

CONSTRUCTION GROWTH MAINTAINED IN SEPTEMBER

Australian PCI®
Sep 2015: 51.9↓

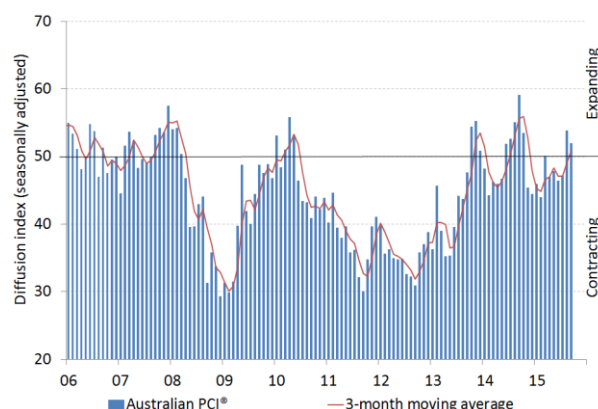
UK PCI
Jul 2015: 57.1↓

Germany PCI
Jul 2015: 50.6↓

Ireland PCI
Jul 2015: 59.1↓

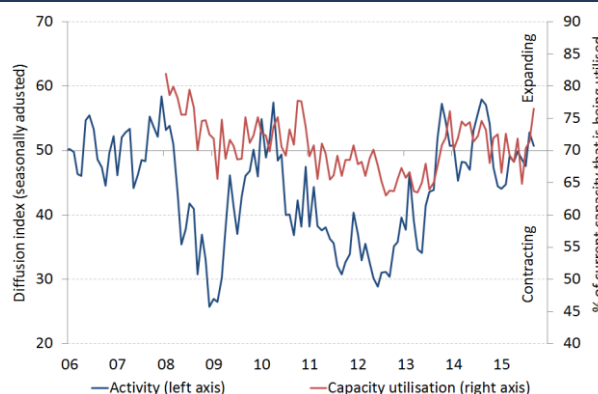
KEY FINDINGS

- The national construction industry expanded for a second consecutive month in September, with a slight easing in the pace of growth from August.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 51.9 points in September. This was above the critical 50 points level (that separates expansion from contraction), and down by 1.9 points on the reading of the previous month, signalling a slower rate of industry growth.
- Across the four sub-sectors in the **Australian PCI®**, apartment building activity again expanded solidly and at a rate that was the strongest in the past 13 months. House building activity also continued to expand with its rate of growth at an 11-month high in September.
- In contrast, engineering construction activity fell further into negative territory in response to the on-going decline in mining-related investment. The sector's activity sub-index contracted for a fifteenth consecutive month and at the steepest pace since mid-2014. Commercial construction also declined, although conditions in this sector were close to stabilisation after lifting in August and September saw a further expansion of new orders in this sub-sector.
- Across the construction industry, activity, new orders and employment all lifted in September.
- Despite the slower rate of growth in September, residential builders were generally positive in their assessment of business conditions citing low interest rates and the release of land for new housing developments as key factors supporting activity.
- However, on a broader industry front, respondents to the **Australian PCI®** pointed to on-going pressures arising from subdued private sector investment, a highly competitive pricing environment and tight margins.



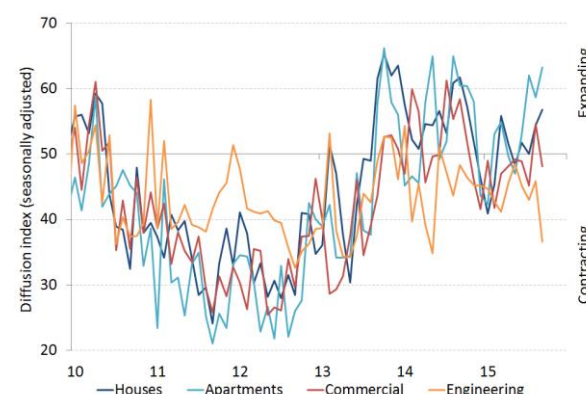
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 50.7 points in September. This was 2.1 points below the level of the previous month, indicating only a marginal rise in overall construction activity.
- Continued weakness in engineering construction and a drop in commercial building work dragged down overall levels of construction in September. This is despite further growth in house and apartment building activity.
- The rate of capacity utilisation was higher at 76.5% of capacity being utilised across the construction industry in September, up from 71.4% in July (not seasonally adjusted). This was the highest rate of capacity utilisation in almost five years.



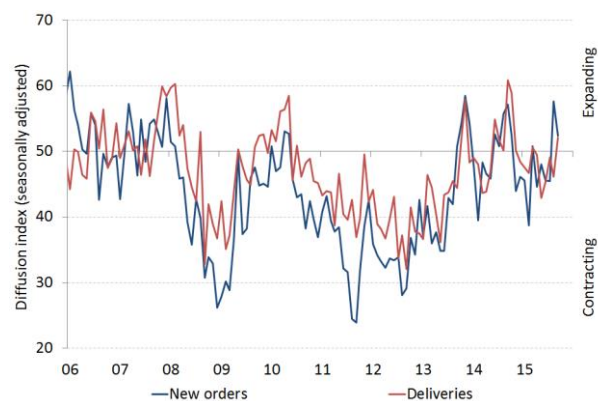
ACTIVITY BY SECTOR

- House building activity continued to expand in September. The sector's activity sub-index increased by 2.4 points to 56.8 points. This was the highest rate of expansion in the past 11 months and coincided with a further rise in new orders.
- Apartment building activity lifted more strongly in September. The sector's sub-index rose 4.5 points to 63.2 points, indicating the fastest pace of growth since August 2014 (64.9 points).
- The commercial construction sector's sub-index returned to negative territory, falling by 6.5 points to 48.1 points in September. Respondents noted a continuation of mixed conditions across the major commercial project categories.
- Engineering construction activity contracted in September for the 15th consecutive month and at a steeper rate. The sector's activity sub-index fell sharply by 9.3 points to 36.6 points. The on-going weakness in engineering construction followed a 0.6% q/q and 11.5% p.a. trend decline in work done by the sector in Q2 2015 (ABS *Engineering Construction Activity*) as the pipeline of resource-related construction continues to shrink.



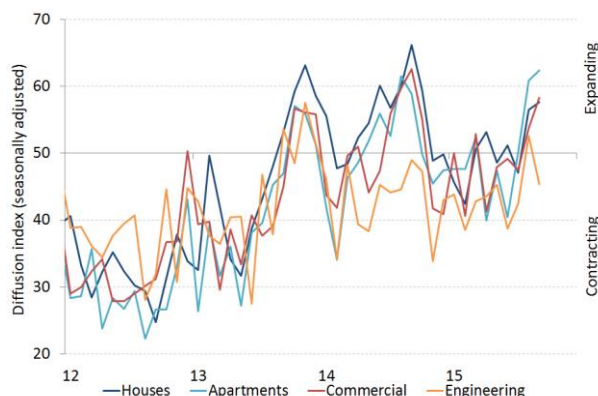
NEW ORDERS AND DELIVERIES

- New orders increased for a second consecutive month in September, although the rate of growth moderated from the near two-year high level recorded in August. The new orders sub-index (seasonally adjusted) declined by 5.2 points to 52.4 points in the month.
- Growth in new orders was recorded across the residential and commercial construction sectors in the **Australian PCI®**, with the reading on new orders in the apartment sector the highest in the nine years since September 2006.
- Housing and commercial construction growth rates for new orders were solid at one-year highs whereas new orders in engineering construction contracted after a return to growth in August.
- Reflecting the growth in aggregate new orders and industry activity, deliveries of inputs from suppliers in the **Australian PCI®** expanded in September for the first time in six months. The supplier delivery index increased by a solid 6.0 points in September to 52.1 points.



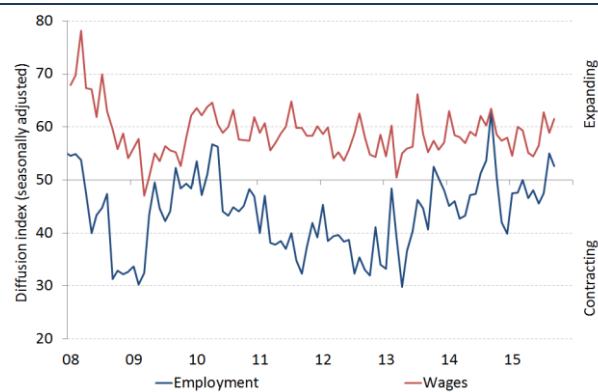
NEW ORDERS BY SECTOR

- New orders in the house building sector expanded further in September, rising by 1.1 points to 57.6 points. This was the fifth increase in the past seven months and the highest rate of growth since October 2014 (59.3 points).
- In the apartment building sector, new orders again showed solid expansion in September with the sub-index registering 62.4 points, an increase of 1.5 points from August. This indicates that the existing pipeline of apartments to be built remains at an elevated level which should sustain solid apartment building activity in 2015-16.
- Commercial construction also recorded an expansion in new orders this month. The sector's new orders sub-index increased by 4.6 points to 58.3 points, the highest level for this sub-index since September 2014 (62.6 points). This is an encouraging sign of an improvement in property investment demand with a potential upside to activity in the year ahead.
- New orders in the engineering construction sector returned to negative territory in September after expanding in August following 19 consecutive months of decline. The sub-index registered 45.4 points (down 7.2 points) in September with respondents attributing this decrease to the ongoing winding back in mining-related projects. This trend is also evident in the 8.8% q/q (-28.7% p.a.) fall in the value of private engineering work yet to be done (that is, in the pipeline) in Q2 2015 recorded by the ABS (ABS *Engineering Construction Activity*).



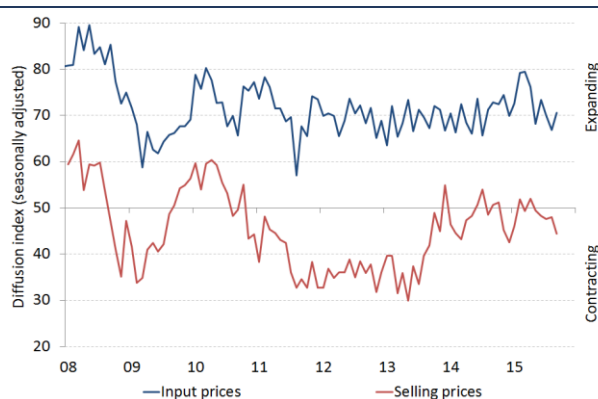
EMPLOYMENT AND WAGES

- Construction employment expanded for a second consecutive month in September with the employment sub-index within the **Australian PCI®** registering 52.6 points. However, this was a fall of 2.4 points from the previous month, indicating a slower rate of growth in the month. It follows a 1.7% p.a. increase in construction employment over the year to May 2015 as the more labour-intensive residential building sector offsets the scaling back of major project activity (ABS, seasonally adjusted).
- Growth in construction wages continued in September, with the wages sub-index registering 61.5 points. This was a rise of 2.6 points from August, indicating a higher rate of wages growth in September. Nevertheless, overall wage growth in the construction industry is likely to have remained generally contained in recent months, due to ongoing weakness in the national labour market as well as weak consumer inflation, at just 1.5% p.a. in Q2 2015.



INPUT COSTS AND SELLING PRICES

- Input price growth in the **Australian PCI®** picked-up in September, with the sub-index increasing by 3.8 points to 70.6 points. This is a likely reflection of higher prices for imported building inputs due to the lower value of the Australian dollar.
- Selling prices continued to contract in September and at a steeper rate. The selling prices sub-index in the **Australian PCI®** decreased by 3.6 points to 44.4 points.
- Strong competition among builders continues to exert downward pressure on general construction selling prices.
- The widening gap between the two pricing series in the **Australian PCI®** demonstrates that pressures on profit margins remain strong. This is reflected also in widespread reports from respondents of a highly competitive tender pricing environment in the construction industry.



| | Index this month | Change from last month | 12 month average | | Index this month | Change from last month | 12 month average |
|------------------------|---------------------|---------------------------|---------------------|--------------------------|---------------------|---------------------------|---------------------|
| Australian PCI® | 51.9 | -1.9 | 48.1 | New Orders | 52.4 | -5.2 | 47.6 |
| Activity | 50.7 | -2.1 | 48.5 | Employment | 52.6 | -2.4 | 47.7 |
| Houses | 56.8 | 2.4 | 50.9 | Deliveries | 52.1 | 6.0 | 49.0 |
| Apartments | 63.2 | 4.5 | 53.8 | Input Prices | 70.6 | 3.8 | 73.0 |
| Commercial | 48.1 | -6.5 | 47.6 | Selling Prices | 44.4 | -3.6 | 48.0 |
| Engineering | 36.6 | -9.3 | 45.2 | Wages | 61.5 | 2.6 | 58.1 |
| | | | | Capacity Utilisation (%) | 76.5 | 5.1 | 70.4 |

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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