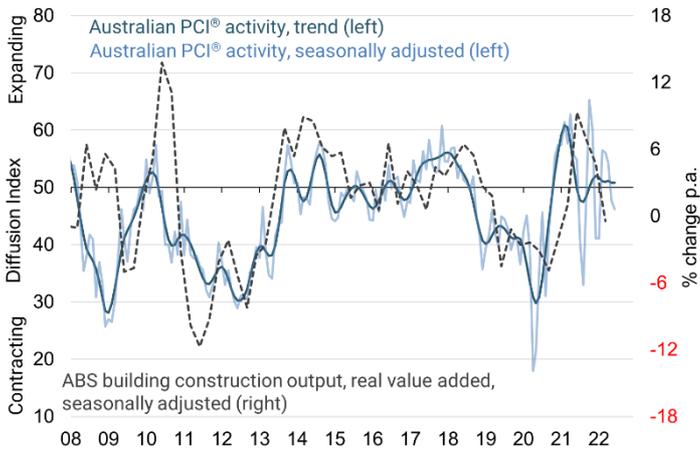
Selling prices



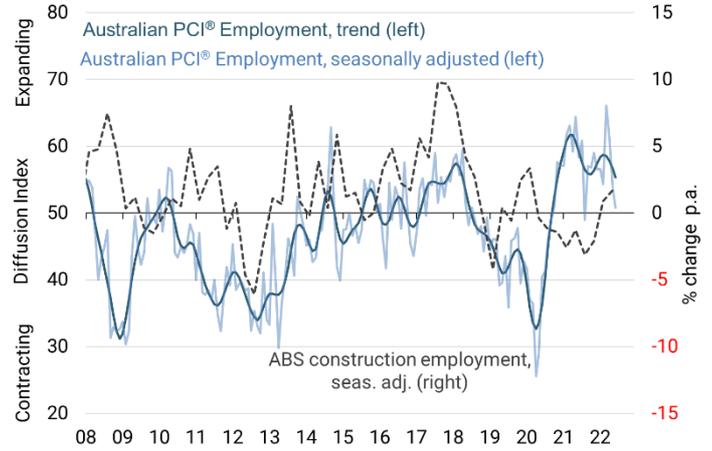
Average wages



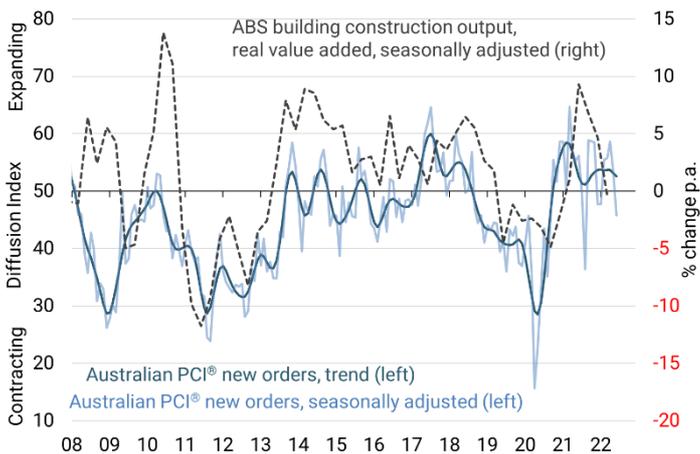
Activity



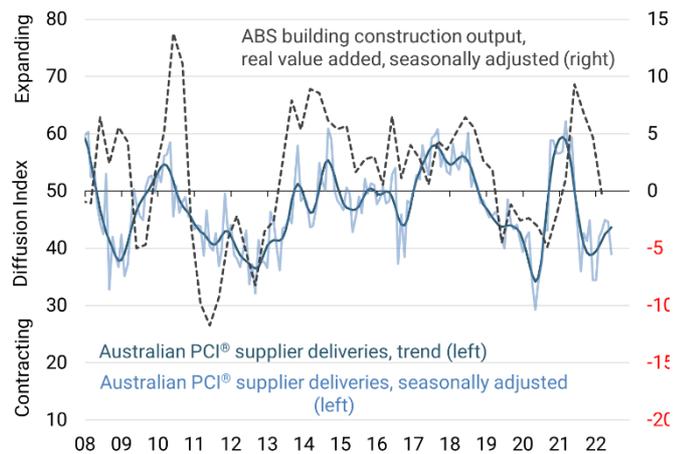
Employment



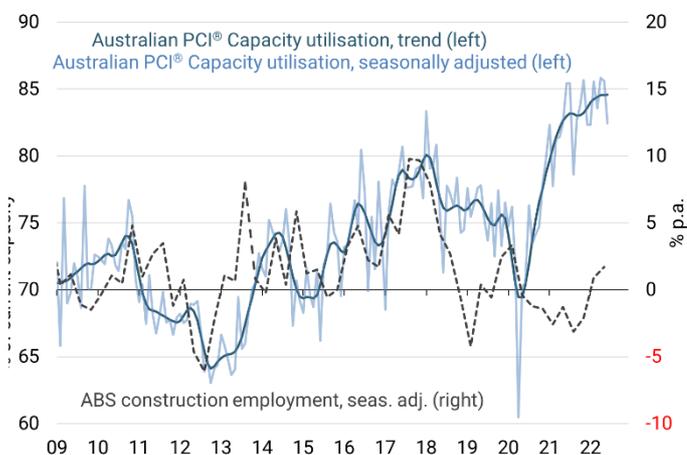
New orders



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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