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## Australian PCI®: Pace of decline eases in construction industry

The national construction industry continued to decline in August, although the rate of contraction was less marked than the previous month with the seasonally adjusted **Australian Industry Group/ Housing Industry Association Performance of Construction Index (Australian PCI®)** rising by 2.9 points to 42.4 (Remaining below the 50 point level separating expansion from contraction).

Reductions in engineering and commercial construction were the main negative influences on activity in August. However, house building projects exhibited further resilience and increased for a second consecutive month, while the pace of decline eased considerably in the apartment sector.

The Australian Industry Group (Ai Group) Associate Director, Economics and Research, Tony Pensabene, said: "The latest results show that total industry activity is continuing to fall amid tight credit conditions and ongoing difficulties amongst firms in securing new project work, particularly within the engineering construction sector. Consequently, the industry experienced its 17th consecutive month of declining employment.

"However, more positive developments were the moderation in the pace of the industry's contraction, and the continued growth in house-building activity, resulting in an easing in the pace of decline from the extreme lows of the start of the year," Mr Pensabene said.

HIA Chief Economist, Dr Harley Dale said: "The underlying house building index of the **Australian PCI®** is a shining light for the construction industry. It is back in positive territory and along with a range of leading indicators is signalling a recovery in new house construction in 2009/10. The early stages of the recovery through the second half of 2009 will be slow, but at least we're moving in the right direction.

"The apartment sector on the other hand is still very weak. It is encouraging to see an easing in the rate of decline in this **Australian PCI®** component over July and August, but clearly credit constraints and a lack of investor interest are still weighing heavily on this sector of the industry," Dr Dale said.

### Australian PCI® Key Findings for August:

- The activity sub-index registered 40.5 in August, 2.0 points above the July reading.
- House building exhibited further improvement in August, rising slightly by 0.6 points to 52.5.
- Engineering construction activity registered a further, and accelerated fall in activity with the sub-index declining by 3.2 points to 31.8.
- Commercial construction registered its 16th decline in the past 18 months, with a sub-index reading of 39.6.
- Apartment building posted a 19th straight month of falling activity, however, the rate of reduction eased markedly with the sub-index lifting by 15.0 points to 44.4.
- New orders declined in August to register 18 months of decline.
- The employment sub-index remained in negative territory registering 42.6, although there was a slower rate of job shedding.

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**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 indexes for activity, orders/new business, deliveries and employment with varying weights. An **Australian PCI®** reading above 50 points indicates that 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. Results are based on responses from over 120 companies.