

# CONSTRUCTION: SOFTER CONDITIONS IN APRIL

**Australian PCI®**  
Apr 2015: 47.0↓

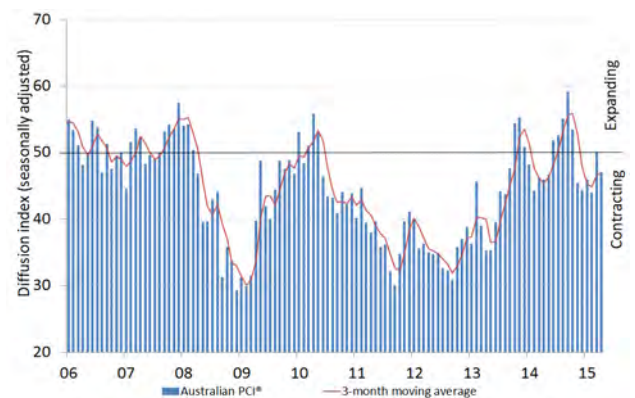
**UK PCI**  
Mar 2015: 57.8↓

**Germany PCI**  
Mar 2015: 53.3↑

**Ireland PCI**  
Mar 2015: 52.9↑

## KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) declined by 3.1 points to 47.0 points in April. This indicated an overall contraction in industry conditions following signs of a mild recovery in March.
- The weaker **Australian PCI®** result for April was driven by a fall in the new orders sub-index which moved back into contraction (i.e. below 50.0 points) after recording solid improvement in the previous month. April also saw a slightly steeper decline in industry activity and renewed contractions in employment and deliveries from suppliers.
- By sector, house building expanded for a second consecutive month, although its rate of growth weakened from the five-month high level reached in March. Activity in the apartment building sector turned negative for the first time in three months.
- Reflecting the scaling back in major project activity, mining-related engineering construction and commercial construction continued to contract, although for both sectors rates of declines moderated from March.
- Survey respondents to the **Australian PCI®** attributed this month's softening in conditions to project completions, a decline in new tendering opportunities and sluggish public sector building activity.
- However, house builders noted that customer enquiries and buyer confidence had been sustained at high levels in April, indicating that demand is still robust. Investor interest in the housing market was also generally seen to have remained solid in April. Local council planning delays and land supply bottlenecks were said to be the main factors hampering conditions in the housing sector.



## CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index of the **Australian PCI®** registered 48.3 points in April.
- This was 0.8 points below the level of the previous month, signalling a slightly steeper contraction in total industry activity during April. It also marked the sixth consecutive month of declining industry activity.
- Underlying this result was a weakening in demand conditions, with new orders showing renewed declines across the apartment and commercial construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) decreased to 68.3% of capacity across the construction industry, from 69.3% in March. At this level, it is three percentage points below the 12-month average of 71.3% of total industry capacity being utilised.



## ACTIVITY BY SECTOR

- House building activity continued to expand. However, the sector's activity sub-index declined by 4.2 points to 51.6 points in April, indicating a moderation in the rate of growth.
- The apartment building sector contracted marginally following two consecutive months of growth. The sector's sub-index fell by 5.2 points to 49.7 points in April after reaching a four-month high level in March.
- Engineering construction activity continued to contract in April, although at a slower rate than in March. The sector's activity sub-index increased by 4.4 points to 45.6 points. Respondents linked the on-going contraction in activity to the progressive slowing in resource-related construction projects and a shortage of new tenders.
- Commercial construction recorded a sixth month of contraction. However, the rate of decline moderated slightly with the sector's sub-index rising by 1.1 points to 48.1 points in April.



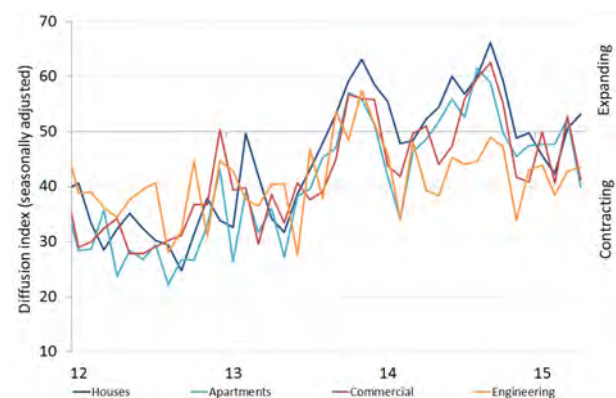
## NEW ORDERS AND DELIVERIES

- The new orders sub-index (seasonally adjusted) declined in April, falling by 6.2 points to 44.6 points after showing solid improvement in March.
- This signalled the fifth contraction (below 50 points) in new orders in the **Australian PCI**® since October 2014 and the second lowest reading on new orders over this six-month period.
- This result reflected renewed contractions in new orders in the commercial and apartment building sectors combined with a continued decline in the level of incoming engineering construction work.
- Consistent with the weakening in aggregate demand, deliveries of inputs from suppliers declined in April after expanding in the previous month. The supplier delivery index decreased by 1.1 points in April to 49.5 points.



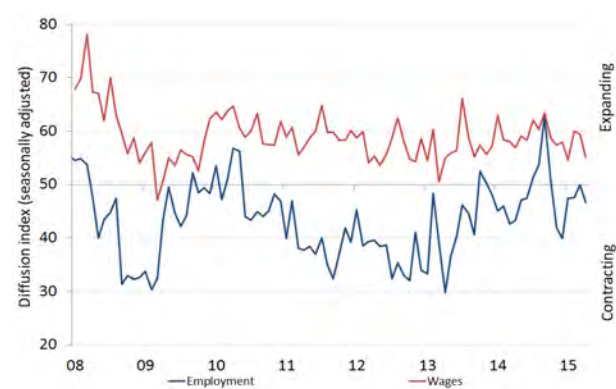
## NEW ORDERS BY SECTOR

- New orders in house building continued to expand in April. The sector's new orders sub-index increased by 2.6 points to 53.2 points, consistent with lifting housing credit growth and strength in dwelling approvals.
- In the apartment sector, new orders weakened with the sub-index falling by 12.4 points to 40.0 points. This more than retraced the solid gains in March, but is typical of the volatility that can characterise monthly new order inflows for the sector.
- New orders also lost ground in the commercial construction sector following a solid improvement in March. Reinforcing the general softness in commercial property investment demand and the subdued level of overall approvals in the sector, the new orders sub-index decreased by 11.6 points to 41.3 points.
- In the engineering construction sector, new orders contracted for a 16<sup>th</sup> consecutive month with the 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 slightly by 0.8 points to 43.6 points.



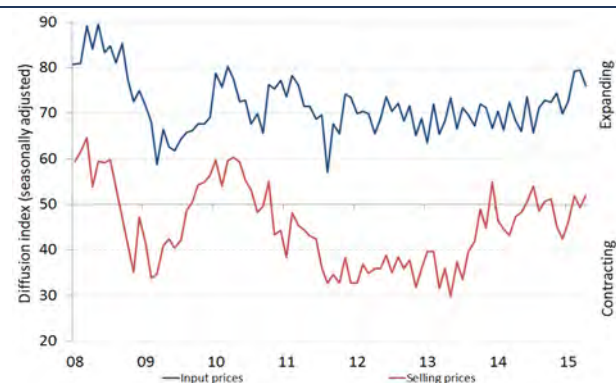
## EMPLOYMENT AND WAGES

- Employment contracted in April following the stabilisation of employment levels in March.
- The employment sub-index registered 46.6 points in April. This was a decrease of 3.4 points from March and the fifth decline in employment in the past six months.
- This indicates that businesses remain reluctant to increase their workforce capacity amid the continuation of soft demand at an aggregate level.
- Growth in wages in the **Australian PCI**® continued in April, although at a slower pace, with the wages sub-index decreasing by 4.3 points to 55.1 points.



## INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI**® remained elevated in April, although the input prices sub-index fell by 3.4 points to 76.1 points, signalling a moderation in the rate of growth in costs from March's five-year high level.
- The selling prices sub-index increased by 2.6 points to 52.0 points in April, to be above the 50-points no-change threshold for only the second time in the past six months. Increases in selling prices were mainly reported by some house builders experiencing a strengthening in demand for their services.
- The gap between these two pricing series in the **Australian PCI**® continues to demonstrate that pressures on the profit margins remain strong on a broad industry front. This reflects the continuation of high cost burdens and 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
<b>Australian PCI</b> ®	<b>47.0</b>	<b>-3.1</b>	<b>49.6</b>	<b>New Orders</b>	44.6	-6.2	48.7
<b>Activity</b>	48.3	-0.8	50.3	<b>Employment</b>	46.6	-3.4	48.9
Houses	51.6	-4.2	53.0	<b>Deliveries</b>	49.5	-1.1	51.4
Apartments	49.7	-5.2	54.5	<b>Input Prices</b>	76.1	-3.4	72.8
Commercial	48.1	1.1	50.0	<b>Selling Prices</b>	52.0	2.6	49.2
Engineering	45.6	4.4	44.7	<b>Wages</b>	55.1	-4.3	58.9
				<b>Capacity Utilisation (%)</b>	68.3	-1.0	71.3

**What is the Australian PCI?** The 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>. © 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.