AUSTRALIAN
PCI
PERFORMANCE OF CONSTRUCTION INDEX®

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HIA

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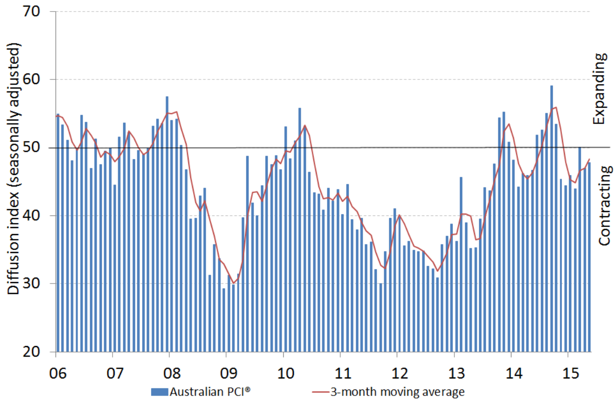
**May 2015**

# CONSTRUCTION REMAINS IN NEGATIVE TERRITORY

| Australian PCI® | UK PCI | Germany PCI | Ireland PCI |
|---|---|---|---|
| May 2015: **47.8**↑ | Apr 2015: **54.2**↓ | Apr 2015: **51.0**↓ | Apr 2015: **57.2**↑ |

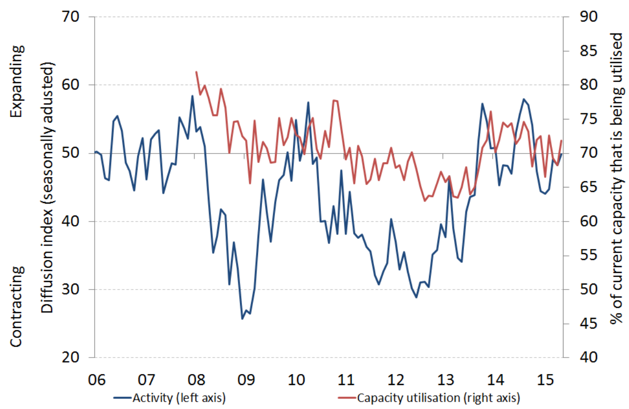
## KEY FINDINGS

- The national construction industry continued to decline in May, with the seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** registering 47.8 points in the month (readings below 50 points indicate contraction). This was an increase of 0.8 points from April, indicating a slightly slower rate of decline for the construction industry as a whole.
- The **Australian PCI®** has now been below the 50 point level that separates expansion from contraction in six of the past seven months, largely in response to on-going declines in mining-related engineering construction and commercial construction.
- The milder decline in the **Australian PCI®** in May was due to less pronounced reductions in new orders and employment while activity moved very close to stabilisation. However, deliveries from suppliers contracted at a steeper rate with businesses attributing this to the overall sluggish demand conditions.
- All four sub-sectors of the **Australian PCI®** contracted (i.e. below 50 points) in May. Activity in the house building sector turned negative for the first time in three months while a steeper rate of decline was evident in apartment building activity.
- Engineering and commercial construction continued to contract in response to the scaling back in major project activity, although for both sectors rates of declines moderated from April.
- Respondents to the **Australian PCI®** that reported declines in activity largely attributed this to a lack of tendering opportunities, project delays and continued soft investment activity by clients.
- House builders noted an easing in customer enquiries and lower sales in May amid competitive market conditions. Local council planning delays and land supply bottlenecks were other factors reported as constraining activity in the housing sector.



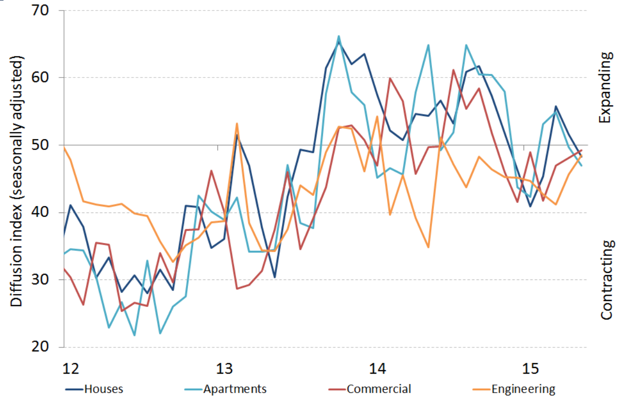

## CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index of the **Australian PCI®** registered 49.9 points in May.
- This was 1.6 points above the level of the previous month and indicated broadly steady activity levels during the month.
- Underlying this result was a slower rate of decline in new orders in May, particularly in the apartment and commercial construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) increased to 71.9% of capacity across the construction industry, from 68.3% in April. At this level, capacity is slightly above (0.9 percentage points) the 12-month average of 71.3% of total industry capacity being utilised.



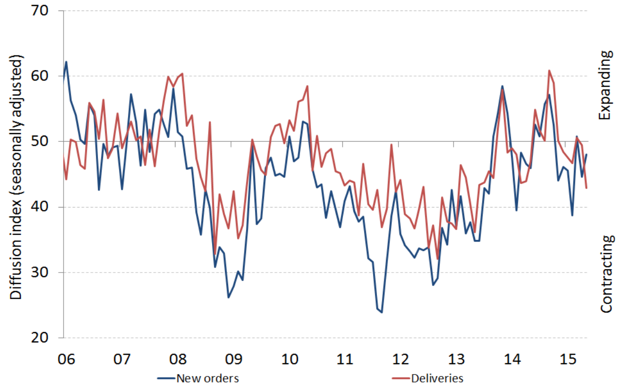

## ACTIVITY BY SECTOR

- House building activity declined for the first time in three months. The sector's activity sub-index fell by 3.3 points to 48.3 points in May, although this still exceeds levels recorded at the start of the year.
- Apartment building activity contracted at a steeper rate. The sector's activity sub-index registered 47.0 points in May, a decline of 2.7 points from the previous month, and well below the solid growth outcome recorded in March.
- Engineering construction activity continued to contract in May, although at a slower rate than in April. The sector's activity sub-index increased by 2.9 points to 48.5 points. Respondents linked the on-going contraction in activity to the shrinking pipeline of resource-related construction projects and limited new investment activity.
- Commercial construction recorded a seventh month of contraction. However, activity in the sector moved close to stabilisation with the sub-index rising by 1.1 points to 49.2 points in May.



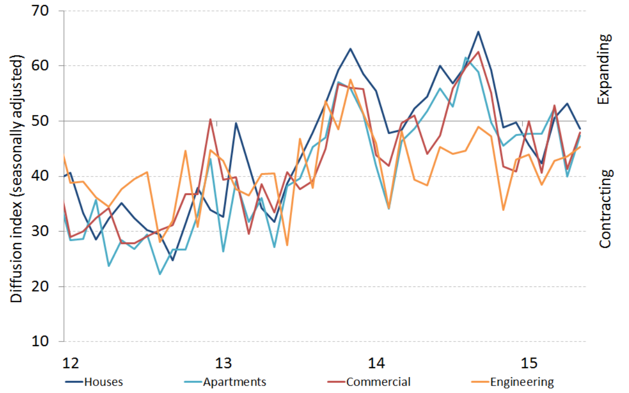
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in May for a second consecutive month.
- The new orders sub-index registered 48.0 points in May. This was a rise of 3.4 points from April, indicating a moderation in the rate of decline during the month
- Falls in new orders were recorded across all sectors in May. However, declines in new orders were notably slower in apartment building and commercial construction following sharp contractions in April.
- Consistent with the continued softness in aggregate demand, deliveries of inputs from suppliers declined in May for the fifth time in six months. Moreover, the rate of decline was steeper in the month with the supplier delivery index falling by 6.6 points to 42.9 points in May. This was the lowest reading (and therefore sharpest rate of decline) in two years.



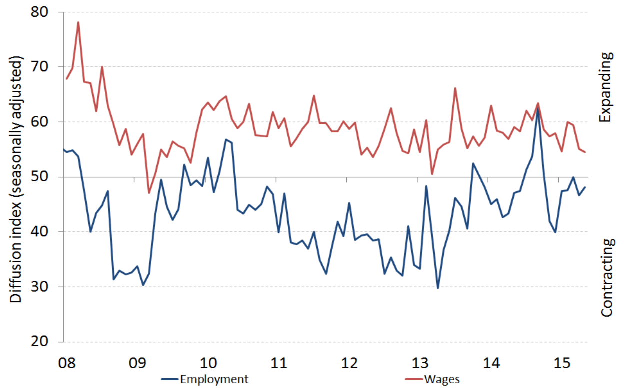

## NEW ORDERS BY SECTOR

- New orders in the house building sector turned negative in May, with the sub-index falling by 4.6 points in the month to 48.6 points. This follows growth in the previous two months, and suggests an easing in housing demand in May.
- In apartment building, new orders also contracted in May with the sub-index registering 47.4 points. However, this was a solid 7.4 points above the reading of the previous month, signalling a recovery of ground after the marked decline recorded in new orders in April.
- In the engineering construction sector, new orders fell at a slightly slower rate with the sub-index rising by 1.7 points to 45.3 points. Despite this easing, it is the sector's 17th consecutive month of contracting new orders with shrinking mining related work and project completions continuing to weigh heavily on demand.
- In commercial construction, the contraction in new orders was less pronounced with the sub-index rising by 6.6 points to 47.9 points, although this sub-50 point index level is consistent with the continued weakness in non-residential building approvals.



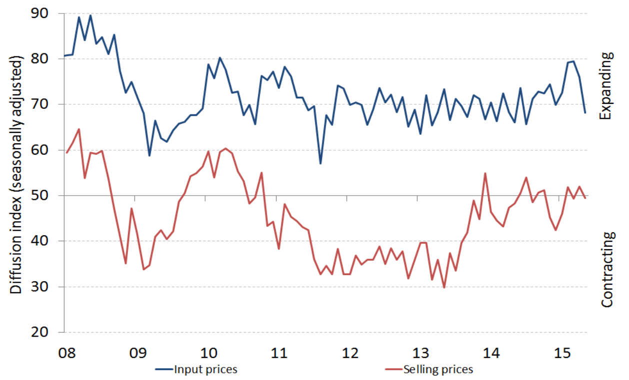

## EMPLOYMENT AND WAGES

- Employment contracted for a second consecutive month in May, albeit at a slightly slower pace.
- The employment sub-index in the **Australian PCI®** registered 48.1 points in May, an increase of 1.5 points from April.
- This indicates a general reluctance by businesses to increase their workforce capacity amid the continuation of soft demand at an aggregate level.
- Growth in wages continued in May, although at a marginally slower pace, with the wages sub-index decreasing by 0.6 points to 54.5 points.




## INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI®** moderated in May with the input prices sub-index falling by7.9 points to 68.2 points.
- The selling prices sub-index decreased by 2.5 points to 49.5 points in May, to be below the 50-points no-change threshold for the fourth time in the past six months. This reflects strong competition as builders seek to secure new work in a tight market.
- There continues to be a wide gap between these two pricing series in the **Australian PCI®** which demonstrates that pressures on profit margins remain strong. This is in line with reports from businesses (particularly in the engineering and commercial construction sectors) of strong competition for work and 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®** | **47.8** | **1.6** | **49.7** | **New Orders** | 48.0 | 3.4 | 48.9 |
| **Activity** | 49.9 | 1.6 | 50.5 | **Employment** | 48.1 | 1.5 | 49.0 |
| Houses | 48.3 | -3.3 | 52.5 | **Deliveries** | 42.9 | -6.6 | 51.0 |
| Apartments | 47.0 | -2.7 | 53.0 | **Input Prices** | 68.2 | -7.9 | 73.0 |
| Commercial | 49.2 | 1.1 | 49.9 | **Selling Prices** | 49.5 | -2.5 | 49.3 |
| Engineering | 48.5 | 2.9 | 45.8 | **Wages** | 54.5 | -0.6 | 58.5 |
| | | | | **Capacity Utilisation (%)** | 71.9 | 3.6 | 71.1 |

**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.**