AUSTRALIAN PCI

PERFORMANCE OF CONSTRUCTION INDEX®

AUSTRALIAN INDUSTRY GROUP

CONTACT

Peter Burn
Director – Public Policy
Ai Group
Tel 02 9466 5503

Shane Garrett
Senior Economist
HIA
Tel 0416 633261

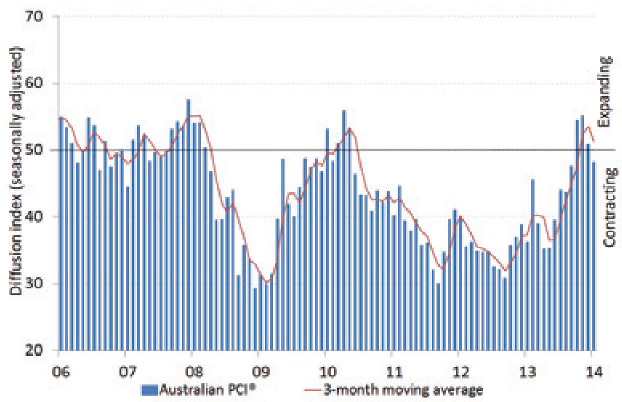
January 2014

CONSTRUCTION OPENS YEAR ON WEAKER FOOTING

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
Jan 2014: **48.2**↓	Dec 2013: **62.1**↓	Dec 2013: **53.7**↑	Dec 2013: **58.3**↓

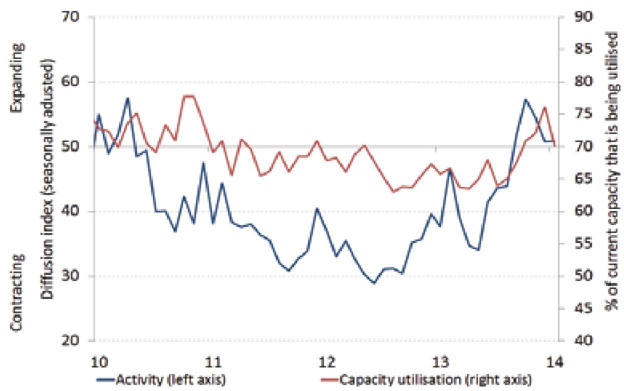
KEY FINDINGS

- The national construction industry has started 2014 on a weaker footing, contracting slightly in January following three consecutive months of growth.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** declined by 2.6 points to 48.2 in January, placing it below the critical 50 points level that separates expansion from contraction.
- This softer result was driven by a renewed decline in new orders which contributed to a steeper fall in employment and a continued reduction in deliveries from suppliers. The overall level of industry activity expanded, although the rate of increase was marginal and broadly unchanged from the previous month.
- There were mixed performances across the major industry sectors. House building remained the strongest performing sector, although its expansion moderated to its slowest pace in the past five months. Activity in both the apartment and commercial construction sectors declined after growth over the previous four and three months respectively. In contrast, engineering construction expanded, recovering from a contraction in activity at the end of 2013.
- Respondents said that easing demand conditions, tight credit conditions and a lack of public sector tenders had largely contributed to the decline in new orders in January. House builders pointed to customer enquiries and buyer confidence holding up reasonably well in January, despite some slowing in new orders. Investor interest in the housing market was also said to have remained solid in the month.



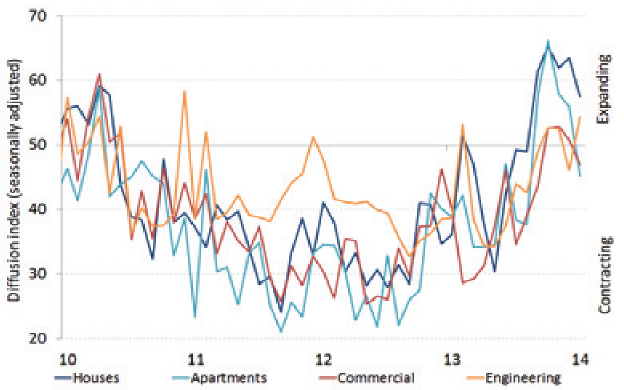
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index registered 50.8 points in January (seasonally adjusted), signalling that the rate of expansion in industry activity was marginal.
- This was broadly unchanged from the previous month, at just 0.1 points above the level in December.
- Underlying this result were expansions in both house building and engineering construction activity which slightly outweighed declines recorded in the apartment and commercial construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) fell from 76.1% in December 2013 to 70.2%, the lowest rate in four months.



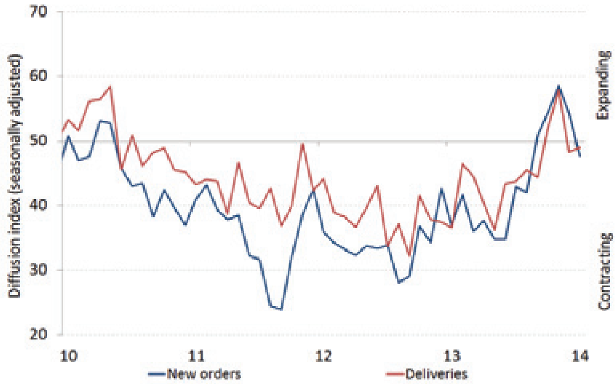
ACTIVITY BY SECTOR

- House building conditions continued to expand in line with the growth seen in new orders over the past five months. However, the sector's rate of expansion was slower with the activity sub-index decreasing by 6.0 points to 57.5 points in January. This is consistent with a moderation in the rate of growth in new orders over the past two months and the dip in approvals in December.
- Apartment building activity contracted, following four consecutive months of growth. The sector's sub-index fell markedly by 10.8 points to 45.2 points in January, signalling the strongest monthly contraction in activity since August 2013.
- Commercial construction activity also contracted in January. The sector's sub-index declined by 3.8 points in January to 47.0 points, after recording modest growth over the previous three months. Respondents noted a shortage of new work in January and weaker workloads across most major commercial project categories.
- The engineering construction sector returned to growth in January with its activity sub-index rising by 8.2 points to 54.3 points. This was the strongest reading in this sub-index in three years, with the gains in January more than offsetting the drop in activity of the previous month.



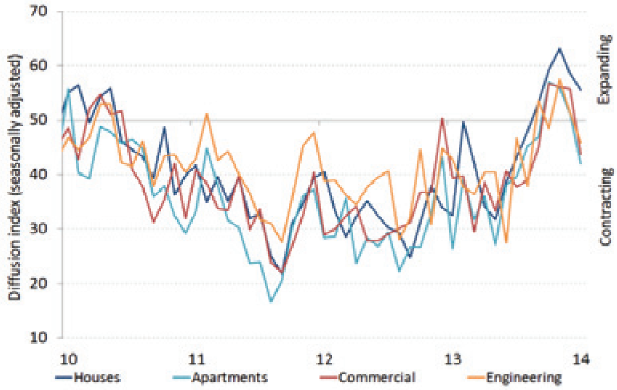
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in January for the first time in five months.
- The new orders index registered 47.7 points in January, down by 6.6 points from December's index reading.
- This result reflected contractions in new orders in the engineering, apartment and commercial construction sectors, combined with a slower uptake of new work in the house building sector.
- Consistent with the weakening in aggregate demand, deliveries of inputs from suppliers declined for a second consecutive month with the supplier delivery index registering 49.0 points in January. Although this was only slightly higher (up 0.7 points) than December's reading, it was well down (8.9 points) on the 3½ year high level of November.



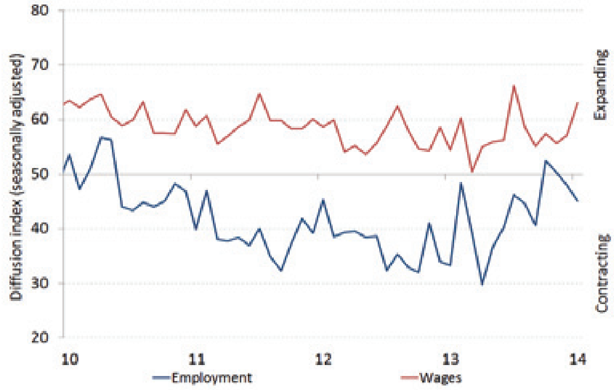
NEW ORDERS BY SECTOR

- New orders in the house building sector continued to increase in January, albeit at a slower rate. The sub-index fell by 3.1 points in the month to 55.5 points. This marks the fifth consecutive month of growth and indicates that housing demand is continuing to expand.
- In commercial construction, new orders showed renewed weakness with the sub-index falling by a marked 12.0 points to 43.8 points. This was the most subdued reading in five months and follows encouraging growth results over the final quarter of last year.
- For the apartment construction sector, new orders also turned negative, falling by 9.4 points to 41.9 points. This indicated the sharpest rate of decline in six months.
- In the engineering construction sector, the new orders sub-index fell by 5.4 points to 46.0 points after two consecutive months of growth. This indicates a weakening in the forward project pipeline consistent with reports of a diminishing inflow of mining related work.



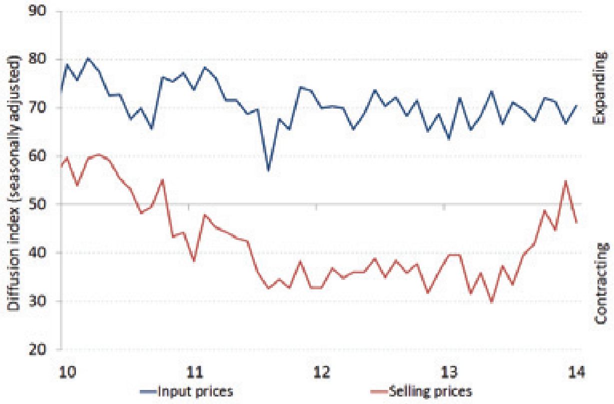
EMPLOYMENT AND WAGES

- Employment contracted for a second consecutive month in January.
- The employment sub-index registered 45.1 in January, a decrease of 3.0 points from December 2013.
- A weaker level of incoming business and efforts to contain costs were the main factors cited by businesses in relation to this further decline in employment.
- Growth in wages continued in January, and at a higher rate than in the previous month, with the wages sub-index increasing by 5.9 points to 63.0 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation picked up in January with the input costs sub-index increasing by 3.8 points in the month to 70.5 points.
- Selling prices contracted in January after expanding in the previous month for the first time in just over three years.
- In January, the selling prices sub-index decreased by 8.5 points to 46.4.
- These results highlight the ongoing pressures on the 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
Australian PCI®	**48.2**	**-2.6**	**44.9**	**New Orders**	47.7	-6.6	44.6
Activity	50.8	+0.1	45.7	**Employment**	45.1	-3.0	43.5
Houses	57.5	-6.0	51.4	**Deliveries**	49.0	+0.7	46.0
Apartments	45.2	-10.8	45.9	**Input Prices**	70.5	+3.8	69.6
Commercial	47.0	-3.8	41.1	**Selling Prices**	46.4	-8.5	40.4
Engineering	54.3	+8.2	44.9	**Wages**	63.0	+5.9	57.6
				Capacity Utilisation (%)	70.2	-5.9	67.7

What is the Australian PCI®? The Performance of Construction Index (**Australian PCI®**) 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®** 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.