AUSTRALIAN PCI

PERFORMANCE OF CONSTRUCTION INDEX®

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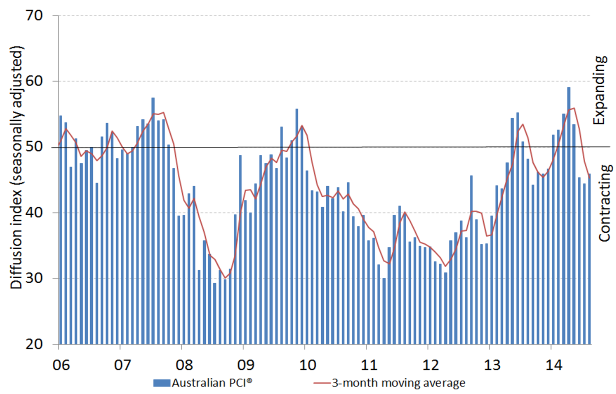
CONSTRUCTION: A SUBDUED START TO 2015

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
Jan 2015: **45.9**↑	Dec 2014: **57.6**↓	Dec 2014: **50.5**↓	2014: **63.1**↓

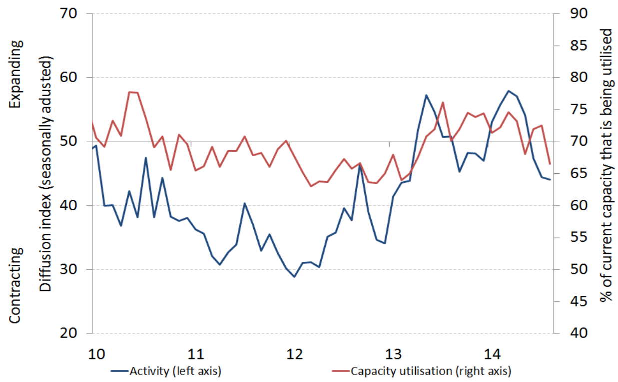
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** registered 45.9 points in January 2015 (readings below 50 points indicate contraction). This was an increase of 1.5 points from December 2014. It indicated a slower rate of decline for the construction industry and a subdued start to 2015 across all four construction sub-sectors.
- January was the third consecutive month that the **Australian PCI®** has been below the critical 50 points level that separates expansion from contraction, following the industry's return to growth in mid-2014.
- The slightly milder decline in the **Australian PCI®** in January was mainly due to a less pronounced reduction in construction industry employment this month.
- However, reflecting the recent softening in overall industry conditions, activity, new orders and deliveries from suppliers declined at about the same rates as in December.
- All four sub-sectors of the **Australian PCI®** contracted (i.e. below 50 points) in January. Steeper rates of decline were evident in both housing and apartment building activity. Engineering construction continued to exhibit weakness, contracting for a seventh consecutive month. Commercial construction also declined, but conditions moved close to stabilisation.
- Respondents to the **Australian PCI®** said that the industry's weak start to 2015 was due to a further contraction in mining related construction work and unseasonably wet weather conditions. House builders noted a further easing in customer enquiries and sales. More positively, there were reports of a lift in demand for commercial development projects.



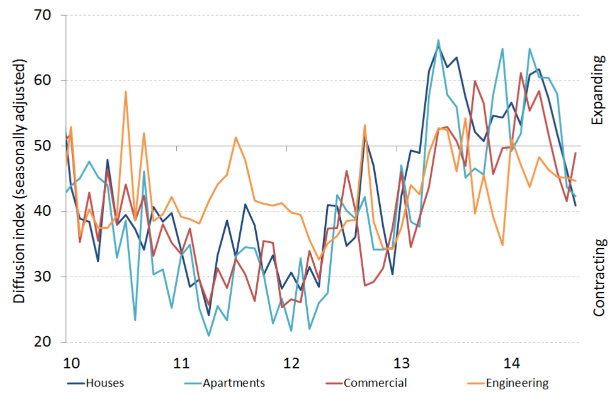
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index of the **Australian PCI®** registered 44.1 points in January.
- This was 0.4 points below the level of the previous month, signalling that the rate of contraction in total industry activity was almost unchanged during January. Nevertheless, it was the lowest reading for the activity sub-index since August 2013.
- The further decline in construction activity in January is a reflection of the softer levels of demand and new orders experienced in aggregate over the past three months.
- The rate of capacity utilisation (not seasonally adjusted) declined to 66.5% of capacity across the construction industry, from 72.5% in December 2014. This was the weakest level in 16 months and well below the 12-month average of 72.1% of total industry capacity being utilised.



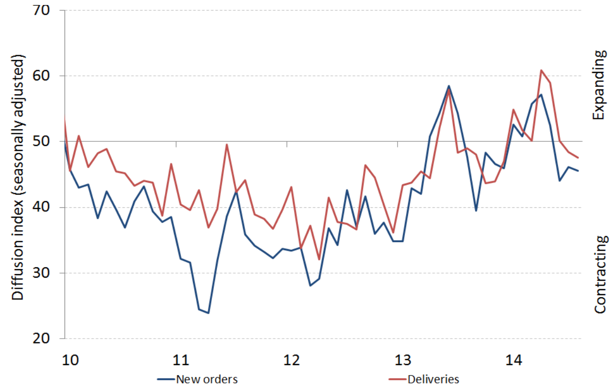
ACTIVITY BY SECTOR

- House building activity declined for a second consecutive month with the sector's activity sub-index dropping by 5.4 points to 40.9 points in January. This signals a further loss of momentum in housing activity into early 2015, consistent with the contraction in new orders seen over the past three months.
- Apartment building activity declined at a slightly steeper rate in January. The sector's sub-index registered 42.3 points in January, a decline of 1.4 points from December. This was only the second fall in apartment activity since June 2014 and comes after three consecutive months of declines in new orders.
- Commercial construction activity moved closer to stabilisation in January. The sector's sub-index increased by 7.4 points to 49.0 points in January. This is the highest activity reading for the sector in three months.
- Engineering construction activity contracted at about the same rate in January, with the sector's activity sub-index falling by 0.5 points to 44.7 points. Respondents linked the decline in activity to the diminishing pipeline of mining-related construction work and large project completions.



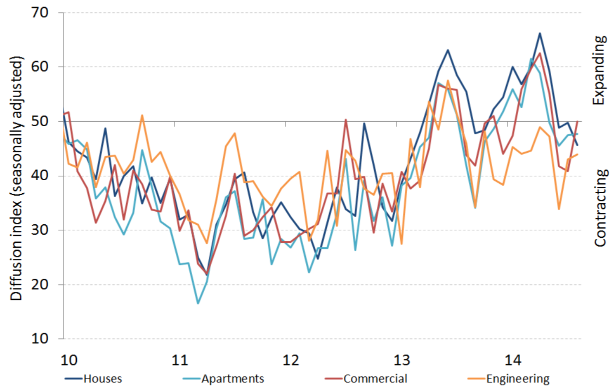
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in January for a third consecutive month.
- The new orders index registered 45.6 points in January. This was a decline of 0.5 points from December, indicating a broadly unchanged rate of contraction in the month.
- Falls in new orders were recorded across the house building, apartment and engineering construction sectors of the industry in January. However, an improved local investment environment saw new orders stabilise in the commercial construction sector.
- Deliveries of inputs from suppliers again contracted in January in response to the overall fall in new orders. The supplier delivery index decreased by 0.8 points to a nine-month low of 47.6 points.



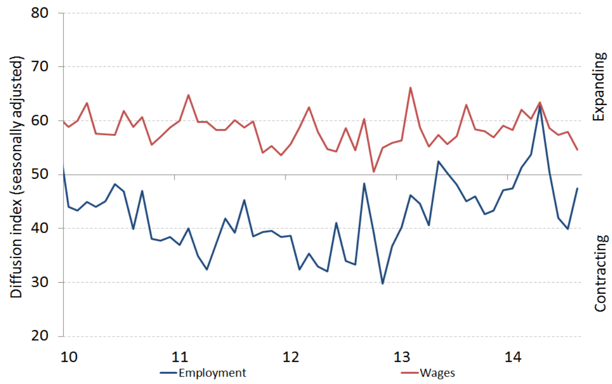
NEW ORDERS BY SECTOR

- New orders in house building contracted for a third consecutive month in January. The sector's new orders sub-index fell by 4.1 points to 45.7 points. This was the lowest reading since July 2013, suggesting a further softening in house building activity in coming months.
- For the apartment building sector, new orders recorded a fourth consecutive month of decline. However, the rate of contraction was broadly unchanged with the sub-index rising by 0.2 points to 47.7 points.
- In the commercial construction sector, new orders stabilised, with the sub-index rising by a solid 9.1 points to 50.0 points. This indicates an improvement in property investment demand and coincides with reports of an increase in tenders for commercial development projects.
- In the engineering construction sector, new orders continued to fall, although the pace of decline moderated slightly with the sub-index rising by 0.9 points to 43.9 points. This is the sector's 13th consecutive month of contracting new orders with demand continuing to come under pressure from a shrinking pipeline of resource-related construction projects.



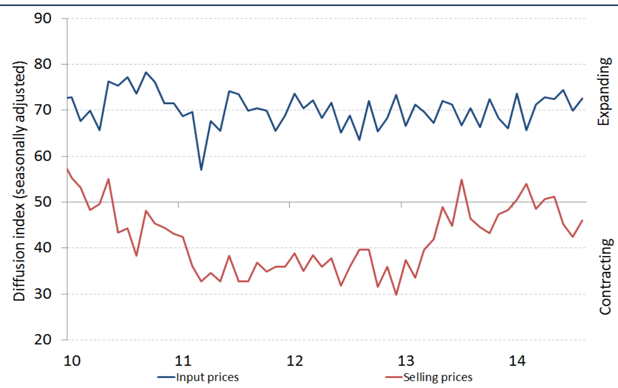
EMPLOYMENT AND WAGES

- The employment sub-index in the **Australian PCI®** increased by 7.6 points to 47.5 points in January.
- This signalled that employment contracted in January for a third consecutive month. However, the pace of decline eased, following a drop in the employment sub-index to its lowest level in 18 months in December 2014.
- Businesses that reported decreases in employment mainly attributed this situation to reduced summer workloads and soft market demand.
- Growth in wages in the **Australian PCI®** continued in January, albeit at a slower rate, with the wages sub-index decreasing by 3.4 points to 54.6 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI®** remained elevated in January. The input costs sub-index increased by 2.7 points in the month to 72.6 points.
- Reflecting the highly competitive market environment, selling prices continued to contract in January. However, the rate of contraction was slower than in the previous month with the selling prices sub-index rising by 3.5 points to 46.0 points.
- The ongoing gap between these two pricing series in the **Australian PCI®** in January highlights the continuing pressures on the profit margins of construction businesses, amid rising cost burdens and a strongly competitive tender pricing environment.



	Index this month	Change from last month	12 month average
Australian PCI®	**45.9**	**1.5**	**49.2**
Activity	44.1	-0.4	50.2
Houses	40.9	-5.4	53.4
Apartments	42.3	-1.4	53.8
Commercial	49.0	7.4	52.1
Engineering	44.7	-0.5	44.3

	Index this month	Change from last month	12 month average
New Orders	45.6	-0.5	48.7
Employment	47.5	7.6	47.9
Deliveries	47.6	-0.8	50.4
Input Prices	72.6	2.7	70.5
Selling Prices	46.0	3.5	47.7
Wages	54.6	-3.4	58.8
Capacity Utilisation (%)	66.5	-6.0	72.1

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.