PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Ai GROUP

HIA

CONTACT
Peter Burn
Head of Influence and Policy
Ai Group
Tel 02 9466 5503

Shane Garrett
Senior Economist
HIA
Tel 0450 783 603

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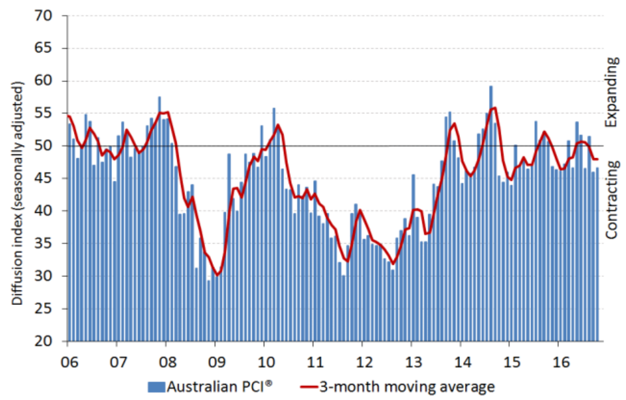
CONSTRUCTION REMAINS IN NEGATIVE TERRITORY

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
Nov 2016: **46.6**↑	Nov 2016: **52.8**↑	Oct 2016: **52.9**↑	Oct: **62.3**↑

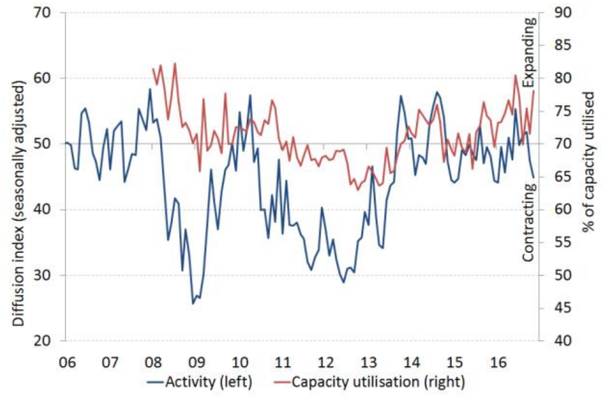
KEY FINDINGS

- The national construction industry continued to decline in November with the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** registering 46.6 points in the month (50 points is the threshold that separates expansion from contraction in the **Australian PCI®**). This was an increase of 0.7 points from October, indicating a slightly slower rate of decline for the construction industry as a whole.
- The milder contraction in the **Australian PCI®** in November was due to less pronounced reductions in new orders and deliveries from suppliers. However, activity fell at a steeper rate, while employment returned to contraction with businesses attributing this to overall sluggish demand conditions.
- All four sectors of the **Australian PCI®** contracted (i.e. below 50 points) in November. Apartment building declined for a third consecutive month, although at a rate that was slower than in October. House building recorded a fourth month of contraction, highlighting the sector's recent softening from more robust mid-year activity levels.
- Engineering construction fell further into negative territory in November, recording its lowest activity reading (and therefore sharpest rate of contraction) in 13 months.
- Commercial construction fell for a fourth month, although conditions in this sector moved close to stabilisation in November.
- Residential builders reported an easing in customer enquiries and lower sales in November. However, activity continued to receive solid support from on-going projects while investor activity was seen as remaining relatively firm in the month.
- There were some reports of a lift in project commencements in the commercial construction sector, although it was generally noted that conditions were patchy across states and major building categories. Engineering construction businesses reported a further winding back in mining-related investment which outweighed strengthening demand from new infrastructure work.



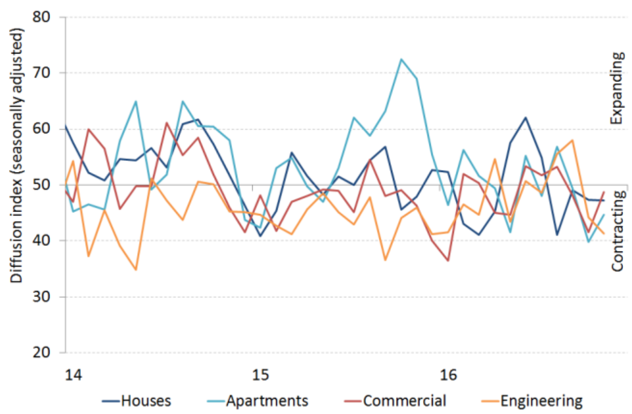
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 44.9 points in November.
- This was 2.6 points below the level of the previous month, signalling a steeper rate of contraction in total industry activity. It was the third decline in activity in the past five months.
- The decline in construction activity in November reflected softer levels of demand and new orders experienced in aggregate over the past four months.
- The rate of capacity utilisation stood at 78.1% of capacity being utilised across the construction industry, up from 71.6% in October.



ACTIVITY BY SECTOR

- House building activity contracted for a fourth consecutive month in November, although the pace of decline was unchanged from October with the sector's sub-index falling by just 0.1 points to 47.2 points. Softer conditions in the housing sector are consistent with a drop in new orders during the three months to October this year.
- Apartment building activity contracted at a slower rate in November. The sector's sub-index increased by 4.8 points to 44.7points, although this is still well below the solid growth outcome recorded in August this year (56.8 points).
- Commercial construction recorded a third consecutive month of contraction in November. However, the sector's sub-index increased by 7.2 points to 48.7 points, indicating largely stable activity in the month.
- Engineering construction activity contracted for a second month in November after encouraging signs during Q3 2016 of some strengthening in conditions on the back of a lift in non-resources infrastructure activity. In November, the sector's sub-index decreased by 2.9 points to 41.4 points, the lowest reading since September last year.

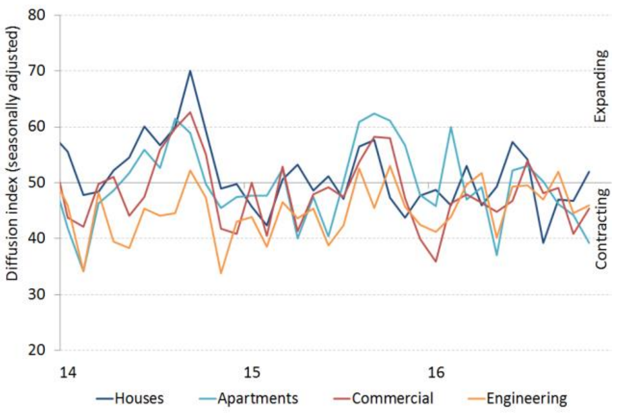


NEW ORDERS AND DELIVERIES

- New orders contracted for a fourth consecutive month in November, with this key sub-index in the **Australian PCI®** (seasonally adjusted) registering 48.4 points
- However, this was an increase of 3.8 points from October, indicating a slower rate of decline in the month.
- Falls in new orders in November were slower in the commercial and engineering construction sectors while house building new orders recovered some ground, rising for the first time in four months. In contrast, new orders fell at a steeper rate in the apartment building sector.
- In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**, albeit at a slower rate. The supplier delivery index increased by 9.8 points in November to 48.3 points.

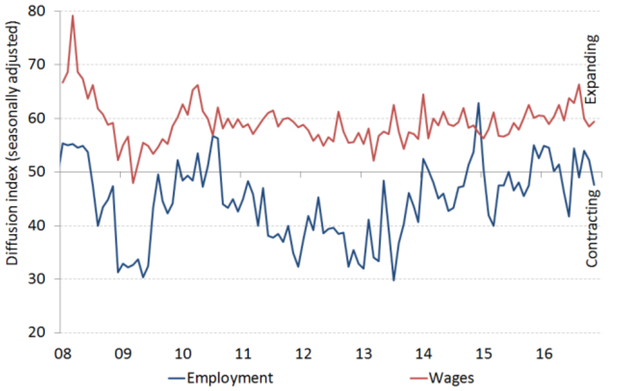
NEW ORDERS BY SECTOR

- New orders in the house building sector expanded in November after contracting in the previous three months. The sub-index rose by 5.3 points to 52.0 points. Despite this improvement, the it is still well below the recent peak level of 57.2 points recorded in June 2016.
- In the apartment building sector, new orders contracted for a third month. The sector's sub-index decreased by 5.0 points to 39.2 points in November, the lowest result on new orders in six months. It follows a sharp 24.8% m/m fall (-42.6% p.a.) in private multi-unit dwelling approvals in October (ABS, seasonally adjusted data).
- New orders in the commercial construction sector contracted for a fourth consecutive month in November. However, the rate of decline was slower following a sharp deterioration in October. The sector's sub-index increased by 4.5 points to 45.4 points.
- In the engineering construction sector, the new orders sub-index registered 46.0 points. This was up by 1.4 points from October, indicating a slight easing in the rate of decline. Despite this easing it is the sector's fifth decline in six months as the sustained fall in mining-related construction outweighed new tender wins in non-resources project categories including transport and other public infrastructure.



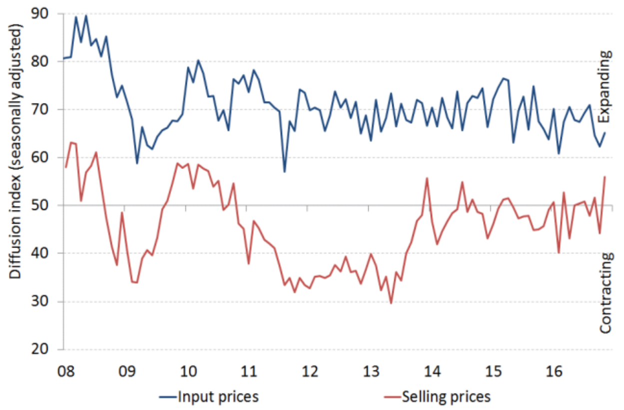
EMPLOYMENT AND WAGES

- Construction employment contracted in November, with the employment sub-index in the **Australian PCI®** declining by 4.8 points to 45.4 points.
- This follows two months of growth in construction employment, and is the lowest reading on employment in eight months.
- It suggests a more cautious approach by construction businesses in their hiring intentions in response to the further contraction in new orders during November.
- Growth in wages continued in November, and at a slightly higher rate than in the previous month, with the wages sub-index rising by 1.1 points to 59.5 points.
- Despite the ongoing pressure on wages in the construction industry, wage growth is likely to have remained relatively contained in recent months with the inflationary environment remaining relatively subdued (headline CPI at 1.3% p.a. in Q3 2016) and private sector wage growth close to a record low (at 2.0% p.a. in Q2 2016, ABS data).



INPUT COSTS AND SELLING PRICES

- The **Australian PCI®** input prices sub-index remained elevated at 65.2 points in November. This was an increase of 2.9 points from October, indicating that cost pressures in the construction and delivery of building projects picked-up during the month.
- The selling prices sub-index in the **Australian PCI®** increased by 11.7 points to 56.0 points in November. This suggests that the pressure on input prices from the lower dollar (relative to a year or two ago), rising wages and energy prices are being passed on (at least partially), despite strong market competition.
- The ongoing gap in these pricing series in the **Australian PCI®** indicates that profit margins remain under intense pressure for businesses in the construction industry. This is reflected also in widespread reports from respondents of a highly competitive tender pricing environment across the industry.



	Index this month	Change from last month	12 month average
Australian PCI®	**46.6**	**0.7**	**48.3**
Activity	44.9	-2.6	48.6
Houses	47.2	-0.1	49.5
Apartments	44.7	4.8	49.5
Commercial	48.7	7.2	47.1
Engineering	41.4	-2.9	47.5

	Index this month	Change from last month	12 month average
New Orders	48.4	3.8	46.9
Employment	45.4	-4.8	50.0
Deliveries	48.3	9.8	47.6
Input Prices	65.2	2.9	66.7
Selling Prices	56.0	11.7	48.9
Wages	59.5	1.1	61.1
Capacity Utilisation (%)	78.1	6.5	74.6

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.**