

**Embargoed until 0930: Thursday 7 August 2008**

## **Australian PCI®: Construction industry contracts although strong support from engineering construction**

The national construction industry contracted for a fifth consecutive month in July, although it had strong support from an increase in engineering construction activity and some encouraging, albeit modest, improvement in commercial construction. The **Australian Industry Group – Housing Industry Association Performance of Construction Index (Australian PCI®)** registered 41.6, remaining below the critical 50.0 points level separating expansion from contraction.

Australian Industry Group (Ai Group) Associate Director Economics and Research, Tony Pensabene, said: “The **Australian PCI®** while still contracting, gained some support from the strength of engineering construction and the inroads being made into the massive pipeline of engineering construction projects. This was evident in the engineering construction sub-index, which registered 51.9 in July, up by a solid 15.2 points.

“While housing and apartment building remain very weak the decline in commercial construction is showing incipient signs of improvement,” Mr Pensabene said.

HIA Chief Economist, Harley Dale, said: “Even allowing for moderation in the rate of decline in the **Australian PCI®** continued weakness in the second half of 2008 is very concerning.

“New home building starts will fall in 2008, marking an unprecedented fifth consecutive year of weakness. An aggravation of the chronic shortage of housing stock will place further pressure on already exceedingly tight rental markets,” Mr Dale said.

### **Australian PCI® Key Findings for July:**

- The **Australian PCI®** registered 41.6 in July, as the national construction industry contracted for the fifth consecutive month.
- The subdued performance of the industry reflected on-going weakness in the house, apartment and commercial construction sectors.
- Firms experiencing declines in activities linked this to higher interest rates, tighter credit conditions, heightened risk aversion and low consumer and investor confidence.
- On an aggregate industry basis, declines in activity and new orders continued in July, albeit at a slower rate. This largely reflected improved conditions in the engineering construction sector. Nevertheless, with most sectors under pressure from reduced workloads, employment fell for a fourth straight month.
- The rate of increase in input costs was more pronounced in July, reflecting higher prices for a range of raw materials, particularly steel and fuel.

### **Further Comment:**

Tony Pensabene, Ai Group:

Harley Dale, HIA:

Media Inquiries: Tony Melville, Ai Group:

Graham Cooke, HIA:

03 9867 0258 or 0417 012 863

02 6245 1329 or 0414 994 186

02 6233 0716 or 0419 190 347

02 6245 1313 or 0418 617 804

**Background:** The **Australian Industry Group – Housing Industry Association Performance of Construction Index (Australian PCI®)** is a seasonally adjusted national composite index based on the diffusion of indices for sales, orders/new business, deliveries and employment with varying weights across the residential, engineering, non-residential (commercial) and apartment sectors. 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. **Australian PCI®** results are based on responses from approximately 120 companies.

# PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

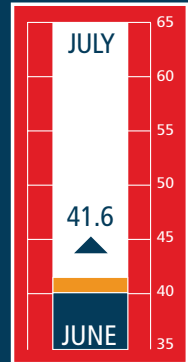
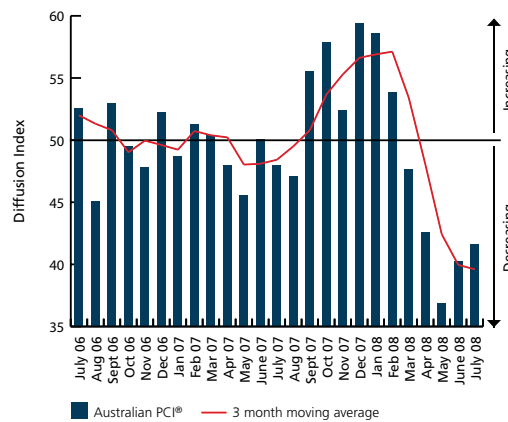


JULY 2008

## STRONGER ENGINEERING CONSTRUCTION SLOWS DECLINE IN BUILDING ACTIVITY

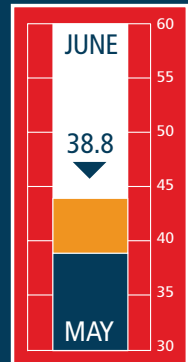
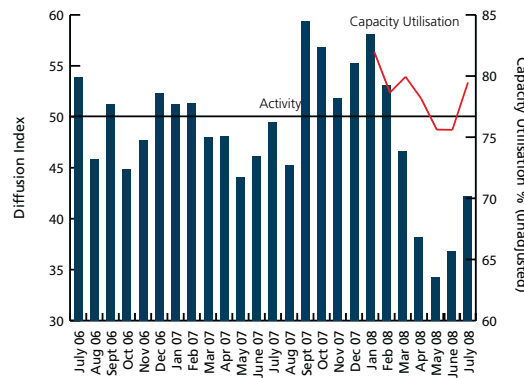
### KEY FINDINGS

- The national construction industry contracted for a fifth consecutive month in July, although the rate of decline continued to moderate, due mainly to stronger engineering construction activity.
- The Australian Industry Group/ Housing Industry Association Performance of Construction Index (**Australian PCI®**) registered 41.6 in July 2008, remaining below the critical 50.0 points level separating expansion from contraction.
- The further decline in the overall performance of the industry reflected on-going weakness in the house, apartment, and commercial construction sectors. Firms experiencing declines in activity linked this to higher interest rates, tighter credit conditions, heightened risk aversion, and low consumer and investor confidence.
- On an aggregate industry basis, declines in activity and new orders continued in July, albeit a slower rate. This largely reflected improved conditions in the engineering construction sector. Nevertheless, with most sectors under pressure from reduced workloads, employment fell for a fourth straight month.
- The rate of increase in input costs was more pronounced in July, reflecting higher prices for a range of raw materials, particularly steel and fuel.



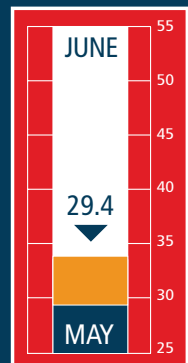
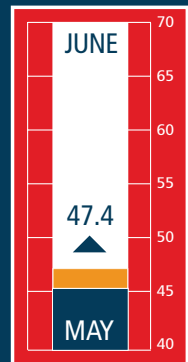
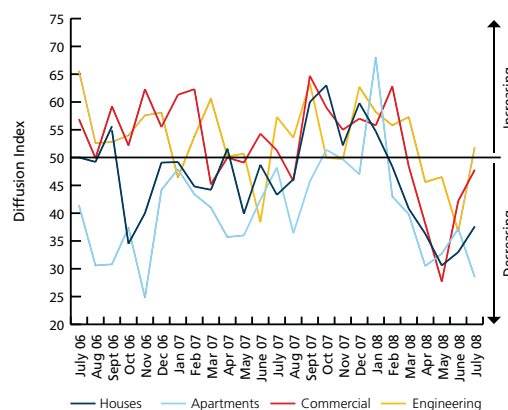
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in July registered 42.2.
- This was 5.4 points above the index reading for June, signalling an easing in the rate of decline in total construction activity.
- Underlying this result, was a less marked rate of decline in both the commercial construction and house building sectors, and a return to growth in the engineering construction sector. These trends cushioned the impact of a sharper decline in apartment building activity.
- The average rate of capacity utilisation registered at 79.5% in July, an increase from 75.6 in the previous month.



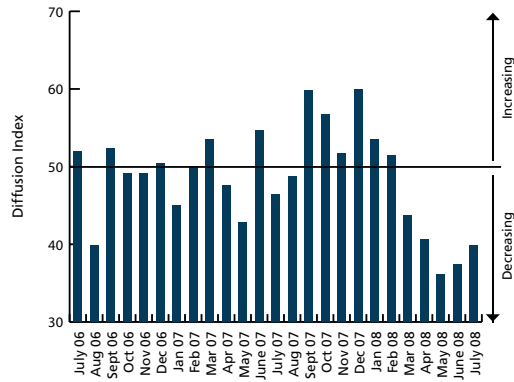
### ACTIVITY BY SECTOR

- Apartment building was the weakest performing sector during July, with the sub-index registering 28.5. This was a fall of 8.7 points on the previous month, and represented the most subdued level of activity in the past 20 months.
- House building activity declined for a sixth consecutive month, although the sub-index increased in July by 4.6 points to 37.6, signalling a moderation in the rate of decline.
- While the commercial construction sector posted a fifth straight month of declining activity, the pace of decline was the slowest since March 2008.
- In contrast, engineering construction expanded in July following falls over the previous three months, with the sub-index registering 51.9, up by a solid 15.2 points on the previous month.



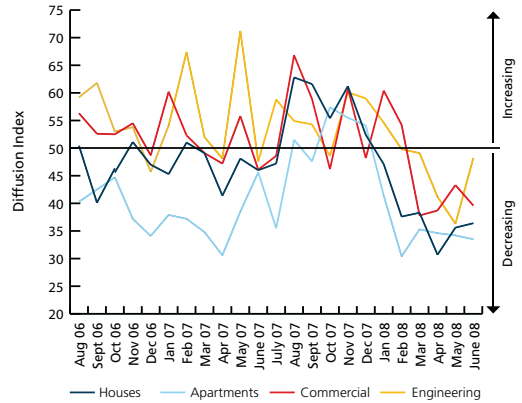
## NEW ORDERS

- Consistent with weak demand for construction in general, new orders (seasonally adjusted) contracted in July for a fifth consecutive month.
- Nevertheless, the new orders index for July rose by 2.5 points to 39.9, a rise of 2.5 points on the reading of the previous month, indicating an easing in the rate of decline for a second straight month.
- The decline in new orders reflected reductions in levels of incoming business across all sectors, although a notable moderation was evident in the degree of contraction of new work in the engineering sector.
- The further fall in new orders points to a continuation of overall subdued industry conditions in coming months.



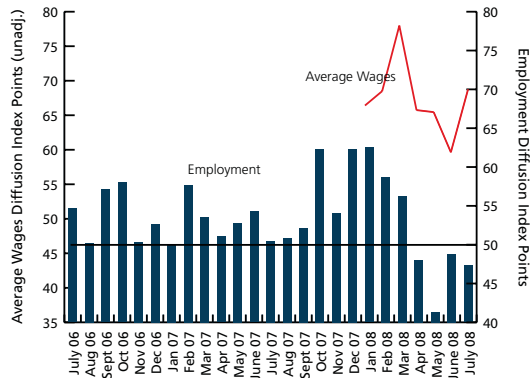
## NEW ORDERS BY SECTOR

- In the apartment sector, new orders were at their weakest level of all sectors with an index reading of 33.5. This was 0.7 points down on the previous month, and maintained the decline evident since January 2008.
- For the commercial construction sector, new orders continued to exhibit weakness with the index registering 39.6, a decline of 3.7 points on the previous month, with firms noting that market uncertainty and tighter credit conditions was continuing to lead to delays in project commencements.
- The house building sector registered a decline in new orders for a sixth consecutive month, although the pace of decline eased slightly with the index rising by 0.8 points in July to 36.4.
- New orders in engineering construction fell for a fifth straight month in July. Nevertheless, the rate of decline eased markedly with the index rising by 11.9 points to 48.2, suggesting that firmer activity in this sector will be sustained over coming months.



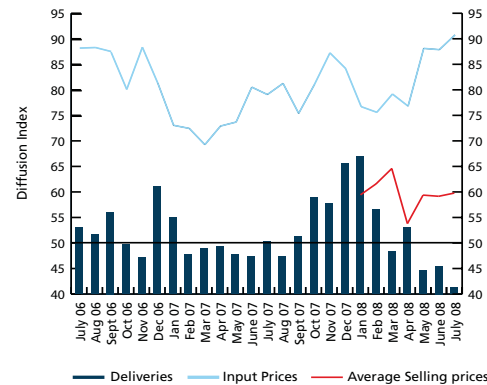
## EMPLOYMENT AND WAGES

- The further decline in workloads led to continued cut backs in employment levels during July.
- The employment sub-index in July remained in negative territory registering 43.2, down by 1.7 points on June, to signal a higher rate of decline during the month.
- This was the fourth consecutive month of falling employment, which was mainly linked to declining new order volumes.
- Firms reported growth in wages at a higher rate than the previous month, the index registering 70.0, 8.1 points above June's reading.



## DELIVERIES INPUT COSTS AND SELLING PRICES

- Supplier deliveries declined during the month in response to the continued fall in activity and input requirements.
- The supplier delivery index stood at 41.2 in July, 4.3 points below the reading of the previous month.
- Input costs continued to increase, with growth at its strongest level since the inception of the survey in September 2005. Driven mainly by higher oil and steel prices, the input cost sub index rose by 2.9 points in July to 90.9.
- In contrast, the output cost index increased slightly by 0.7 points to 59.8. Consequently, the gap between output cost growth and the level of increase in input costs widened, signalling increased pressure on margins.



## NATIONAL INDEXES

	Jul 08	Jul 07	Jun 08	May 08	Apr 08	Mar 08	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sep 07	Aug 07
<b>AUSTRALIAN PCI</b>	41.6	48.0	40.3	36.9	42.6	47.7	53.9	58.6	59.4	52.4	57.9	55.6	47.1
<b>ACTIVITY</b>	42.2	49.5	36.8	34.3	38.2	46.6	53.1	58.1	55.2	51.9	56.9	59.4	45.3
- HOUSES	37.6	43.3	33.0	30.6	36.3	40.8	48.4	54.7	59.8	52.2	63.0	60.0	46.1
- APARTMENTS	28.5	48.2	37.2	32.7	30.5	39.8	43.0	68.0	47.0	49.7	51.4	45.7	36.4
- COMMERCIAL	47.8	51.3	42.2	27.7	38.1	48.4	62.8	55.8	57.0	55.0	59.0	64.7	45.8
- ENGINEERING	51.9	57.3	36.7	46.5	45.6	57.3	55.8	58.2	62.7	49.7	50.0	63.4	53.6
<b>CAPACITY</b>	79.5	na	75.6	75.6	78.2	79.9	78.7	82.0	na	na	na	na	na
<b>NEW ORDERS</b>	39.9	46.4	37.4	36.1	40.6	43.8	51.5	53.4	59.9	51.6	56.7	59.8	48.8
<b>WAGES</b>	70.0	na	61.9	67.1	67.3	78.2	69.8	67.9	na	na	na	na	na
<b>EMPLOYMENT</b>	43.2	46.8	44.9	36.5	44.1	53.3	56.1	60.3	60.2	50.9	60.1	48.7	47.2
<b>DELIVERIES</b>	41.2	50.3	45.5	44.6	53.0	48.4	56.6	67.0	65.6	57.8	58.8	51.3	47.3
<b>INPUT PRICES</b>	90.9	79.2	88.0	88.3	77.0	79.3	75.8	76.9	84.3	87.4	81.2	75.5	81.4
<b>SELLING PRICES</b>	59.8	na	59.1	59.4	53.8	64.6	61.6	59.4	na	na	na	na	na

Results are based on a sample of approximately 120 companies

\* Seasonal adjusted results are based on factors derived from NTC Economics construction indexes, adjusted for Australian conditions.

## WHAT IS THE AUSTRALIAN PCI?

The Australian Industry Group – Housing Industry Association Australian Performance of Construction Index (Australian PCI<sup>®</sup>) 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<sup>®</sup> 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.

More information can be obtained from the Ai Group web site [www.aigroup.asn.au](http://www.aigroup.asn.au)

## CONTACT

**Heather Ridout**  
Chief Executive,  
Ai Group  
work 02 9466 5504

**Harley Dale**  
Chief Economist,  
HIA  
work 02 6245 1393

**NTC Economics**  
[www.ntceconomics.com](http://www.ntceconomics.com)

© The Australian Industry Group, 2008

This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may 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, which include economic and industry policy and forecasting 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. The Australian Industry Group has compiled this information in conjunction with information provided by HIA. 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 an person relying in whole or in part upon the contents of this publication.