PERFORMANCE OF CONSTRUCTION INDEX®

AUSTRALIAN INDUSTRY GROUP

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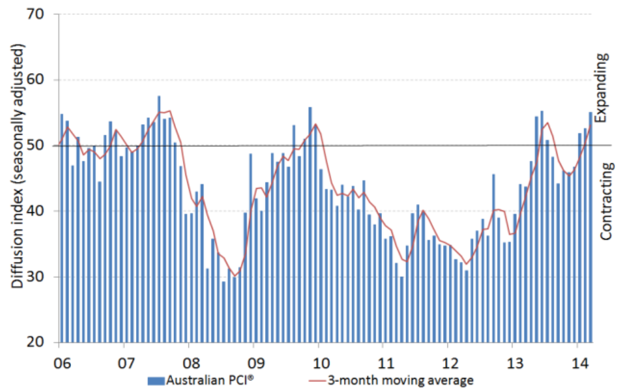
CONSTRUCTION MAINTAINS GROWTH IN AUGUST

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
August 2014: **55.0**↑	July 2014: **62.4**↓	July 2014: **48.2**↑	July 2014: **62.6**↑

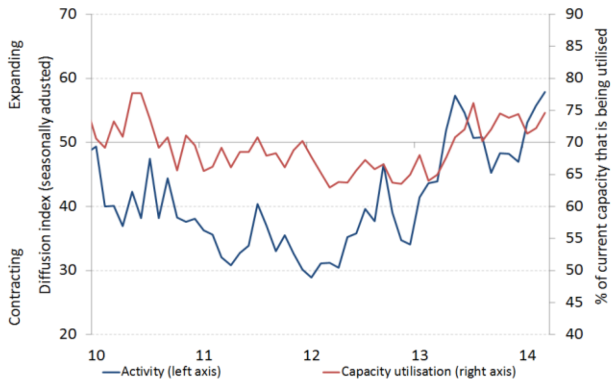
KEY FINDINGS

- The national construction industry maintained its growth momentum in August, expanding for a third consecutive month and at a faster pace than in July. Conditions were boosted by a strengthening in activity (which increased at its highest rate since the GFC) and an upturn in new orders. This led to a second consecutive month of growth in employment.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** increased by 2.4 points to 55.0 points in August.
- This was above the critical 50 points level (that separates expansion from contraction. It also signalled the industry's strongest performance since November last year (55.2) and the second strongest since April 2010 (55.8).
- Growth in activity occurred across most major sectors of the industry. Apartment building was the strongest performing construction sector with its rate of growth lifting solidly in August. House building activity exhibited continued strength rising to its highest level so far in 2014. Commercial construction also maintained growth, although its rate of expansion moderated from the 6½-year high level of the previous month. In contrast, engineering construction activity continued to wind down with activity falling to its weakest level in three months.
- Businesses generally noted that market conditions were improving in response to higher levels of demand. This is reflected in increased tender opportunities and increased success in the securing of contracts. House builders indicated that customer enquiries and buyer confidence were relatively solid in the month, contributing to further rises in new order intakes. Impediments such as a lack of public sector tenders and a decline in mining-related activity were cited as the main constraints on activity.



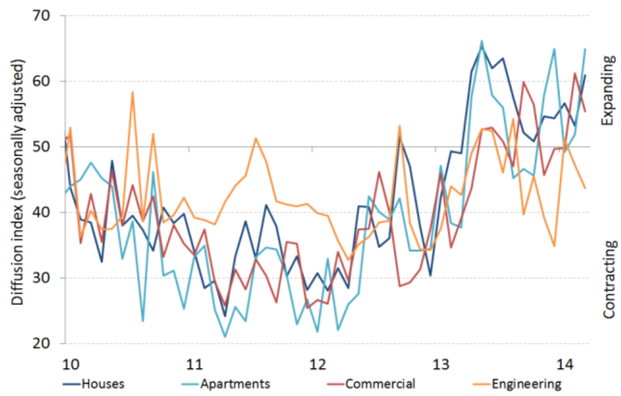
CONSTRUCTION ACTIVITY AND CAPACITY UTILISATION

- In seasonally adjusted terms, the activity sub-index registered 57.9 points in August.
- This was 2.1 points above the reading in July, signalling that the rate of growth in total industry activity continued to pick-up in August. It was also the highest level of activity recorded since December 2007's reading of 58.4 points.
- Underlying this result were stronger expansions in house and apartment building activity. This offset the slower growth in the commercial construction sector and the contraction experienced by respondents engaged in engineering construction activity.
- Consistent with the lift in activity, the rate of capacity utilisation (not seasonally adjusted) was higher at 74.6% of capacity being utilised across the construction industry in August, up from the five-month low of 72.2% in July.



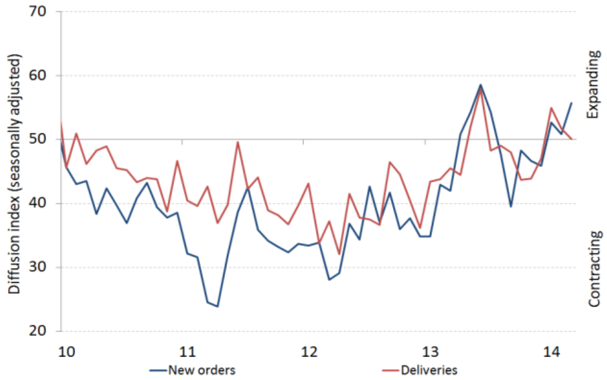
ACTIVITY BY SECTOR

- House building activity continued to expand in line with the general increase in new orders seen over the past 12 months. The sector's rate of growth was also stronger with the activity sub-index increasing by 7.7 points to 60.9 in August, the highest level in eight months.
- Apartment building activity also strengthened. This sector's activity sub-index increased sharply by 13.0 points to 64.9 points in August, regaining the solid level of activity recorded three months earlier in May.
- Commercial construction activity expanded for a second consecutive month in August. However, the sector's rate of growth moderated with its activity sub-index decreasing by 5.8 points to 55.4 points.
- Engineering construction activity contracted further in August with the sector's activity sub-index decreasing by 3.5 points to 43.7 points. Respondents mainly attributed this to a decline in resource-related construction activity and a lack of new work to replace completed projects.



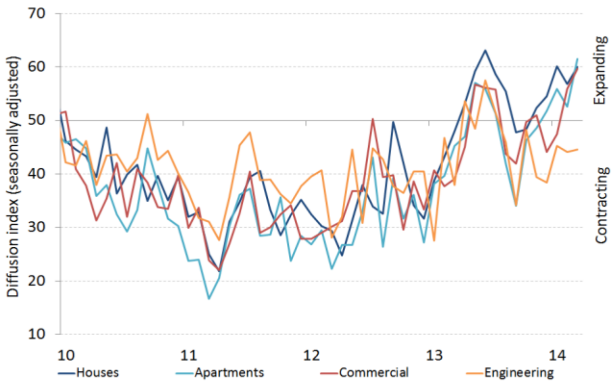
NEW ORDERS AND DELIVERIES

- New orders growth (seasonally adjusted) was stronger in August. The new orders sub-index increased by 4.9 points to register 55.7 points in August, the highest level in nine months. This is a positive sign that the overall expansion in industry activity will be sustained in coming months.
- The pick-up in the level of incoming business during August reflected higher rates of growth in new orders in the house building, apartment and commercial construction sectors. These stronger expansions outweighed the continued contraction in the uptake of new business in the engineering construction sector.
- Deliveries of inputs from suppliers, however, moderated in the month. The supplier delivery index fell by 1.6 points to 50.1 points in August, although this follows a pick-up to a seven-month high level in the previous month.



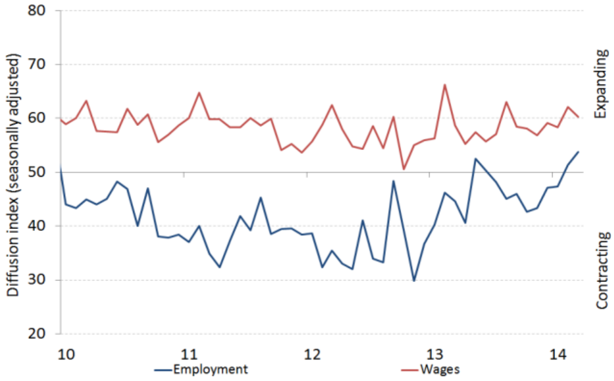
NEW ORDERS BY SECTOR

- New orders in house building expanded at a higher rate in August, with the sub-index rising by 3.2 points to 60.0 points. This was only marginally below the eight-month high reached two months earlier. It bodes well for continued strength in house construction activity in coming months.
- In apartment building, the new orders sub-index expanded for a fourth consecutive month. Moreover, the rate of growth lifted with the sub-index rising by 8.9 points to 61.5 points. This is the highest level (and therefore the strongest rate of expansion) since readings on this series commenced eight years ago in August 2006.
- In commercial construction, new orders showed further improvement in August, registering growth for a second consecutive month. This sector's new orders sub-index rose by 3.8 points to 59.7 points in August, the highest level for this sub-index in seven years.
- In the engineering construction sector, the new orders sub-index remained in negative territory, increasing only slightly by 0.5 points to 44.6 points. This is consistent with a diminishing project pipeline and weaker inflows of mining related construction.



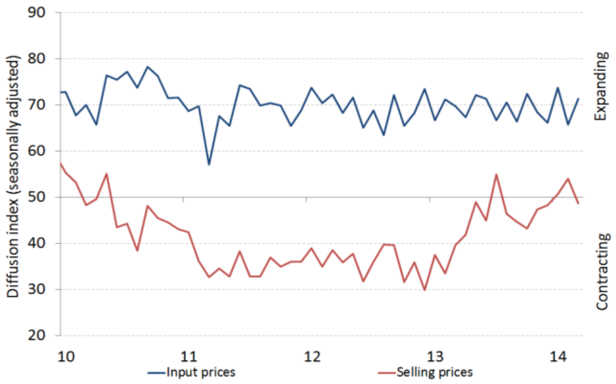
EMPLOYMENT AND WAGES

- Construction employment recorded a second consecutive month of growth in August. The employment sub-index registered 53.7 in August, a rise of 2.4 points from the previous month.
- Those businesses that raised employment indicated that this continued to reflect an improvement in workloads flowing from the recent strengthening in activity.
- Growth in wages continued in August, although at a slower rate, with the wages sub-index decreasing by 1.8 points to 60.3 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation picked-up from the 16-month low of the previous month. The input costs sub-index increased by 5.6 points to 71.3 points in August.
- Selling prices contracted after expanding for two second consecutive months. The selling prices sub-index fell by 5.4 points to 48.6 points in August.
- These pricing results demonstrate that despite an improvement in overall business conditions, pressures on profit margins remain strong amid rising cost burdens and a strongly competitive pricing environment.



	Index this month	Change from last month	12 month average
Australian PCI®	**55.0**	**+2.4**	**49.9**
Activity	57.9	+2.1	51.7
Houses	60.9	+7.7	57.7
Apartments	64.9	+13.0	55.3
Commercial	55.4	-5.8	52.1
Engineering	43.7	-3.5	46.3

	Index this month	Change from last month	12 month average
New Orders	55.7	+4.9	50.4
Employment	53.7	+2.4	47.3
Deliveries	50.1	-1.6	49.2
Input Prices	71.3	+5.6	69.3
Selling Prices	48.6	-5.4	47.8
Wages	60.3	-1.8	58.5
Capacity Utilisation (%)	74.6	+2.4	72.5

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.