

CONSTRUCTION GROWTH EASES IN NOVEMBER

Australian PCI®
 Nov 2015: **50.7**↓

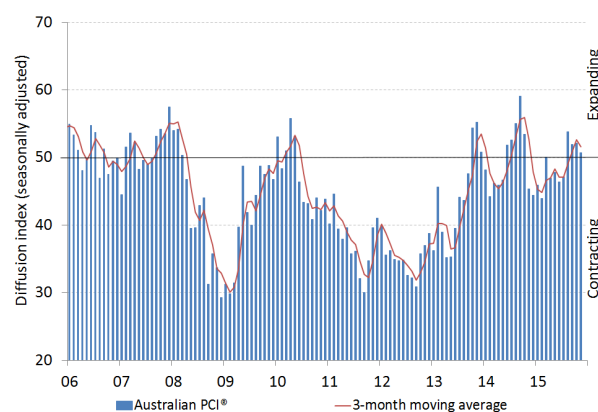
UK PCI
 Oct 2015: **58.8**↓

Germany PCI
 Oct 2015: **51.8**↓

Ireland PCI
 Oct 2015: **56.3**↑

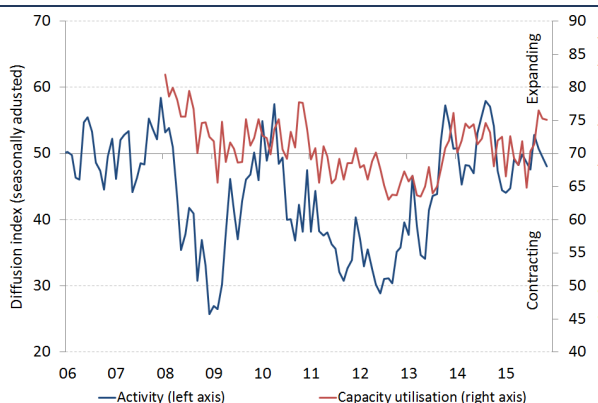
KEY FINDINGS

- The national construction industry continued to expand in November, although the pace of growth was marginal and the slowest since overall conditions returned to growth in August.
- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 1.4 points to 50.7 points in November (readings above 50.0 points indicate expansion).
- Across the four sub-sectors in the **Australian PCI®**, apartment building activity expanded solidly and at a rate that was only slightly below October's 10-year high level. However, house building remained in negative territory with activity declining for a second consecutive month.
- Commercial construction declined at a steeper rate after showing encouraging signs of moving close to stabilisation in recent months. Engineering construction continued to contract, although its rate of decline moderated for a second consecutive month. This was consistent with reports from some businesses that the uptake of new infrastructure work was helping to soften the impact of a diminishing pipeline of mining-related projects.
- Across the construction industry, new orders slipped slightly into negative territory (after growth in the previous three months) while the activity sub-index registered a second month of mild contraction. More positively, deliveries from suppliers increased in November while employment expanded for a fourth consecutive month.
- Respondents to the **Australian PCI®** were generally positive in their assessment of apartment conditions indicating that project work had held firm in November. However, a slower housing market was evident with reports of fewer customer enquiries, lower new orders and reduced sales. This was mainly linked to the negative impact on home buyer sentiment from recent rises in bank mortgage rates and tighter lending criteria for investors.
- A highly competitive pricing environment and continued declines in mining-related projects were the main negatives on a broader industry front.



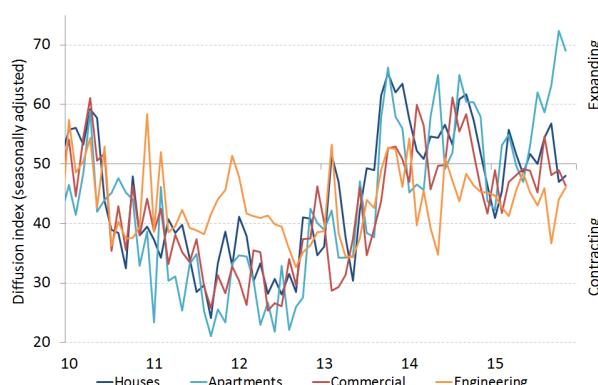
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 48.1 points in November. This was 1.4 points below the level of the previous month, indicating a slightly steeper fall in overall construction activity.
- Despite strong growth in apartment building activity, overall levels of construction activity in November were adversely impacted by continued falls in house building, engineering and commercial construction work.
- The rate of capacity utilisation was slightly lower at 75.1% of capacity being utilised across the construction industry in November, down from 75.3% in October (not seasonally adjusted). However, it was 3.9 percentage points above the 12-month average of 71.2% of total industry capacity being utilised.



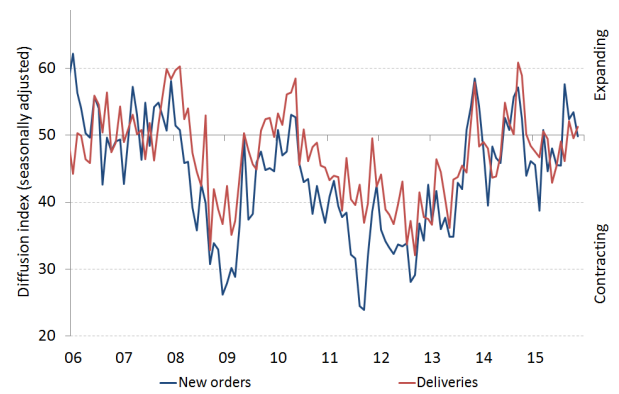
ACTIVITY BY SECTOR

- House building activity contracted for a second consecutive month, albeit at a milder rate. The sector's activity sub-index increased by 1.0 point to 48.0 points. This soft activity reading coincided with a further drop in new orders.
- Apartment building activity remained solid in November. Despite the sector's sub-index falling by 3.4 points to 69.0 points, this indicated the second fastest pace of growth in the ten-year history of the survey. It also marked the sector's sixth consecutive month of expansion.
- Commercial construction contracted for the twelfth time in the past 13 months. The sector's activity sub-index fell by 2.7 points to 46.3 points in November with respondents noting a continuation of mixed conditions across the major commercial project categories.
- Engineering construction activity contracted for the 17th consecutive month in November. This reflects further drops in new engineering construction investment (which fell by 7.1% q/q and 21.5% p.a. in Q3 2015 in the ABS National Accounts). The sector's activity sub-index, however, increased by 1.9 points to 46.0 points in November amid reports of a lift in infrastructure activity on the east coast.



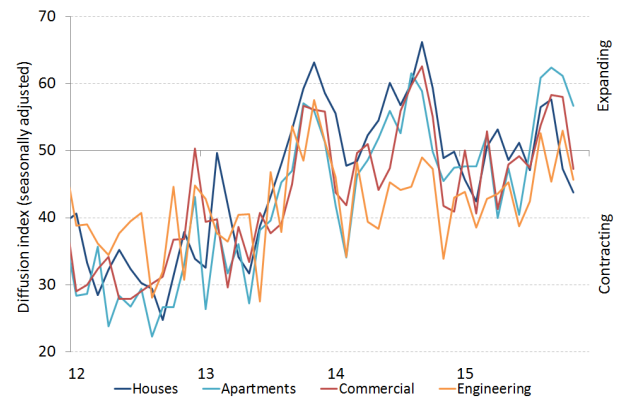
NEW ORDERS AND DELIVERIES

- The new orders sub-index (seasonally adjusted) decreased by 3.7 points in November to be slightly below the 50 points no-change threshold at 49.8 points.
- This indicates broadly stable levels of new orders across the construction industry during November with demand softer after three consecutive months of growth.
- New orders in the house building, commercial and engineering construction sub-sectors in the **Australian PCI**® contracted at steeper rates in November. In contrast, new orders in the apartment sub-sector continued to expand, albeit at a slower rate.
- Despite the weakening in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI**® increased in November. The supplier delivery index rose by 1.7 points in the month to 51.3 points.



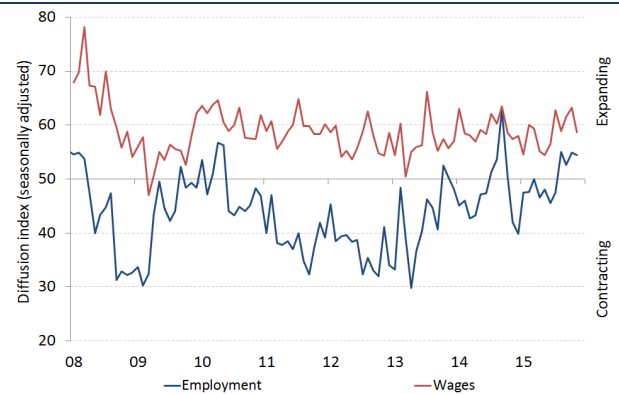
NEW ORDERS BY SECTOR

- New orders in the house building sector contracted for a second month in November with the sub-index falling by 3.5 points in the month to 43.8 points. This was the lowest reading (and therefore the highest rate of contraction) in orders for new housing in nine months. It follows a 2.1% decline in private sector house approvals in October (ABS, seasonally adjusted).
- In the apartment building sector, new orders continued to expand in November with the sub-index registering 56.7 points. However, this was 4.4 points below the reading for October, and could be an early sign of an easing in the apartment project pipeline.
- New orders lost ground in the commercial construction sector in November following solid growth in the previous two months. Reinforcing the patchiness in market conditions and the general softness in commercial property investment demand, the new orders sub-index decreased by 10.7 points to 47.3 points. This weakness is also reflected the 1.0% m/m decline in non-residential building approvals in October (ABS seasonally adjusted data).
- New orders in the engineering construction sector also turned negative in November. The sub-index decreased by 7.3 points in the month to 45.7 points to retrace October's gains. Orders for engineering projects have been highly volatile in recent months reflecting the mixed demand drivers of diminishing mining-related projects and the support flowing to various businesses from the securing of infrastructure work.



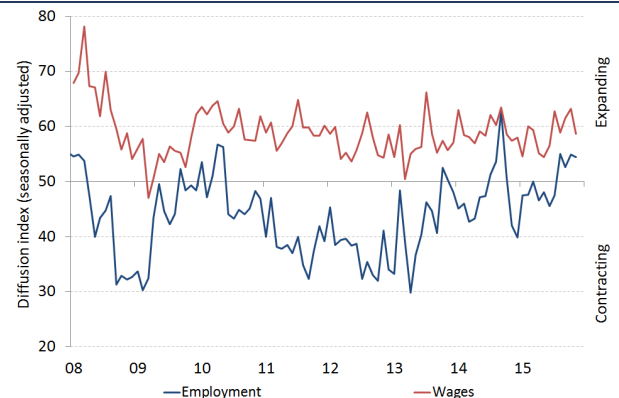
EMPLOYMENT AND WAGES

- Construction employment expanded for a fourth consecutive month in November with the employment sub-index within the **Australian PCI**® registering 54.5 points. This was a decrease of 0.4 points from the previous month, indicating a slightly slower rate of growth in the month.
- November's growth in employment was the third highest in the past 12 months and indicates that job creation is being supported by the more recent improvement in demand and the continued overall expansion in the construction industry.
- Growth in construction wages continued in November, with the wages sub-index registering 58.7 points. However, this was a fall of 4.5 points from October, indicating a slower rate of wages growth in November. Overall wages 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 in November, with the sub-index decreasing by 3.0 points to 65.9 points, below the 12-month average of 71.8 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 November and at a steeper rate. The selling prices sub-index in the **Australian PCI**® decreased by 4.8 points to 42.8 points.
- Strong competition among builders continues to exert downward pressure on general construction selling prices.
- The ongoing 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 ®	50.7	-1.4	48.4	New Orders	49.8	-3.7	48.2
Activity	48.1	-1.4	48.2	Employment	54.5	-0.4	49.1
Houses	48.0	1.0	49.7	Deliveries	51.3	1.7	48.3
Apartments	69.0	-3.4	55.8	Input Prices	65.9	-3.0	71.8
Commercial	46.3	-2.7	47.4	Selling Prices	42.8	-4.8	47.5
Engineering	46.0	1.9	44.1	Wages	58.7	-4.5	58.6
				Capacity Utilisation (%)	75.1	-0.2	71.2

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>.

© 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.