

# AUSTRALIAN Performance of Construction Index



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

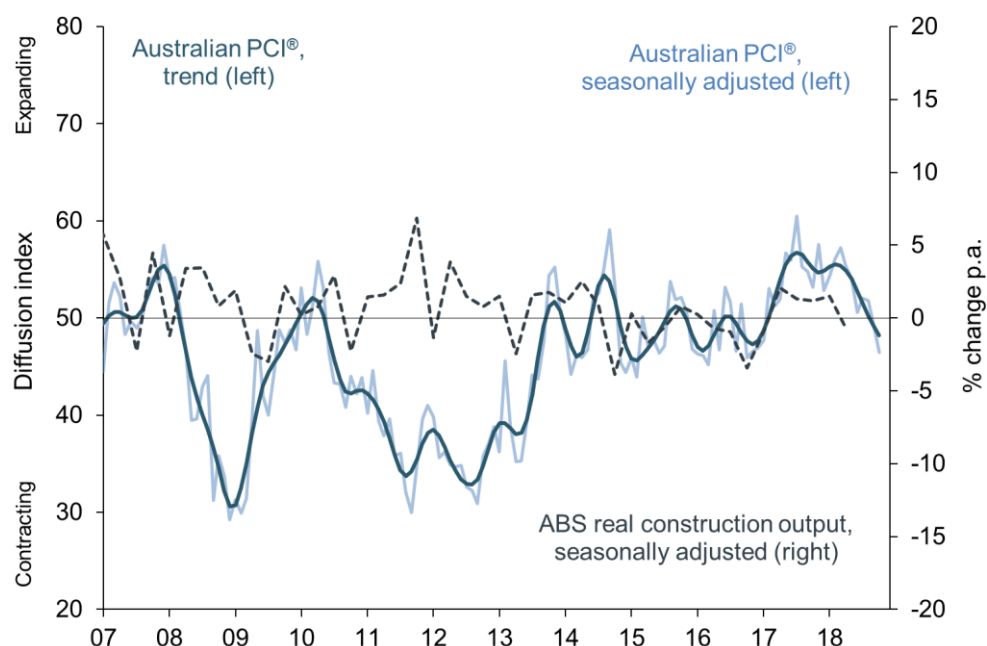
## CONSTRUCTION ACTIVITY CONTRACTS IN OCTOBER

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) declined by 2.9 points to 46.4 points (seasonally adjusted) in October. This signalled a steeper rate of contraction in the construction industry (readings below 50 points indicate contraction). It also marked the industry's second consecutive month of decline after 19 months of growth and the sharpest rate of contraction since October 2016.

Despite continued expansion in engineering construction activity, overall levels of activity in October were adversely affected by a faster decline in housing activity, commercial construction and apartment building work.

House building respondents to the **Australian PCI®** linked slower activity in October to tighter lending conditions, falling house prices and generally weaker home buyer sentiment. Apartment builders indicated that activity continued to decline from recent peaks in response to falling investor demand, falling prices and excess supply in some markets. More positively, major engineering project activity continued to be supported by a solid pipeline of engineering infrastructure investment, although respondents noted fewer new orders being finalised in October.

**Australian PCI® (seasonally adjusted and trend)**



AUSTRALIAN PCI®

**46.4**

↓ 2.9 POINTS  
(seasonally adjusted)

ACTIVITY

**44.9**

↓ 7.1 POINTS  
(seasonally adjusted)

NEW ORDERS

**44.5**

↓ 2.6 POINTS  
(seasonally adjusted)

EMPLOYMENT

**48.0**

↑ 1.1 POINTS  
(seasonally adjusted)

HOUSE BUILDING ACTIVITY

**44.8**

↓ 1.6 POINTS  
(trend)

APARTMENT ACTIVITY

**34.4**

↓ 1.7 POINTS  
(trend)

ENGINEERING ACTIVITY

**58.8**

↑ 1.2 POINTS  
(trend)

COMMERCIAL ACTIVITY

**45.6**

↓ 1.3 POINTS  
(trend)

# Australian PCI® summary

**Construction sectors:** Engineering construction (55.0 points seasonally adjusted and 58.8 points trend) was the strongest sector of the construction industry in October due to a solid pipeline of public-sector investment in large-scale infrastructure projects. However, its rate of growth moderated from the more robust conditions recorded in September, with reports of an easing in new tendering opportunities. Commercial construction (43.7 points seasonally adjusted and 45.6 points trend) was more subdued, falling further into contraction with a fourth consecutive month of decline. In the residential construction sectors, house building (45.7 points seasonally adjusted and 44.8 points trend) contracted for a third month (albeit at a slower rate) while apartment building (29.6 points seasonally adjusted and 34.4 points trend) fell for an eighth consecutive month and at the sharpest rate in six years.

**Construction prices and wages:** Input price inflation in the **Australian PCI®** remained elevated in October. The input prices index fell by 3.7 points to 72.4 points, indicating that cost pressures eased during the month but remained significant, due to robust demand for construction materials, elevated energy input costs and price hikes for oil (i.e. petrol) and other commodities. The selling prices index in the **Australian PCI®** decreased by 6.3 points to 44.3 points in October, highlighting the strong competition between builders which is pushing down construction selling prices. The ongoing gap between these price series in the **Australian PCI®** indicates that profit margins remain tight for businesses in the construction industry.

**Construction activity:** Across the whole construction industry, activity (44.9 points) contracted sharply in October after moving into mild positive territory (i.e. above 50 points) in September. This weakening in activity was associated with a more pronounced reduction in new orders (44.5 points) while the supplier delivery index fell by 1.5 points in October to 50.9 points, indicating roughly stable delivery levels compared to the previous month. Employment contracted for a third consecutive month, albeit a slower rate, with the employment index increasing by 1.1 points to 48.0 points.

**Construction highlights:** Survey respondents in the engineering sector continue to highlight significant growth impetus coming from non-mining infrastructure (albeit at a slowing rate). For them, the negative impact of falling mining investment has largely faded. Across the residential construction sectors, the influence of declining activity after recent peaks is having an increasingly negative impact on overall industry conditions. Commercial construction activity remains relatively muted.

**Construction concerns:** Many respondents are indicating that cost pressures in the construction of building projects remain high due to robust demand for construction materials and elevated energy input costs. Reports are rising about difficulties in filling skilled vacancies. These pressures are testing the capacity of the industry to effectively bid for new work.

AUSTRALIAN PCI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>Seasonally adjusted</i>				<i>trend</i>			
<b>Australian PCI®</b>	46.4	-2.9	53.1	<b>Australian PCI®</b>	48.2	-0.9	53.0
Activity	44.9	-7.1	53.1	House building	44.8	-1.6	52.3
Employment	48.0	1.1	53.0	Apartments	34.4	-1.7	44.7
New Orders	44.5	-2.6	52.4	Commercial construction	45.6	-1.3	54.3
Supplier Deliveries	50.9	-1.5	56.7	Engineering construction	58.8	1.2	56.4
Input Prices	72.4	-3.7	77.5				
Selling Prices	44.3	-6.3	54.4	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	60.4	-0.2	63.2	Capacity Utilisation (%)	78.4	2.2	77.9

Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® 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 Sep 2018	79.6	-	8.4	64.2% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Sep 2018	44.4	-	-1.3	35.8% of building approvals
Real value of building work done, \$bn, year to June 2018	115.7	2.5	6.5	55.7% of all construction done
Real value of engineering work done, \$bn, year to June 2018	104.9	0.4	-7.2	44.3% of all construction done
Real value of all construction work done, \$bn, year to June 2018	220.6	1.6	-0.1	-
Real value added output, \$bn, year to June 2018	131.5	1.9	5.5	7.6% of total GDP
Number of employed persons, '000, August 2018	1,195	7.0	0.6	9.5% 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® visit: [www.aigroup.com.au/policy-and-research/economics/](http://www.aigroup.com.au/policy-and-research/economics/)

# Australian PCI® sectors

## House building activity

The volume of new house building work done rose by 3.9% q/q and 7.4% p.a. to \$9.1bn in the June quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 17.0% of all construction work done.

House building activity declined again in October, with the activity index recording a third month of contraction, albeit at a slower rate. The sector's activity index increased by 3.7 points to 45.7 points (seasonally adjusted). The decline in house building activity over the three months to October follows a 14-month period of expanding or stable conditions across the sector. The house building activity index is currently tracking at a level which is 6.7 points below its 12-month average.

## House building new orders

The total number of private house approvals fell to 9,385 in September 2018 (trend).

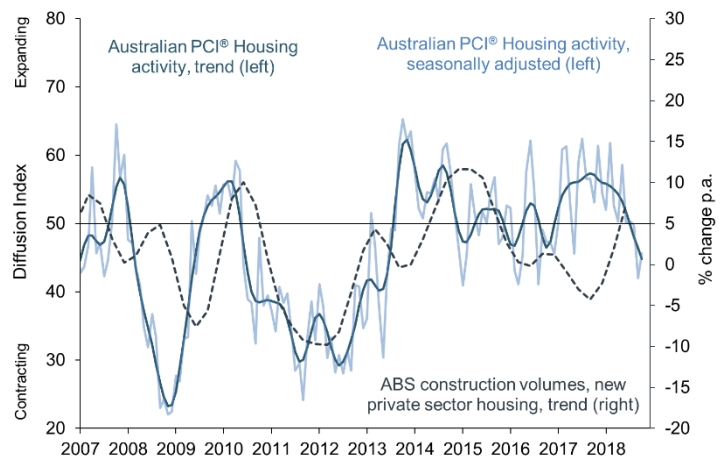
New orders in the house building sector stabilised in October with the index increasing by 8.8 points to 50.1 points (seasonally adjusted). This follows two consecutive months of contraction in new orders. It points to a continuation of broad weakness in demand conditions and the likelihood of on-going softness in house building activity in coming months. This is also reflected in the recent declines in private sector house building approvals, which fell by 2.7% m/m and -7.5% p.a. in September 2018 (ABS, seasonally adjusted data).

## Apartments activity

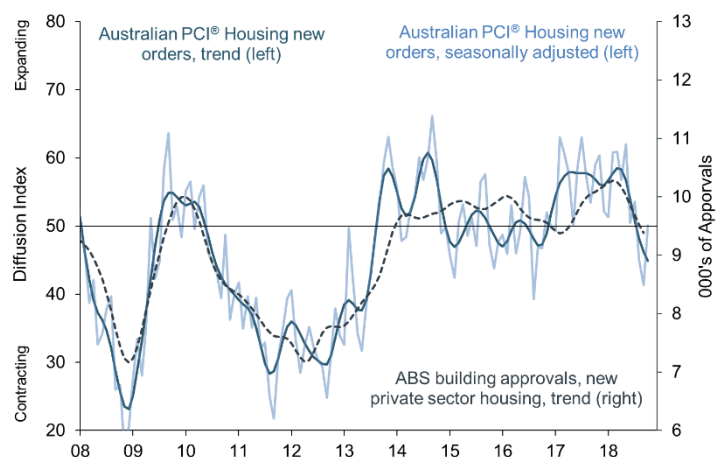
The volume of new multi-unit dwelling building work done rose by 4.0% q/q and 6.5% p.a. to \$8.1bn in the June quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 15.1% of all construction work done.

Apartment building activity declined for an eighth consecutive month in October, and at a sharper rate. The sector's index registered 29.6 points in October, a fall of 14.6 points from the previous month and the steepest decline since October 2012 (seasonally adjusted). The apartment sector has now experienced steady or declining activity in 14 of the past 15 months following a cooling in new orders during the second half of 2017 and throughout 2018 to date.

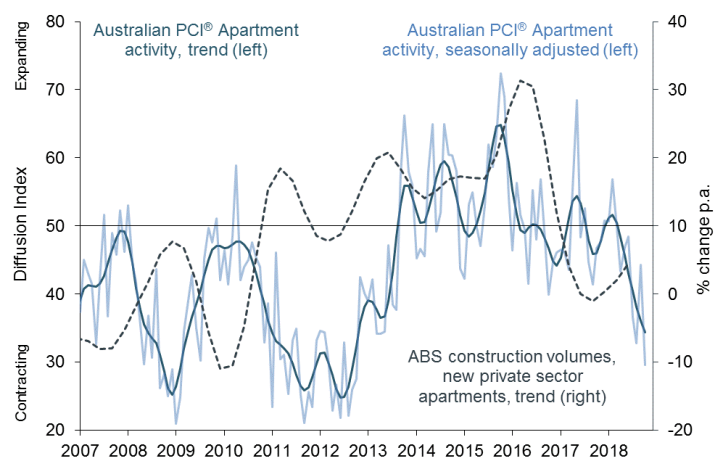
## House building activity and ABS construction volumes



## House building new orders and ABS building approvals



## Apartments activity and ABS construction volumes



# Australian PCI® sectors

## Apartment new orders

*The total number of private 'other dwellings' approvals (apartments, flats and townhouses) fell to 7,400 in September 2018 (trend).*

New orders in the apartment building sector continued to contract in October, and at a slightly faster rate. The sector's index decreased by 0.6 points to 38.8 points in October (seasonally adjusted). New orders for apartments have declined in 12 of the past 15 months.

ABS data for apartment ('other dwellings') approvals show a similar decline, despite rising 9.2% m/m in September. In trend terms, which looks through the month to month volatility, apartment approvals fell by 2.7% m/m and 20.1% p.a. in September 2018.

## Engineering construction activity

*The volume of engineering construction work done rose by 0.4% q/q but was down by 7.2% p.a. to \$23.7bn in the June quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 44.3% of all construction work done.*

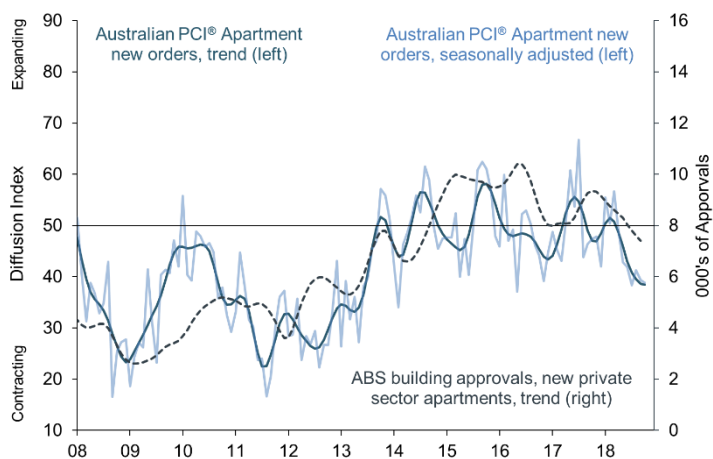
Engineering construction activity continued to expand in October, although at a slower rate, with the sector's activity index decreasing by 10.7 points to 55.0 points (seasonally adjusted). This marked the sector's 19th consecutive month of growth, mainly reflecting significant state government transport and related projects. It follows a rise of 7.6% q/q and 30.7% p.a. in the value of engineering construction work done for the public sector in the June quarter (ABS seasonally adjusted data).

## Engineering new orders

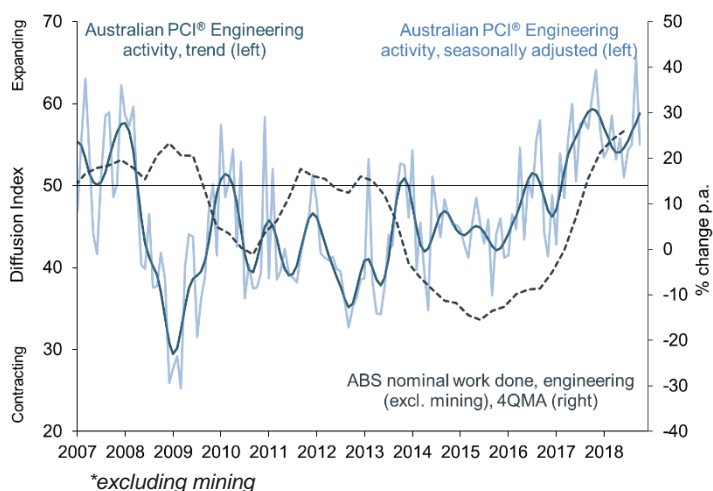
In engineering construction, new orders were approximately stable in October, with the sector's new orders index declining by 6.0 points to 49.5 points. This follows eight consecutive months of rising new orders on the back of solid public-sector infrastructure spending led by road and rail projects. Respondents said fewer new projects were available for tender in October, compared to the earlier months of 2018.

Excluding mining related projects (such as iron ore and LNG projects), work in the pipeline was valued at \$40.7 billion in the June quarter of 2018 (ABS nominal, unadjusted data). This is below the record high of \$46.4 billion in Q3 2012, but it remains relatively large due to large-scale long-term projects in transport and utilities.

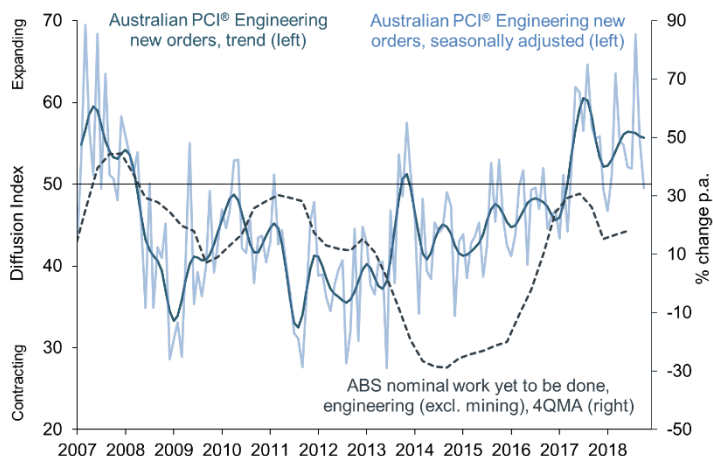
## Apartments new orders and ABS building approvals



## Engineering construction activity and ABS work done\*



## Engineering construction new orders and ABS work yet to be done (excluding mining)





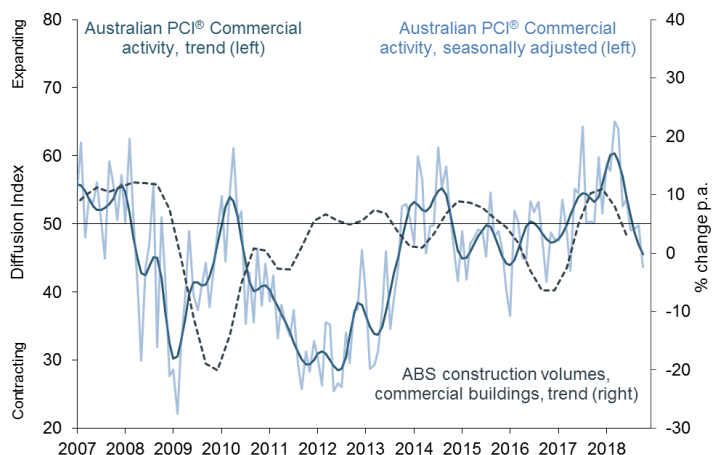
# Australian PCI® sectors

## Commercial construction activity

*The volume of non-residential building work done rose by 1.3% q/q and 8.2% p.a. to \$10.5bn in the June quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 19.6% of all construction work done.*

Commercial construction remained in contraction with the sector's activity index decreasing by 6.1 points to 43.7 points in October (seasonally adjusted). This signalled the fourth consecutive month of declining commercial activity and the steepest rate of contraction in 18 months.

## Commercial construction activity and ABS work done

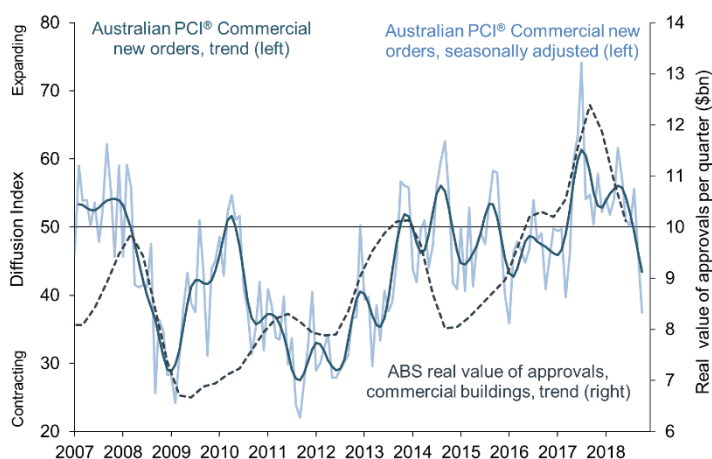


## Commercial new orders

*The real value of non-residential building approvals fell by 7.1% q/q and 12.4% p.a. to \$10.1bn in the June quarter of 2018 (seasonally adjusted and inflation-adjusted).*

The drop in commercial activity coincided with the new orders index falling further into negative territory, dropping by 9.1 points to 37.5 points (seasonally adjusted). This was the second month of contracting demand for commercial construction projects. It follows 16 months of sustained growth in new orders. Even after this decline, the pipeline of work still looks relatively healthy in key project areas including accommodation (hotels, nursing homes and the like), offices, education and industrial buildings. This is likely to be enough to support a relatively healthy level of activity in this sector moving into 2019.

## Commercial construction new orders and ABS commercial building approvals



# Australian PCI® prices and wages

## Input prices

The **Australian PCI®** input prices index remained elevated at 72.4 points in October (seasonally adjusted). This was a decrease of 3.7 points from September, indicating that cost pressures in construction and building projects eased slightly during the month.

Cost pressures continue to be exerted across the industry due to elevated energy costs and supplier price rises, some of which are related to higher commodity prices (e.g. higher oil prices pushing up petrol and diesel costs). Demand for engineering-related construction materials is especially strong, due to rising infrastructure activity. Prices for materials used in heavy and civil construction were up by 3.4% p.a. in the September quarter of 2018, the strongest increase since 2012 (+4.0% p.a.) (ABS).

## Selling prices

*The ABS construction industry's output price index (PPI) rose by 1.2% q/q and 2.4% p.a. in the September quarter of 2018.*

The selling prices index in the **Australian PCI®** decreased by 6.3 points to 44.3 points in October (seasonally adjusted). This 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®** demonstrates that profit margins remain tight for businesses in the construction industry. This is consistent with reports of highly competitive tender processes and pricing across the construction industry.

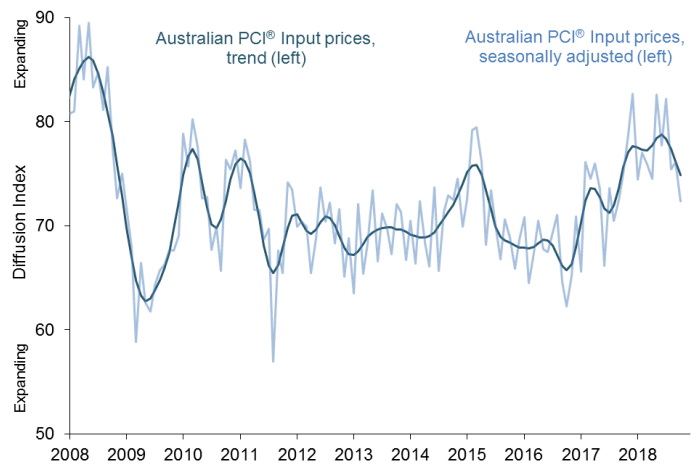
## Average wages

*The ABS wage index for private sector construction rose by 0.5% q/q and 2.0% p.a. in the June quarter of 2018.*

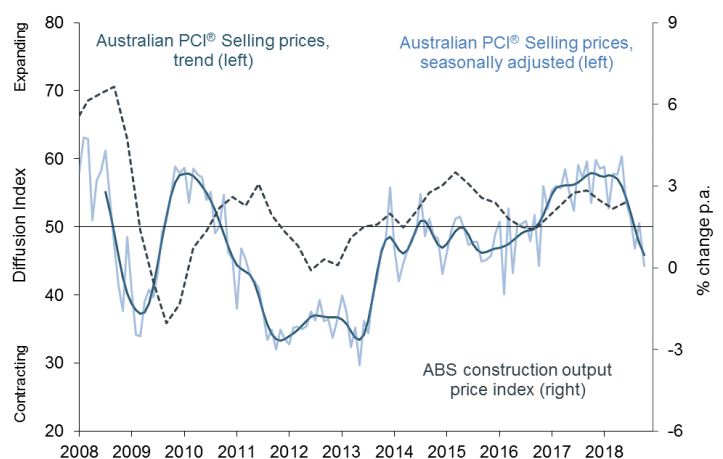
Growth in average wages continued in October and at a broadly unchanged rate with the wages index decreasing by 0.2 points to 60.4 points (seasonally adjusted). Construction wages are currently increasing at a pace that is only slightly below the 12-month average of 63.2 points.

This indicates that average wages growth remains relatively high, underpinned by the surge in large-scale transport projects and other public-sector works. Reports of skill shortages are increasing, as contractors compete for the same pool of labour in the skilled occupations that are required in large scale infrastructure construction.

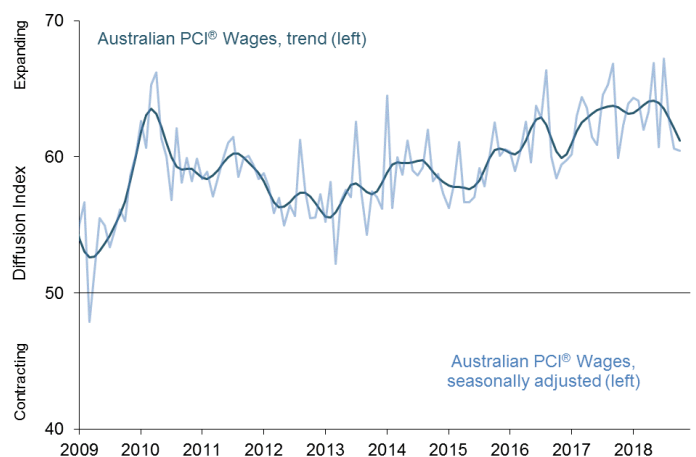
## Input prices



## Selling prices and ABS construction industry output prices



## Average wages



# Australian PCI® activity

## Activity

The activity index in the Australian PCI® registered 44.9 points in October (seasonally adjusted). This was down by 7.1 points from the previous month, indicating a contraction in total construction activity following mild growth in September. It marked the sharpest rate of decline since November 2016.

Despite further growth in engineering construction activity, overall levels of activity in October were adversely affected by a continued decline in housing activity combined with sharper falls in commercial and apartment building activity.

## Employment

*The construction sector employed 1,195,000 people in August 2018 (9.5% of total employment).*

Construction employment decline mildly in October, albeit at a slower rate. The employment index within the Australian PCI® increased by 1.1 points to 48.0 points (seasonally adjusted).

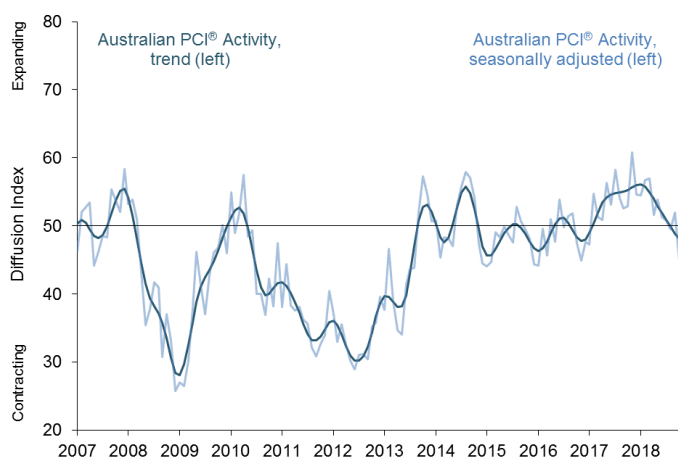
This marked a third consecutive month of contraction in employment and the fourth decline in the past five months, consistent with the more subdued results for activity and new orders from mid-2018.

## New orders and supplier deliveries

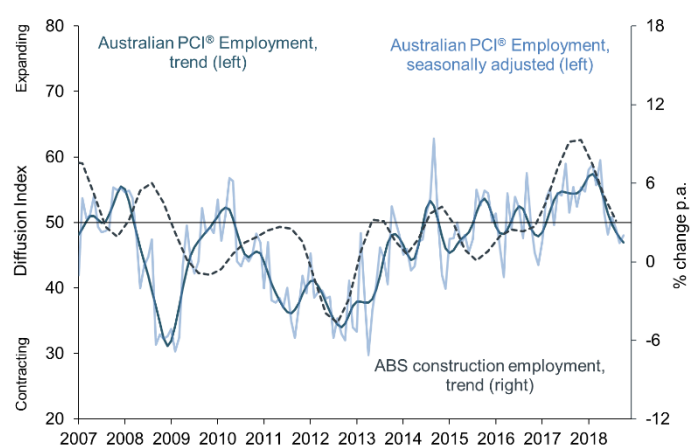
The new orders index in the Australian PCI® declined by 2.6 points to 44.5 points in October. This was the lowest new orders result (and therefore the steepest rate of decline) in almost 2½ years.

Reflecting the decline in aggregate new orders, deliveries of inputs from suppliers moderated in the **Australian PCI®** in October. The supplier delivery index decreased by 1.5 points to 50.9 points, indicating broadly stable deliveries across the construction industry.

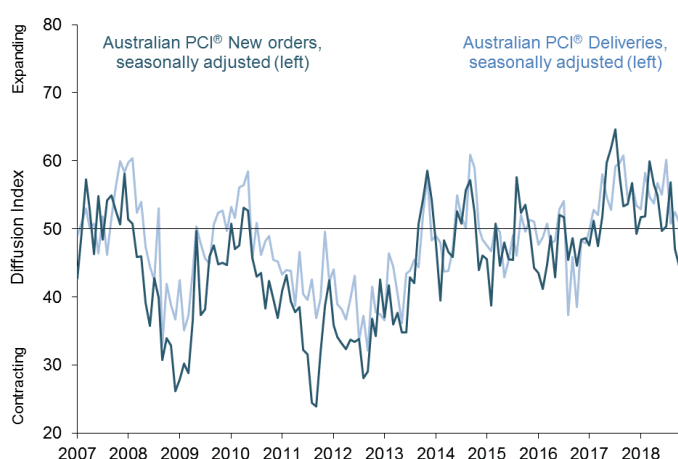
## Activity



## Employment and ABS construction industry employment



## New orders and supplier deliveries

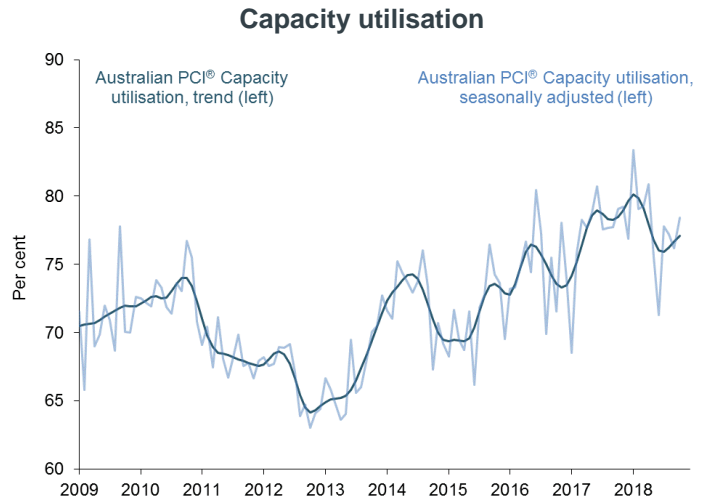


# Australian PCI® activity

## Capacity utilisation

The construction industry utilized 78.4% of its available capacity in October, slightly up from 76.2% in September.

This is above this indicator's 12-month average of 77.9%. It suggests that further investment in people, machinery and equipment may soon be needed of the industry is to meet any significant growth in demand in the future.



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 organizing 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 organizing 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, 2018. 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 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.