

CONSTRUCTION EDGES AHEAD IN MARCH

Australian PCI®
 Mar 2015: **50.1**↑

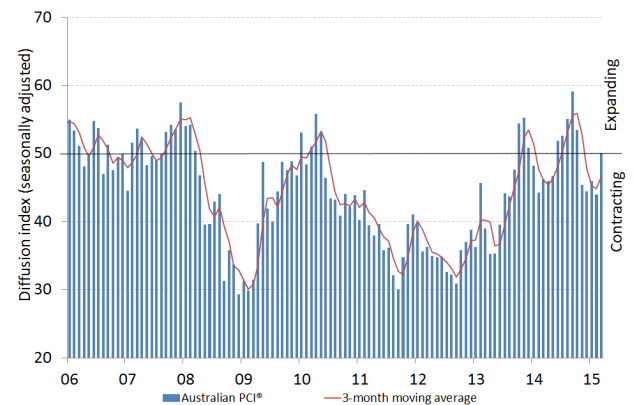
UK PCI
 Feb 2015: **60.1**↑

Germany PCI
 Feb 2015: **53.1**↑

Ireland PCI
 Feb 2015: **52.0**↓

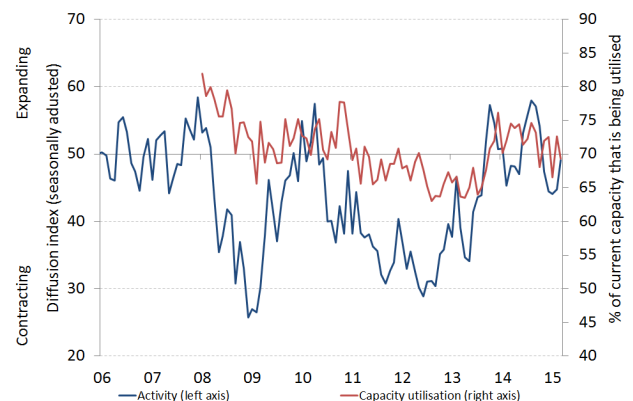
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 6.2 points to 50.1 points in March. This indicated the slightest of expansions across the construction industry following four months of contracting conditions.
- Australian PCI®** data for March revealed a solid improvement in the new orders sub-index which returned to expansion (i.e. above 50 points) for the first time in the five months. Encouragingly, deliveries from suppliers also expanded in March while the activity sub-index contracted at its slowest rate since November 2014.
- The improvement in March was driven by a solid increase in house building activity which expanded after three months of contraction, and at a rate that was the strongest in five months. Apartment building activity continued to strengthen, with growth picking-up to its highest pace in four months.
- In contrast, mining-related engineering construction remained in negative territory declining at a steeper rate in the month. Commercial construction again declined, although its rate of contraction moderated following a marked weakening in February.
- The upturn in the **Australian PCI®** in March coincided with reports of higher levels of demand, mainly among residential businesses. House and apartment builders noted that customer enquiries had remained firm, with activity also benefitting from continued strong investor activity.
- However, the operating environment remains tough for many businesses with impediments such as a lack of public sector building works, tough competition for the available work and diminishing mining related construction cited as the main constraints on activity.



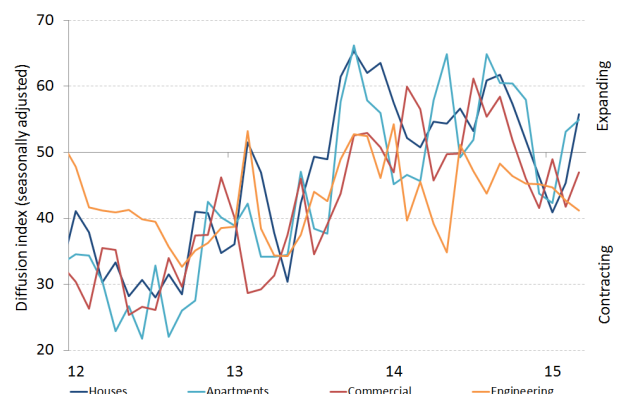
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index of the **Australian PCI®** registered 49.1 points in March.
- This was 4.4 points above the level of the previous month, signalling a slower rate of contraction in total industry activity during March. It was also the highest reading for the activity sub-index in the past five months.
- Underlying this result was a return to growth in new orders in March reflecting an improvement in demand conditions across all the four major sub-sectors.
- The rate of capacity utilisation (not seasonally adjusted) decreased to 69.3% of capacity across the construction industry, from 72.6% in February. At this level, it is slightly below the 12-month average of 71.7% of total industry capacity being utilised.



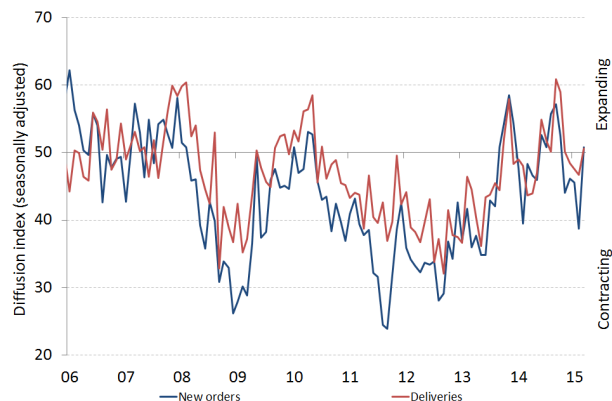
ACTIVITY BY SECTOR

- The house building sector returned to growth in March, with its sub-index rising by a solid 10.4 points to 55.8 points. This was the strongest reading for this sub-sector since October last year and follows three months of contracting activity.
- The apartment building sector expanded for a second consecutive month in March, and at a higher rate with its sub-index rising by a solid 1.8 points to 54.9 points. This was the strongest reading for this sub-sector since November 2014.
- Engineering construction activity weakened further. The sector's sub-index decreased by 1.5 points to 41.2 points in March. This was the most subdued reading in ten months and reflects the progressive slowing in resource-related construction projects.
- Commercial construction activity also continued to contract in March, although at a slower rate than in February. The sector's activity sub-index increased by 5.2 points to 47.0 points after a marked weakening in February.



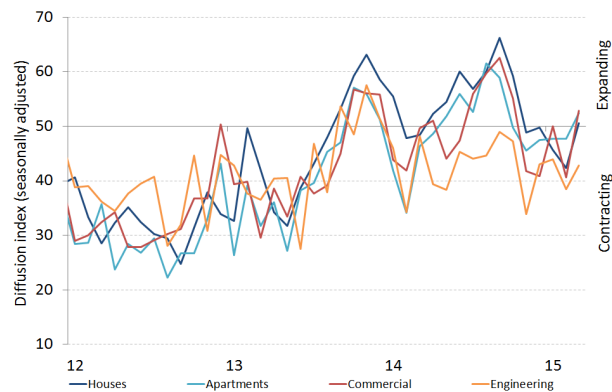
NEW ORDERS AND DELIVERIES

- The new orders sub-index (seasonally adjusted) increased solidly by 12.1 points to 50.8 points in March.
- This signalled the first expansion (above 50 points) in new orders in the **Australian PCI**[®] since October 2014 and augers well for activity over coming months.
- This stronger result reflected a return to growth in new orders in the commercial construction sector following a sharp downturn in February while rates of contraction moderated in all other sectors.
- Deliveries of inputs from suppliers expanded marginally in March in response to the improvement in new orders. The supplier delivery index increased by 3.9 points to a five-month high of 50.6 points.



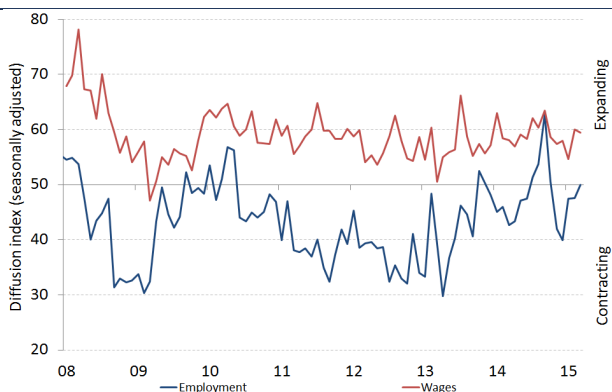
NEW ORDERS BY SECTOR

- New orders in house building returned to growth in March. After declining over the previous four months, the sector's new orders sub-index increased by 8.2 points to 50.6 points. This suggests that growth in house building sector is likely to be sustained in coming months.
- In the apartment sector, new orders also strengthened with the sub-index rising by 4.7 points to 52.4 points. This was the sector's first increase in new orders in six months.
- New orders recovered ground in the commercial construction sector following a solid drop in February. In an encouraging sign of an improvement in property investment demand, the sector's new orders sub-index increased by a solid 12.3 points to 52.9 points.
- In the engineering construction sector, new orders contracted for a 15th consecutive month with winding back in mining related construction continuing to weigh heavily on demand. However, the rate of decline was slower in the month with the sector's new orders sub-index rising by 4.3 points to 42.8 points.



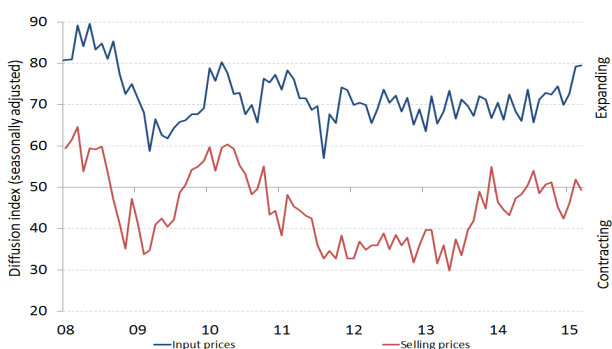
EMPLOYMENT AND WAGES

- Labour market conditions stabilised in March following four months of declines in employment.
- The employment sub-index registered 50.0 points in March. This was an increase of 2.4 points from February, indicating broadly steady employment levels during the month.
- This suggests that despite the improvement in demand conditions, businesses are still cautious in their hiring intentions with few signs of a pick-up in job creation at an aggregate level.
- Growth in wages in the **Australian PCI**[®] continued in March, although at a slightly slower pace, with the wages sub-index decreasing by 0.6 points to 59.4 points.



INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI**[®] remained elevated in March with the lower dollar increasing the prices for imported inputs. The input costs sub-index increased by a further 0.3 points in the month to 79.5 points, the highest level in five years.
- The selling prices sub-index fell by 2.5 points to 49.4 points in March, indicating overall contraction in prices after marginal growth was recorded in the previous month.
- The gap between these two pricing series in the **Australian PCI**[®] continues to highlight the pressures on the profit margins of construction businesses. This reflects rising cost burdens and on-going reports from respondents of a highly 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 [®]	50.1	6.2	49.5	New Orders	50.8	12.1	48.9
Activity	49.1	4.4	50.3	Employment	50.0	2.4	48.6
Houses	55.8	10.4	53.2	Deliveries	50.6	3.9	50.9
Apartments	54.9	1.8	55.1	Input Prices	79.5	0.3	72.2
Commercial	47.0	5.2	49.8	Selling Prices	49.4	-2.5	48.8
Engineering	41.2	-1.5	44.2	Wages	59.4	-0.6	59.0
				Capacity Utilisation (%)	69.3	-3.3	71.7

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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