

RESIDENTIAL UP DESPITE BUILDING DECLINE

Australian PCI®
 Apr 2014: 45.9↓

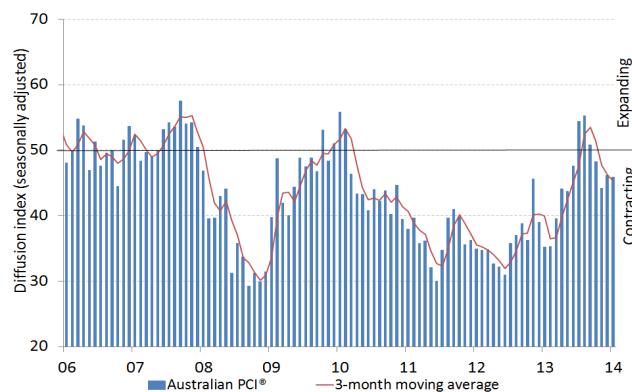
UK PCI
 Mar 2014: 62.5↓

Germany PCI
 Mar 2014: 52.5↓

Ireland PCI
 Mar 2014: 60.2↑

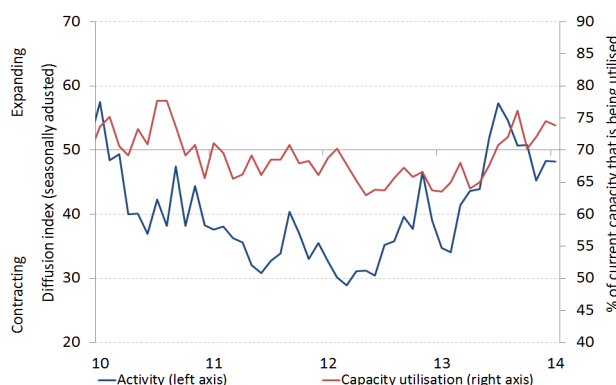
KEY FINDINGS

- The national construction industry continued to decline in April, at a rate of contraction that was broadly unchanged from the previous month.
- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 45.9 points in April, just 0.3 points below the reading in March.
- This is the fourth consecutive month that the **Australian PCI®** has been below the critical 50 point level that separates expansion from contraction, following the industry's return to growth in the final quarter of 2013.
- Most positively this month, house building activity continued to expand with its rate of growth picking up in the month on the back of stronger new orders. A solid upturn in apartment building activity (after three consecutive months of decline) also helped to soften the overall decline in industry activity. Weighing heavily on industry conditions in April however, was a steeper rate of contraction in engineering construction and a decline in commercial construction following the sector's expansion over the previous two months.
- House builders were generally positive this month, reporting a rise in customer enquiries and an improvement in buyer confidence, particularly among investors. Respondents in other sectors however, pointed to continuing tough conditions, with reports of limited investment activity by clients, a lack of public sector tenders and intense competition for the available work. For engineering construction businesses, project completions and a winding down in mining related construction activity were noted as the major factors inhibiting activity.



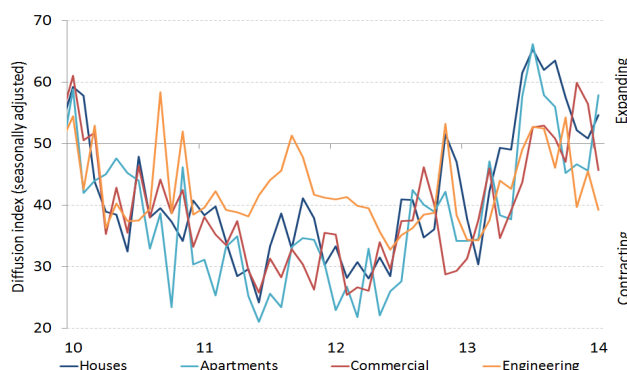
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index registered 48.2 points in April (seasonally adjusted).
- This was 0.1 points below the level of the previous month, signalling a broadly unchanged rate of contraction in total industry activity.
- Underlying this result was a further decline in new orders in April (see below). A reduction in new orders in April was mainly evident in the engineering construction sector where demand has been in decline over the past four months.
- Consistent with this, the rate of capacity utilisation (not seasonally adjusted) edged down to 73.9% of capacity being utilised in April, from 74.5% in March.



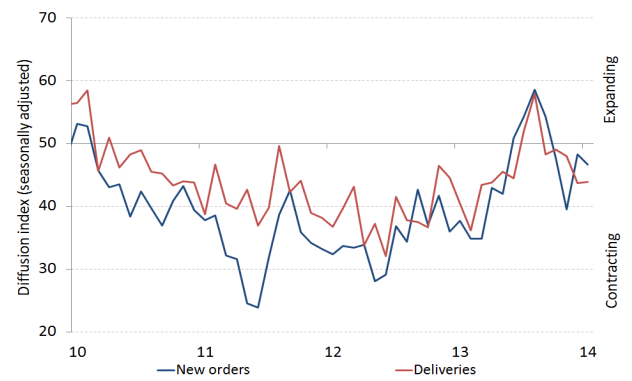
ACTIVITY BY SECTOR

- House building conditions continued to expand and at stronger rate, with the sector's sub-index increasing by 3.8 points to 54.6 points. This was the eighth consecutive month of growth and is consistent with the general increase in new orders (evident also in the ABS' dwelling approvals data) over this period.
- Apartment building activity returned to growth in April, after contracting for three months. The sector's sub-index increased solidly by 12.3 points to 57.9 points in April, the highest rate of increase in five months.
- The commercial construction sector exhibited a marked deterioration in April with its sub-index turning down by 10.8 points to 45.7 points. Respondents noted continuing patchy conditions across the major commercial building categories. The closure of most commercial building sites over the Easter holiday period also detracted from activity.
- The engineering construction sector continued to contract in April, and at a steeper rate, with its activity sub-index falling by 6.3 points to 39.2 points. This was the most subdued activity reading of the major sub-sectors surveyed. Mining related project completions and deferrals were noted by respondents as the main factors reducing engineering activity.



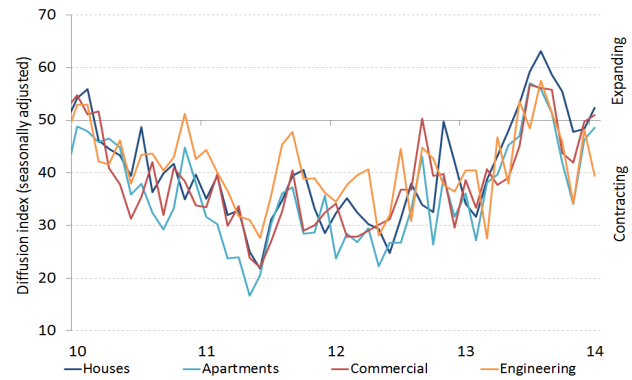
NEW ORDERS AND DELIVERIES

- The new orders sub-index (seasonally adjusted) contracted in April for a fourth consecutive month. It registered 46.6 points in April, down by 1.7 points from March.
- This weaker uptake of new orders was driven by a marked decline in new orders in the engineering construction sector. A fall in new orders was also recorded in the apartment building sector in April.
- Consistent with the deterioration in aggregate demand for construction, deliveries of inputs from suppliers declined for a fifth consecutive month, with the supplier delivery index registering 43.9 points in April. This was just 0.2 points above the index reading for March and well down (14.0 points lower) from the 3½ year high of November 2013.



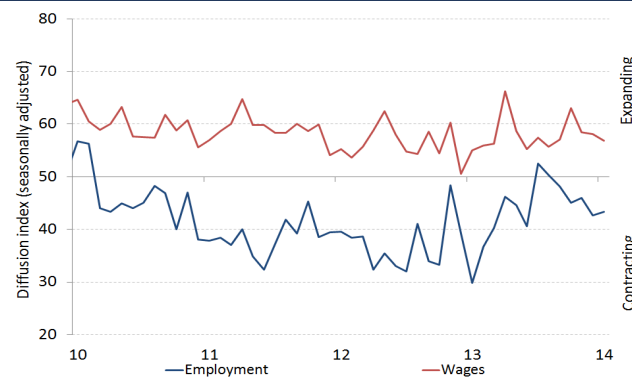
NEW ORDERS BY SECTOR

- New orders in the house building sector picked up in April after two consecutive months of decline, with the sub-index rising by 3.9 points to 52.3 points.
- In apartment building, new orders also remained in negative territory in April with the sub-index registering 48.6 points. However, this was 2.3 points above the reading of the previous month, signalling a further recovery of ground after the marked slowing seen in the rate of decline in new orders in March.
- For the commercial construction sector, new orders returned to growth. After contractions in new orders during the first three months of this year, the sector's new orders sub-index rose by 1.3 points to 51.0 points in April. This result, together with reports of an improvement in forthcoming building commencements, points to the likelihood of firmer commercial construction activity in coming months.
- In the engineering construction sector, the new orders sub-index decreased by 8.8 points to 39.4 points, the fourth consecutive month of contraction. At significantly less than 50 points, this sub-index continues to indicate that additions to the project pipeline are now lagging far behind completions.



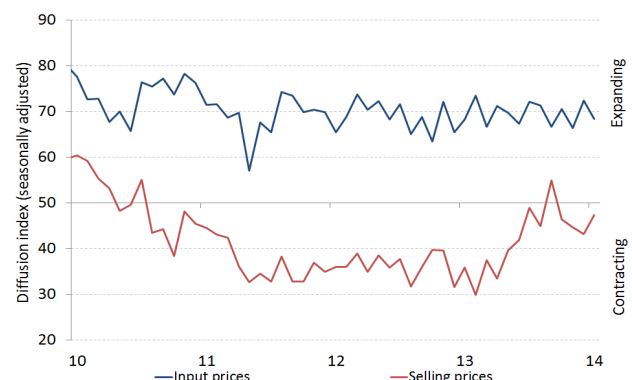
EMPLOYMENT AND WAGES

- Employment contracted for a fifth consecutive month in April, albeit at slightly slower rate than in March.
- The employment sub-index registered 43.3 points in April, an increase of 0.6 points from March.
- This was the fifth consecutive month of decline in employment (readings below 50 points). This trend reflects the weakening in resources and infrastructure project activity as well as continued efforts by construction companies to contain their costs.
- Growth in wages continued to moderate in April, with the wages sub-index decreasing by 1.2 points to 56.9 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation remained elevated in April, although the input costs sub-index fell by 4.0 points to 68.4 points, signalling a moderation in the rate of growth in costs.
- Reflecting the highly competitive market environment, selling prices continued to contract in April (readings below 50 points). The rate of contraction was, however, slower in April than in March, with the selling prices sub-index rising by 4.1 points to 47.3 points.
- The ongoing gap between these two pricing sub-indices highlights the continuing pressures on the profit margins of construction businesses, amid rising cost burdens and a strongly competitive tender pricing environment.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PCI®	45.9	-0.3	46.3	New Orders	46.6	-1.7	46.2
Activity	48.2	-0.1	47.5	Employment	43.3	+0.6	44.7
Houses	54.6	+3.8	51.8	Deliveries	43.9	+0.2	46.3
Apartments	57.9	+12.3	47.3	Input Prices	68.4	-4.0	69.7
Commercial	45.7	-10.8	46.0	Selling Prices	47.3	+4.1	42.7
Engineering	39.2	-6.3	44.4	Wages	56.9	-1.2	58.2
				Capacity Utilisation (%)	73.9	-0.6	69.9

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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