

# AUSTRALIAN PCI®: FIRST GROWTH SINCE 2010

**Australian PCI®**  
Oct 2013: 54.4 ↑

**UK PCI**  
Sep 2013: 58.9 ↓

**Germany PCI**  
Sep 2013: 52.1 ↓

**Ireland PCI**  
Sep 2013: 55.7 ↑

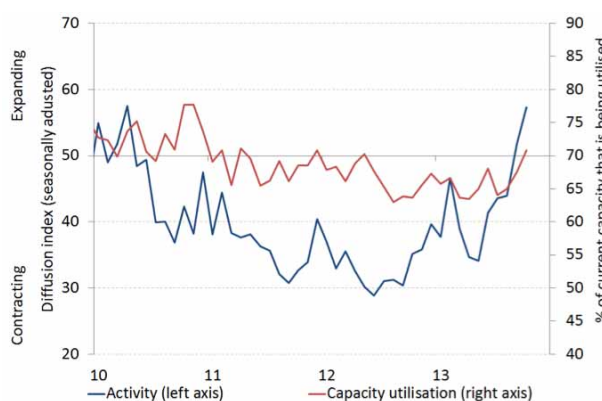
## KEY FINDINGS

- The national construction industry returned to growth in October 2013 for the first time in over three years, driven by a higher rate of expansion in new orders and activity. In response, both employment and deliveries from suppliers increased after sustaining monthly contractions since mid-2010.
- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 6.8 points in October to 54.4 points. This was above the critical 50 points level that separates expansion from contraction and signalled the industry's strongest performance since April 2010 (55.8 points).
- The upturn in October was underpinned by higher levels of activity across all four major sectors of the industry. Activity in the house and apartment building sectors increased solidly for a second consecutive month, with index levels for both sectors at their highest since the commencement of this survey in September 2005. These results are consistent with rising levels of new orders as reflected in the recent strong growth in total residential building approvals. In addition, commercial construction and engineering construction activity recovered in October, after continuous contractions for 39 and seven months, respectively.
- Businesses reporting an improvement in activity generally attributed this to stronger levels of demand and an associated increase in tender opportunities. In addition, house and apartment builders noted that owner-occupier enquiries and buyer confidence were firming, with activity also benefitting from continued improvement in investor activity. However, the operating environment clearly remains tough for many businesses, with impediments such as tight credit conditions and a lack of public sector building works cited as the main constraints on activity.



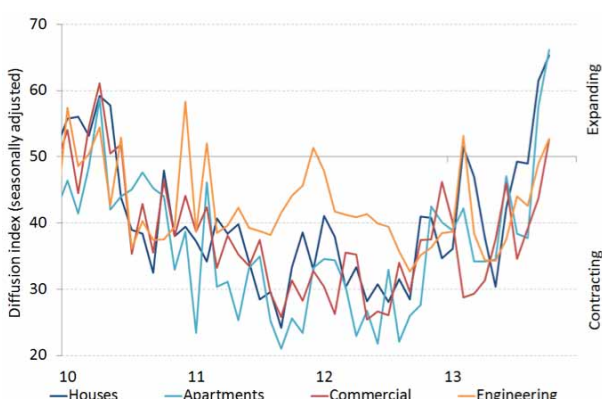
## CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in the **Australian PCI®** registered 57.3 points in October.
- This was 5.4 points above the level in the previous month, and signalled growth in total construction activity for a second consecutive month. Moreover, it was the highest level for this activity sub-index recorded since April 2010's reading of 57.5 points.
- Underlying this result was an upturn in new orders, driven by stronger levels of incoming business across the house building, apartments and commercial construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) rose from 67.6% in September 2013 to 70.8%, the highest rate since December 2011.



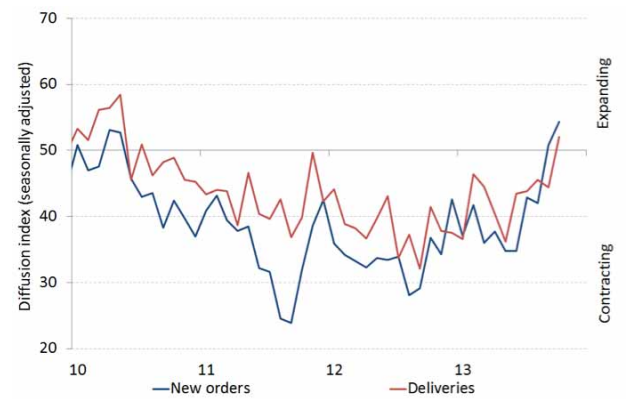
## ACTIVITY BY SECTOR

- House building conditions strengthened further, reflecting the improving trend seen in new orders over the past five months. The sector's activity sub-index increased by 3.8 points to 65.3 points in October, following a solid recovery in September. This was the highest activity reading for this sector in the eight year history of the survey.
- Apartment building activity also expanded at a higher rate in October, with the sector's sub-index increasing by 8.5 points to 66.2 points. This was only the second recorded increase in activity since April 2010. In line with house building activity, it was the highest reading in eight years. Respondents mainly linked the improvement to stronger investor activity.
- Commercial construction experienced a return to growth, albeit from a weak base. The sector's activity sub-index increased by 8.9 points in October to 52.6 points, following 39 consecutive months of decline. Despite the improvement, reports from respondents continue to suggest patchy conditions across the sector. This points to recovery rather than outright growth.
- Renewed expansion and recovery were also signalled for engineering construction in October after the near stabilisation of activity levels seen in the previous month. The sector's sub-index rose by 3.7 points to 52.7 points, the first increase in eight months.



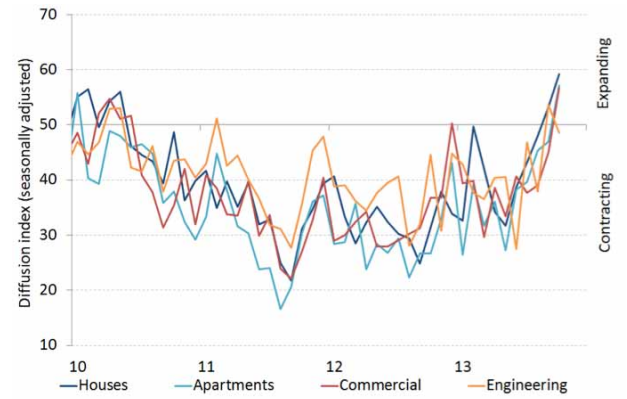
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) in the **Australian PCI**<sup>®</sup> expanded in October, building on the solid improvement recorded in September.
- The new orders sub-index registered 54.3 points in October, a rise of 3.5 points from the previous month.
- This result reflected expansions in new orders in the house building, commercial and apartments sectors with the reading for the apartment sector the highest since August 2006 (which was the start date for the survey's reporting of new orders by sector).
- Consistent with this long-awaited improvement in aggregate demand, deliveries of inputs from suppliers expanded for the first time since mid-2010. The supplier delivery index increasing by 7.6 points in October to 52.0 points.



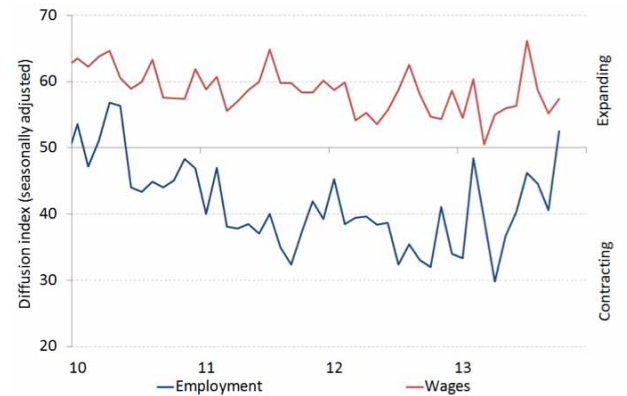
## NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a higher rate in October, with the sub-index rising by 6.0 points in the month to 59.2 points. This continued an improving trend that has been evident since mid-year. It was also the highest reading for the housing new orders sub-index since September 2009 and is further evidence that low interest rates, improvements in rental yields and rising house prices are supporting a lift in housing construction demand.
- In apartment construction, the new orders sub-index rose by a solid 10.0 points to 57.1 points. This was the first increase since January 2010 and was a marked improvement on the recent low point (27.2) recorded just five months ago in May.
- For the commercial construction sector, new orders also showed a marked increase, rising by 11.7 points to 56.7 points in October. This was the first increase recorded this year and reflects the improvement (albeit moderate) in building approvals seen earlier in 2013.
- In the engineering construction sector, the new orders sub-index fell by 5.1 points to 48.5 points. This signals a weakening in the forward pipeline, with some respondents attributing the reduction in new work during the month to project deferrals and cancellations.



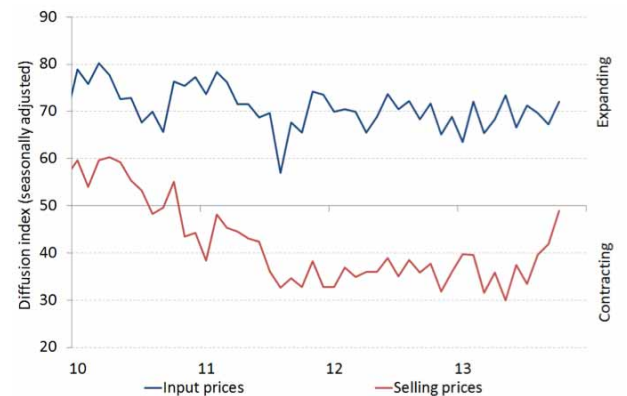
## EMPLOYMENT AND WAGES

- Employment increased in October, ending a protracted decline in workforce numbers which had extended over 40 consecutive months from mid-2010.
- The employment sub-index registered 52.5 points in October, an increase of 11.9 points from the previous month.
- Those businesses that raised employment indicated that this was largely reflecting their increased workloads and an expectation of sustained improvement in demand from here.
- Growth in wages continued in October and at a slightly higher rate than in the previous month, with the wages sub-index increasing by 2.2 points to 57.4 points.



## INPUT COSTS AND SELLING PRICES

- Input price inflation picked up in October. The input costs sub-index increased by 4.8 points in the month to 72.1 points.
- Reflecting the intensely competitive local construction market environment, selling prices declined for the 36<sup>th</sup> consecutive month.
- Despite the continued decline in selling prices, the rate of contraction was slower in the month, with the prices sub-index rising by 7.0 points to 48.9 points.
- These results continue to highlight the persistent pressures on profit margins, amid rising cost burdens and a strongly competitive pricing environment.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PCI</b> <sup>®</sup>	<b>54.4</b>	<b>+6.8</b>	<b>41.4</b>	<b>New Orders</b>	<b>54.3</b>	<b>+3.5</b>	<b>40.7</b>
<b>Activity</b>	<b>57.3</b>	<b>+5.4</b>	<b>42.1</b>	<b>Employment</b>	<b>52.5</b>	<b>+11.9</b>	<b>40.6</b>
Houses	65.3	+3.8	45.5	<b>Deliveries</b>	<b>52.0</b>	<b>+7.6</b>	<b>42.4</b>
Apartments	66.2	+8.5	42.8	<b>Input Prices</b>	<b>72.1</b>	<b>+4.8</b>	<b>68.6</b>
Commercial	52.6	+8.9	38.9	<b>Selling Prices</b>	<b>48.9</b>	<b>+7.0</b>	<b>37.2</b>
Engineering	52.7	+3.7	41.6	<b>Wages</b>	<b>57.4</b>	<b>+2.2</b>	<b>56.9</b>
				<b>Capacity Utilisation (%)</b>	<b>70.8</b>	<b>+3.2</b>	<b>66.1</b>

**What is the Australian PCI?** Performance of Construction Index (**Australian PCI**<sup>®</sup>) in conjunction with the Housing Industry Association is a seasonally adjusted national composite index based on the diffusion indexes for activity, orders/new business, deliveries and employment with varying weights. An **Australian PCI**<sup>®</sup> reading above 50 points indicates construction activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/economics>.

For further information on international PCI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>.

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