

CONSTRUCTION STARTS YEAR ON SOFT FOOTING

Australian PCI®
 Jan 2016: **46.3**↓

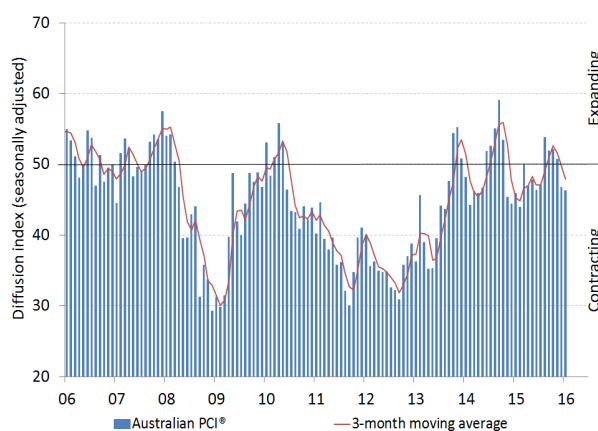
UK PCI
 Jan 2016: **55.0**↓

Germany PCI
 Dec 2015: **55.5**↑

Ireland PCI
 Dec 2015: **58.6**↑

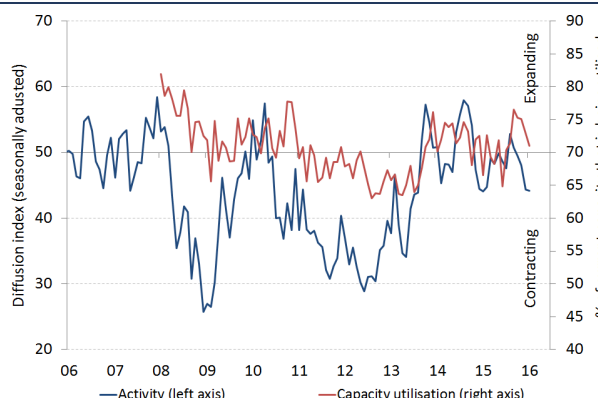
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 0.5 points to 46.3 points in January. This indicated a broadly unchanged rate of contraction from December.
- It is the second consecutive month that the **Australian PCI®** has been below the critical 50 points level that separates expansion from contraction, following the industry's return to growth in August 2015.
- Across the four sub-sectors in the **Australian PCI®**, apartment building returned to negative territory following six months of expansion. House building meanwhile recorded a second month of growth, albeit at a slightly slower pace.
- Commercial construction was the weakest performing area of construction activity, contracting at its sharpest rate in 3½ years. Engineering construction activity also remained subdued, declining at a broadly unchanged rate from the previous month.
- For the construction industry as a whole, activity and new orders recorded slightly steeper declines in January while supplier deliveries turned down following two months of growth. Employment edged higher in January, although the pace of growth was the second slowest in six months.
- Australian PCI®** respondents generally linked the subdued state of the industry to soft overall demand conditions, citing a lack of new work to replace projects completed at the end of 2015 and a continued winding back in mining and heavy industrial construction work.
- Reports from residential builders were mixed. While house building respondents to the **Australian PCI®** were generally positive in their assessment of activity levels, a softening in apartment conditions was apparent with reports of fewer enquiries in the month and increased caution by would-be purchasers.



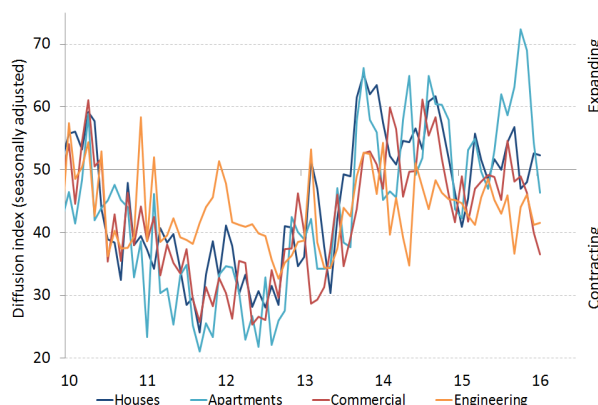
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 44.2 points in January.
- This was 0.2 points below the level of the previous month, signalling that the rate of contraction in total industry activity was almost unchanged during January.
- Despite a lift in house building activity, overall levels of construction activity in January were adversely impacted by continued falls in engineering and commercial construction work as well as a renewed contraction in apartment building activity.
- The rate of capacity utilisation was lower at 71.0% of capacity being utilised across the construction industry in January, down from 72.9% in December 2015 (not seasonally adjusted). It was also 0.6 percentage points below the 12-month average of 71.6% of total industry capacity being utilised.



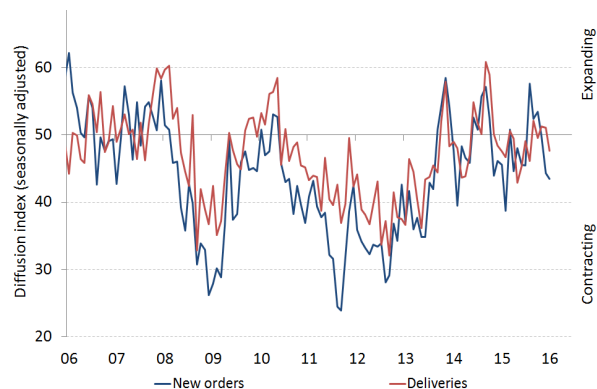
ACTIVITY BY SECTOR

- House building activity expanded for a second consecutive month, although at a slightly slower pace. The sector's activity sub-index decreased by 0.3 points to 52.3 points. The housing activity sub-index has now been positive in eight of the past 13 months.
- Apartment building activity turned down in January following seven months of growth. The sector's sub-index declined by 7.9 points to 46.4 points, signalling the most subdued level of activity (and therefore the highest rate of contraction) in 12 months.
- Commercial construction contracted for the fourteenth time in the past 15 months. The sector's activity sub-index fell by 3.5 points to 36.5 points in January, the sharpest rate of contraction since July 2013 (34.6 points). This is consistent with the continuation of soft approval trends in the sector and the patchy conditions across the major commercial building categories.
- Engineering construction activity contracted for the 19th consecutive month in January reflecting the on-going decline in mining-related construction activity. The sector's activity sub-index registered 41.5 points in January, just 0.3 points above December's activity reading.



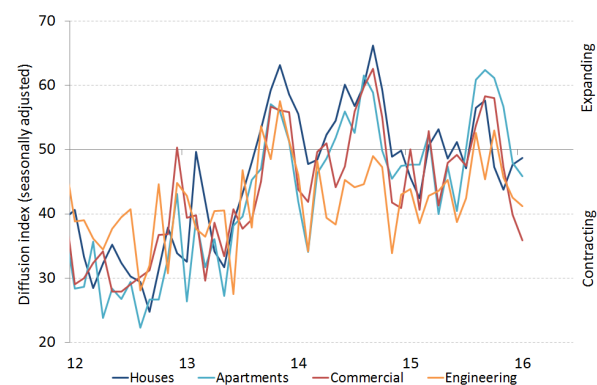
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted in January for a third consecutive month.
- The new orders sub-index (seasonally adjusted) registered 43.5 points in January. This was a decline of 0.8 points from December and the lowest new orders reading since February 2015.
- This result reflected continued contractions in new orders across all four sub-sectors in the **Australian PCI®** in January 2016. Steeper rates of decline were recorded in the apartment, engineering and commercial construction sub-sectors. The house building sub-sector experienced a fourth month of declining new orders, although the rate of contraction moderated slightly from December.
- Reflecting the further drop in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI®** also contracted in January after two months of growth. The supplier delivery index fell by 3.4 points to 47.7 points in January, the steepest contraction since August 2015.



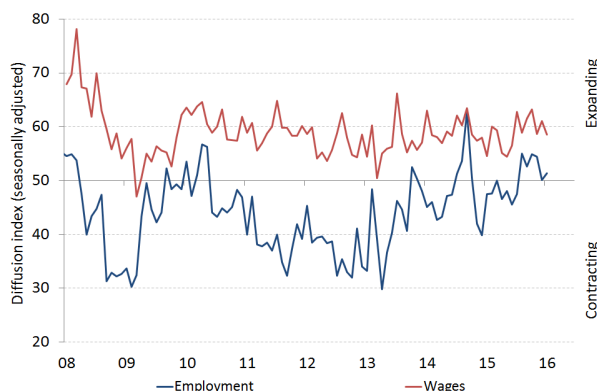
NEW ORDERS BY SECTOR

- New orders in the house building sector contracted for a fourth month in January with the sub-index registering 48.7 points. However, this was an increase of 1.0 points from December, indicating a slower rate of contraction in the month.
- In the apartment building sector, new orders contracted for a second consecutive month. In a further sign that demand for new apartment developments is cooling (relative to the peak in early 2015), the sector's sub-index registered 45.9 points in January to be 2.0 points below the reading for December. It was also the steepest rate of decline since June 2015 (40.4 points).
- New orders continued to lose ground in the commercial construction sector in January. Consistent with the overall softness in non-residential building approvals during 2015, the new orders sub-index decreased by 4.0 points to 35.9 points. This was the lowest reading on new orders for the sector since May 2013 (33.4 points) and points to continued weakness in commercial activity in coming months.
- New orders in the engineering construction sector also fell more sharply in January. The sub-index decreased by 1.3 points in the month to 41.2 points. This reflects the continued drag on activity levels from a narrowing pipeline of mining and heavy industrial projects.



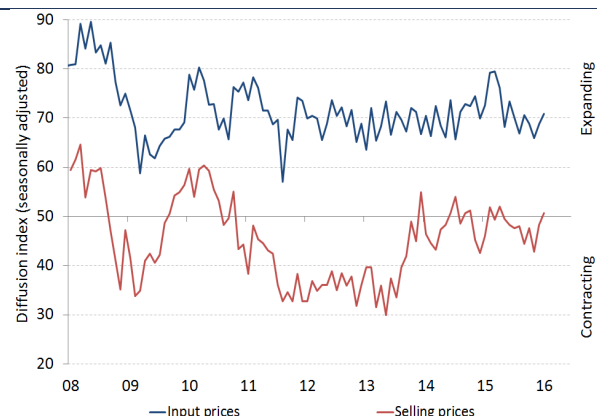
EMPLOYMENT AND WAGES

- Construction employment expanded for a sixth consecutive month in January with the employment sub-index within the **Australian PCI®** registering 51.4 points. This was an increase of 1.3 points from the previous month, pointing to a slightly higher rate of growth in the month.
- January's growth in employment was, however, the second slowest in the six months since August 2015, suggesting that businesses have started to adopt a more cautious approach to their hiring intentions.
- Growth in construction wages continued in January, with the wages sub-index registering 58.5 points. This was a fall of 2.6 points from December, indicating that the pace of wages growth was slower in the month. Overall wages growth in the construction industry is likely to have remained generally contained in recent months with prices inflation remaining relatively subdued (CPI at 1.7% in Q4 2015).



INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI®** remained at relatively elevated level in January, with the input prices sub-index rising by 2.1 points to 70.8 points. This upward pricing pressure for inputs largely reflects the impact of the low Australian dollar on imported construction inputs.
- The selling prices sub-index in the **Australian PCI®** increased by 2.3 points to 50.6 points in January, to be above the 50-points no-change threshold for the first time in nine months. This suggests that the pressure on input prices from the lower dollar, rising wages and other factors is now being passed on (at least partially), despite strong market competition.
- The ongoing gap between the two pricing series in the **Australian PCI®** demonstrates that pressures on profit margins remain strong. This is evident in the 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®	46.3	-0.5	48.7	New Orders	43.5	-0.8	47.9
Activity	44.2	-0.2	48.2	Employment	51.4	1.3	50.3
Houses	52.3	-0.3	51.2	Deliveries	47.7	-3.4	48.5
Apartments	46.4	-7.9	57.0	Input Prices	70.8	2.1	71.5
Commercial	36.5	-3.5	46.2	Selling Prices	50.6	2.3	48.4
Engineering	41.5	0.3	43.5	Wages	58.5	-2.6	59.2
				Capacity Utilisation (%)	71.0	-1.9	71.6

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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