

# Construction sector contracts for fourth month

September 2022

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## Key findings

- Two of the four construction sectors – housing and apartments – were in deep contraction in September. Activity improved in the commercial sector and was stable in engineering.
- Demand side pressures, including rising interest rates and economic uncertainty, are dampening consumer-facing construction sectors from elevated levels seen during the pandemic.
- Supply side constraints continue to inhibit growth, but there are early signs of supply chain pressures easing. Construction employment also improved.
- The selling prices indicator grew again to 77.2. While input prices fell slightly, at 88.6 the indicator remains higher than selling prices.
- Capacity utilisation rose slightly to 83.2%, it has been sustained at highly elevated levels since the end of 2020.

The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) fell by 1.4 points to 46.5 points in September (seasonally adjusted). This indicates contraction in activity across the construction sector for the fourth month and the rate of decline increased compared to August. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

<b>Australian PCI®</b> ▼ 1.4 points (seasonally adjusted)	<b>46.5</b>
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<b>Australian PCI®</b> ▼ 0.9 points (trend)	<b>45.3</b>
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<b>Activity</b> ▼ 4.2 points (seas. adj.)	<b>42.0</b>
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<b>Employment</b> ▲ 7.2 points (seas. adj.)	<b>54.9</b>
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<b>New orders</b> ▼ -8.0 points (seas. adj.)	<b>43.0</b>
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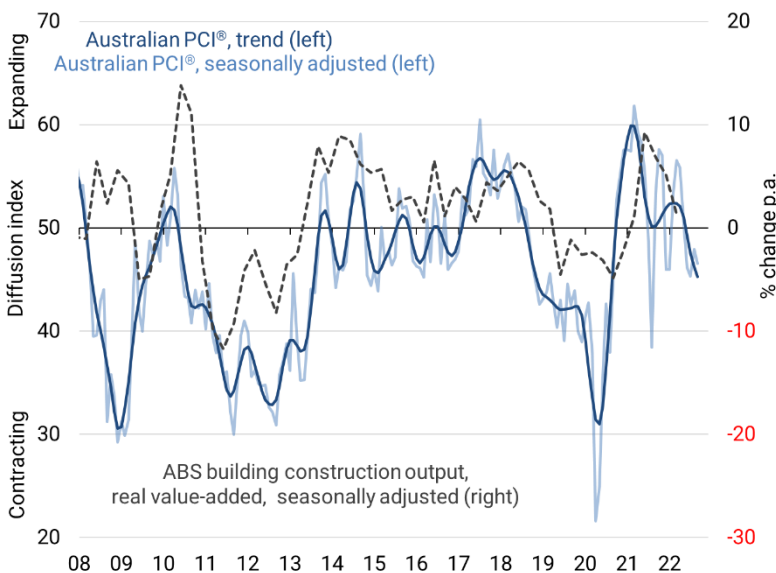
<b>Housing activity</b> ▼ -5.8 points (seas. adj.)	<b>27.5</b>
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<b>Apartments activity</b> ▼ -12.5 points (seas. adj.)	<b>25.0</b>
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<b>Commercial activity</b> ▲ 13.3 points (seas. adj.)	<b>59.1</b>
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<b>Engineering activity</b> ▼ 9.1 points (seas. adj.)	<b>50.0</b>
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## Australian PCI® and ABS building industry output



**Construction sector activity:** The activity indexes for two of the four sectors in the **Australian PCI®** indicated contraction in September (seasonally adjusted). Activity declined for the fifth month in housing, the second month in apartments, and was stable in engineering. Commercial construction rose from contraction into expansion (seasonally adjusted).

**Construction sector new orders:** The new orders index in the **Australian PCI®** deteriorated by 8.0 points to 43.0 points in September, returning to similar levels seen in June and July (seasonally adjusted). New orders were strongest in commercial construction and stable for engineering. Higher interest rates and economic uncertainty reduced demand across consumer-facing (house building and apartments) subsectors, as more builders reported a drop in enquiries.

**Construction prices:** The input prices index eased again (dropping to 88.6) but remained elevated in September after reaching a series peak in June (seasonally adjusted). Input prices have been extremely elevated for over a year. The selling prices index rose and marked almost two years of continuous growth, it remains below the recent peak seen in July 2022.

**Construction wages and employment:** The average wages index eased in September from the recent peak in June; wage pressures have been significant for well over a year. The employment index rose and improved, but remains well below the series high in March (seasonally adjusted). All construction sectors continued to report some labour shortages, but the number of staff unable to work due to illness has reduced.

**Construction supplier deliveries:** The contraction in supplier deliveries eased in September, rising by 3.0 points to 48.6 points (seasonally adjusted). While delivery delays and supplier stock shortages continued to be reported across all sectors, more respondents noted an easing in supplies constraints compared to previous months.

**Construction capacity utilisation:** The capacity utilisation index rose 0.6 percentage points to 83.2% in September. The index has been elevated for well over a year, averaging 83.6% of capacity being used across the industry since January 2021 compared to the long-run average of 73.8% (since January 2008).

**Construction highlights:** Employment rose from contraction into growth indicating more businesses were able to find staff. Builders in commercial and infrastructure construction reported ongoing solid demand for longer term large projects. There continued to be some easing of supply constraints. As selling prices rose while input prices fell, builders are better able to pass on rising costs.

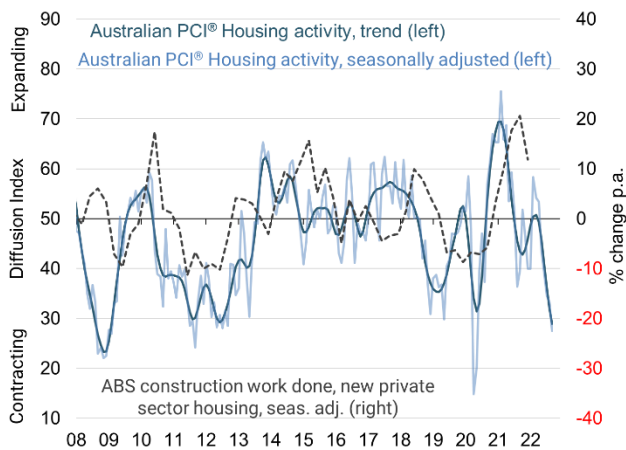
**Construction concerns:** Increased interest rates were a concern as they rose again in September. Builders reported lower customer demand due to higher costs for buyers and uncertainty around future increases. Respondents to the **Australian PCI®** continued to report supply delays. Input costs although elevated showed some easing in the rate of increase.

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>46.5</b>	<b>-1.4</b>	<b>50.7</b>				
Activity	42.0	-4.2	49.9	House building activity	27.5	-5.8	43.5
Employment	54.9	7.2	55.9	Apartment building activity	25.0	-12.5	43.7
New Orders	43.0	-8.0	51.6	Commercial building activity	59.1	13.3	52.0
Supplier Deliveries	48.6	3.0	42.1	Engineering construction	50.0	-9.1	55.8
Input Prices	88.6	-4.0	94.4	<b>Capacity utilisation</b>			
Selling Prices	77.2	8.7	80.7	<i>Seasonally adjusted</i>			
Average Wages	72.7	-4.9	76.6	% of total capacity being utilised	83.2	0.6	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

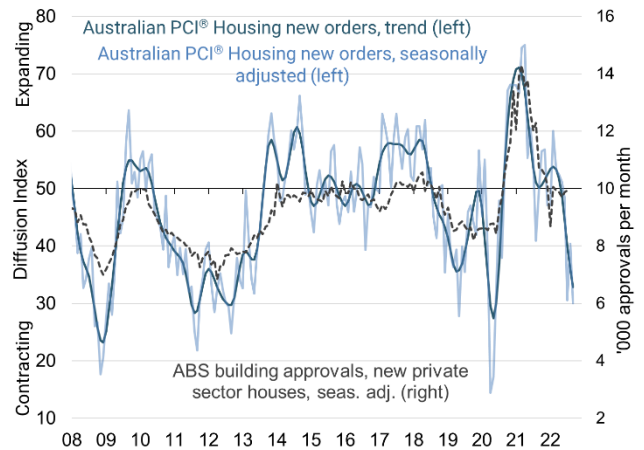
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

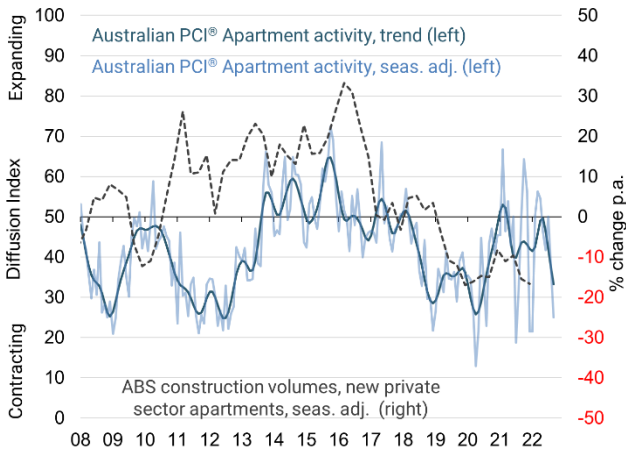
### House building activity



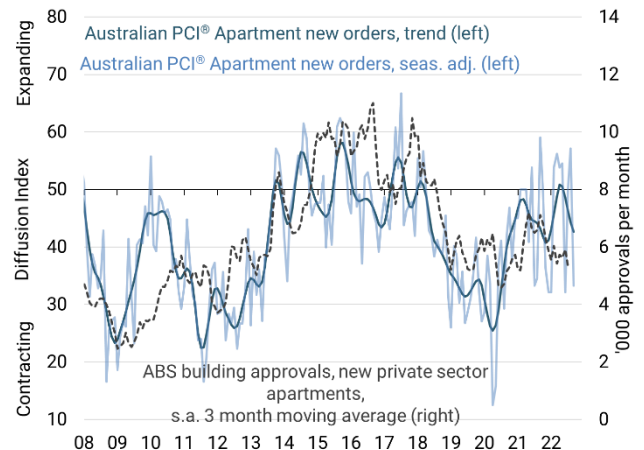
### House building new orders



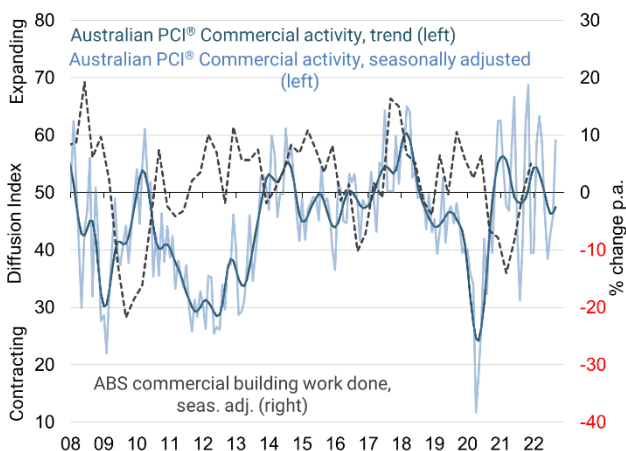
### Apartment building activity



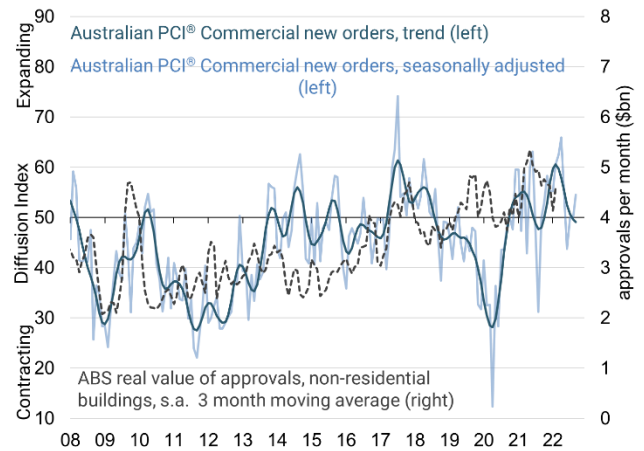
### Apartment building new orders



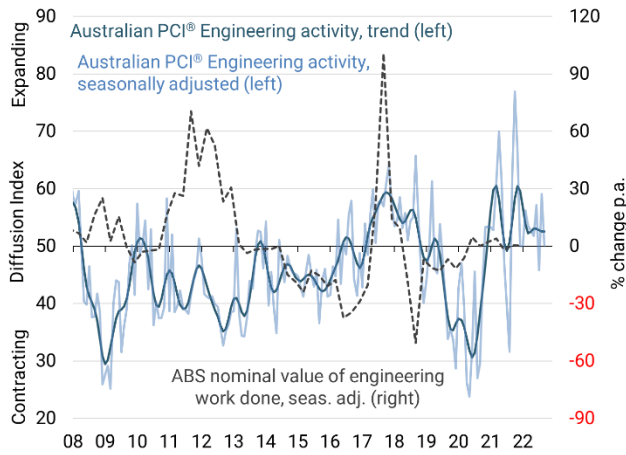
### Commercial construction activity



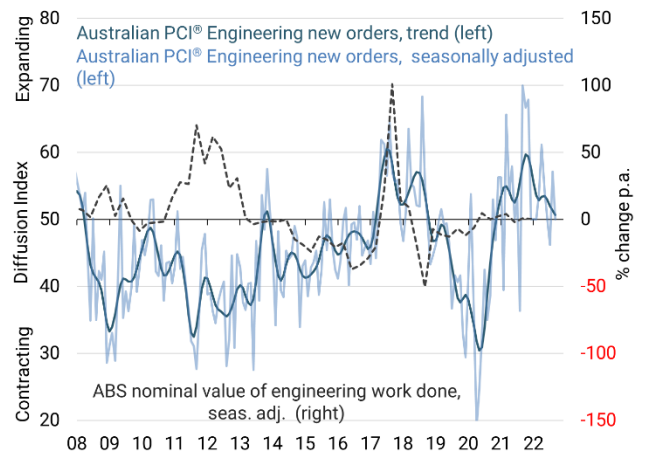
### Commercial construction new orders



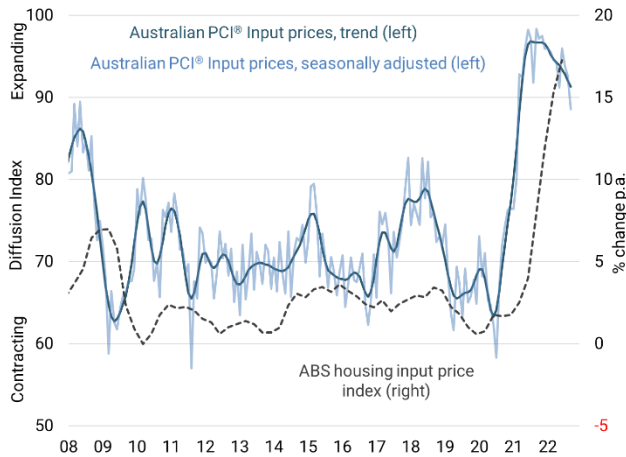
## Engineering activity



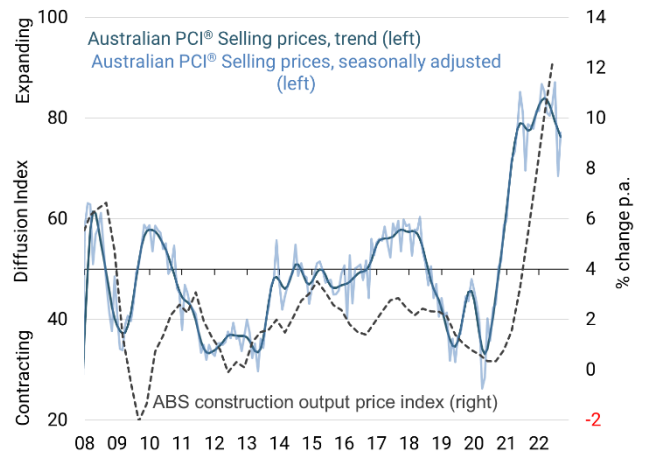
## Engineering new orders



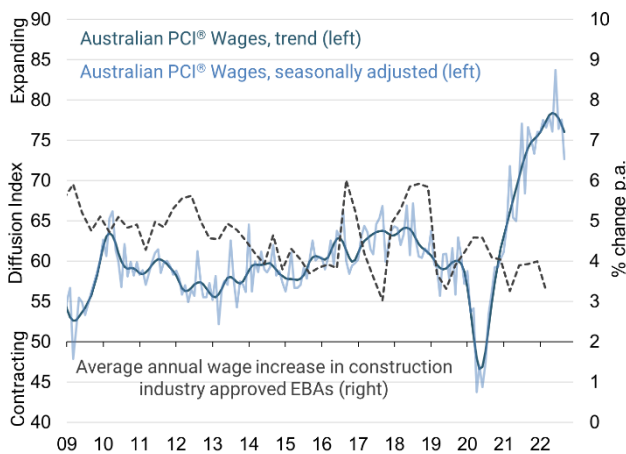
## Input prices



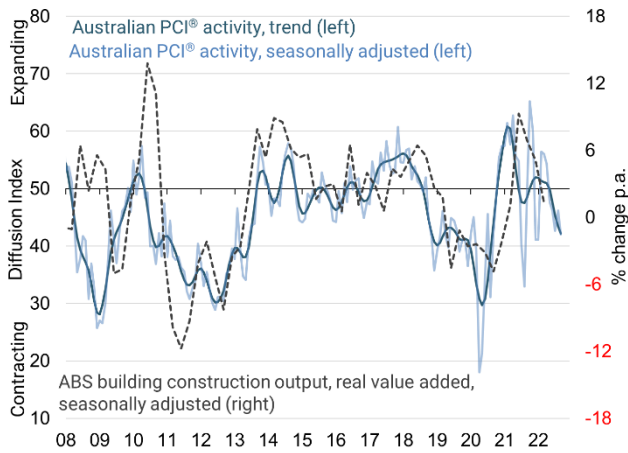
## Selling prices



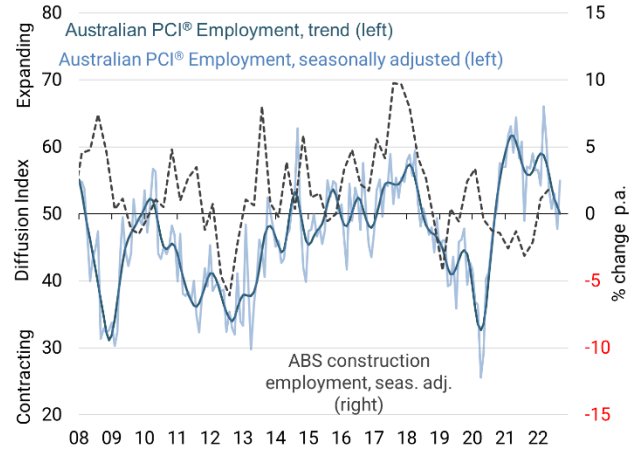
## Average wages



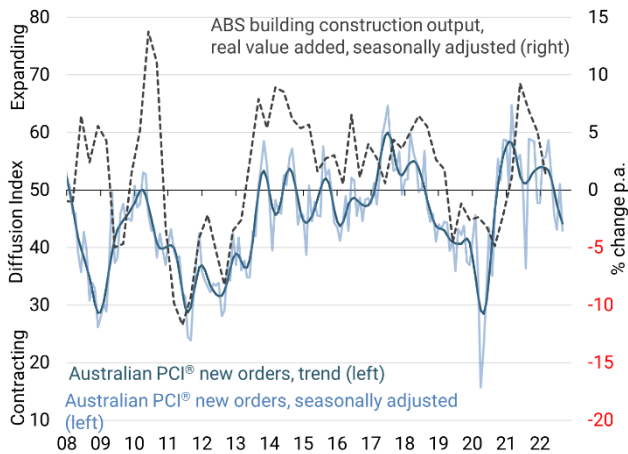
### Activity



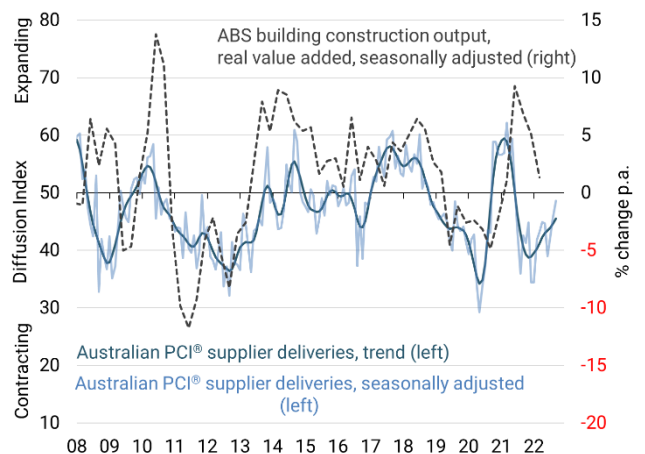
### Employment



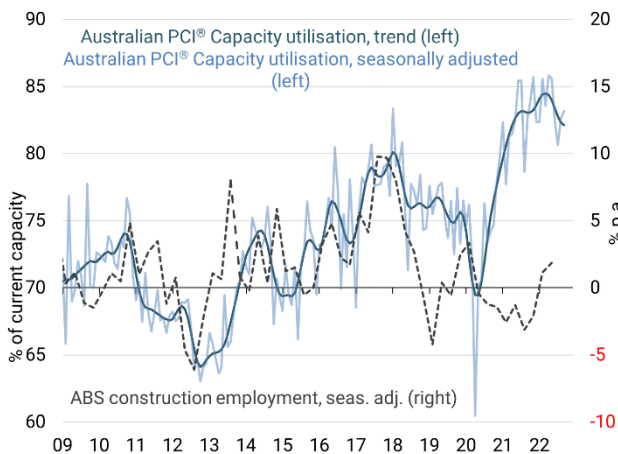
### New orders



### 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. Seasonal factors have been adjusted to account for the COVID-19 structural break.

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