

Construction boom stalls with rising cost pressures

May 2022

MEDIA CONTACTS

Thomas Devitt, HIA
Tel: 0439 514 656



Graham Turner, Ai Group
Tel: 0415 285 320

Key findings

- Three of the four construction sectors – housing, apartments and commercial – were in contraction in May. All saw activity fall significantly from the previous month.
- House builders reported concerns about increased building costs, combined with higher interest rates as dampening customer demand. New orders fell significantly in May.
- Labour shortages and delays in supplier deliveries continued to constrain activity. Builders reported rapidly growing input and labour prices as their key concern.
- Capacity utilisation moderated slightly to 85.6% 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 5.5 points to 50.4 points in May (seasonally adjusted). This indicates stability in activity across the construction sector following three months of positive conditions. Results above 50 points indicate expansion in the sector, with higher results indicating a stronger rate of expansion.

Australian PCI®
▼ 5.5 points
(seasonally adjusted) **50.4**

Australian PCI®
▲ 0.6 point
(trend) **53.8**

Activity
▼ -6.6 points (seas. adj.) **47.7**

Employment
▼ -7.3 points (seas. adj.) **53.7**

New orders
▼ -5.3 points (seas. adj.) **53.3**

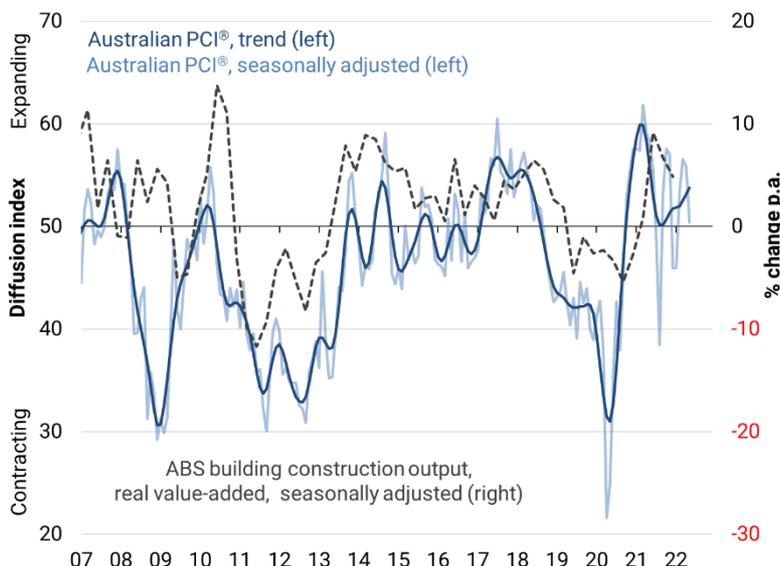
Housing activity
▼ -9.9 points (seas. adj.) **43.5**

Apartments activity
▼ -8.3 points (seas. adj.) **46.2**

Commercial activity
▼ -11.8 points (seas. adj.) **46.9**

Engineering activity
▼ -0.8 points (seas. adj.) **51.8**

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 May. Activity fell substantially in housing, apartments and commercial construction (seasonally adjusted). Engineering construction was mildly positive, but moderated down for a third month and was well below the peaks seen in late 2021.

Construction sector new orders: The new orders index in the **Australian PCI®** fell by 5.3 points to 53.3 points, indicating growth for new orders, but at a slower pace than in April (seasonally adjusted). New orders were strongest in engineering and apartment construction; while commercial construction slowed the most compared to the previous month. Some house builders reported falling demand by customers concerned about price escalation and higher interest rates.

Construction prices: The input price index eased slightly but continued to indicate strong upward pressure in May. Input prices have been elevated for over a year with little indication of easing. The selling prices index marked nineteen months of increase, however it eased for a third month from the series high reported in February (seasonally adjusted).

Construction wages and employment: The average wages index moderated down from April (series high) marking ten months of elevated wage pressures. This index has been expanding since August 2020. The employment index dropped in April and May (from the series high in March) but remains strong. Employment has been volatile since the middle of 2021; all construction sectors are reporting labour shortages, with some project completions being delayed due to a lack of staff.

Construction supplier deliveries: Supplier deliveries deteriorated further in May falling by 0.3 points to 44.6 points (seasonally adjusted). Delivery delays were reported across all sectors and locations in May, resulting in increased costs and longer timelines for project completion. Builders reported increasing inventory where they could to buffer against delays.

Construction capacity utilisation: The capacity utilisation index fell 0.2 percentage points to 85.6% in May. The index has been elevated for well over a year, averaging 83.1% of capacity being used across the industry since January 2021 compared to the long-run average of 73.7% (since January 2008).

Construction highlights: Engineering respondents reported healthy pipelines of work and interest in new work, new orders for apartments increased in May. Some house builders reported strong demand and customers keen for projects to start.

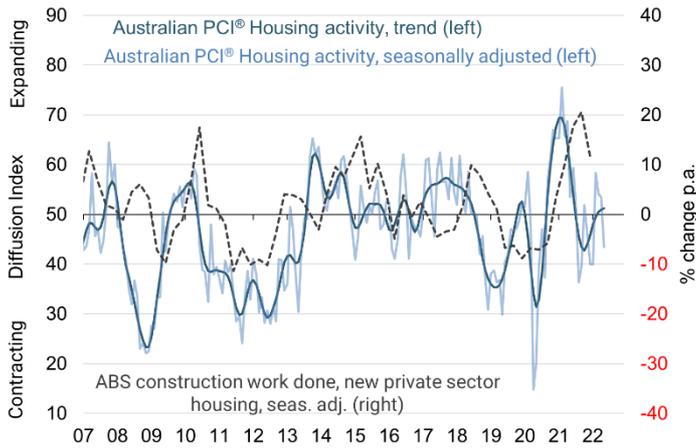
Construction concerns: Builders reported weaker customer demand in May due to increased costs and higher interest rates. All pricing indicators remain well above their long-term averages. Input prices remain extremely elevated and there is little sign of easing in the near future. Delays in supplies and labour shortages are delaying completion of works as new jobs start, with builders having higher numbers of ongoing projects and more risk than they have taken on before.

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®	50.4	-5.5	51.5				
Activity	47.7	-6.6	50.0	House building activity	43.5	-9.9	47.8
Employment	53.7	-7.3	57.4	Apartment building activity	46.2	-8.3	43.4
New Orders	53.3	-5.3	53.0	Commercial building activity	46.9	-11.8	51.7
Supplier Deliveries	44.6	-0.3	41.9	Engineering construction	51.8	-0.8	53.1
Input Prices	91.2	-3.2	95.7	Capacity utilisation			
Selling Prices	80.4	-0.7	80.6	<i>Seasonally adjusted</i>			
Average Wages	76.1	-1.8	75.1	% of total capacity being utilised	85.6	-0.2	83.9
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				1,161	1.3	0.5	8.6% of employed people
Building approvals , \$bn per month, March 2021				\$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

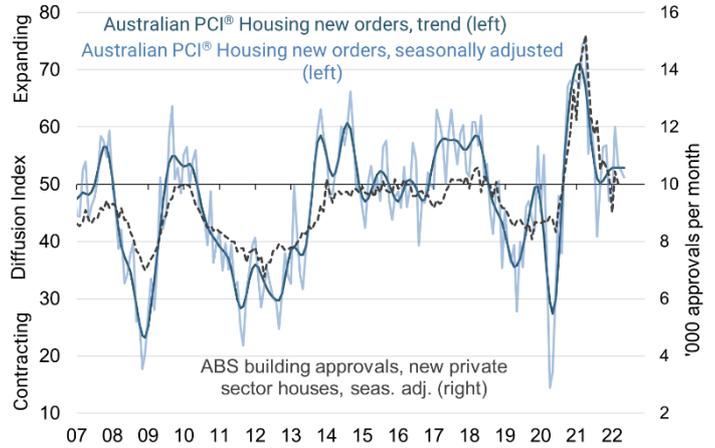
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

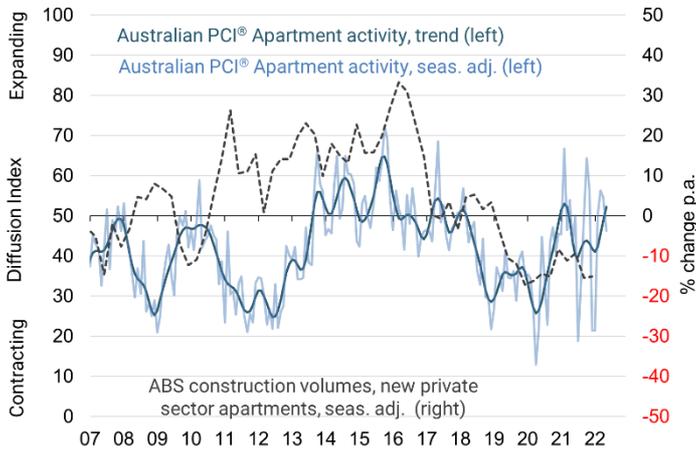
House building activity



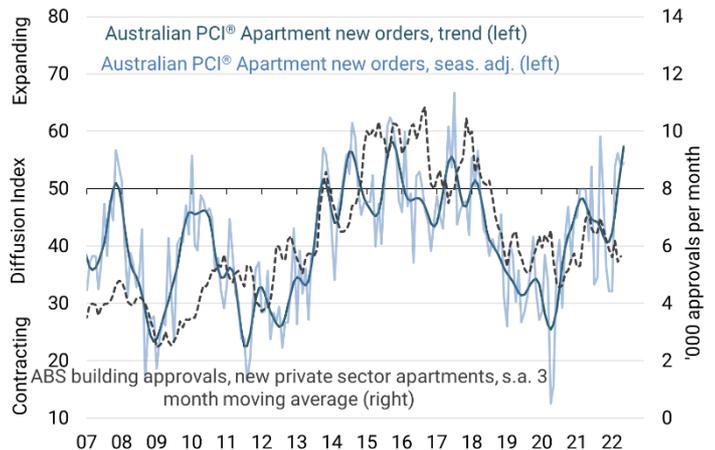
House building new orders



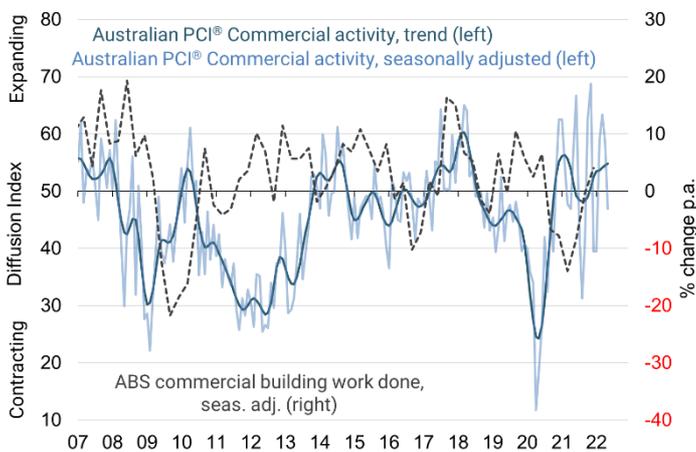
Apartment building activity



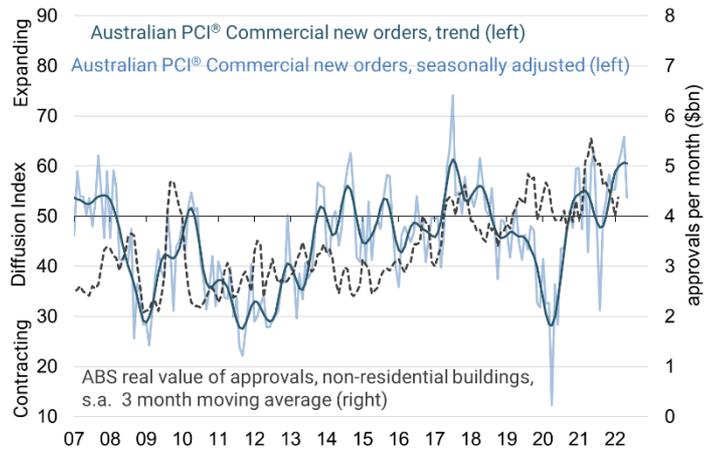
Apartment building new orders



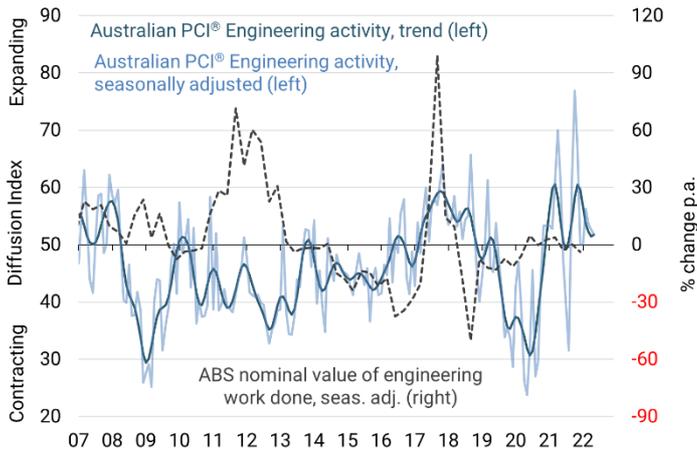
Commercial construction activity



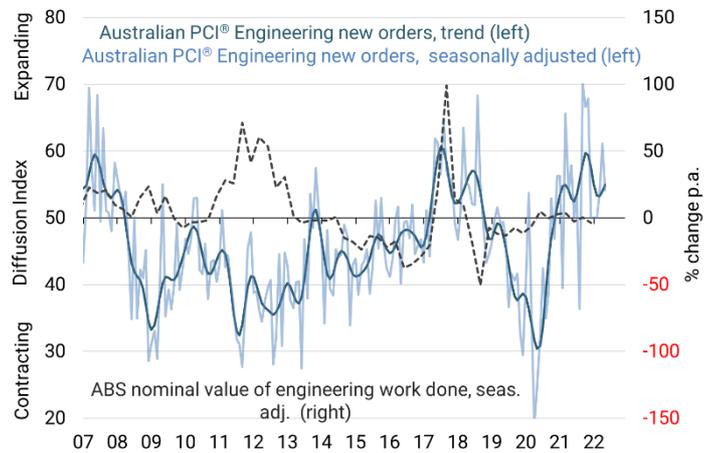
Commercial construction new orders



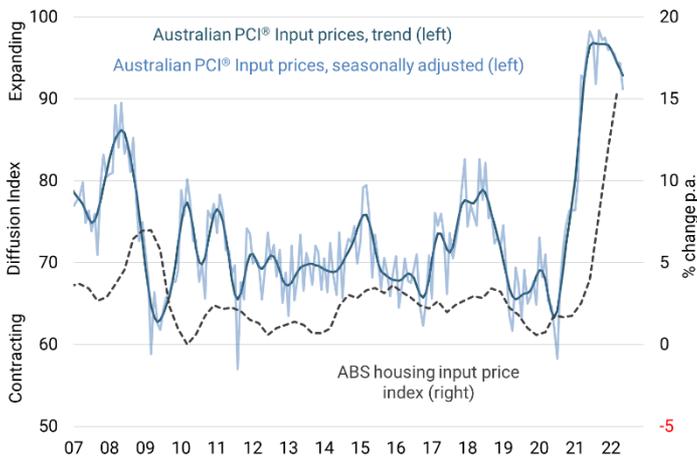
Engineering activity



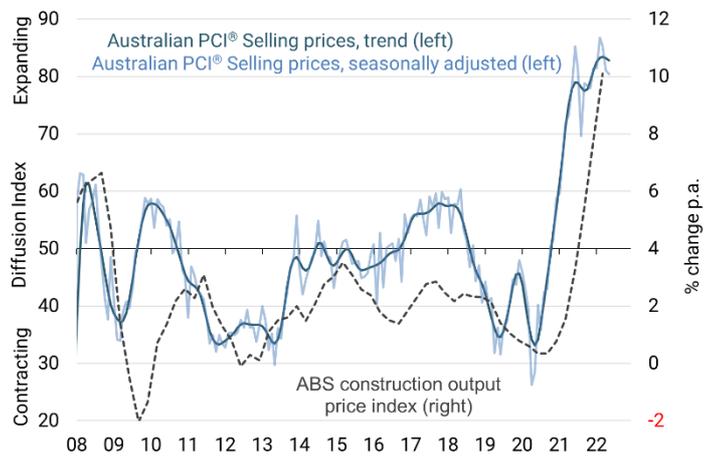
Engineering new orders



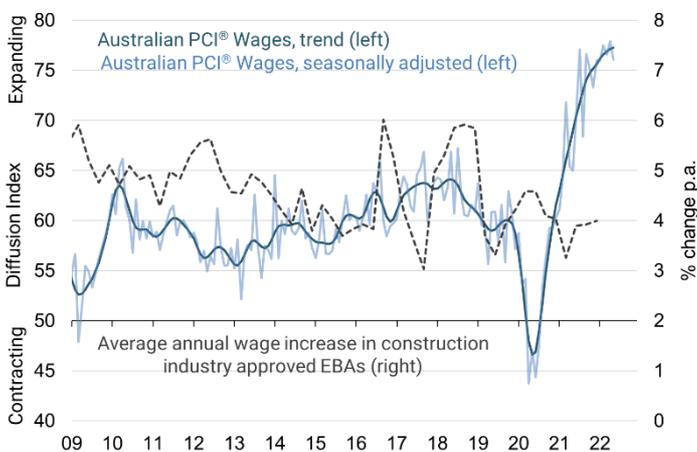
Input prices



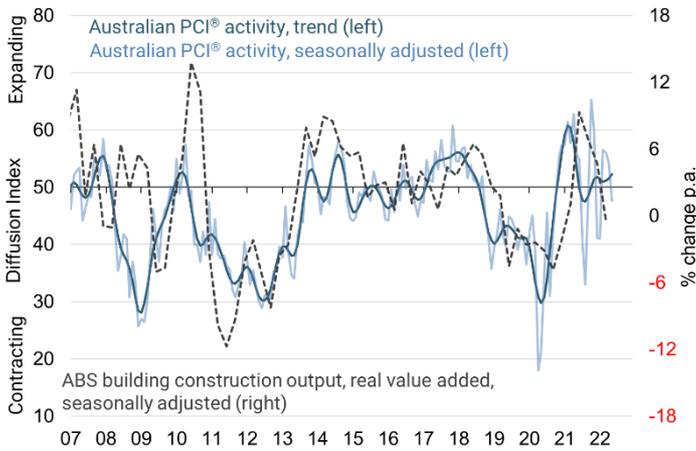
Selling prices



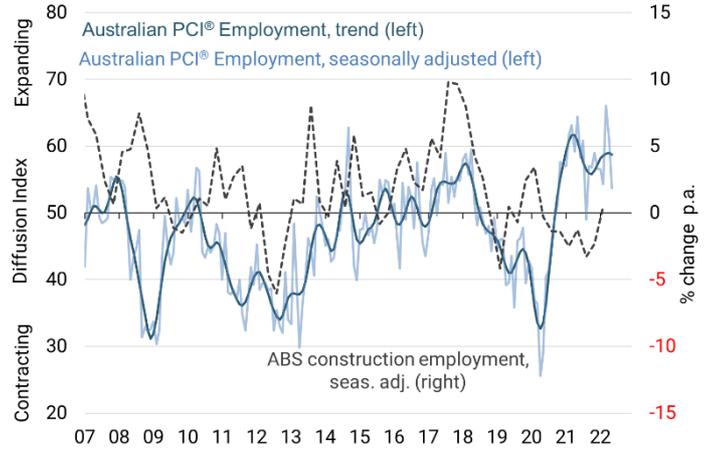
Average wages



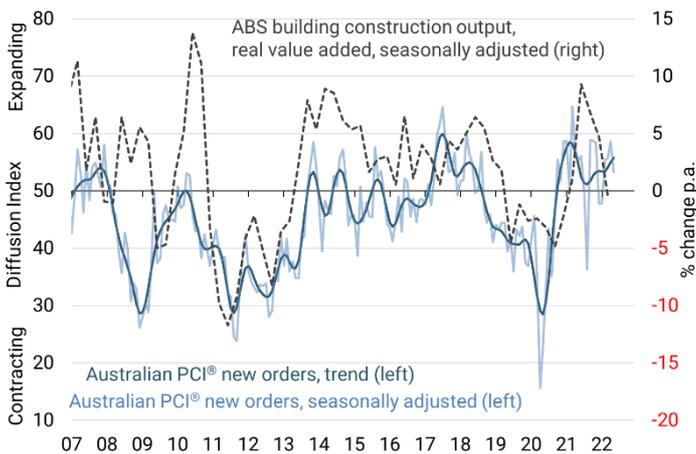
Activity



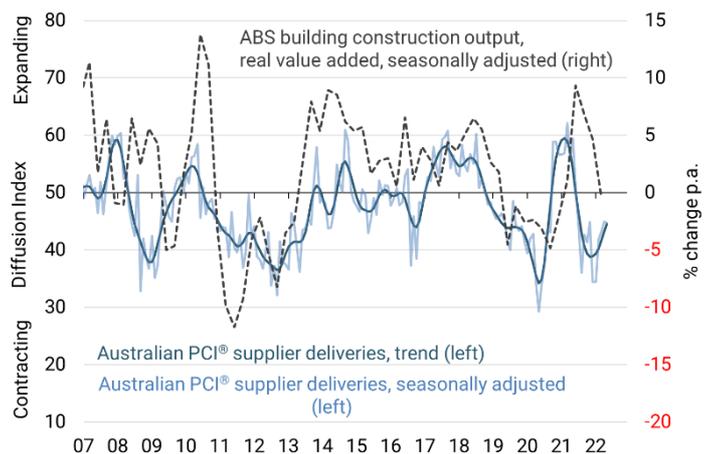
Employment



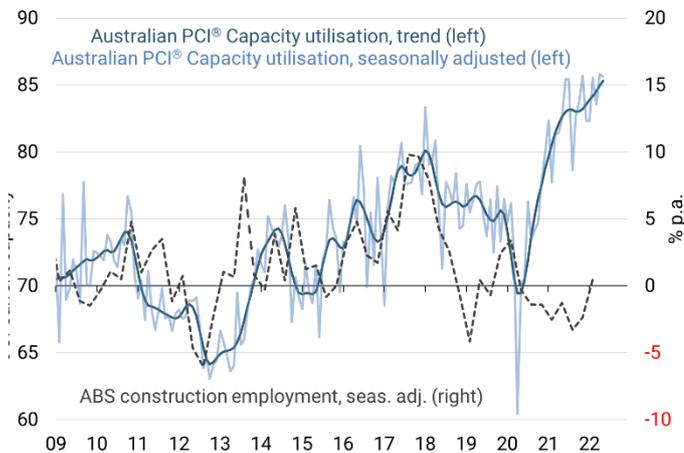
New orders



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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