

BUILDING RECOVERY STALLS ON WEAKER DEMAND

Australian PCI®
 Nov 2014: **45.4**↓

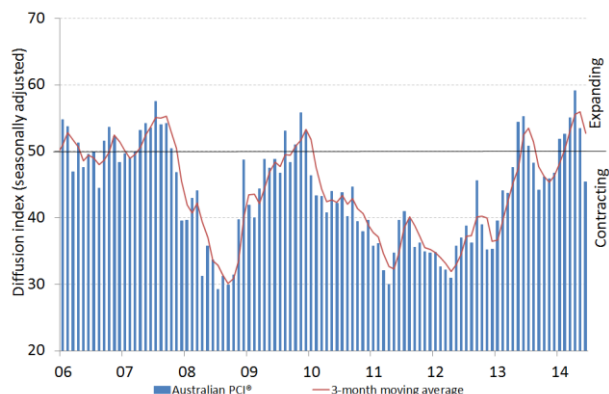
UK PCI
 Oct 2014: **61.4**↓

Germany PCI
 Oct 2014: **51.5**↑

Ireland PCI
 Oct 2014: **64.9**↑

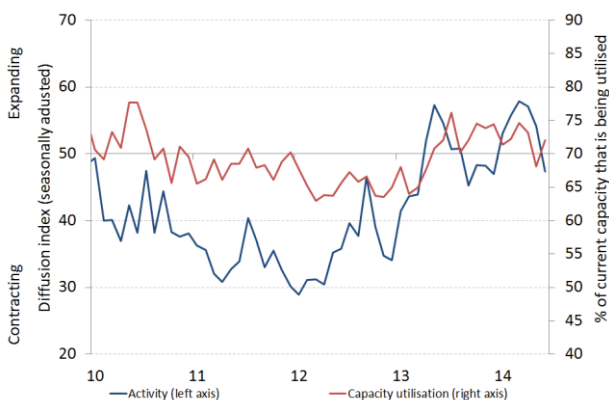
KEY FINDINGS

- The national construction industry moved back into negative territory in November, with the seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) dropping 8.0 points to 45.4 points in the month.
- The fall in the **Australian PCI®** in November to a level below the critical 50 points threshold (that separates expansion from contraction), signalled the industry's first decline since May 2014.
- This significant loss of momentum was driven by a renewed decline in activity and new orders in November which contributed to a steeper fall in employment and a sharp slowdown in deliveries from suppliers.
- All four sub-sectors in the **Australian PCI®** experienced weaker activity in November. Despite continued expansion in house building, its rate of increase moderated to its slowest pace since March 2014. Apartment building activity also recorded an easing in growth in response to a second consecutive month of declining new orders. Engineering construction exhibited the weakest conditions, with activity declining at a steeper pace in November. Commercial construction also contracted following four consecutive months of growth.
- Survey respondents attributed this month's deterioration in conditions to a decline in new tendering opportunities, slow public building activity, project delays and a further winding back in mining related construction work.
- House builders noted a reduction in customer enquiries and sales in November amid competitive market conditions.



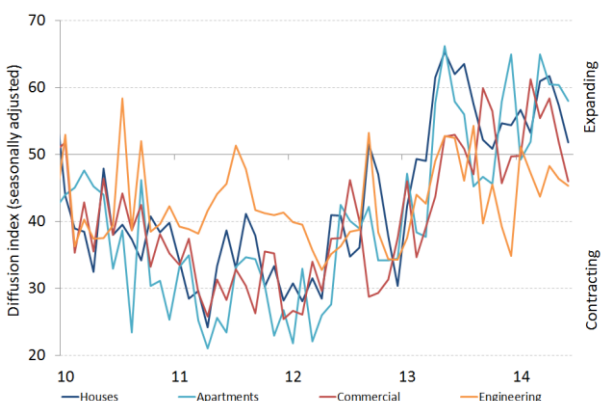
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 47.4 points in November.
- This was 6.7 points below the level of the previous month, signalling a contraction in activity for the first time since May 2014. It was also the third lowest activity reading in 2014 so far.
- Underlying this result was a weakening in demand conditions, with new orders contracting across all four major sectors of the industry. This reduction in demand was most pronounced in the housing, commercial and engineering construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) increased to 72.0% of capacity across the construction industry, from 68.1% in October, although it remained below the 12-month average of 72.7%.



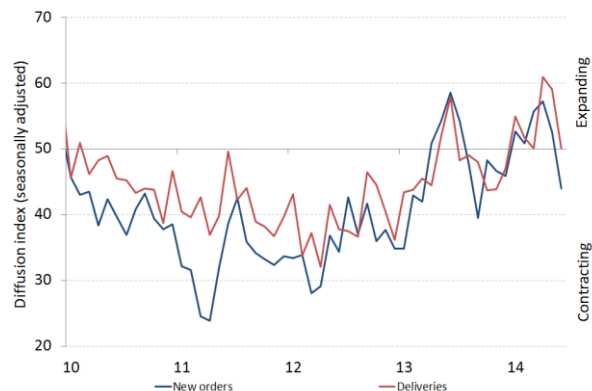
ACTIVITY BY SECTOR

- House building activity continued to expand. However, the sector's activity sub-index declined by 5.5 points to 51.8 points in November, signalling the slowest rate of growth in eight months. This is consistent with a weakening in new order intakes over the past two months and the dip in building approvals in September.
- Apartment building activity remained solid, although growth was also slower with the sector's sub-index registering 58.0 points in November, a decline of 2.4 points on October's reading. It nevertheless marked the fifth consecutive month of expansion in apartment building activity.
- Commercial construction activity contracted for the first time since June 2014. The sector's sub-index registered 46.0 points in November, a decline of 5.8 points from the previous month and the sector's first contraction since June 2014.
- Engineering construction activity continued to turn down in November, and at a steeper rate than in October. The sector's activity sub-index decreased by 1.1 points to 45.3 points. Respondents linked the on-going contraction in activity to the progressive slowing in resource-related construction projects and a shortage of new tenders.



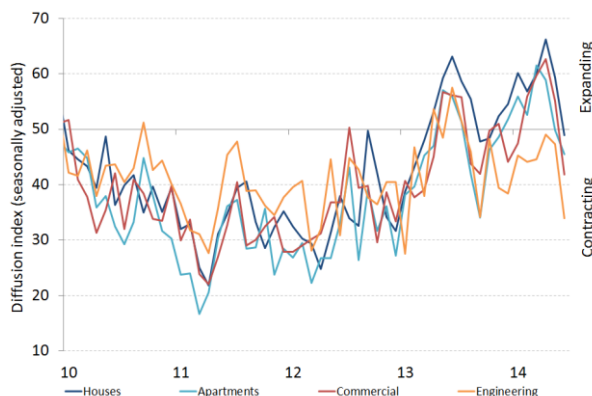
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in November for the first time since April 2014.
- The new orders index registered 44.0 points in November. This was a decline of 8.5 points from October and the lowest new orders reading since February this year.
- This result reflected contractions in new orders across the industry. Steeper rates of decline in the engineering and apartment sectors were accompanied by renewed contractions in the house building and commercial construction sectors.
- In line with these weaker demand conditions, growth in the deliveries of inputs from suppliers moderated sharply, with the supplier delivery index decreasing by 8.9 points to 50.1 points in November.



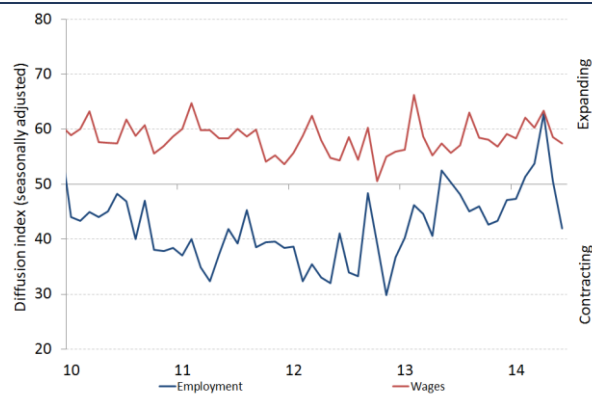
NEW ORDERS BY SECTOR

- New orders in the house building sector turned negative in November, with the sub-index falling sharply by 10.4 points in the month to 48.9 points. This follows a slower pace of growth in the previous month, and is a further indication of a step down in housing demand from earlier peak levels.
- In the commercial construction sector, new orders also showed renewed weakness, with the sub-index falling by 13.3 points to 41.8 points. This was the most subdued reading since August 2013 and follows encouraging growth results over the past four months.
- For the apartment building sector, new orders recorded a second consecutive month of contraction, falling by 4.3 points to 45.5 points. This follows growth in new orders during the five months to September this year which has flowed through to support the current expansion in activity within the sector.
- In the engineering construction sector, the new orders sub-index fell further into negative territory, declining by 13.4 points to 33.9 points. This is the sector's eleventh consecutive month of contracting new orders, with diminishing mining related construction weighing on demand.



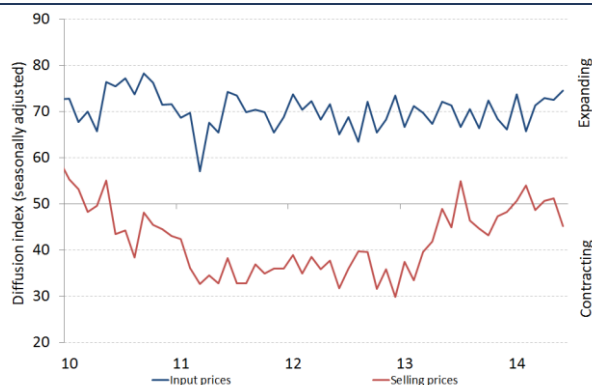
EMPLOYMENT AND WAGES

- Labour market conditions deteriorated in November with the employment sub-index falling by 8.5 points to 42.0 points in the month.
- This indicated the first contraction in employment since the employment sub-index returned to positive territory in July this year.
- Reduced workloads and a decline in intakes of new work were cited by businesses as leading to the cut backs in employment levels.
- Growth in wages continued in November, although at a slower rate, with the wages sub-index decreasing by 1.2 points to 57.4 points. This reflects slower wage demand trends across the economy in 2014, as national employment growth remains weak (under 1.0% p.a. in October) and background inflation remains subdued (2.3% p.a. headline consumer price inflation in the September quarter).



INPUT COSTS AND SELLING PRICES

- Input price inflation picked-up in November with the input costs sub-index increasing by 2.0 points in the month to 74.5 points.
- The selling prices sub-index decreased by 6.0 points to 45.2 points in November, pointing to overall contraction in selling prices following two months of slight growth. This reflects rising competition as builders seek to secure new work in a tightening market.
- The widening in the gap between the two series in November also highlights that pressures on profit margins remain strong amid increasing 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 |
|------------------------|---------------------|---------------------------|---------------------|---------------------------------|---------------------|---------------------------|---------------------|
| Australian PCI® | 45.4 | -8.0 | 49.9 | New Orders | 44.0 | -8.5 | 49.6 |
| Activity | 47.4 | -6.7 | 51.3 | Employment | 42.0 | -8.5 | 48.3 |
| Houses | 51.8 | -5.5 | 56.2 | Deliveries | 50.1 | -8.9 | 50.6 |
| Apartments | 58.0 | -2.4 | 55.1 | Input Prices | 74.5 | 2.0 | 70.1 |
| Commercial | 46.0 | -5.8 | 52.7 | Selling Prices | 45.2 | -6.0 | 48.8 |
| Engineering | 45.3 | -1.1 | 45.1 | Wages | 57.4 | -1.2 | 59.4 |
| | | | | Capacity Utilisation (%) | 72.0 | 3.9 | 72.7 |

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>.

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