

APARTMENTS DRIVE BUILDING GROWTH IN OCTOBER

Australian PCI®
 Oct 2015: **52.1**↑

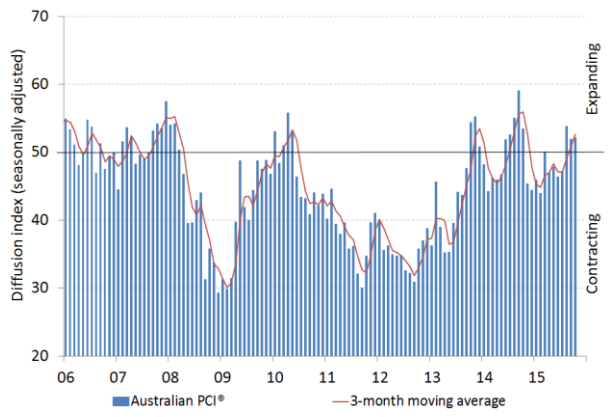
UK PCI
 Sep 2015: **59.9**↑

Germany PCI
 Sep 2015: **52.4**↑

Ireland PCI
 Sep 2015: **55.8**↓

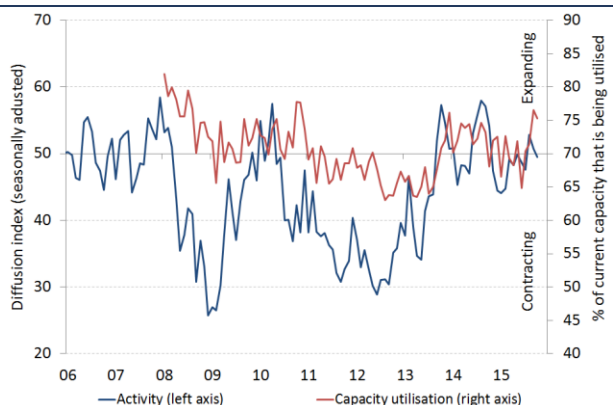
KEY FINDINGS

- The national construction industry expanded for a third consecutive month in October, at a rate that was broadly unchanged from September.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 52.1 points in October. This was above the critical 50 points level (that separates expansion from contraction), and up slightly by 0.2 points on the reading from the previous month.
- Across the four sub-sectors in the **Australian PCI®**, apartment building activity drove growth in industry conditions in October. The sector's activity sub-index expanded for a fifth consecutive month and at the steepest pace in the ten years since the start of the survey in September 2005. However, house building activity weakened in October, returning to negative territory for the first time in five months.
- Commercial construction also declined, although conditions in this sector moved close to stabilisation amid reports of an increase in new tender wins. Engineering construction remained the weakest performing area of construction activity, although its rate of decline moderated in the month. There were encouraging reports that new infrastructure work was softening the impact of diminishing mining-related project work.
- Across the construction industry, new orders and employment both showed stronger growth in October. The activity sub-index contracted slightly after expanding during the previous two months.
- Reports from residential builders were mixed. While respondents to the **Australian PCI®** were positive in their assessment of apartment building activity, a softening in housing conditions was apparent with reports of fewer customer enquiries and lower new orders in the month.
- A number of survey respondents also pointed to on-going pressures from a highly competitive pricing environment and tight margins.



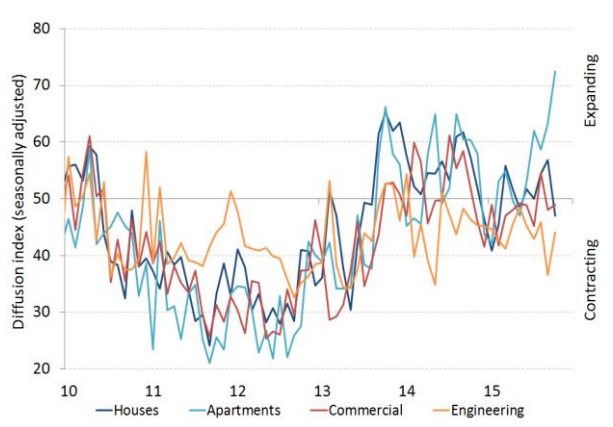
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 49.5 points in October. This was 1.2 points below the level of the previous month, indicating a marginal fall in overall construction activity.
- A drop in house building work and a continued contraction in engineering construction were mainly responsible for dragging down overall levels of construction activity in October. This is despite stronger growth in apartment building activity.
- The rate of capacity utilisation was lower at 75.3% of capacity being utilised across the construction industry in October, down from 76.5% in September (not seasonally adjusted). However, it was the second highest capacity rate in five years and 4.4 percentage points above the 12-month average of 70.9% of total industry capacity being utilised.



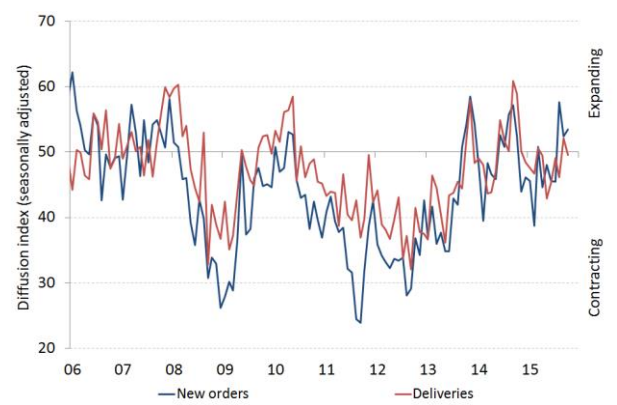
ACTIVITY BY SECTOR

- House building activity contracted for the first time in five months. The sector's activity sub-index fell sharply by 9.8 points to 47.0 points. This was the softest activity reading for the sector since February 2015, and coincided with an equally sharp drop in new orders.
- Apartment building activity lifted more strongly in October. The sector's sub-index rose 9.2 points to 72.4 points, indicating the fastest pace of growth in the ten-year history of the survey. It also marked the sector's fifth consecutive month of expansion.
- Commercial construction contracted for the eleventh time in the past 12 months. However, activity in the sector moved close to stabilisation with the sub-index rising by 0.9 points to 49.0 points in October. Despite patchy conditions across the sector, respondents noted strengthening activity in various key building categories. This includes accommodation, education, sport and recreation building.
- Engineering construction activity contracted for the 16th consecutive month in October, although at a slower rate. The sector's sub-index rose by 7.5 points to 44.1 points in the month. Respondents mainly attributed this to an improvement in levels of infrastructure work on the east coast.



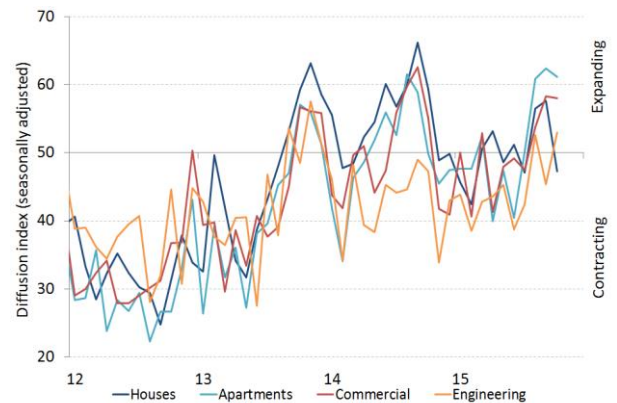
NEW ORDERS AND DELIVERIES

- New orders expanded in October for a third consecutive month.
- The new orders sub-index (seasonally adjusted) increased by 1.1 points to 53.5 points in October, indicating a stronger rate of expansion during the month. This suggests a positive outlook for overall industry activity in coming months.
- Growth in new orders was recorded across the apartments, engineering and commercial construction sectors in the **Australian PCI®**, with the reading on new orders in the apartment sector only slightly below the nine-year high level recorded in the previous month.
- New orders in commercial construction increased for a third consecutive month while the growth rate in engineering construction was the firmest in close to two years.
- Despite growth in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI®** dipped in October to be slightly below the 50 points no-change threshold. The supplier delivery index decreased by 2.5 points in October to 49.6 points.



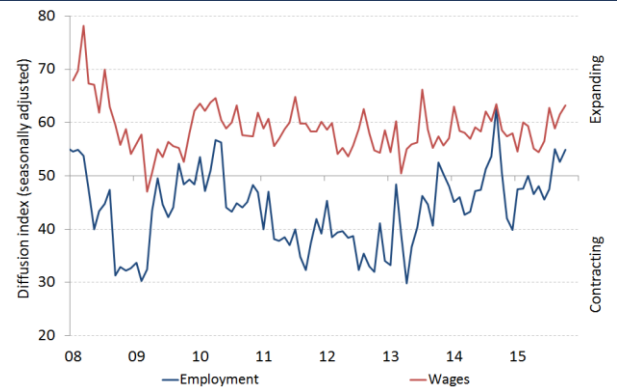
NEW ORDERS BY SECTOR

- New orders in the house building sector turned negative in October with the sub-index falling by 10.3 points in the month to 47.3 points. Orders for new housing have been volatile this year having expanded in four of nine months. Similarly, ABS data show that private house building approvals increased by 1.5% over the year to September, but fell by 1.9% in September (seasonally adjusted).
- In the apartment building sector, new orders again showed solid expansion in October with the sub-index registering 61.1 points, just 1.3 points below the reading in September. This indicates that the pipeline of apartments to be built remains at an elevated level which should support continued strength in apartment building activity well into 2016.
- Commercial construction also recorded continued expansion in new orders this month. The sector's new orders sub-index registered 58.0 points to be only 0.3 percentage points below the 12-month high level recorded in the previous month. This is a further encouraging sign of an improvement in property investment demand with a potential upside to activity in 2016. It follows a 2.9% m/m (+8.8% p.a.) rise in non-residential building approvals in September (ABS, seasonally adjusted).
- New orders in the engineering construction sector gained ground in October. The sub-index increased by 7.6 points in the month to 53.0 points. This was the highest reading since November 2013 (57.5 points) with the improvement linked to new business gains from infrastructure developments.



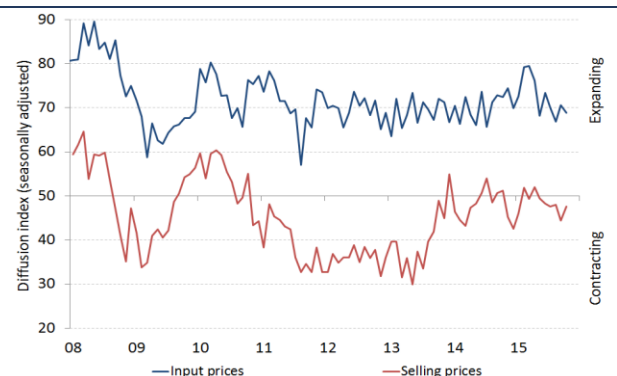
EMPLOYMENT AND WAGES

- Construction employment expanded for a third consecutive month in October with the employment sub-index within the **Australian PCI®** registering 54.9 points. This was an increase of 2.3 points from the previous month, pointing to a higher rate of growth in the month.
- October's growth in employment was the second highest in the past 12 months and indicates that job creation is being supported by the continuation of rising demand at the aggregate level.
- Growth in construction wages continued in October, with the wages sub-index registering 63.2 points. This was a rise of 1.7 points from September, indicating a higher rate of wages growth in October. 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 subdued consumer inflation, at just 1.5% p.a. in Q3 2015.



INPUT COSTS AND SELLING PRICES

- Input price growth in the **Australian PCI®** eased slightly in October, with the sub-index decreasing by 1.7 points to 68.9 points, below the 12-month average of 72.5 points. This follows a period of elevated input pricing through much of the first half of 2015, likely reflecting higher prices for imported building inputs due to a recently lower Australian dollar.
- Selling prices continued to contract in October, albeit at a slower rate. The selling prices sub-index in the **Australian PCI®** increased by 3.2 points to 47.6 points.
- The ongoing gap between the two pricing series in the **Australian PCI®** demonstrates that pressures on profit margins remain in train. 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®	52.1	0.2	48.0	New Orders	53.5	1.1	47.7
Activity	49.5	-1.2	48.1	Employment	54.9	2.3	48.1
Houses	47.0	-9.8	50.0	Deliveries	49.6	-2.5	48.2
Apartments	72.4	9.2	54.8	Input Prices	68.9	-1.7	72.5
Commercial	49.0	0.9	47.4	Selling Prices	47.6	3.2	47.7
Engineering	44.1	7.5	44.0	Wages	63.2	1.7	58.5
				Capacity Utilisation (%)	75.3	-1.2	71.0

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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