

CONSTRUCTION ACTIVITY FALLS, ORDERS WEAKEN

Australian PCI®
Feb 2014: **44.2↓**

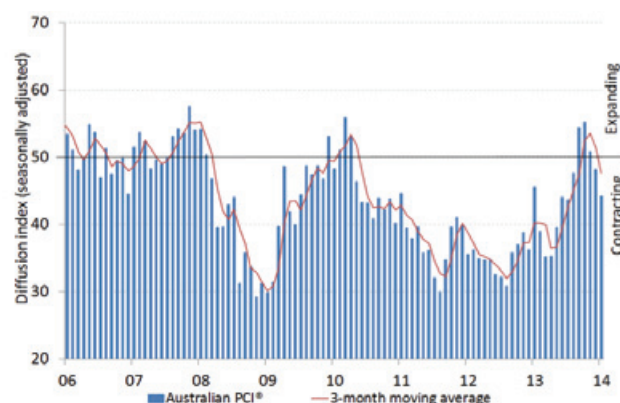
UK PCI
Jan 2014: **64.6↑**

Germany PCI
Jan 2014: **52.5↓**

Ireland PCI
Jan 2014: **56.4↓**

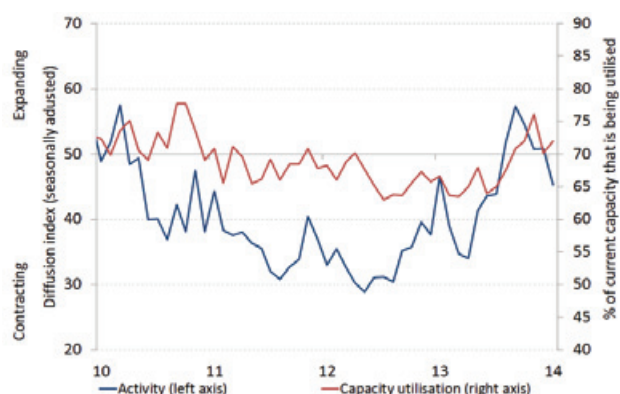
KEY FINDINGS

- The national construction industry contracted at a steeper rate in February as activity returned to negative territory for the first time in five months, after a sharper fall in new orders. Reflecting this deterioration, both employment and deliveries from suppliers continued to decline.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 4.0 points to 44.2 points in February. This was below the critical 50 points level that separates expansion from contraction and signalled the industry's weakest performance in six months.
- Across the construction sub-sectors, house building activity showed continued growth in February, although its rate of expansion moderated to the slowest pace in the past six months. A return to growth was evident in commercial construction, which helped to soften the overall decline in construction activity. This sector's rate of expansion picked up to its fastest rate in almost four years. Weighing heavily on the headline **Australian PCI®** however, engineering construction activity turned down sharply in February, to be at its most subdued level in the past eight months. Apartment construction also contracted for a second consecutive month, albeit at a slightly slower pace than in January.
- This latest set-back in industry conditions coincided with reports of fewer new contracts and project completions, most notably in the engineering construction sector. Tight credit conditions and a lack of public sector tenders were other major factors generally cited as inhibiting activity. House builders pointed to a reduction in new orders and fewer customer inquiries, although investor activity was seen as remaining resilient in the house building sector.



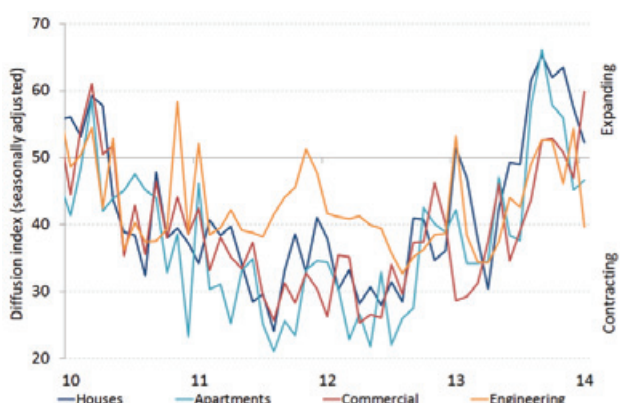
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index for the **Australian PCI®** registered 45.3 points in February (seasonally adjusted).
- This was 5.5 points below the level of the previous month, signalling a contraction in total industry activity for the first time since August 2013.
- Underlying this result was a further decline in new orders in February, driven by lower levels of incoming business in the engineering construction, house building and apartment sectors.
- The rate of capacity utilisation (not seasonally adjusted) rose slightly from the four month low level of 70.2% in January to 72.0% of industry capacity being utilised in February.



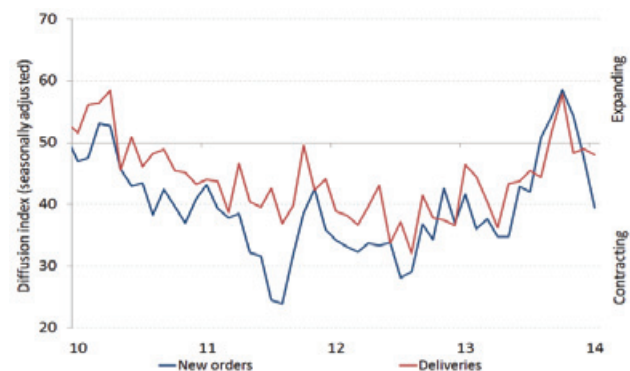
ACTIVITY BY SECTOR

- The house building sub-index continued to indicate expansion in February, in line with the growth seen in new orders over the preceding five months. However, this sector's rate of expansion moderated for a second consecutive month, with the activity sub-index decreasing by 5.3 points to 52.2 points in February. This is consistent with the slower rate of growth in new orders seen in December 2013 and January 2014.
- The apartment building activity sub-index indicated contraction for a second consecutive month. However, the rate of decline moderated slightly, with the sector's sub-index rising by 1.4 points to 46.6 points in February.
- The commercial construction sector returned to growth in February, with its sub-index rising by 12.9 points to 59.9 points. This was the strongest reading for this sub-sector since April 2010, with the gains in February far exceeding the drop in this index in the previous month. Respondents pointed to a lift in commercial building commencements, although it was noted that conditions remain mixed across the major commercial building categories.
- The engineering construction sector exhibited a marked deterioration in February, with its activity sub-index falling by 14.6 points to 39.7 points. This was the weakest reading in eight months. Survey respondents noted that mining-related projects are coming to completion and more projects are being deferred, which is reducing engineering construction activity.



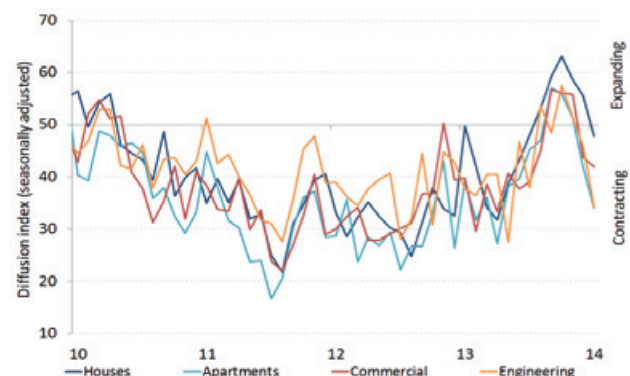
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in February for a second consecutive month.
- The new orders index registered 39.5 points in February, down by 8.2 points from January. This was the lowest reading for this index since June 2013.
- This result reflected contractions in new orders across all sectors, but was especially evident in the engineering construction sector. Both the apartment and house building sectors also recorded notable falls in new orders in the month.
- Consistent with the deterioration in aggregate demand, deliveries of inputs from suppliers declined for a third consecutive month, with the supplier delivery index registering 48.0 points in February. This was slightly (1.0 point) below January's reading and was well down (9.9 points) on the 3½ year high level of three months ago.



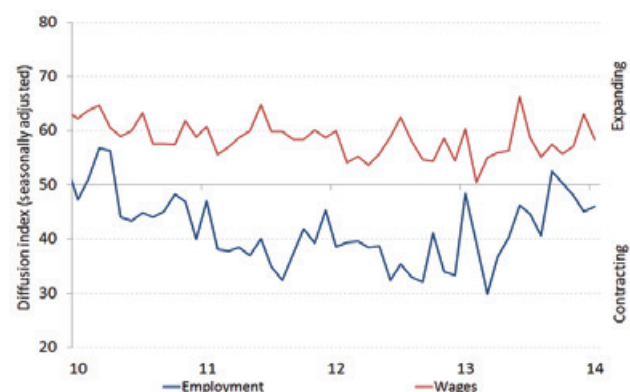
NEW ORDERS BY SECTOR

- New orders in the house building sector showed renewed weakness in February with the sub-index falling by 7.7 points in the month to 47.8 points. This was the lowest reading since July 2013 and follows five consecutive months of growth in new orders.
- In apartment building, new orders also turned negative in February, with the sub-index falling by 7.8 points to 34.1 points. This indicated the sharpest rate of decline in nine months.
- For the commercial construction sector, new orders recorded a second consecutive month of contraction, falling by 1.9 points to 41.9 points. This follows growth in new orders during the final three months of 2013, which appears to have flowed through to support the current upturn in activity within the sector.
- In the engineering construction sector, the new orders sub-index fell by 11.8 points to 34.2 points, the second consecutive month of contraction. This indicates a further weakening in the forward project pipeline, consistent with reports of a diminishing inflow of mining related work.



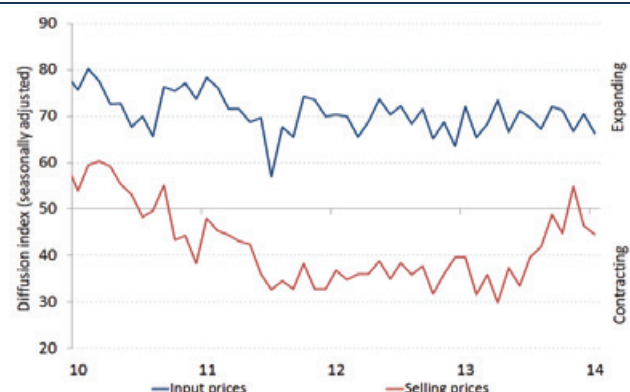
EMPLOYMENT AND WAGES

- Employment contracted for a third consecutive month in February, albeit at a slightly slower pace than in January.
- The employment sub-index registered 46.0 points in February, an increase of 0.9 points from January.
- Lower levels of incoming business and continued efforts to contain costs were the main factors cited by respondents in explaining the further decline in employment.
- Growth in wages continued in February, although at a slower rate than in the previous month, with the wages sub-index decreasing by 4.6 points to 58.4 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation moderated in February, with the input costs sub-index falling by 4.1 points in the month to 66.4 points.
- Reflecting the highly competitive market environment, selling prices contracted at a steeper rate in February. The selling prices sub-index decreased by 1.8 points to 44.6 points, the sharpest rate of decline in the past five months.
- The ongoing gap between these two sub-indices highlights the continued pressures on the profit margins of construction businesses, amid a strongly competitive pricing environment and continued growth in costs.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PCI®	44.2	-4.0	44.8	New Orders	39.5	-8.2	44.4
Activity	45.3	-5.5	45.6	Employment	46.0	+0.9	43.3
Houses	52.2	-5.3	51.5	Deliveries	48.0	-1.0	46.1
Apartments	46.6	+1.4	46.3	Input Prices	66.4	-4.1	69.1
Commercial	59.9	+12.9	43.7	Selling Prices	44.6	-1.8	40.8
Engineering	39.7	-14.6	43.8	Wages	58.4	-4.6	57.5
				Capacity Utilisation (%)	72.0	+1.8	68.2

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>.

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