

# CONSTRUCTION CONTINUES TO STRUGGLE IN MARCH

**Australian PCI®**  
 Mar 2016: 45.2↓

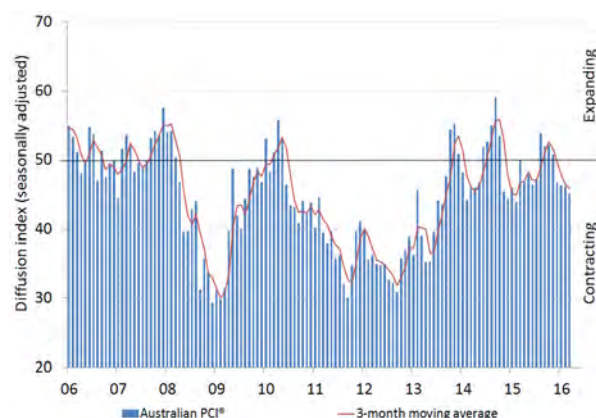
**UK PCI**  
 Mar 2016: 54.2 —

**Germany PCI**  
 Feb 2016: 59.6↑

**Ireland PCI**  
 Feb: 68.8↑

## KEY FINDINGS

- The national construction industry contracted at a slightly steeper pace in March with the Australian Performance of Construction Index (**Australian PCI®**) declining by 0.9 points to a 13-month low of 45.2 points.
- It is the fourth consecutive month that the **Australian PCI®** has been below the critical 50 points level that separates expansion from contraction amid a continuation of soft overall demand conditions.
- Across the four sub-sectors in the **Australian PCI®**, house building activity contracted for a second consecutive month in March, and at its sharpest rate in 14 months. The apartment building sector continued to expand, although growth was modest and well below the solid rates of increase seen over much of the second half of 2015.
- Subdued conditions persisted in the commercial construction sector with activity close to stabilisation in March. Engineering construction meanwhile declined more steeply consistent with the on-going decline in mining and heavy industrial construction activity.
- Across the construction industry, activity slipped further into negative territory while the new orders sub-index registered a fifth month of contraction, albeit at a slower pace. Reflecting these tough operating conditions, employment fell at its most pronounced rate in 15 months.
- **Australian PCI®** respondents generally linked the subdued state of the industry to soft overall demand conditions, citing fewer new tender opportunities and strong competition for the available work.
- There were also reports from apartment builders of a reduction in customer enquiries and a more cautious approach by prospective purchasers. Local council planning delays and tighter lending conditions for investors were other factors seen as constraining residential market conditions.



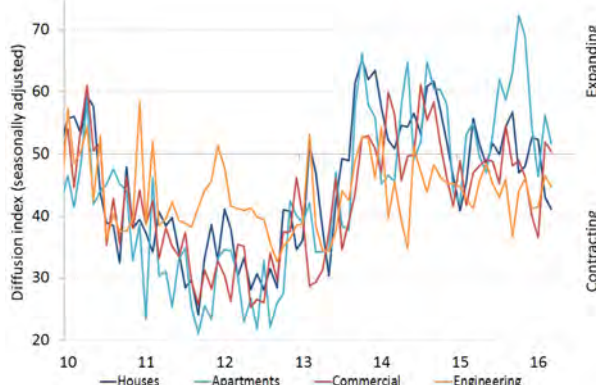
## CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 45.7 points in March.
- This was 3.9 points below the level of the previous month, signalling a steeper rate of contraction in total industry activity in March.
- Levels of activity in March were adversely impacted by falls in housing and engineering construction combined with slowing conditions in the apartment building and commercial construction sectors.
- The rate of capacity utilisation (not seasonally adjusted) was broadly unchanged in March, registering 74.7% of capacity across the construction industry compared with 74.2% in February.



## ACTIVITY BY SECTOR

- House building activity contracted for a second consecutive month. The sector's activity sub-index fell by 2.0 points to 41.1 points. This was the softest activity reading for the sector since January 2015, and appears to be linked to the weak trend in new orders seen over much of the past six months.
- Apartment building activity expanded at a more subdued rate in March. The sector's sub-index decreased by 4.7 points to 51.6 points. This was the second lowest reading since mid-2015 and coincided with a sharp drop in new orders in March.
- Commercial construction activity was also more subdued in March. The sector's sub-index declined by 1.5 points to 50.4 points, signalling a near stabilisation in levels of activity. Respondents noted a continuation of mixed conditions across the major commercial project categories such as industrial, hotel, offices and retail building.
- Engineering construction activity contracted for the 21st consecutive month in March, and at a sharper rate. The sector's activity sub-index decreased by 1.8 points to 44.7 points reflecting the on-going drag on activity levels from falling mining investment.



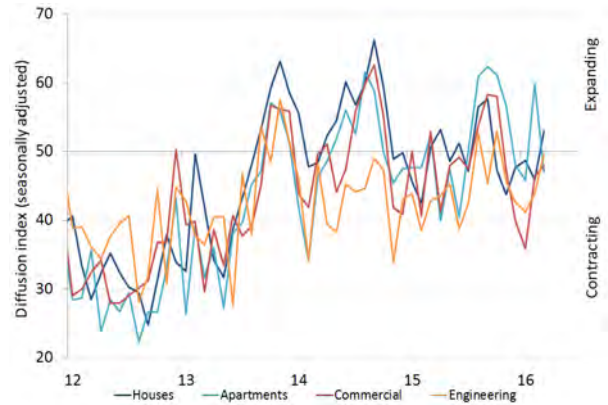
## NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) contracted for a fifth consecutive month in March.
- The new orders sub-index (seasonally adjusted) registered 44.8 points. This was an increase of 3.6 points from February, indicating a slower rate of contraction in the month.
- Falls in new orders in March occurred at a slower pace in the engineering and commercial construction sectors while house building new orders recovered some ground, rising for the first time in six months. In contrast, new orders dropped sharply in the volatile apartment building sector following a strong upturn in the previous month.
- Despite the further drop in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI®** lifted slightly in March. The supplier delivery index increased by 2.0 points to 50.8 points, indicating marginal overall growth.



## NEW ORDERS BY SECTOR

- New orders in house building improved in March following recent weak trends. After declining over the previous five months, the sector's new orders sub-index increased by 7.1 points to 53.0 points. This follows a 1.2% m/m decrease (-5.1% p.a.) in private sector house approvals in February (ABS, seasonally adjusted).
- In the apartment building sector, new orders turned down sharply. The sector's sub-index fell by 12.9 points to 47.0 points in March to almost offset the rise in new orders that occurred in February. It was the sector's third contraction in new orders in the past four months.
- New orders in the commercial construction sector contracted for a fifth consecutive month in March. However, the sector's sub-index rose by 1.6 points to 47.9 points, signalling a slower rate of decline.
- In the engineering construction sector, new orders also fell at a slower rate with the sub-index rising by 5.8 points to 49.7 points. Despite this easing, new orders have fallen in 10 of the past 12 months with shrinking mining related work and project completions continuing to weigh heavily on demand.



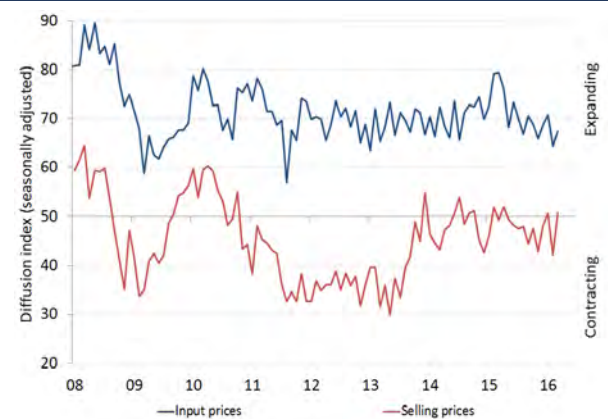
## EMPLOYMENT AND WAGES

- Construction employment contracted for a second consecutive month in March. The employment sub-index within the **Australian PCI®** registered 41.7 points, a decrease of 4.6 points from the previous month.
- This signalled the steepest rate of contraction in employment in 15 months.
- It indicates that soft demand at an aggregate industry level is discouraging a number of construction businesses from increasing their workforce at present.
- Growth in construction wages continued in March, with the wages sub-index registering 58.8 points. This was a fall of 2.0 points from February, 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

- The **Australian PCI®** input prices sub-index remained elevated at 67.4 points in March. This was an increase of 2.9 points from February indicating that cost pressures in the construction and delivery of building projects lifted during the month. This appears to be linked to the recent rally in commodity prices. The Reserve Bank of Australia's index of non-rural commodity prices rose by 1.0% (Australian dollar terms) in March 2016 following a 1.5% increase in February.
- The selling prices sub-index in the **Australian PCI®** increased by 8.7 points to 50.8 points in March, to be above the 50-points no-change threshold for only the third time in the past 12 months. This indicates that the pressures on input prices are now being passed on (at least partially), despite strong market competition.
- The ongoing gap between the two pricing series in the **Australian PCI®** highlights the strong pressures on profit margins. This is evident in the on-going 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
<b>Australian PCI®</b>	<b>45.2</b>	<b>-0.9</b>	<b>48.4</b>	New Orders	44.8	3.6	47.6
Activity	45.7	-3.9	48.3	Employment	41.7	-4.6	49.5
Houses	41.1	-2.0	49.7	Deliveries	50.8	2.0	48.7
Apartments	51.6	-4.7	57.0	Input Prices	67.4	2.9	69.3
Commercial	50.4	-1.5	47.3	Selling Prices	50.8	8.7	47.7
Engineering	44.7	-1.8	44.1	Wages	58.8	-2.0	59.2
				Capacity Utilisation (%)	74.7	0.5	72.2

**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>.

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