

# RESIDENTIAL SHINES AMID CONSTRUCTION DECLINE

**Australian PCI®**  
 May 2014: 46.7↑

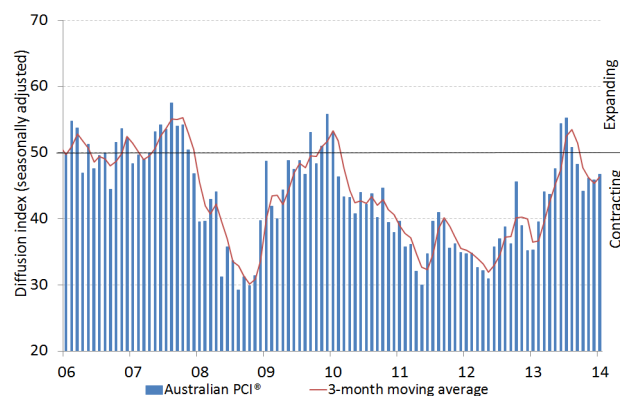
**UK PCI**  
 Apr 2014: 60.8↓

**Germany PCI**  
 Apr 2014: 49.7↓

**Ireland PCI**  
 Apr 2014: 63.5↑

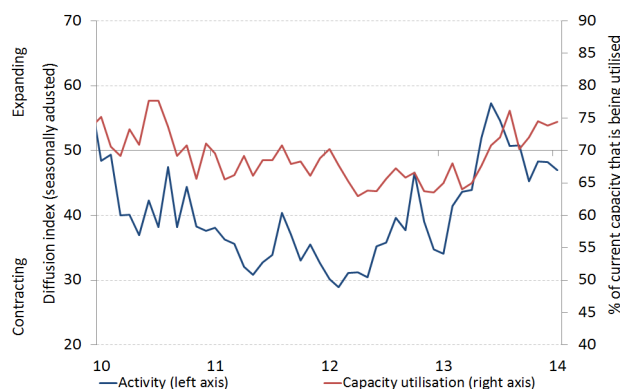
## KEY FINDINGS

- Despite a ninth consecutive month of expansion in house building, the national construction industry has continued to decline. The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®) registered 46.7 points in May (readings below 50 points indicate contraction). This was an increase of 0.8 points from April, signalling a slightly slower rate of decline for the construction industry as a whole.
- The Australian PCI® has now been below the 50 point level that separates expansion from contraction for five consecutive months. The decline in May was the slowest since February.
- The milder decline in the Australian PCI® in May was due to less pronounced reductions in employment and supplier deliveries. However, underlining the continued weakness in overall industry conditions, activity fell more sharply during the month, as did new orders.
- By sector, house building expanded for a ninth consecutive month, and at a rate that was broadly unchanged from April. Apartment building also continued to expand with the sector's rate of growth increasing to its highest in seven months. In contrast, further contraction was evident in engineering construction which fell at a steeper rate. Commercial construction again declined, although conditions in this sector moved closer to stabilisation.
- House builders were generally positive this month, noting that customer enquiries and sales had continued to hold firm. Respondents in the non-residential construction sector attributed this month's weaker activity to a lack of new tendering opportunities, slow public building activity and intense competition for the available work. Engineering construction businesses also noted a further winding back in mining related construction.



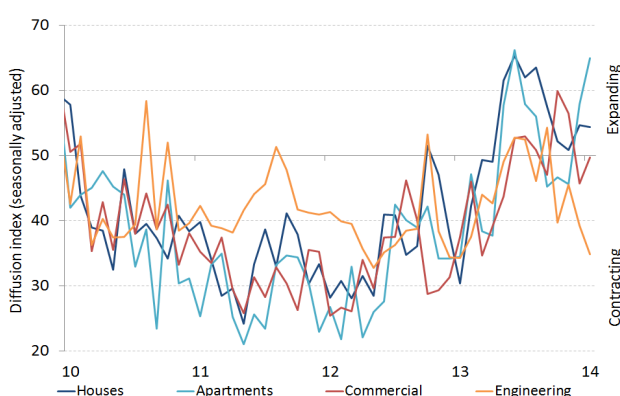
## CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index registered 47.0 points in May (seasonally adjusted). This was 1.2 points below the level of the previous month, signalling a slightly steeper rate of contraction in total industry activity.
- Underlying this result was a further small decline in new orders in May (see below). This reflected a solid fall in new orders in the commercial construction sector and a fifth consecutive month of shrinking demand in engineering construction.
- The rate of capacity utilisation (not seasonally adjusted) edged up to 74.4% of capacity being utilised across the construction industry in May, up from 73.9% in April.



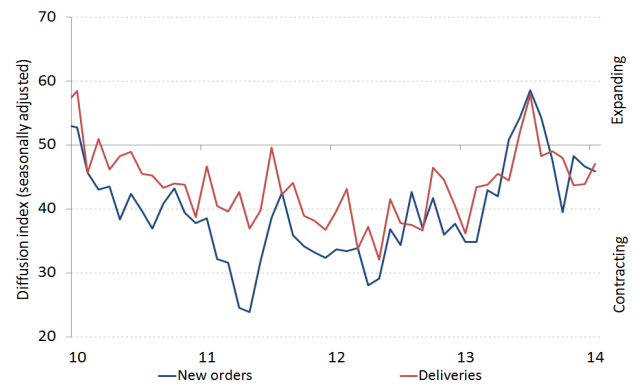
## ACTIVITY BY SECTOR

- House building conditions continued to expand with the sector's sub-index registering 54.4 points in May, just 0.2 points below the index reading for April. It marked the ninth consecutive month of growth, consistent with the general increase in new orders over this period.
- Apartment building activity strengthened further in May. The sector's sub-index increased solidly by 7.0 points to 64.9 points in May, the highest rate of increase in seven months.
- Following a marked reduction in activity in April, the commercial construction sector's sub-index moved very close to stabilisation in May, rising by 4.0 points to 49.7 points. There were some reports of a rise in new project commencements, although conditions were generally reported to be patchy across the major commercial building categories.
- The engineering construction sector continued to contract in May, and at a steeper rate, with its activity sub-index falling by 4.4 points to 34.8 points. This was the lowest activity reading of the major sub-sectors surveyed this month, with mining related project completions and a diminishing inflow of new work noted as the main factors reducing current activity.



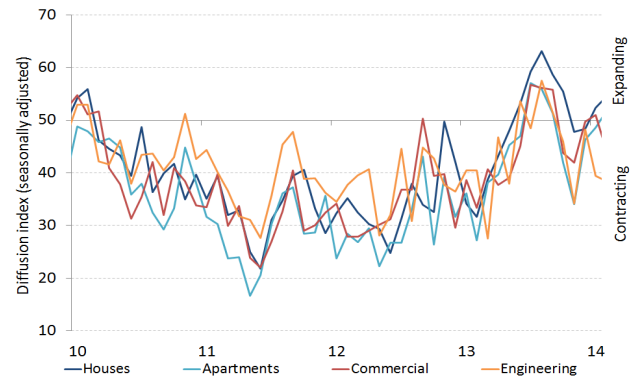
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in May for a fifth consecutive month, with the sub-index registering 45.9 points in May, down by 0.7 points from April's index reading.
- The further weakening in new orders was driven by a marked decline in new orders in the commercial construction sector. However, new orders in engineering construction also declined to be at the most subdued level of all the major sub-sectors.
- Consistent with the softness in aggregate demand, deliveries of inputs from suppliers declined for a sixth consecutive month. The supplier delivery index registered 47.0 points in May, although this was 3.1 points above the index reading for April, signalling a slower rate of decline.



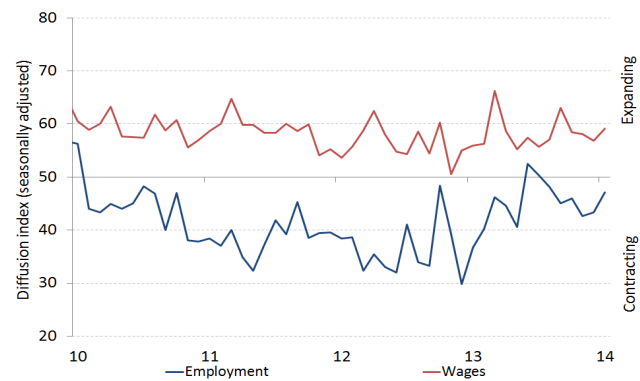
## NEW ORDERS BY SECTOR

- New orders in house building increased at a higher rate in May, with the sub-index rising by 2.2 points to a four-month high of 54.5 points. This bodes well for further growth in house building construction activity in coming months.
- In apartment building, new orders returned to growth after contracting in the previous four months. This sector's new orders sub-index rose by 3.2 points to 51.8 points.
- In commercial construction, the new orders sub-index decreased by 6.9 points to 44.1 points. This was the lowest reading in the past three months.
- In the engineering construction sector, the new orders sub-index decreased by 1.0 point to 38.4 points, the fifth consecutive month of contraction. The downward drift in this sub-index indicates that additions to the project pipeline continue to be outweighed by completions.



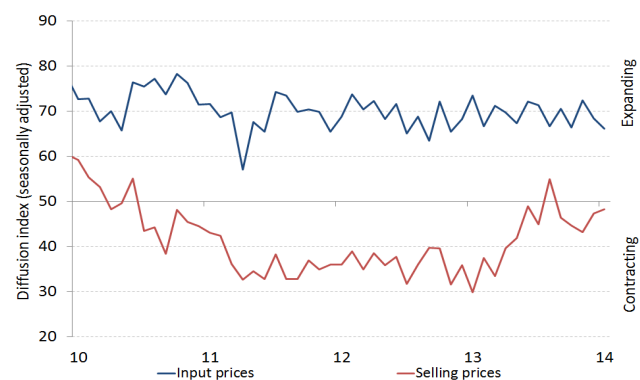
## EMPLOYMENT AND WAGES

- Employment contracted for a sixth consecutive month in May, albeit at a slower rate than in April. The employment sub-index registered 47.1 points in May, an increase of 3.8 points from April.
- A weakening in resources and infrastructure project activity as well as continued efforts by construction companies to contain their costs were the main factors cited behind the continued decline in employment.
- Growth in wages continued in May, and at a higher rate, with the wages sub-index increasing by 2.2 points to 59.1 points. This was the highest reading for this sub-index in four months.



## INPUT COSTS AND SELLING PRICES

- Input price inflation remained elevated in May, although the input costs sub-index fell by 2.3 points to 66.1 points, signalling a moderation in the rate of growth in costs.
- Reflecting the highly competitive market environment, selling prices continued to contract in May. The rate of contraction was, however, slightly slower than in April with the selling prices sub-index rising by 1.0 point to 48.3 points.
- The ongoing gap between these two pricing sub-indexes 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
<b>Australian PCI®</b>	<b>46.7</b>	<b>+0.8</b>	<b>46.3</b>	<b>New Orders</b>	<b>45.9</b>	<b>-0.7</b>	<b>46.2</b>
<b>Activity</b>	<b>47.0</b>	<b>-1.2</b>	<b>47.5</b>	<b>Employment</b>	<b>47.1</b>	<b>+3.8</b>	<b>44.7</b>
Houses	54.4	-0.2	51.8	<b>Deliveries</b>	<b>47.0</b>	<b>+3.1</b>	<b>46.3</b>
Apartments	64.9	+7.0	47.3	<b>Input Prices</b>	<b>66.1</b>	<b>-2.3</b>	<b>69.7</b>
Commercial	49.7	+4.0	46.0	<b>Selling Prices</b>	<b>48.3</b>	<b>+1.0</b>	<b>42.7</b>
Engineering	34.8	-4.4	44.4	<b>Wages</b>	<b>59.1</b>	<b>+2.2</b>	<b>58.2</b>
				<b>Capacity Utilisation (%)</b>	<b>74.4</b>	<b>+0.5</b>	<b>69.9</b>

**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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