

November 2022

Construction contraction eases

Key findings

- Two construction subsectors contracted and two were stable in November. This is the third time none of the subsectors in the Australian PCI® recorded growth since August 2021.
- The employment index rose into weak expansion as absenteeism eased.
- Demand-side pressures, including rising interest rates and economic uncertainty, are dampening construction sales and new orders.
- Supply-side constraints, especially a shortage of skilled trades, continue to inhibit activity, but there are signs of materials supply chain pressures easing.
- The selling prices indicator expanded at a slower rate compared to the previous two months. Input prices jumped up to 91.9, indicating the gap in growth between prices widened.
- Capacity utilisation rose slightly to 82.9% 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 4.9 points to 48.2 points in November (seasonally adjusted). This indicates contraction in activity across the construction sector for the sixth month but the rate of decline eased compared to October. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

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Australian PCI® ▲ 4.9 points (seasonally adjusted)	48.2
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Australian PCI® ▲ 0.3 points (trend)	45.9
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Activity ▲ 6.1 points (seas. adj.)	45.9
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Employment ▲ 9.4 points (seas. adj.)	51.6
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New orders ▲ 2.1 points (seas. adj.)	45.3
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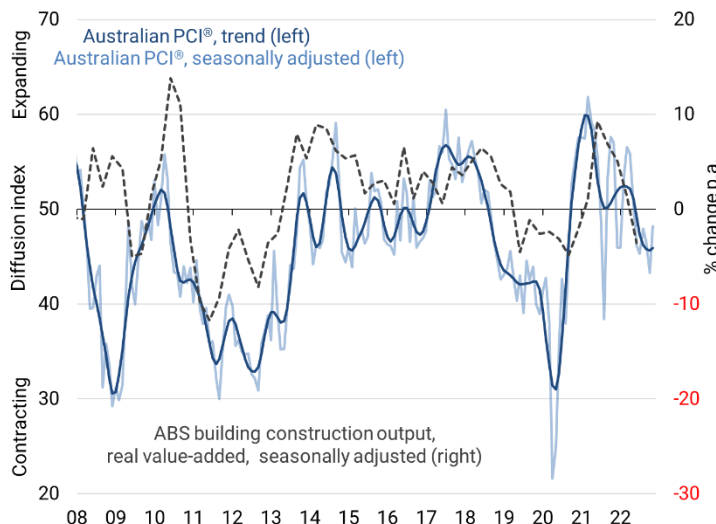
Housing activity ▲ 8.7 points (seas. adj.)	42.0
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Apartments activity ▲ 8.6 points (seas. adj.)	49.5
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Commercial activity ▲ 4.6 points (seas. adj.)	49.0
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Engineering activity ▲ 3.3 points (seas. adj.)	45.0
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Australian PCI® and ABS building industry output



Construction sector activity: Two activity indexes contracted and two were stable in the **Australian PCI®** in November; the third time none of the subsectors indicated growth since August 2021 (seasonally adjusted). Activity levels declined for the seventh month in housing, the index showing a comparatively longer period of contraction. Activity in engineering construction contracted for a second month, while apartments and commercial activity lifted from contraction to stability.

Construction sector new orders: The decline in the new orders index in the **Australian PCI®** eased compared to October lifting by 2.1 points to 45.3 points in November (seasonally adjusted). New orders increased for engineering but contracted for housing, apartments and commercial activity. Interest rate increases and uncertainty about the economic outlook kept orders in contraction as constructors reported a slow-down in interest and customers delaying or cancelling projects.

Construction prices: The input prices index jumped 8.3 points to 91.9 returning to the elevated results seen earlier this year. The selling prices index dropped lower than September and October indicating fewer builders were able to pass through higher input costs constraining profit margins this month.

Construction wages and employment: The average wages index decelerated very slightly in November falling just 0.7 points to 78.2; wage pressures were significant for most of 2021 and 2022. The employment index indicated soft expansion following a weak result in October (seasonally adjusted). All construction sectors continued to report some labour shortages, but the number of staff absent due to illness has noticeably reduced.

Construction supplier deliveries: Supplier deliveries rose in November, lifting by 1.1 points to 53.2 points. This is the second month of positive results since May 2021 (seasonally adjusted). While delivery delays and stock shortages for some inputs were reported across all sectors, on balance more respondents reported an increase in supplies being delivered.

Construction capacity utilisation: The capacity utilisation index was very similar to October lifting 0.1 percentage points to 82.9% in November. The index has been elevated for much of 2021 and 2022, averaging 82.9% of capacity being used across the industry since January 2021 compared to the long-run average of 74.0% (since January 2008).

Construction highlights: Supply deliveries improved and demand was stable for some longer term projects. Fewer employee hours were lost to illness. There were pockets of strong demand with some builders becoming more selective with projects they undertook.

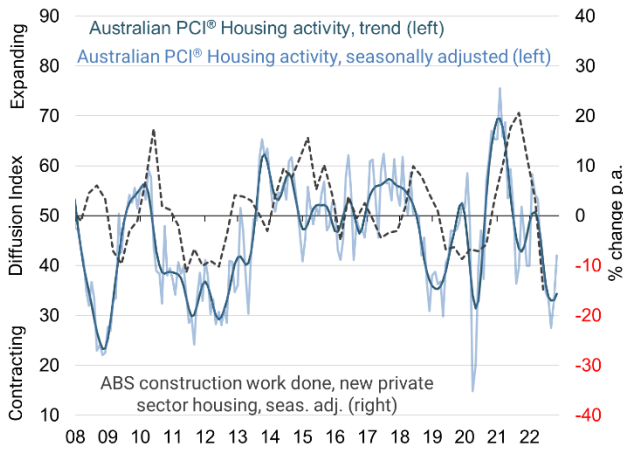
Construction concerns: The cumulative effect of interest rate rises and increased economic uncertainty were key concerns in October. Wet weather events and flooding along the east coast hampered access to sites. Respondents continued to report labour shortages and supply delays. Input costs remain elevated but the rate of growth was stable.

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®	48.2	4.9	48.8				
Activity	45.9	6.1	46.6	House building activity	42.0	8.7	41.6
Employment	51.6	9.4	54.0	Apartment building activity	49.5	8.6	41.2
New Orders	45.3	2.1	49.2	Commercial building activity	49.0	4.6	48.9
Supplier Deliveries	53.2	1.1	43.7	Engineering construction	45.0	3.3	51.1
Input Prices	91.9	8.2	92.9	Capacity utilisation			
Selling Prices	68.7	-8.4	79.8	<i>Seasonally adjusted</i>			
Average Wages	78.2	-0.7	77.3	% of total capacity being utilised	82.9	0.1	83.3
CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted				Level	Change	Change	Share of total
Construction work done , \$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
Construction output , real value-added, \$bn per quarter, Jun 2022				37.0	0.2	4.2	7.1% of total GDP
Construction employment , million people employed, August 2022				1262	7.1	11.4	8.6% of employed people
Building approvals , \$bn per month, September 2022				\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals				7.6	-12.7	2.1	61.0
Value of non-residential building approvals				4.9	3.7	3.8	39.0

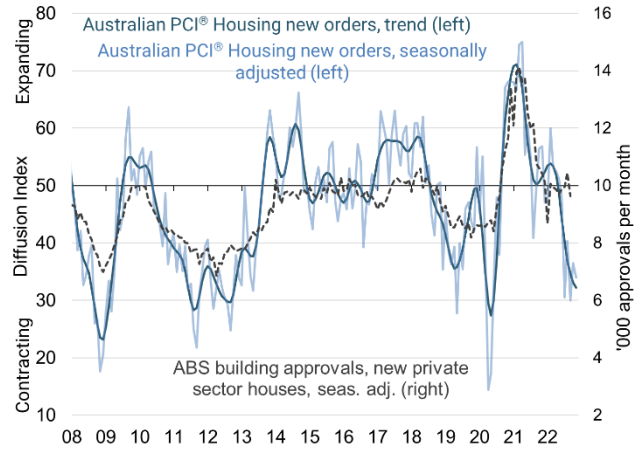
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

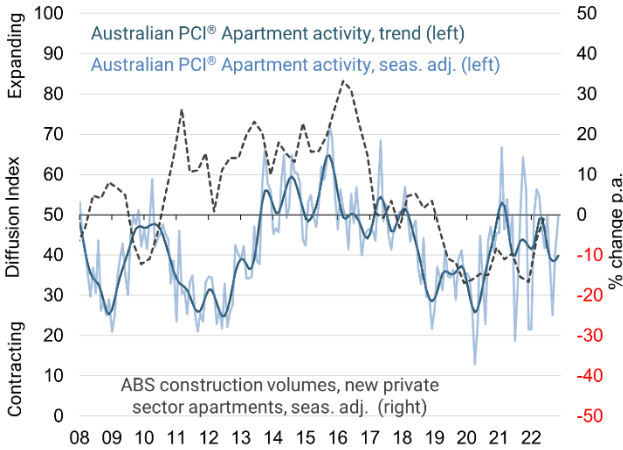
House building activity



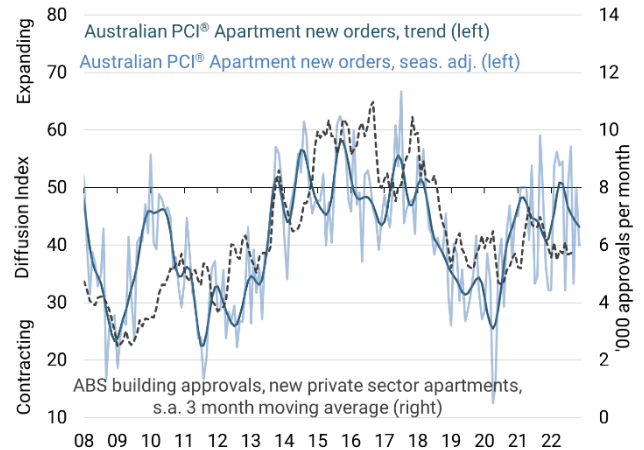
House building new orders



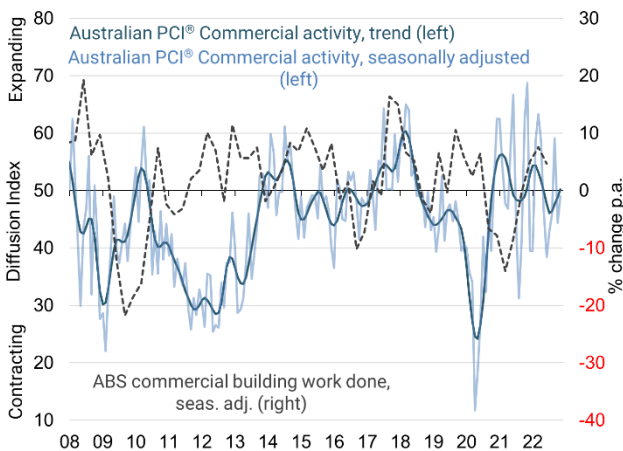
Apartment building activity



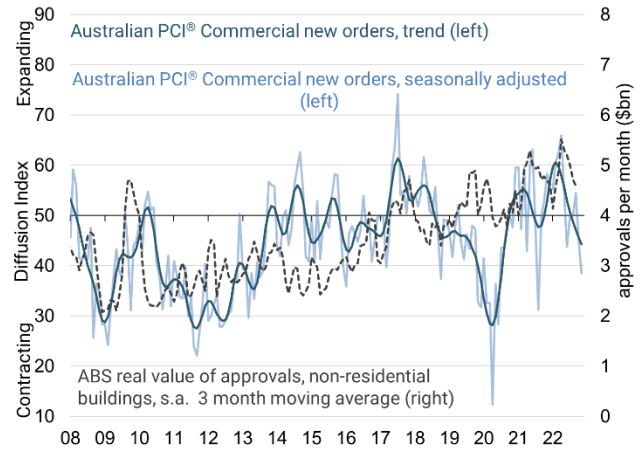
Apartment building new orders



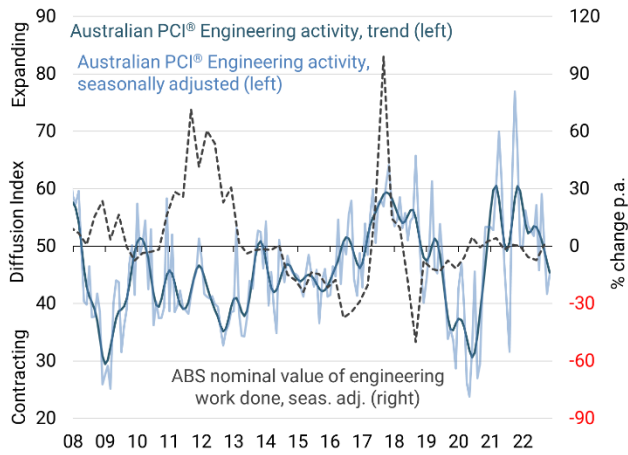
Commercial construction activity



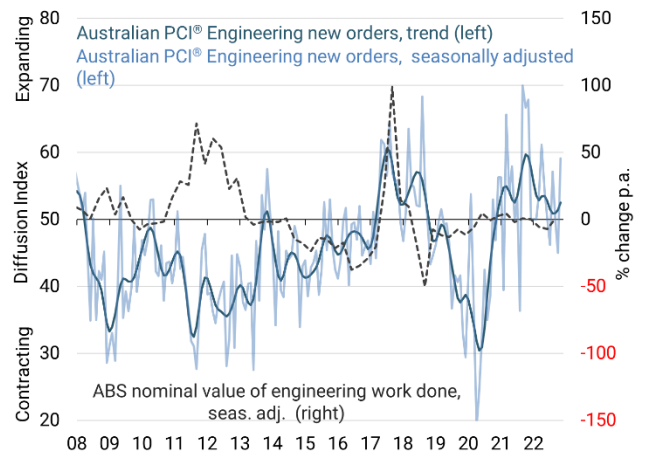
Commercial construction new orders



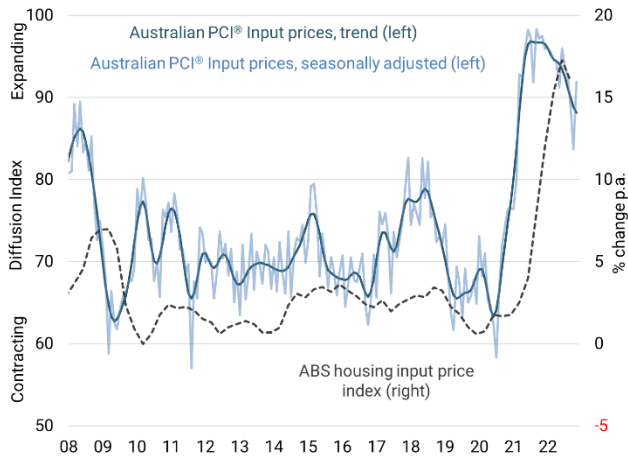
Engineering activity



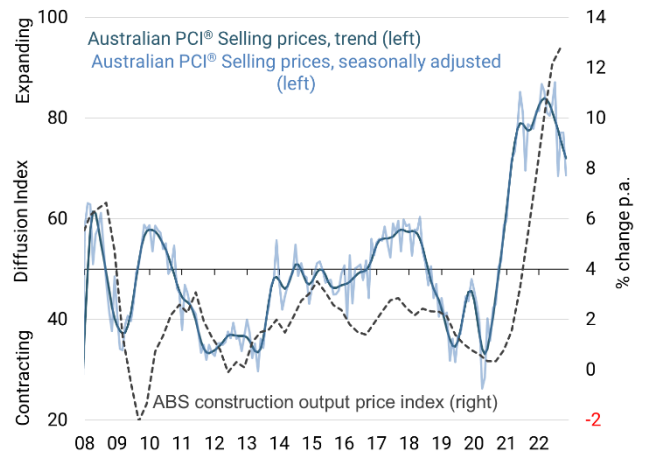
Engineering new orders



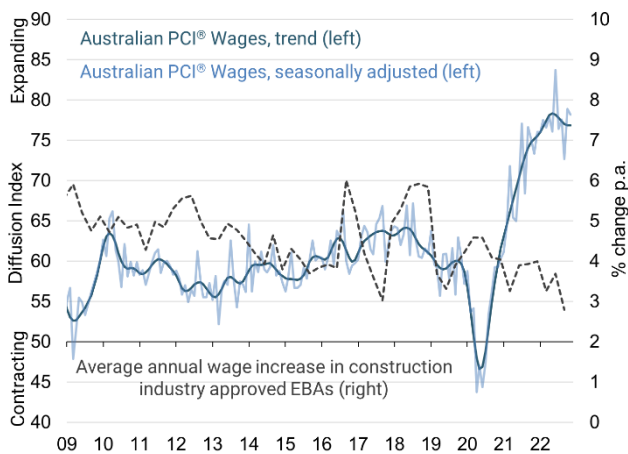
Input prices



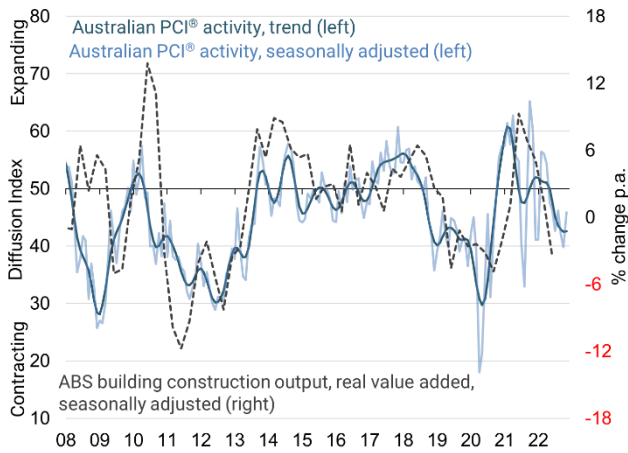
Selling prices



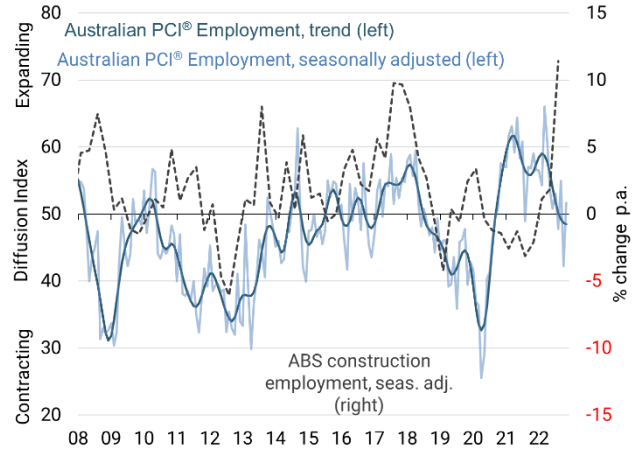
Average wages



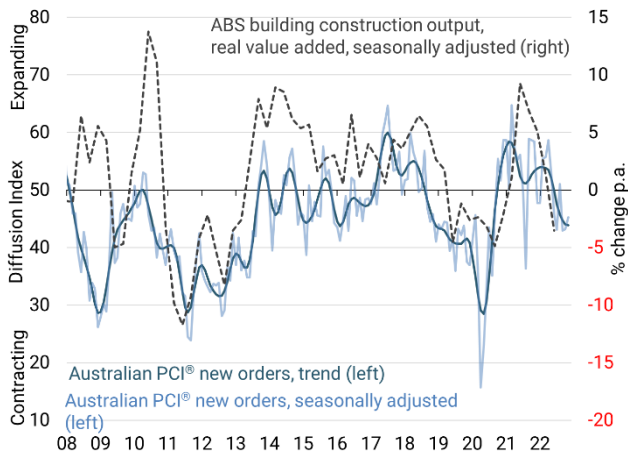
Activity



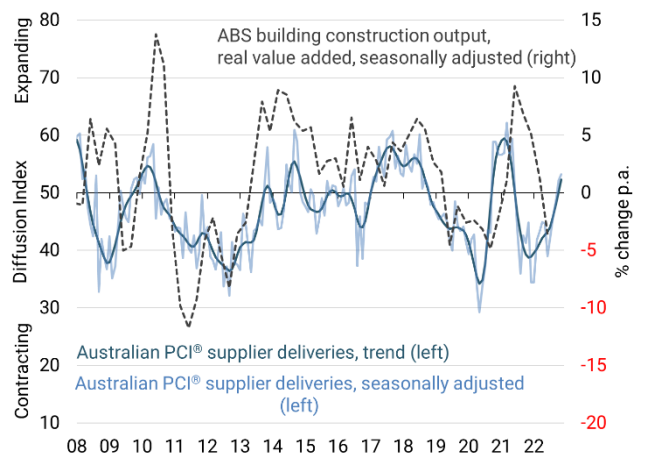
Employment



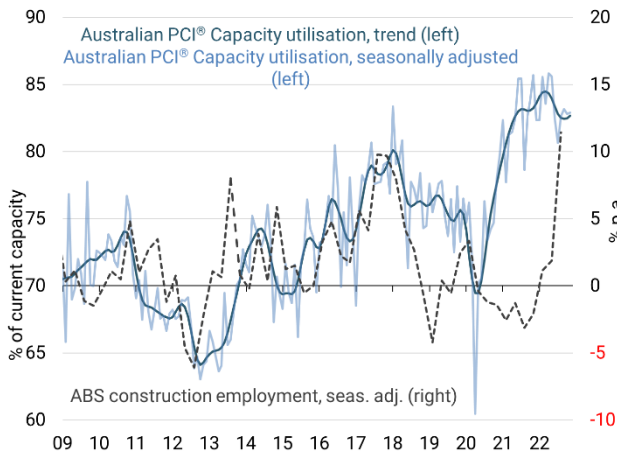
New orders



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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