AUSTRALIAN PCI
PERFORMANCE OF CONSTRUCTION INDEX®

AUSTRALIAN INDUSTRY GROUP

HIA

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CONSTRUCTION GROWTH AT NINE-YEAR HIGH

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
Sep 2014: **59.1** ↑	Aug 2014: **64.0** ↑	Aug 2014: **47.7**↓	Aug 2014: **61.4**↓

KEY FINDINGS

- The national construction industry maintained its solid growth momentum in September with new orders and activity continuing to expand strongly. This led to the highest rates of increase in employment and deliveries from suppliers since the survey began in September 2005.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** increased by 4.1 points to 59.1 points in September.
- This was the fourth consecutive month that the **Australian PCI®** has been above the critical 50 points level that separates expansion from contraction. Moreover, it signalled the industry's strongest pace of expansion in the nine years since the survey's inception.
- This further upturn in industry conditions reflected expanding activity across most major sectors of the industry. House building was the strongest performing sector with its rate of growth lifting to its highest level so far in 2014. Continued strength was also evident in the apartment building sector (despite a slower rate of increase in the month) while growth in commercial construction picked-up in September. In contrast, engineering construction activity continued to contract, albeit at a slower rate.
- Businesses reporting an improvement in activity generally attributed this to stronger levels of demand and an associated increase in new orders intakes and tender opportunities. In addition, house and apartment builders indicated that customer enquiries and buyer confidence remained firm, with activity continuing to benefit from solid investor activity. The main factors weighing on activity were a lack of public sector tenders and a decline in mining-related engineering construction activity.

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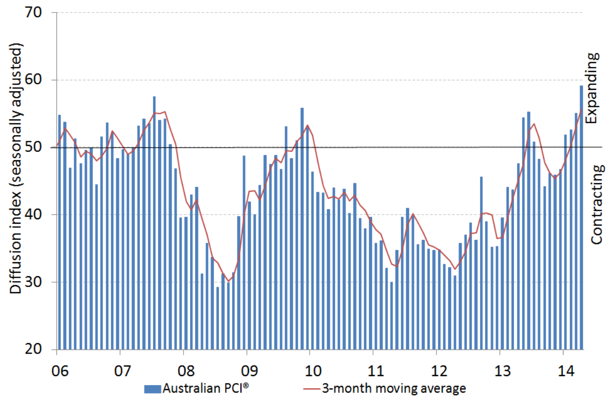
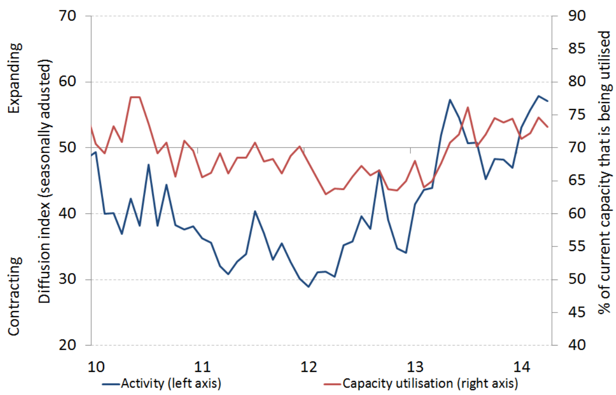


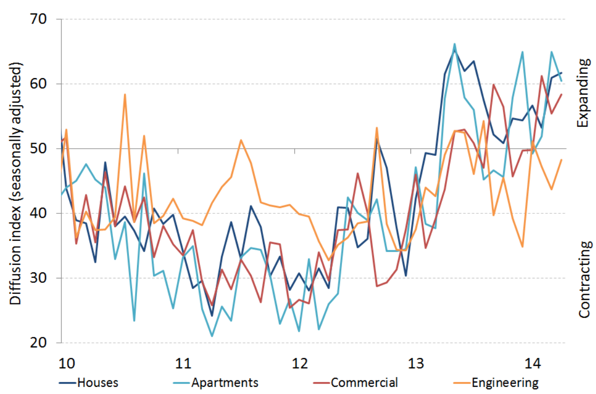
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 57.1 points in September.
- This was 0.8 points below the level of the previous month, signalling a slightly slower pace of growth in activity than in August. However, underlining the recent improvement seen in industry conditions, it represented the second highest activity reading for 2014.
- Continuing solid levels of activity were supported by a fourth consecutive month of expansion in new orders, with growth in incoming business reported in September across all four major industry sectors.
- The rate of capacity utilisation (not seasonally adjusted) eased back to 73.2% of capacity being utilised across the construction industry from 74.6% in August.



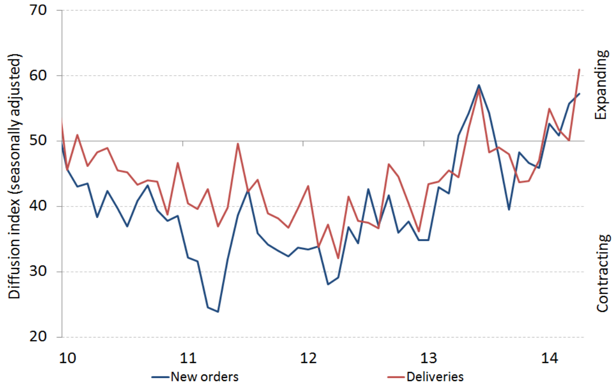
ACTIVITY BY SECTOR

- 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 slightly stronger with the activity sub-index increasing by 0.8 points to 61.7 in September. This is the highest activity reading for house building (and therefore the strongest rate of expansion) in nine months.
- Apartment building activity was again robust, despite a slower rate of growth. This sector's activity sub-index registered 60.5 points in September, a decline of 4.4 points from the three-month high level of activity recorded in August.
- Commercial construction activity expanded for a third consecutive month in September with the sector's activity sub-index registering 58.4 points. This was 3.0 points above the level in August.
- Engineering construction activity again contracted in September, although at a slower rate. The sector's activity sub-index increased by 4.6 points to 48.3 points. Respondents mainly linked this on-going contraction in activity to the winding down in resource-related construction activity.



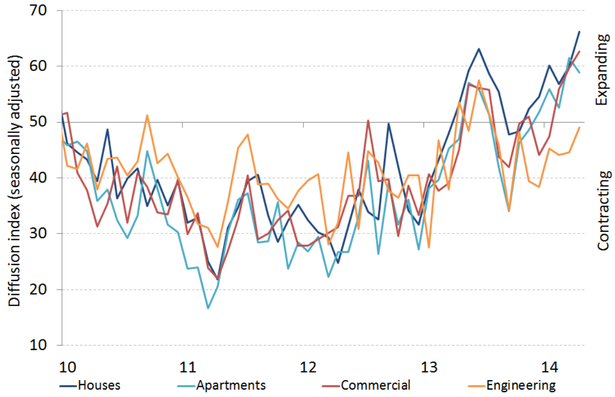
NEW ORDERS AND DELIVERIES

- New orders growth (seasonally adjusted) remained solid in September with the new orders sub-index registering 57.2 points. Moreover, it signalled the industry's strongest rate of expansion in new orders in ten months. This is a positive sign that overall growth in industry activity will be sustained in coming months.
- The pick-up in the level of incoming business during September reflected higher rates of growth in new orders in the house building and commercial construction sectors.
- Consistent with the overall strength in demand, deliveries of inputs from suppliers picked-up solidly in the month. The supplier delivery index rose by 10.8 points to 60.9 points in September, the highest rate of growth in the nine-year history of the survey.



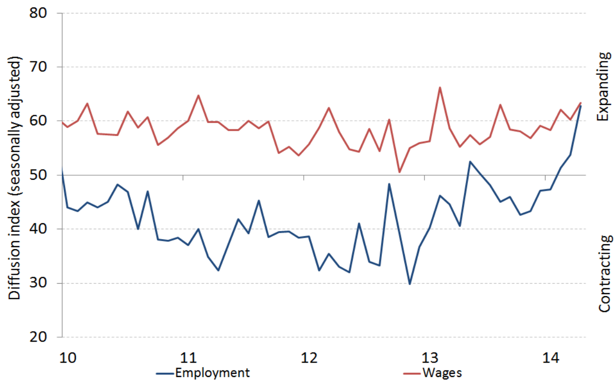
NEW ORDERS BY SECTOR

- New orders in house building expanded at a higher rate in September, with the sub-index rising by 6.2 points to 66.2 points. This was the highest level (and therefore the strongest rate of expansion) since readings on this sub-index began in August 2006. As a consequence, it bodes well for continued strength in house construction activity in coming months.
- In commercial construction, new orders showed further improvement in September, registering growth for a third consecutive month. This sector's new orders sub-index rose by 2.9 points to 62.6 points in September. This was also the highest level for this sub-index since readings began in August 2006.
- In apartment building, the new orders sub-index expanded for a fifth consecutive month. However, the rate of growth moderated from the 8-year survey high level in August, with the sub-index decreasing by 2.6 points to 58.9 points.
- In the engineering construction sector, the new orders sub-index rose by 4.4 points to 49.0 points. Although this indicated a slower rate of contraction in September, it represented the ninth consecutive month of falling new orders.



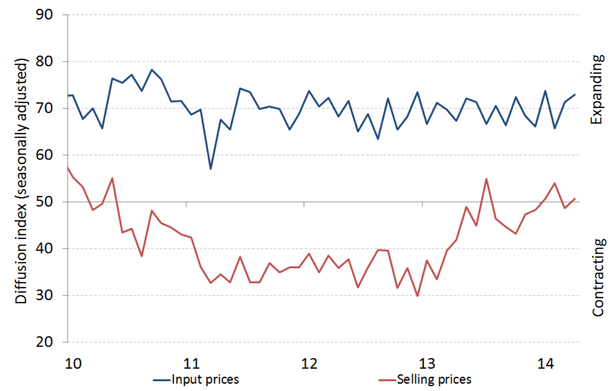
EMPLOYMENT AND WAGES

- Construction employment recorded a third consecutive month of growth in September. The employment sub-index registered 62.8 in September, a rise of 9.1 points from the previous month.
- This employment sub-index reading represented the strongest rate of expansion in employment since the survey began in September 2005, and a significant yardstick of improvement following a six-year period of generally contracting employment.
- Growth in wages continued in September, and at a higher rate, with the wages sub-index increasing by 3.1 points to 63.4 points.



INPUT COSTS AND SELLING PRICES

- Stronger demand for construction materials led to a pick-up in input price inflation for a second consecutive month. The input costs sub-index increased by 1.6 points to 72.9 points in September.
- The selling prices sub-index increased by 2.1 points to 50.7 points in September, to be slightly above the 50-points no-change threshold.
- These pricing results demonstrate that despite an improvement in overall business conditions, pressures on profit margins remain strong amid rising cost burdens and a still strongly competitive pricing environment.



	Index this month	Change from last month	12 month average
Australian PCI®	**59.1**	**+4.1**	**50.8**
Activity	57.1	-0.8	52.2
Houses	61.7	+0.8	57.7
Apartments	60.5	-4.4	55.6
Commercial	58.4	+3.0	53.3
Engineering	48.3	+4.6	46.3

	Index this month	Change from last month	12 month average
New Orders	57.2	+1.5	51.0
Employment	62.8	+9.1	49.2
Deliveries	60.9	+10.8	50.6
Input Prices	72.9	+1.6	69.8
Selling Prices	50.7	+2.1	48.5
Wages	63.4	+3.1	59.2
Capacity Utilisation (%)	73.2	-1.4	72.9

What is the Australian PCI®? 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.