

Embargoed until 0930: Friday 7 August 2009

## Australian PCI<sup>®</sup>: Further decline in construction activity

There was a further decline in national construction industry activity in July with the seasonally adjusted Australian Industry Group/Housing Industry Association Performance of Construction Index (**Australian PCI<sup>®</sup>**) falling by 3.1 points to 39.5.

A lift in house building was not enough to offset the faster rate of decline in both the apartment and engineering construction sectors. Overall construction activity has now remained below the key 50-point level that separates expansion from contraction for 17 months.

The Australian Industry Group (Ai Group) Associate Director, Economics and Research, Tony Pensabene, said: "The house building sector's return to growth is good news, underpinned by low interest rates and the first home owners' scheme. New orders are also exhibiting greater resilience than other sectors, suggesting a continuation of housing growth in coming months.

"Overall recovery in the construction sector is being held back by a weak apartment sector, a fragile commercial construction sector and the normal lags in the commencement of major infrastructure projects, such as the Government's infrastructure and stimulus packages. As well, tight credit conditions and poor investor confidence continue to hit demand for building projects.

"The critical priority will be for the other parts of the construction sector to mirror the house building story, and this will require a lift in business confidence and investment, and for major infrastructure projects to commence in the months ahead. Otherwise, growth in the economy will be held back," Mr Pensabene said.

HIA Chief Economist, Harley Dale said: "Further improvement in the detached house building component in July provided evidence of the success of the tripling of the First Home Owners Grant and the aggressive reduction in interest rates over late 2008 to early 2009.

"There will be a moderate recovery in detached home building over 2009/10, although at present that recovery looks quite narrowly based with investors and trade-up buyers still lacking in critical mass numbers. At the same time, the apartment market continues to struggle under tighter lending requirements and a lack of available credit. Tight rental market conditions are getting further strangled as a result," Mr Dale said.

### Australian PCI<sup>®</sup> Key Findings for July:

- The **Australian PCI<sup>®</sup>** fell by 3.1 points to 39.5 in July.
- House building exhibited further strength in July with the sub index rising by 7.9 points to 51.9.
- Engineering construction activity registered a further, and accelerated, decline in activity with the sub-index declining by 6.1 points to 35.0. Firms attributed this to weak private sector demand.
- Apartment building activity also registered a further contraction in activity with the sub-index falling by 5.9 points to 29.4.
- Commercial construction registered its 15th decline in the past 17 months, with a reading of 38.3.
- The new orders index registered 36.8, down by 2.1 points on June, to represent the second straight month that firms have reported a worsening in the rate of reduction in new business.
- The employment sub-index in July registered 40.8, down by 5.5 points on June's reading, to signal a higher rate of job shedding.

### Further Comment:

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**Background:** The Australian Industry Group – Housing Industry Association 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 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. **Australian PCI<sup>®</sup>** results for the third month of each quarter are based on an expanded sample (in excess of 500 companies). Results for the other months are based on responses from over 120 companies.