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July 2014

CONSTRUCTION CONTINUES TO EXPAND IN JULY

Australian PCI®
July 2014: 52.6↑

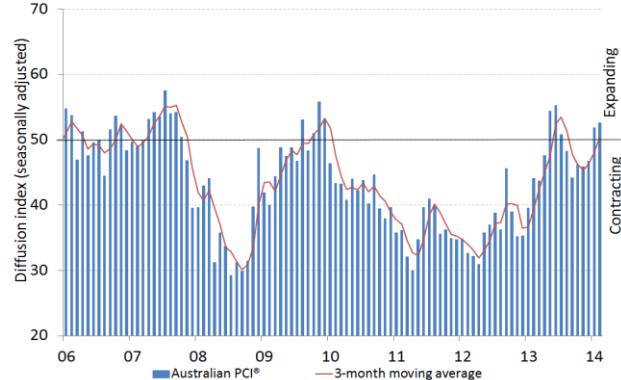
UK PCI
June 2014: 62.6↑

Germany PCI
June 2014: 45.5↓

Ireland PCI
June 2014: 59.9↓

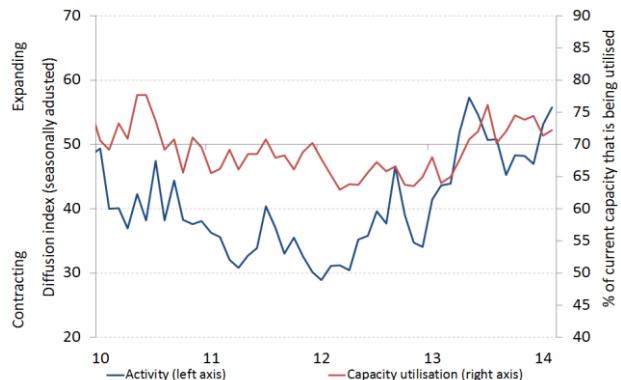
KEY FINDINGS

- The national construction industry continued to grow in July, with the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increasing by 0.8 points to 52.6 points (seasonally adjusted). This was above the critical 50 point level that separates expansion from contraction, signalling industry-wide expansion for a second consecutive month and at a slightly faster pace than in June.
- It was the **Australian PCI®**'s strongest monthly performance since November 2013, when it reached 55.2 points.
- Conditions in July were supported by a welcome strengthening in activity and an upturn in employment, which expanded for the first time in eight months. New orders also continued to grow, although the rate of increase moderated in the month.
- Growth was recorded across three of the four construction industry sectors. Commercial construction recovered strongly (after contracting over the previous three months) to be at its highest level in 6½ years. This is consistent with the recent uplift in non-residential building approvals. The apartment building sector also recorded renewed growth. House building continued to expand, although its rate of growth moderated from the five-month high level reached in the previous month. In contrast, engineering construction returned to negative territory (under 50 points) after expanding in June.
- Businesses reported an improvement in tender opportunities this month, with many securing new work. House and apartment builders indicated relatively solid customer enquiries and sales, despite some easing in the month. However, the operating environment remains tough for many construction businesses with subdued public sector building activity and a decline in mining-related construction activity still being cited as key negative influences on activity.



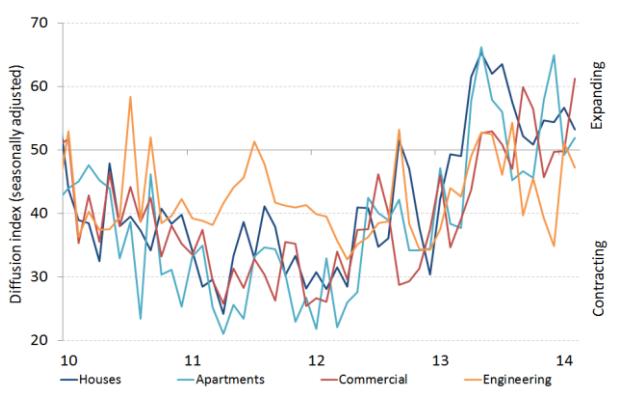
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- In seasonally adjusted terms, the activity sub-index registered 55.8 points in July.
- This was 2.7 points above the reading in June, signalling that growth in total industry activity picked-up in the month. This was the highest level of activity recorded since October 2013's reading of 57.3 points.
- The continued growth in activity was supported by a second consecutive month of expansion in new orders, with growth in incoming business reported in July across three of the four construction industry sectors. This bodes well for a further expansion in activity over the remainder of 2014.
- Consistent with this improvement in activity, the rate of capacity utilisation (not seasonally adjusted) was higher, at 72.2% of capacity being utilised across the construction industry in July, up from the five-month low of 71.4% in June.



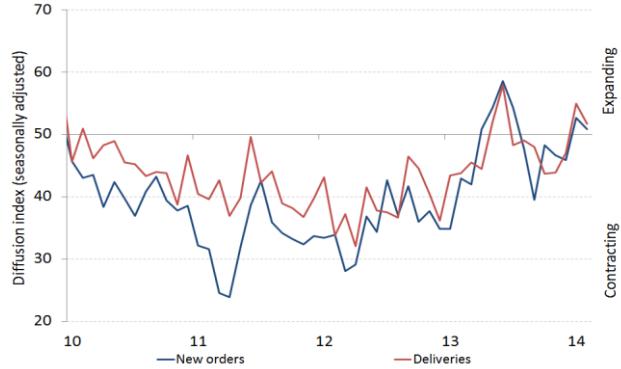
ACTIVITY BY SECTOR

- House building activity continued to expand in line with the general increase in new orders seen over the past 11 months. However, the sector's rate of growth moderated with the activity sub-index declining by 3.4 points to 53.2 points in July.
- Apartment building activity also lifted in July. The sector's activity sub-index registered 51.9 points in July, an increase of 2.7 points from the level recorded in June and the sector's third month of growth in the past four months.
- The commercial construction sector's activity sub-index strengthened, rising by a solid 11.4 points to 61.2 points in July. Respondents pointed to a rise in building commencements, although it was noted that conditions still varied widely across the major building categories and across locations.
- Engineering construction activity contracted in July following a return to growth in the previous month. The sector's activity sub-index decreased by 3.9 points to 47.2 points. Respondents mainly attributed this to a decline in resource-related construction activity and a lack of new work to replace completed projects.



NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) expanded in July, although the rate of growth moderated from the seven-month high of the previous month. The new orders sub-index registered 50.8 points in July, a fall of 1.8 points from June. This result points to the risk of a softening in aggregate activity levels in coming months.
- Although total industry new orders continued to expand (at a slower pace), there was a sharper contraction in new orders in engineering construction in July. Slower rates of increase in incoming business in house and apartment building were also observed in July, which moderated the rate of growth in total industry new orders.
- Consistent with the deceleration in new orders, growth in the deliveries of inputs from suppliers moderated by 3.2 points to 51.7 points, after expanding strongly in June. Indeed, the supplier sub-index reading for June reached a seven-month high.



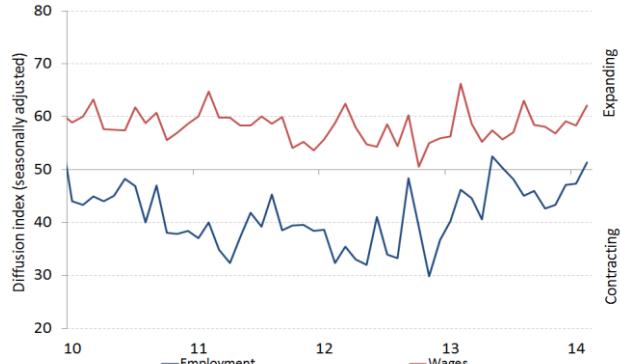
NEW ORDERS BY SECTOR

- New orders in house building expanded at a slower rate in July, with the sub-index falling by 3.3 points to 56.8 points. Nevertheless, this came after reaching a seven month high in June and is still a solid rate of growth. It bodes well for continued strength in house construction activity in coming months.
- In apartment building, the new orders sub-index expanded for a third consecutive month, although the rate of growth moderated with the sub-index falling by 3.3 points to 52.6 points.
- In commercial construction, new orders showed a marked improvement in July, registering growth for only the second time in the past seven months. This sector's new orders sub-index rose by 8.5 points to 55.9 points in July, the highest level for this sub-index since November 2013.
- In the engineering construction sector, the new orders sub-index decreased by 1.2 points to 44.1 points. This indicates a further weakening in the pipeline, consistent with reports of a diminishing inflow of new mining related work.



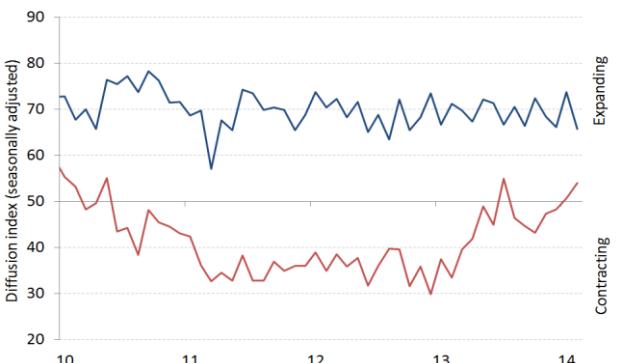
EMPLOYMENT AND WAGES

- Construction employment expanded in July, ending seven consecutive months of contraction in workforce numbers. The employment sub-index registered 51.3 in July, a rise of 3.9 points from the previous month.
- Those businesses that raised employment indicated that this reflected an improvement in workloads flowing from the recent strengthening in activity.
- Growth in wages continued in July, and at a higher rate, with the wages sub-index increasing by 3.8 points to 62.1 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation moderated from the two-year high reached in June. The input costs sub-index decreased by 8.0 points to 65.7 points in July. It remains close to its long term average.
- Selling prices registered growth for a second consecutive month, and at higher rate than in June. The selling prices sub-index rose by 3.4 points to 54.0 points in July.
- These pricing results point to some easing in cost pressures in July (albeit from a high level), and signs of further improvement in pricing flexibility. Nevertheless, the ongoing gap between the sub-indexes for input costs and selling prices indicates that profit margins remain tight for many construction businesses.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PCI®	52.6	+0.8	48.9	New Orders	50.8	-1.8	49.3
Activity	55.8	+2.7	50.6	Employment	51.3	+3.9	46.6
Houses	53.2	-3.4	56.7	Deliveries	51.7	-3.2	48.9
Apartments	51.9	+2.7	53.1	Input Prices	65.7	-8.0	69.2
Commercial	61.2	+11.4	50.7	Selling Prices	54.0	+3.4	47.1
Engineering	47.2	-3.9	46.2	Wages	62.1	+3.8	58.3
				Capacity Utilisation (%)	72.2	+0.8	71.7

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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