



# SOFTER CONDITIONS IN CONSTRUCTION

**Australian PCI®**  
Feb 2015: **43.9**↓

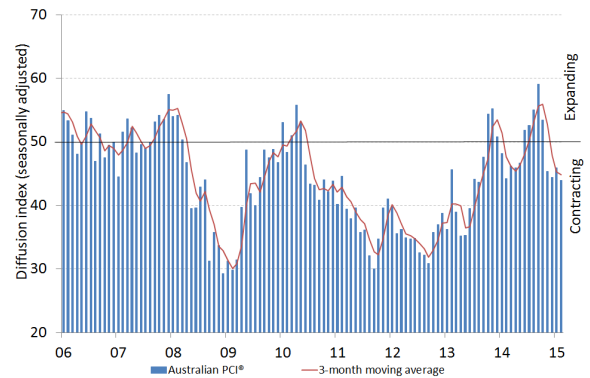
**UK PCI**  
Jan 2015: **59.1**↑

**Germany PCI**  
Jan 2015: **49.5**↓

**Ireland PCI**  
Jan 2015: **57.1**↓

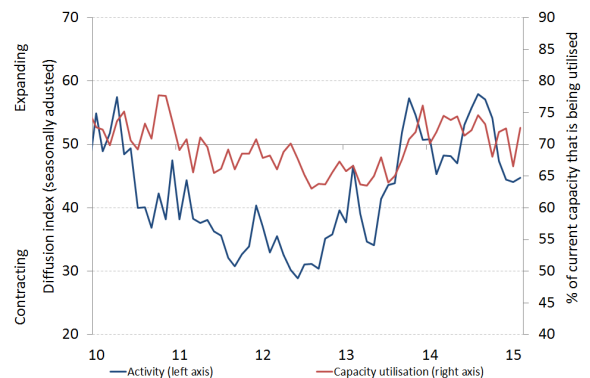
## KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 43.9 points in February 2015 (readings below 50 points indicate contraction). This was a decrease of 2.0 points from January, indicating a slightly steeper rate of decline for the construction industry and a fourth consecutive month of contraction, in response to a further weakening in new orders.
- Falls in activity, employment and deliveries from suppliers continued in February, albeit at broadly unchanged rates. New orders contracted at a steeper rate.
- Weighing heavily on industry conditions in February were sharper falls in mining-related engineering construction and commercial building, reflecting significant contractions in new orders across both these key construction sectors.
- A return to growth in apartment building was the brightest spot in February's overall decline in construction activity. The house building sector remained in negative territory, but its rate of decline moderated, following a loss of momentum in January.
- The decline in the **Australian PCI®** in February reflected reports of fewer new contracts and project completions in 2015, most notably in engineering and commercial construction. A lack of public sector tenders and soft private sector investment were also cited as inhibiting activity in the engineering and commercial construction sectors.
- Reports from house and apartment builders indicated an improvement in customer enquiries and buyer confidence in February. However, respondents also pointed to a highly competitive market environment for housing and slower new orders.



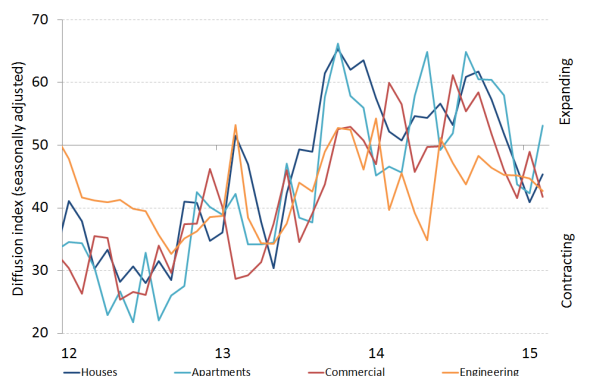
## CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index of the **Australian PCI®** registered 44.7 points in February.
- This was 0.6 points above the level of the previous month, signalling that the rate of contraction in total industry activity was broadly unchanged in February.
- The further decline in construction activity in February is a reflection of the softer levels of demand and new orders experienced in aggregate over the past four months.
- The rate of capacity utilisation (not seasonally adjusted) increased to 72.6% of capacity across the construction industry, from 66.5% in January. However, at this level, it is only slightly above the 12-month average of 72.2% of total industry capacity being utilised.



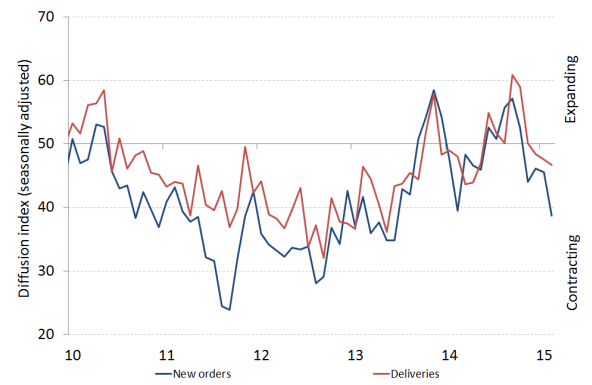
## ACTIVITY BY SECTOR

- House building activity declined for a third consecutive month in February. However, the rate of contraction moderated with the sector's sub-index rising by 4.5 points to 45.4 points in February. This is in line with slower orders and private sector house approvals (ABS data) in recent months.
- The apartment building sector returned to growth in February, with its sub-index rising by a solid 10.8 points to 53.1 points. This was the strongest reading for this sub-sector since November last year, and reflects recent increases in new orders and dwelling approvals for apartments and other multi-unit dwellings (as indicated by ABS data) in recent months.
- Commercial building activity weakened. The sector's sub-index decreased by 7.2 points to 41.8 points in February. This is consistent with the generally subdued level of new orders seen over the past four months and the continuation of subdued building approvals trends in this sector.
- Engineering construction activity continued to decline in February, and at a steeper rate than in January. The sector's activity sub-index decreased by 2.0 points to 42.7 points. This was the weakest reading in nine months and reflects the progressively smaller pipeline of resource-related construction projects.



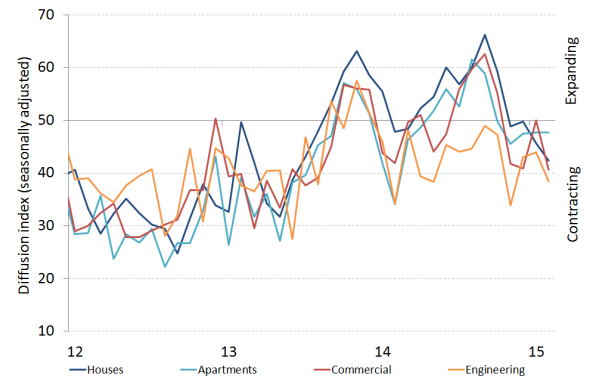
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in February for a fourth consecutive month.
- The new orders index registered 38.7 points in February. This was a decline of 6.9 points from January, indicating a steeper rate of contraction in the month.
- Declines in new orders were most pronounced in the commercial and engineering construction sectors, although both the apartment and house building sectors also recorded continued contractions in new orders in the month.
- Deliveries of inputs from suppliers again declined in February in response to the contraction in activity. The supplier delivery index decreased by 0.9 points to a ten-month low of 46.7 points.



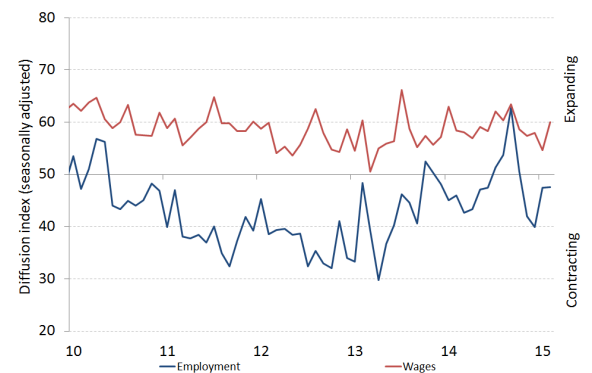
## NEW ORDERS BY SECTOR

- New orders in house building contracted for a fourth consecutive month in February. The sector's new orders sub-index fell by 3.3 points to 42.4 points. This suggests a further softening in incoming work can be expected later in 2015.
- For the apartment building sector, new orders recorded a fifth consecutive month of decline. However, the rate of contraction was unchanged, with the sub-index remaining steady at 47.7 points. ABS dwelling approvals data suggests there are still large numbers of apartments in planning or in the pipeline of new work, much of it concentrated in Sydney and Melbourne.
- In the commercial construction sector, new orders turned down with the sub-index dropping by a solid 9.4 points to 40.6 points. This indicates a further weakening in business investment trends and is consistent with current overall weakness in non-residential building approvals (ABS data).
- In the engineering construction sector, new orders fell at a steeper rate with the sub-index falling by 5.4 points to 38.5 points. This is the sector's 14<sup>th</sup> consecutive month of contracting new orders, with diminishing mining-related construction weighing heavily on demand.



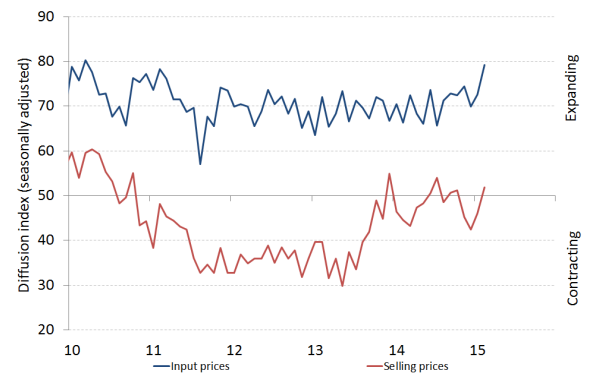
## EMPLOYMENT AND WAGES

- Labour market conditions continued to exhibit weakness in February. The employment sub-index in the **Australian PCI**<sup>®</sup> contracted for a fourth consecutive month in February, at a broadly unchanged pace from January.
- The employment sub-index registered 47.6 points in February, an increase of 0.1 points from January.
- Businesses that reported decreases in employment mainly attributed this situation to reduced workloads and soft market demand in 2015.
- Growth in wages in the **Australian PCI**<sup>®</sup> continued in February, and at a stronger pace, with the wages sub-index increasing by 5.4 points to 60.0 points, which is around its 12-month average.



## INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI**<sup>®</sup> picked up in February with the lower Australian dollar increasing prices for imported inputs. The input costs sub-index increased by 6.6 points in the month to 79.2 points, the highest reading in four years.
- This placed pressure on businesses to raise selling prices, although the overall expansion in prices was marginal. The selling prices sub-index increased by 5.9 points to 51.9 points in February, to be slightly above the 50-point threshold that indicates no change.
- The gap between these two pricing series in the **Australian PCI**<sup>®</sup> continues to highlight the pressures on the profit margins of construction businesses. This reflects widespread reports from respondents of a highly competitive pricing environment, especially in tender processes.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PCI</b> <sup>®</sup>	<b>43.9</b>	<b>-2.0</b>	<b>49.2</b>	<b>New Orders</b>	<b>38.7</b>	<b>-6.9</b>	<b>48.7</b>
<b>Activity</b>	44.7	0.6	50.2	<b>Employment</b>	47.6	0.1	48.0
Houses	45.4	4.5	52.8	<b>Deliveries</b>	46.7	<b>-0.9</b>	50.3
Apartments	53.1	10.8	54.4	<b>Input Prices</b>	79.2	6.6	71.6
Commercial	41.8	<b>-7.2</b>	50.6	<b>Selling Prices</b>	51.9	5.9	48.7
Engineering	42.7	<b>-2.0</b>	44.5	<b>Wages</b>	60.0	5.4	59.1
				<b>Capacity Utilisation (%)</b>	72.6	6.1	72.2

**What is the Australian PCI**<sup>®</sup>? Performance of Construction Index (**Australian PCI**<sup>®</sup>) 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**<sup>®</sup> 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>.

© The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. Disclaimer: The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.