

# HOUSE BUILDING DRIVES CONSTRUCTION GROWTH

**Australian PCI®**  
 June 2014: **51.8**↑

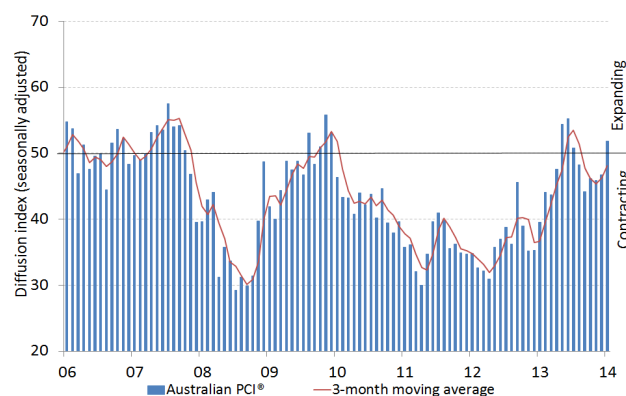
**UK PCI**  
 May 2014: **60.0**↓

**Germany PCI**  
 May 2014: **48.1**↓

**Ireland PCI**  
 May 2014: **60.2**↓

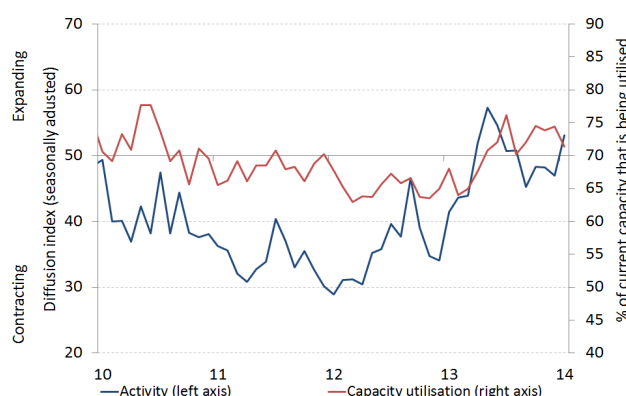
## KEY FINDINGS

- The national construction industry expanded in June for the first time this year. The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 5.1 points to 51.8 points in the month (readings above 50 points indicate expansion). This was the highest reading for the index since November 2013 (55.2 points).
- The upturn in the **Australian PCI®** in June reflected a return to growth in activity, new orders and deliveries from suppliers. However, a further contraction in employment provided evidence that a tough operating environment persisted.
- By sector, June's growth was led by house building which expanded for a tenth consecutive month, and at a rate that was the strongest in five months. Engineering construction also expanded (albeit marginally) following declines in five of the previous six months. In contrast, apartment building activity weakened, falling back into negative territory after solid growth outcomes in the previous two months. Conditions in commercial construction were stable for a second consecutive month.
- House builders were mainly positive, noting that customer enquiries had remained reasonably firm in the month, with some businesses also benefitting from the release of land for new housing developments. However, on a broader industry front, a range of factors continued to weigh on business conditions. This was typified by the wide reporting of a lack of public building activity, tough competition for the available work and soft investment activity by clients.



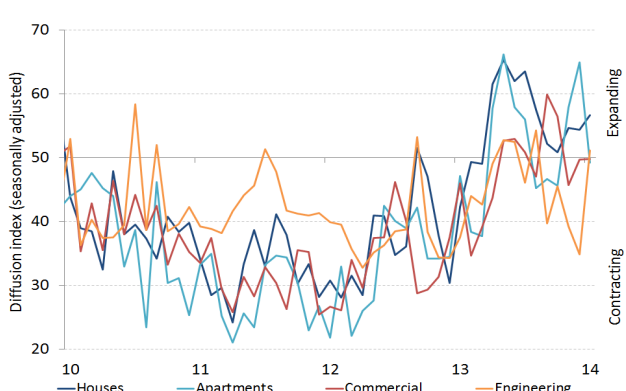
## CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- The activity sub-index registered 53.1 points in June (seasonally adjusted) to be 6.1 points above the level of the previous month. It signalled the first expansion in activity since January's reading of 50.8 points.
- This result reflected a return to growth in new orders in June following five consecutive months of decline (see below) with solid demand in the house building sector leading the overall upturn in new business.
- The rate of capacity utilisation (not seasonally adjusted) was lower at 71.4% of capacity being utilised across the construction industry in June, down from 74.4% in May.



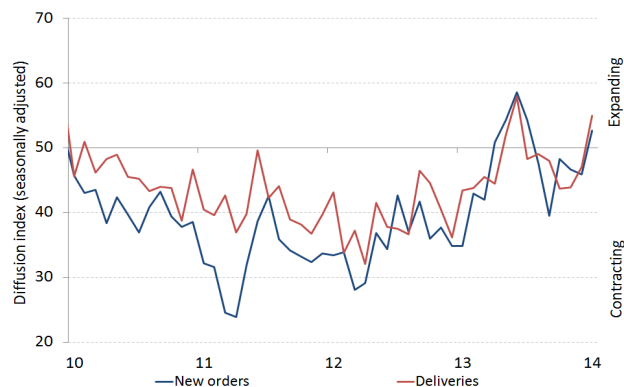
## ACTIVITY BY SECTOR

- House building conditions strengthened further with the sector's sub-index registering 56.6 points in June, 2.2 points above the index reading for May. It marked the tenth consecutive month of growth, consistent with the general increase in new orders over this period.
- Engineering construction experienced a return to growth after four consecutive months of decline. The sector's sub-index increased by a solid 16.3 points to 51.1 points. Respondents mainly attributed this to an improvement in levels of infrastructure work on the east coast. Some businesses also noted that activity had been supported by local government civil building and infrastructure work.
- Apartment building activity turned down in June. The sector's sub-index registered 49.2 points in June, a decline of 15.7 points from the seven-month high level of the previous month.
- The commercial construction sector's sub-index remained close to stable, rising by 0.1 points to 49.8 points in June. Despite an increase in new developments, conditions were generally seen as being patchy across the major commercial building categories.



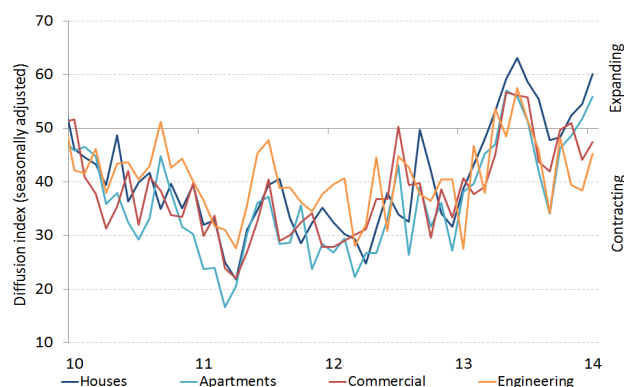
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) expanded for the first time since December 2013. The new orders sub-index registered 52.6 points in June, a rise of 6.7 points from the previous month.
- The result reflected expansions in new orders in apartments and (more significantly) house building, with the reading on new orders for the housing sector the second highest since August 2006 (the start date for the survey's reporting of new orders by sector).
- Consistent with the strengthening in aggregate demand, deliveries of inputs from suppliers expanded for the first time in seven months. The supplier delivery index registered 54.9 points in June, 7.9 points above the index reading for May.



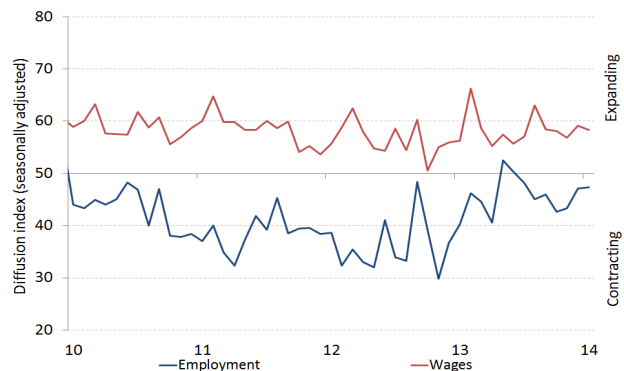
## NEW ORDERS BY SECTOR

- New orders in house building increased at a higher rate in June, with the sub-index rising by 5.6 points to a seven-month high of 60.1 points. This bodes well for continued strength in activity in coming months.
- In apartment building, new orders also expanded, building on the mild growth recorded in May. This sector's new orders sub-index rose by 4.1 points to 55.9 points.
- In commercial construction, the contraction in new orders was less pronounced with the sub-index rising by 3.3 points to 47.4 points, although this sub-50 point index level is still indicative of weak overall investment demand within the sector.
- In the engineering construction sector, the new orders sub-index increased by 6.9 points to 45.3 points. This was the slowest rate of decline in three months and reflects the intake of new infrastructure work by various respondents which has softened the impact of a diminishing pipeline of mining-related projects.



## EMPLOYMENT AND WAGES

- Employment contracted for a seventh consecutive month in June, and at a broadly unchanged rate. The employment sub-index registered 47.4 in June, a rise of just 0.3 points from the previous month.
- This suggests on-going caution in the hiring intentions of businesses despite the overall improvement in industry demand conditions.
- Growth in wages continued in June, although at a slightly slower rate, with the wages sub-index decreasing by 0.8 points to 58.3 points.



## INPUT COSTS AND SELLING PRICES

- Input price inflation picked-up in June. The input costs sub-index increased by 7.6 points to 73.7 points, the highest reading since this level was reached two years ago.
- Selling prices registered marginal growth in June following almost consistent monthly contractions since July 2010. In June, the selling prices sub-index rose by 2.3 points to 50.6 points.
- These results demonstrate that businesses remain under pressure from rising cost burdens, although there were signs of a mild improvement in pricing freedom.



	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>51.8</b>	<b>+5.1</b>	<b>47.2</b>	<b>New Orders</b>	<b>52.6</b>	<b>+6.7</b>	<b>48.6</b>
<b>Activity</b>	<b>53.1</b>	<b>+6.1</b>	<b>49.6</b>	<b>Employment</b>	<b>47.4</b>	<b>+0.3</b>	<b>46.2</b>
Houses	56.6	+2.2	56.4	<b>Deliveries</b>	<b>54.9</b>	<b>+7.9</b>	<b>48.2</b>
Apartments	49.2	-15.7	51.9	<b>Input Prices</b>	<b>73.7</b>	<b>+7.6</b>	<b>69.7</b>
Commercial	49.8	+0.1	48.5	<b>Selling Prices</b>	<b>50.6</b>	<b>+2.3</b>	<b>45.3</b>
Engineering	51.1	+16.3	46.0	<b>Wages</b>	<b>58.3</b>	<b>-0.8</b>	<b>58.7</b>
				<b>Capacity Utilisation (%)</b>	<b>71.4</b>	<b>-3.0</b>	<b>71.0</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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