

**AUSTRALIAN Performance of Construction Index**



Media Contact: Tony Melville, Australian Industry Group. 0419 190 347

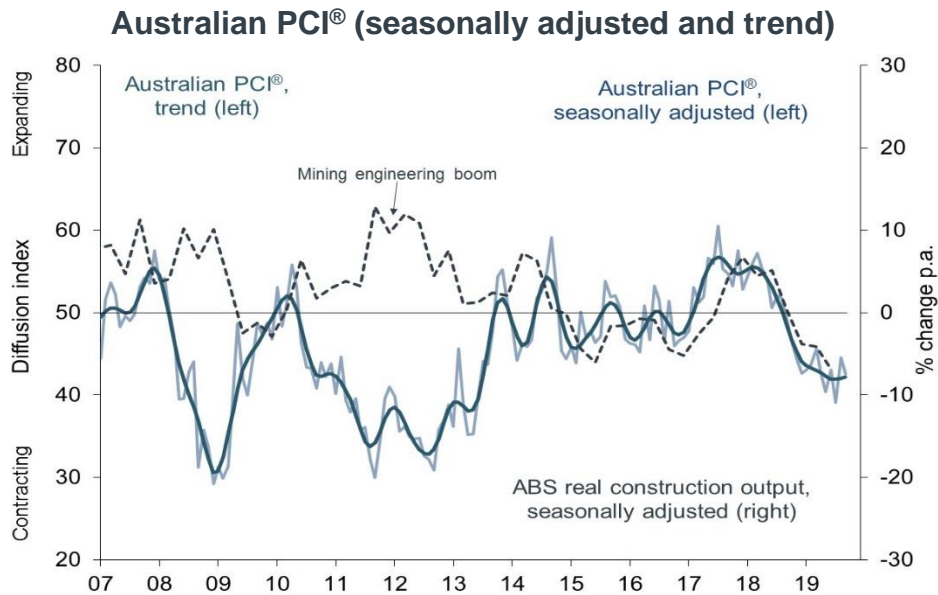
**CONSTRUCTION CONTINUES TO DECLINE IN SEPTEMBER**

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 42.6 points (seasonally adjusted) in September. This was down by 2.0 points from the previous month, indicating that the construction industry on aggregate declined more sharply in September. It follows an easing in the industry's rate of contraction in the previous month.

September was the 13<sup>th</sup> consecutive month of contracting conditions in the **Australian PCI®** with overall industry activity and new orders falling further into negative territory.

Across sectors of the **Australian PCI®** (on a trend basis), apartment building was again the weakest performing area of activity, declining for an 18<sup>th</sup> consecutive month, and at an accelerated rate. The house building sector remained in negative territory although its pace of decline was the slowest since August last year. Subdued conditions continued in commercial construction while engineering construction declined more sharply in line with reports of insufficient new work to replace completed projects.

Reports from residential building respondents to the **Australian PCI®** were mixed. Businesses commented on slow market conditions due to soft new orders, low enquiries and uncertainty surrounding the economic outlook. However, this was balanced to some extent by reports of an improvement in housing market sentiment due to interest rate cuts and some recent improvement in house prices.



**AUSTRALIAN PCI®**  
**42.6**  
 ↓ 2.0 POINTS  
 (seasonally adjusted)

**ACTIVITY**  
**39.1**  
 ↓ 3.7 POINTS  
 (seasonally adjusted)

**NEW ORDERS**  
**42.2**  
 ↓ 1.1 POINTS  
 (seasonally adjusted)

**EMPLOYMENT**  
**46.2**  
 ↑ 0.4 POINTS  
 (seasonally adjusted)

**HOUSE BUILDING ACTIVITY**  
**46.2**  
 ↑ 2.3 POINTS  
 (trend)

**APARTMENT ACTIVITY**  
**33.0**  
 ↓ 0.9 POINTS  
 (trend)

**ENGINEERING ACTIVITY**  
**39.3**  
 ↓ 3.0 POINTS  
 (trend)

**COMMERCIAL ACTIVITY**  
**46.7**  
 -  
 (trend)

# Australian PCI<sup>®</sup> summary

**Construction sectors:** Apartment building was the weakest performing sector (33.0 points trend), contracting for an 18<sup>th</sup> month and at a steeper rate. The decline in house building activity (46.2 points trend) also continued in September, although the sector's rate of contraction has gradually moderated over the past six months. Across the major project sectors, activity also remained in negative territory. Commercial construction (46.7 points trend) declined for a 14<sup>th</sup> month amid subdued overall demand for commercial building projects. Engineering construction (39.3 points trend) fell at its sharpest rate in just over six years with activity continuing to be constrained by a weak uptake of new work.

**Construction prices and wages:** Input price inflation in the Australian PCI<sup>®</sup> remained elevated in September. The input prices index fell by 4.2 points to 65.0 points, indicating that cost pressures moderated during the month but remained significant. Selling prices continued to contract in September, although at slower rate. The selling prices sub-index in the Australian PCI<sup>®</sup> increased by 3.8 points to 41.0 points in September, indicating that pressures on businesses in raising prices has continued on a broad industry basis due to a highly competitive tendering pricing environment. The ongoing gap between these price series in the Australian PCI<sup>®</sup> demonstrates that profit margins remain tight for many businesses in the construction industry.

**Construction activity:** Across the construction industry, Australian PCI<sup>®</sup> data for September revealed that the key activity sub-index (39.1 points) contracted more sharply while new orders (42.2 points) fell for a 13<sup>th</sup> consecutive month. This was associated with a continued decline in deliveries from suppliers (44.3 points). Job declines continued in September amid soft demand at the aggregate level, but the rate of decline in employment was the slowest in nine months.

**Construction highlights:** For residential builders, falls in approvals, commencements and work in the pipeline is continuing to weigh on workloads. Commercial construction is also detracting from industry-wide performance, although its rate of contraction has not accelerated over recent months. Businesses operating in the engineering construction sector continue to cite a shortfall of new contracts to replace completed work. This could be related to delays to some stages of existing projects or time lags between the development and construction of new infrastructure projects.

**Construction concerns:** Australian PCI<sup>®</sup> survey respondents continue to indicate on-going pressures from a highly competitive tendering environment and tight margins. Cost pressures in the delivery of construction projects remains a concern for many constructors due to elevated energy costs and relatively high prices for commodities and imported construction materials. Difficulties in filling skilled vacancies as well as accessing funding for investment and business expansion purposes were frequently cited. There were also reports that construction spending decisions had been negatively impacted by the slowing economy and the uncertain economic outlook.

| AUSTRALIAN PCI <sup>®</sup><br>KEY NUMBERS | Index<br>this<br>month | Change<br>from last<br>month | 12-month<br>average |                             | Index<br>this<br>month | Change<br>from last<br>month | 12-month<br>average |
|--|------------------------|------------------------------|---------------------|-----------------------------|------------------------|------------------------------|---------------------|
| <i>Seasonally adjusted</i>                 |                        |                              |                     | <i>Trend</i>                |                        |                              |                     |
| Australian PCI <sup>®</sup>                | 42.6                   | -2.0                         | 43.2                | Australian PCI <sup>®</sup> | 42.2                   | 0.2                          | 43.2                |
| Activity                                   | 39.1                   | -3.7                         | 41.8                | House building              | 46.2                   | 2.3                          | 38.9                |
| Employment                                 | 46.2                   | 0.4                          | 44.0                | Apartments                  | 33.0                   | -0.9                         | 32.7                |
| New Orders                                 | 42.2                   | -1.1                         | 42.5                | Engineering construction    | 39.3                   | -3.0                         | 47.7                |
| Supplier Deliveries                        | 44.3                   | -4.2                         | 45.9                | Commercial construction     | 46.7                   | 0.0                          | 45.5                |
| Input Prices                               | 65.0                   | -4.2                         | 68.4                |                             |                        |                              |                     |
| Selling Prices                             | 41.0                   | 3.8                          | 39.4                | <i>Seasonally adjusted</i>  | %                      | ppt                          | %                   |
| Average Wages                              | 55.8                   | -5.8                         | 59.8                | Capacity Utilisation (%)    | 72.5                   | -4.0                         | 75.8                |

Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI<sup>®</sup> are reported in trend terms (Henderson 13-month filter).

| CONSTRUCTION REPORT CARD: Latest ABS data                                 | Level   | change q/q | change y/y | Share of total, %              |
|---|---------|------------|------------|--------------------------------|
| <i>Latest ABS data, seasonally adjusted</i>                               | \$bn    | %          | %          | %                              |
| Nom. value of residential building approvals, \$bn, year to July 2019     | 66.5    | -          | -17.4      | 58.2% of building approvals    |
| Nom. value of non-residential building approvals, \$bn, year to July 2019 | 47.7    | -          | 1.2        | 41.8% of building approvals    |
| Real value of building work done, \$bn, year to Jun 2019                  | 119.2   | -1.9       | -0.1       | 58.4% of all construction done |
| Real value of engineering work done, \$bn, year to Jun 2019               | 85.2    | -4.3       | -19.8      | 41.6% of all construction done |
| Real value of all construction work done, \$bn, year to Jun 2019          | 204.4   | -2.9       | -9.4       | -                              |
| Real value-added output, \$bn, year to Mar 2019                           | 136.0   | -1.4       | -6.9       | 7.3% of total GDP              |
| Number of employed persons, '000, August 2019, <i>trend</i>               | 1,180.7 | 1.2        | 0.5        | 9.1% of employed persons       |

ABS data sources: National Accounts; Business Indicators; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.

For more detail about the Ai Group Australian PCI<sup>®</sup> visit: [www.aigroup.com.au/policy-and-research/economics/](http://www.aigroup.com.au/policy-and-research/economics/)

## House building activity

The volume of new house building work done fell by 5.7% q/q and 9.1% p.a. to \$8.6bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 17.6% of all construction work done.

House building activity contracted for a 14<sup>th</sup> consecutive month in September, although the rate of decline was the slowest in 13 months with the sector's sub-index rising by 2.3 points to 46.2 points (trend).

The trend rate of decline in house building activity has now moderated over the past six months after activity contracted at the sharpest rate in 6½ years in March 2019.

## House building new orders

The total number of private house approvals fell to 8,187 in August 2019 (trend).

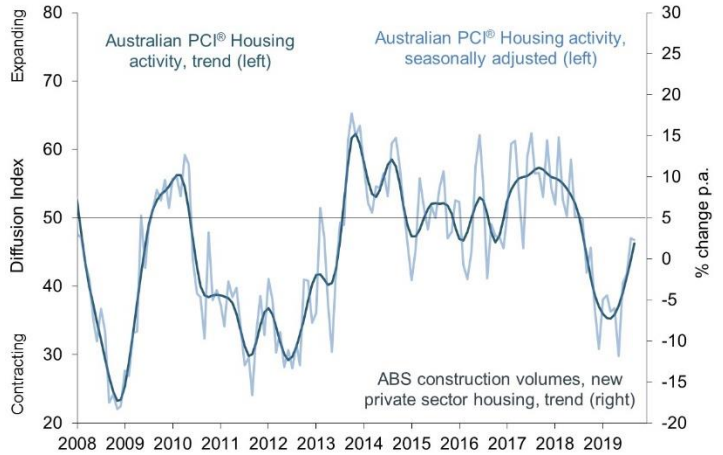
New orders in the house building sector continued to fall in September with the new orders sub-index registering 44.2 points (trend). This was an increase of 2.4 points to signal that the rate of contraction was slower in the month, following a similar easing in August. It indicates a degree of resilience in recent demand conditions, although the continued contraction in new orders points to housing activity remaining subdued in coming months. It follows the 1.0% m/m fall (-15.8% p.a.) in private sector house approvals in August (ABS, trend data).

## Apartments activity

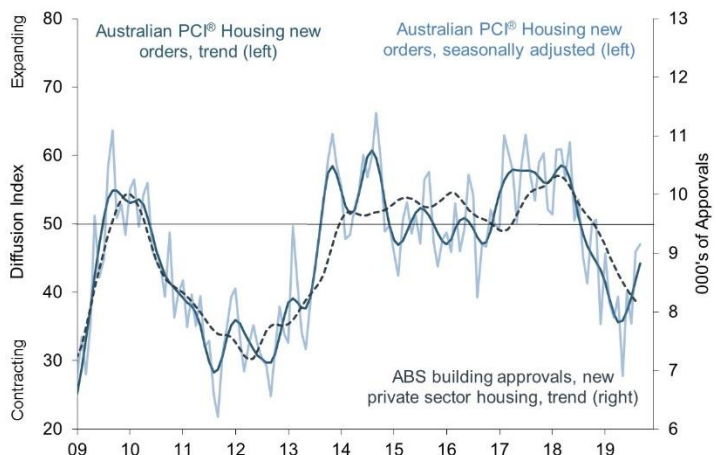
The volume of new multi-unit dwelling building work done fell by 4.3% q/q and 11.2% p.a. to \$7.4bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 15.2% of all construction work done.

Apartment building activity contracted for an 18<sup>th</sup> month in September, and at a slightly steeper rate with the sector's sub-index falling by 0.9 points to 33.0 points (trend). The apartment sector has experienced steady or declining activity in 24 of the past 26 months. This has coincided with ongoing declines in new orders since September 2017.

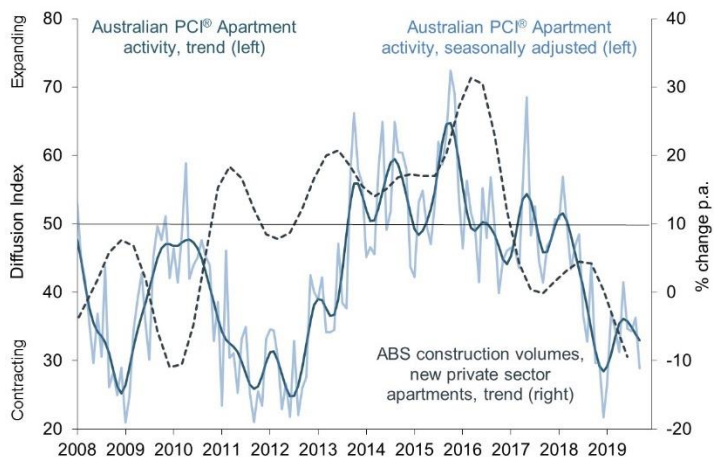
## House building activity and ABS construction volumes



## House building new orders and ABS building approvals



## Apartments activity and ABS construction volumes



# Australian PCI<sup>®</sup> sectors

## Apartment new orders

The total number of private 'other dwellings' approvals (apartments, flats and townhouses) stood at 4,427 in August 2019 (trend).

In the apartment building sector, new orders recorded an 18<sup>th</sup> month of contraction. The rate of decline was marginally slower with the sub-index increasing by 0.6 points to 31.3 points (trend). ABS trend data shows that private sector apartment ('other dwellings') approvals decreased by 9.2% m/m in August to be down a sizable 39.7% p.a. over the year to August. Apartment approvals are also 53.5% lower than the peak recorded in November 2017 (ABS, trend).

## Engineering construction activity

The volume of engineering construction work done fell by 1.1% q/q and by 15.9% p.a. to \$20.3bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 41.6% of all construction work done.

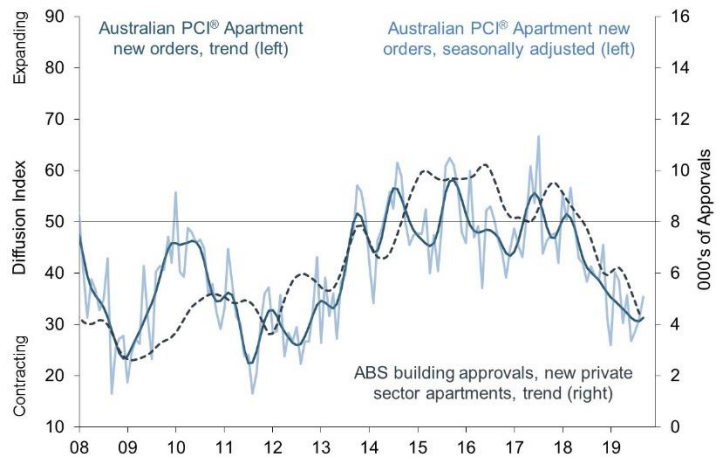
Engineering construction activity fell further into negative territory in September. The sector's sub-index decreased by 3.0 points to 39.3 points (trend), placing it well below the 12-month average of 47.7 points. Respondents reported slow progress on construction sites and a shortfall of new contracts to replace completed infrastructure work. This may relate to delays to some stages of projects or a lag in construction while planning, design and other pre-construction tasks are undertaken for new projects that are about to commence.

## Engineering new orders

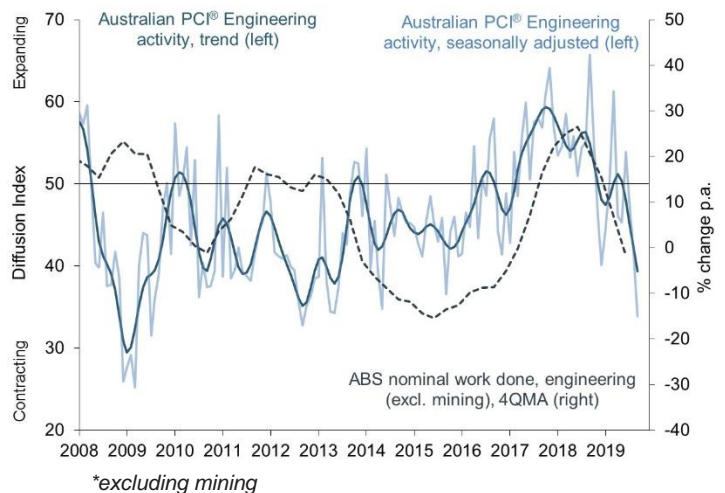
In the engineering construction sector, new orders contracted for an 11<sup>th</sup> month with this sub-index decreasing by 1.5 points to 39.3 points. Whilst this points to a steeper rate of decline in September, a sizeable backlog of projects is set to provide key support for engineering activity ahead.

Excluding the resources sector (mining, oil, pipelines and downstream mineral processing), work to be done by the private sector was at a near-historical high of \$41.8 billion in Q2 2019 (nominal, unadjusted data). When mining-related engineering work is included, the total value of private sector work yet to be done stood at \$70.8 billion in Q2 2019. This is the highest amount of work in the pipeline since September 2015.

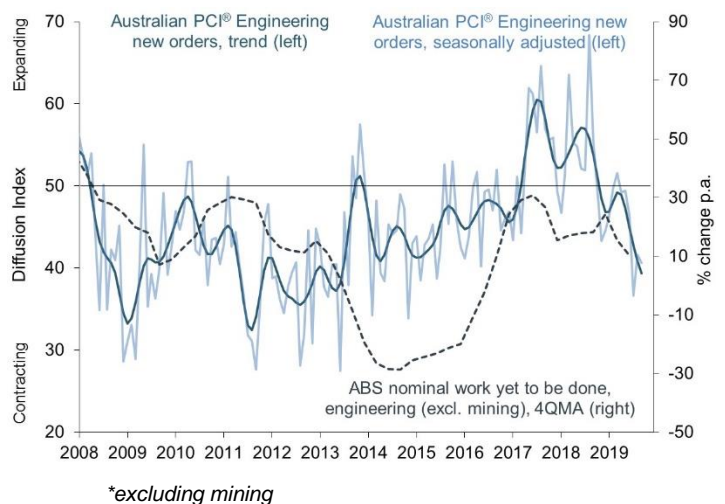
## Apartments new orders and ABS building approvals



## Engineering construction activity and ABS work done\*



## Engineering construction new orders and ABS work yet to be done\*



## Commercial construction activity

The volume of non-residential building work done fell by 6.6% q/q in the June quarter 2019, to be 3.3% p.a. lower over the year (seasonally adjusted and inflation-adjusted), accounting for 21.5% of all construction work done.

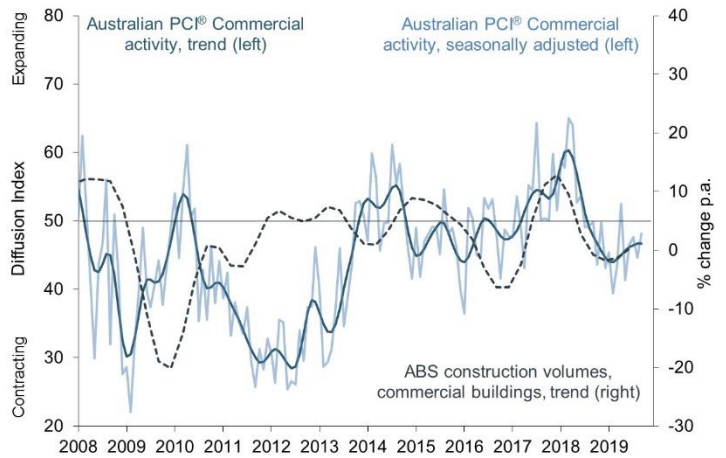
Commercial construction recorded a 14<sup>th</sup> consecutive month of contraction in September. The rate of decline, however, was unchanged with the sector's sub-index stable at 46.7 points (trend). Despite this overall decline, conditions vary significantly across the sector with developments in major commercial and social building categories (including hotels, industrial premises, retail and health) continuing to support the sector's overall performance.

## Commercial new orders

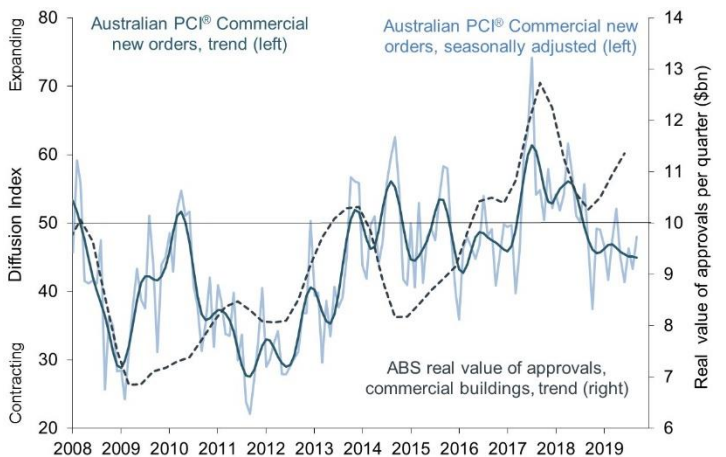
The real value of non-residential building approvals increased by 1.1% q/q but was down by 7.7% p.a. to \$10.5bn in the March quarter 2019 (seasonally adjusted).

New orders in the commercial construction sector also fell for a 14<sup>th</sup> month in September. However, the sub-index decreased by just 0.2 points to 44.9 points (trend), indicating a broadly unchanged pace of contraction in the month. The current softness in overall demand conditions, which has been evident since mid-2018, follows a sustained 16-month period of growth in new orders which has supported a relatively healthy pipeline of work across a range of key project areas.

## Commercial construction activity and ABS work done



## Commercial construction new orders and ABS commercial building approvals



# Australian PCI<sup>®</sup> prices and wages

## Input prices

The Australian PCI<sup>®</sup> input prices sub-index registered 65.0 points in September. This was a decrease of 4.2 points from August, indicating that cost pressures in the construction of building projects moderated during the month.

Nevertheless, costs associated with the delivery of construction projects remain relatively high due to elevated energy costs and supplier price rises, some of which are related to the strength in commodity prices. Demand for engineering-related construction materials is especially strong, due to the solid pipeline of infrastructure activity.

## Selling prices

The ABS building construction industry's output price index (PPI) rose by 0.4% q/q and 1.4% p.a. in the March quarter 2019.

Selling prices continued to contract in September, albeit at a slower rate. The selling prices sub-index in the **Australian PCI<sup>®</sup>** registered 41.0 points in September, an increase of 3.8 points from August. However, this negative reading indicates that rising input prices and other costs are not, on average, being passed on to customers. This reluctance to raise prices reflects the strong competition among builders in securing work.

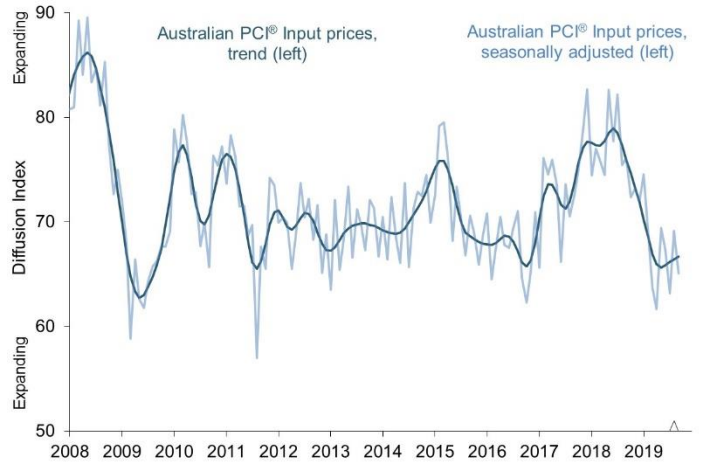
The ongoing gap between these price series in the **Australian PCI<sup>®</sup>** demonstrates that profit margins continue to be squeezed for businesses in the construction industry.

## Average wages

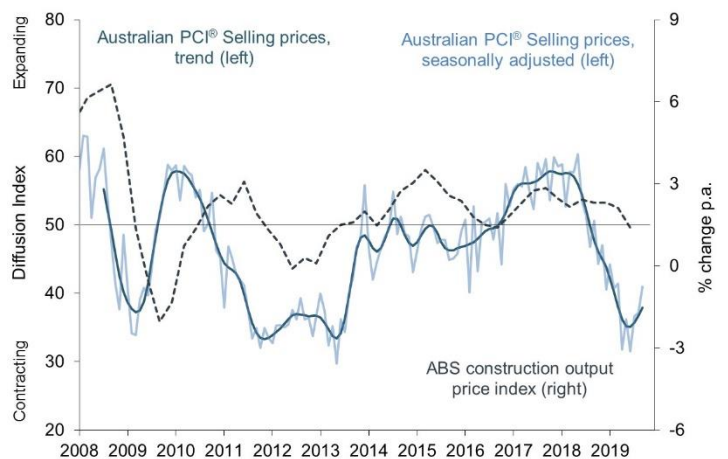
The ABS wage index for private sector construction rose by 0.7% q/q and 1.9% p.a. in the June quarter 2019.

Growth in wages continued in September, although at a more moderate rate with the wages sub-index decreasing by 5.8 points to 55.8 points. Despite this easing, the wages sub-index remains in solid expansionary territory, providing further evidence that overall wages growth remains relatively high due to difficulties that still exist in sourcing skilled labour. This is in line with data on Federal Enterprise Bargaining Trends (Department of Education, Employment and Workplace Relations) indicating that approved EBA's in the construction industry increased at an average annual rate of 3.7% in the March quarter 2019 compared with a 2.7% average increase for all industry sectors.

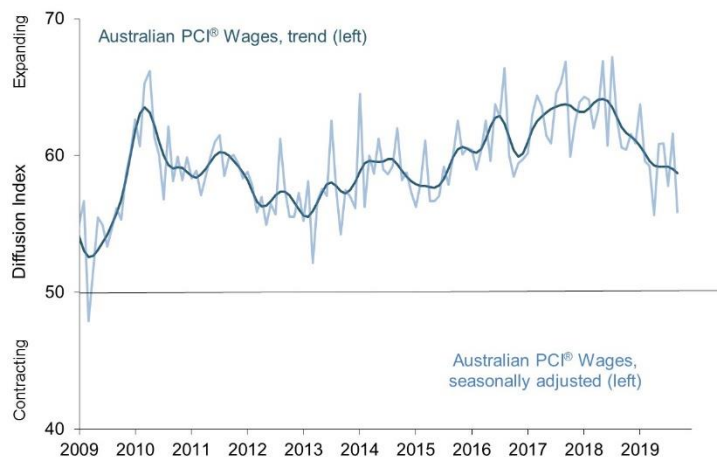
## Input prices



## Selling prices and ABS construction industry output prices



## Average wages



# Australian PCI® activity

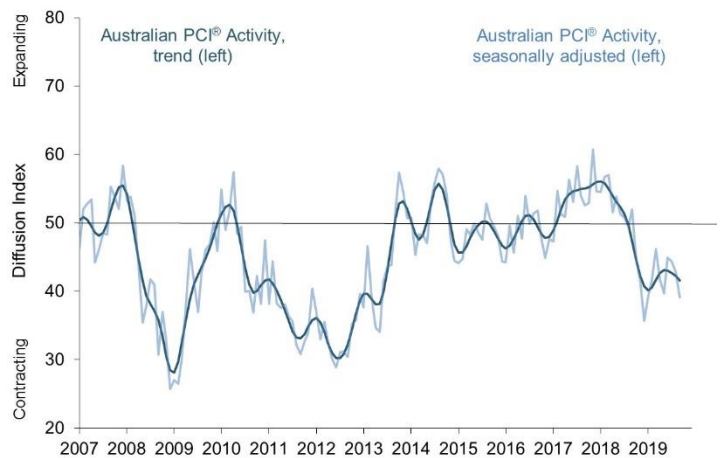
## Activity

The activity sub-index in the Australian PCI® registered 39.1 points in September.

This was down by 3.7 points from the previous month, signaling a steeper rate of contraction in total construction activity. It marked the 12<sup>th</sup> consecutive month of declining industry activity and the sharpest rate of contraction in 2019 to date.

Weighing on construction activity in September was a continuation of soft levels of demand with new orders declining on aggregate for a thirteenth consecutive month.

## Activity

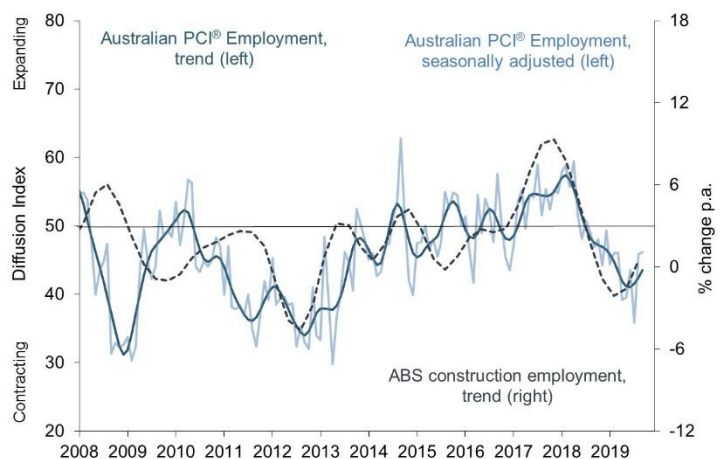


## Employment

The construction sector employed 1,180,700 people in August 2019 (9.1% of total employment).

Construction employment continued to decline in September, although the pace of decline was broadly unchanged over the month. The employment sub-index within the Australian PCI® increased by 0.4 points to 46.2 points. This marked a 14<sup>th</sup> consecutive month of contraction in employment consistent with the more subdued readings on activity from mid-2018. It indicates that construction businesses are responding to the ongoing weakness of overall demand conditions by exerting caution in terms of their labour recruitment. It follows official statistics showing marginal growth of 0.5% p.a. in total construction employment in the year to August 2019 (ABS trend data).

## Employment and ABS construction industry employment



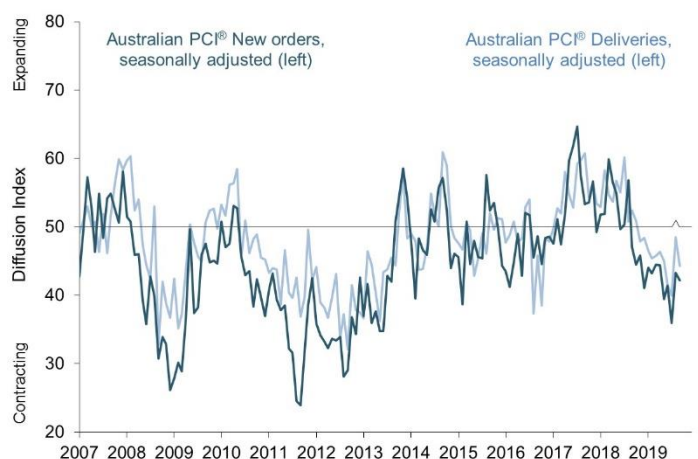
## New orders and supplier deliveries

The new orders index in the Australian PCI® registered 42.2 points in September. This was a decrease of 1.1 points from August indicating that the drop in new orders was steeper in the month.

The continued fall in new orders is likely to weigh on overall activity in coming months, despite signs of some improvement in residential demand conditions and housing market sentiment.

Reflecting the softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the Australian PCI®, and at a steeper rate. The supplier delivery index decreased by 4.2 points to 44.3 points, marking an 11<sup>th</sup> consecutive month of contraction.

## New orders and supplier deliveries



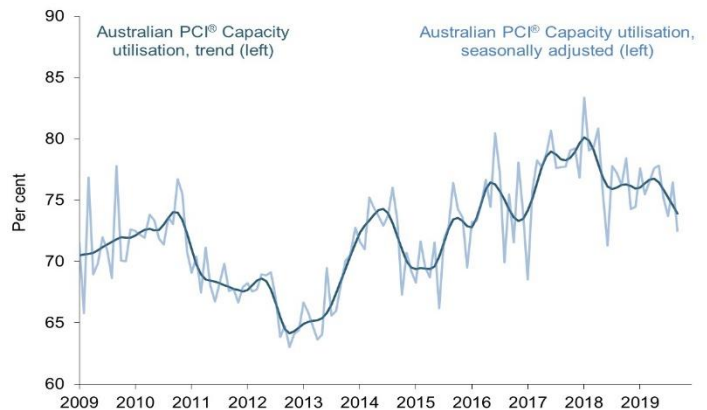
# Australian PCI® activity

## Capacity utilisation

The rate of capacity utilisation stood at 72.5% across the construction industry in September, down from 76.5% in August, and below the 12-month average utilisation rate of 75.8%.

This further points to the need for increased investment in machinery and equipment and the upgrading of employee skills to assist in productivity and cost savings and enable the industry to effectively respond to any significant upturn in future demand.

## Capacity utilisation



For more information about the Ai Group Australian PCI® visit:

[www.aigroup.com.au/policy-and-research/economics/](http://www.aigroup.com.au/policy-and-research/economics/)

## Australian PCI®: data definitions

The Australian PCI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PCI, the definitions of the 4 sectors are:

1. House building (ANZSIC code 4111 “House construction”). Businesses involved in the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), or in organising or managing these activities as the prime contractor.
2. Apartment building (ANZSIC code 4112 “Residential building construction n.e.c. (units)”). This covers buildings other than a house primarily used for long-term residential purposes or has attached to it more than one dwelling unit such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. Engineering construction. (ANZSIC code 4121 “Road and bridge construction” and ANZSIC code 4122 “Non-building construction”). Businesses involved in the construction of engineering projects or infrastructure. This includes transport projects, telecommunications facilities, bridges, water and gas supply systems, pipelines, sports complexes, heavy industry constructions and other large-scale construction projects that do not generally involve the construction of buildings.
4. Commercial construction (ANZSIC code 4111 “Non-residential building construction”) involves the construction of non-residential buildings such as offices, industrial premises, hotels, hospitals, aged care facilities, education buildings, entertainment and recreation developments, and in carrying out alterations, additions, renovation, and in organising or managing these activities.

What is the Australian PCI®? The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) is a national composite index based on the diffusion indices for activity, new orders, deliveries, inventories and employment with varying weights. An Australian PCI® reading above 50 points indicates that manufacturing is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PCI® results are based on responses from a national sample of construction businesses that includes all states and all sectors. The Australian PCI® uses the ANZSIC industry classifications for construction sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.

© The Australian Industry Group, 2019. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to 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, including economic policy and information 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 inference 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.