

CONSTRUCTION DECLINE SLOWS IN MARCH

Australian PCI®
Mar 2014: **46.2**↑

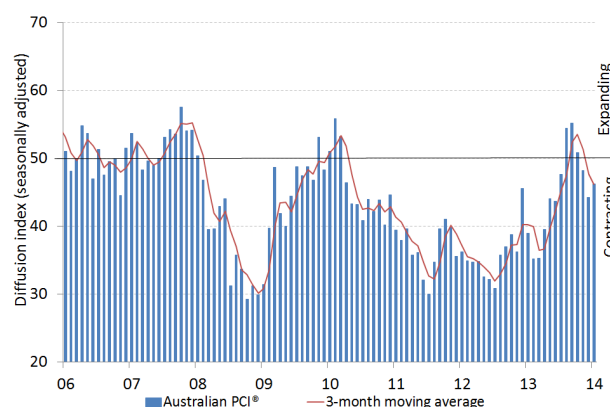
UK PCI
Feb 2014: **62.6**↓

Germany PCI
Feb 2014: **53.6**↑

Ireland PCI
Feb 2014: **56.2**↓

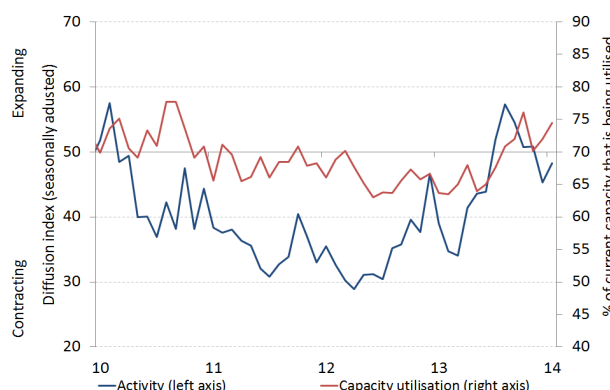
KEY FINDINGS

- The national construction industry continued to decline in March with the seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®) registering 46.2 points in the month (readings below 50 points indicate contraction). This was an increase of 2.0 points from February, indicating a milder rate of contraction.
- It is the third consecutive month that the Australian PCI® has been below the critical 50 points level that separates expansion from contraction, following the industry's return to growth in the final quarter of 2013.
- The rate of contraction in the Australian PCI® moderated in March due to slower declines in both new orders and activity.
- By sector, commercial construction expanded for a second consecutive month, albeit at a slower pace than in February. House building activity stabilised, with the sector's rate of growth only marginal and the slowest in seven months. In contrast, further contraction was evident in engineering construction (although at a less pronounced rate) and apartment building activity.
- Respondents pointed to a continuation of tough market conditions, citing a low level of incoming work to replace existing contracts, a lack of new tender opportunities and slow public sector building activity. Among engineering construction businesses, project completions and a reduction in mining related construction activity were noted as the major factors inhibiting activity. House builders pointed to some moderation in new orders compared to earlier in the year, although investor activity remains robust.



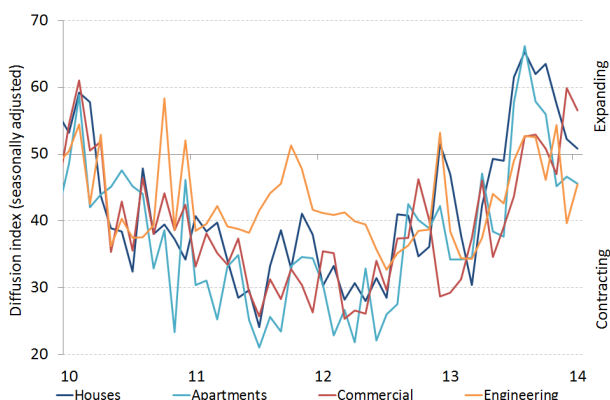
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index registered 48.3 points in March (seasonally adjusted).
- This was 3.0 points above the level of the previous month, signalling a slower pace of contraction in total industry activity.
- Underlying this result was a moderation in the rate of decline in new orders (see below). An improvement in new orders was mainly evident in the engineering, apartments and commercial construction sectors.
- Consistent with this, the rate of capacity utilisation (not seasonally adjusted) rose to 74.5% of capacity being utilised in March from 72.0% in February. This was the highest rate of capacity utilisation seen over the past three months.



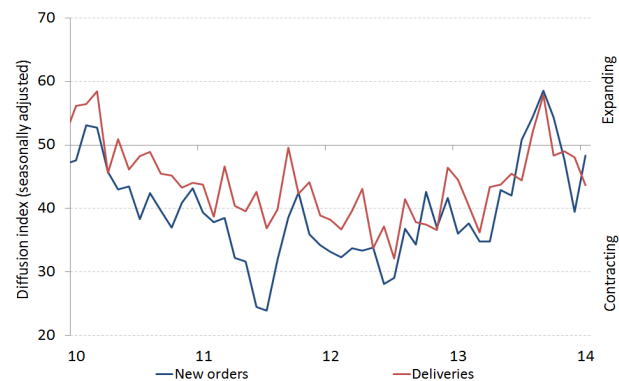
ACTIVITY BY SECTOR

- The house building sub-index indicated a stabilisation of activity in March. The sector's activity sub-index fell by 1.4 points to 50.8 points, only marginally above the 50 point 'no change' level. This was the third consecutive month of moderating growth, consistent with weaker new orders since December 2013. It was also the lowest activity reading for the house building sector in seven months.
- Apartment building activity contracted for a third consecutive month and at a slightly steeper rate, with the sector's sub-index declining by 1.0 point to 45.6 points in March.
- The commercial construction sector maintained growth for a second consecutive month. However, its rate of expansion moderated, with the sector's activity sub-index declining by 3.4 points to 56.5 points. Respondents noted various key projects in the early stages of commencement which bodes well for activity in the next few months, although conditions are still patchy across the major commercial building categories.
- The engineering construction sector continued to contract in March, albeit at a slower rate, with its activity sub-index rising by 5.8 points to 45.5 points. This partially recovered the marked drop in activity in February and was consistent with a recent improvement in new orders. Nevertheless, a number of survey respondents continued to note the negative influences from a reduction in mining and related construction activity.



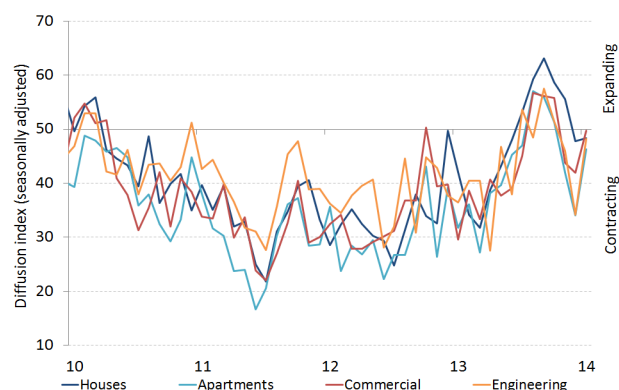
NEW ORDERS AND DELIVERIES

- The new orders sub-index increased by 8.8 points in March to 48.3 points, signalling the slowest rate of decline so far in 2014. This was however, a third consecutive month of decline in this key sub-index.
- While new orders remained in negative territory across construction as a whole, all sub-sectors recorded less severe contractions in March, relative to the previous month. The slower rate of decline in new orders was particularly evident in engineering construction and apartment building, after both sectors had experienced a strong deterioration in new orders in February.
- Reflecting the mild contraction in new orders and activity, deliveries from suppliers declined for a fourth consecutive month, with the supplier delivery index registering 43.7 points in March. This was 4.3 points below February and well down (14.7 points) from the 3½ year high of December.



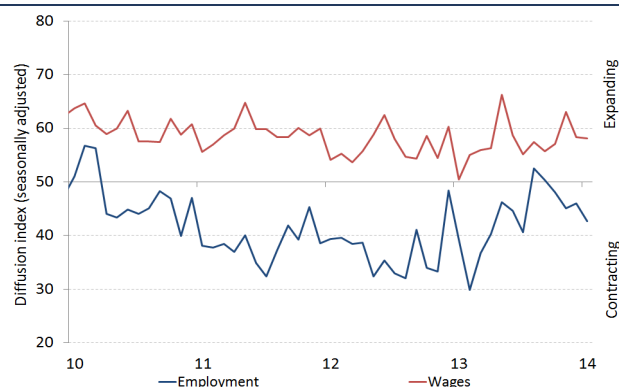
NEW ORDERS BY SECTOR

- New orders in the house building sector contracted for a second consecutive month in March, albeit at a slightly slower rate, with the sub-index rising by 0.6 points to 48.4 points.
- In apartment building, new orders also remained in negative territory in March, with the sub-index registering 46.3 points. However, this was a solid 12.2 points increase on the reading for February, pointing to the likelihood of a near term improvement in activity within the sector.
- For the commercial construction sector, new orders moved close to stabilisation. After the loss of new orders during the first two months of this year, the sector's new orders sub-index rose by a solid 7.8 points to 49.7 points in March. Participants from this sector reported an improvement in forthcoming building commencements.
- In the engineering construction sector, the new orders sub-index increased by 14.0 points to 48.2 points. This is a solid improvement on the eight-month low recorded in February, but at less than 50 points, it still indicates that additions to the project pipeline are lagging behind completions.



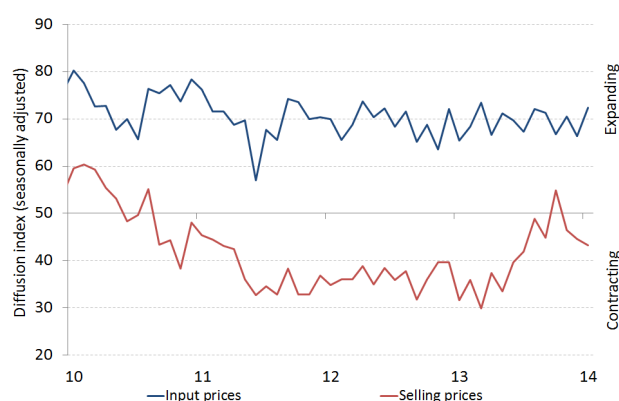
EMPLOYMENT AND WAGES

- Employment contracted for a fourth consecutive month in March, and at steeper rate than in February.
- The employment sub-index registered 42.7 points in March, a decrease of 3.3 points from February.
- This was the sharpest rate of contraction in the employment sub-index in four months, reflecting a difficult market environment and continued efforts by construction companies to contain costs.
- Growth in wages continued in March at a broadly unchanged rate, with the wages sub-index decreasing by just 0.3 points to 58.1 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation picked up in March, with the input costs sub-index rising by 6.0 points to 72.4 points.
- Reflecting the highly competitive market environment, selling prices contracted at a steeper rate in March. The selling prices sub-index decreased by 1.4 points to 43.2 points, the sharpest rate of decline in the past six months.
- The ongoing gap between these two sub-indexes highlights the continuing 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®	46.2	+2.0	45.4	New Orders	48.3	+8.8	45.5
Activity	48.3	+3.0	46.4	Employment	42.7	-3.3	43.6
Houses	50.8	-1.4	51.8	Deliveries	43.7	-4.3	46.1
Apartments	45.6	-1.0	47.3	Input Prices	72.4	+6.0	69.7
Commercial	56.5	-3.4	46.0	Selling Prices	43.2	-1.4	41.8
Engineering	45.5	+5.8	44.4	Wages	58.1	-0.3	58.1
				Capacity Utilisation (%)	74.5	+2.5	69.2

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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