

Embargoed until 0930: Tuesday July 7, 2009

Australian PCI®: Construction continues to decline

The **Australian Industry Group – Housing Industry Association Australian Performance of Construction Index (Australian PCI®)** stood at 42.6 in June, down by 4.3 points. It remains below the key 50-point level that separates expansion from contraction.

The Australian Industry Group (Ai Group) Associate Director, Economics and Research, Tony Pensabene, said: “The **Australian PCI®** for June indicates that the construction industry continues to decline albeit at a rate consistent with the slower pace of decline evident in recent months. The result also reflects the recent up and down nature of the index and, consistent with the rest of the economy, it is demonstrating the trend of getting worse more slowly.

“Although the June decline was principally led by the volatile apartment sector in the wake of the recent slump experienced in approvals, the survey also signalled a fall-off in work generated from both engineering and commercial construction projects.

“In addition, the recovery in house building faltered in June. However, given the recent encouraging trend in orders and the stronger demand flowing from the First Home Owners Grant and low interest rates, it is possible that these weaker housing conditions will be temporary,” Mr Pensabene said.

HIA Senior Economist, Ben Phillips, said: “The **Australian PCI®** for June adds further weight to the argument that the apartment segment continues to struggle under pressure from extremely tough credit conditions. The drop in the apartment’s segment will continue to impact heavily on the rental investment market. The consequences will be a continuation of strong rental growth and acute rental shortages.

“The June **Australian PCI®**, like the recent building approvals and new home sales data releases, suggests that the impact of the very successful First Home Owners Grant is levelling out. Prospects for growth over the remainder of 2009 will fall upon the currently very weak investor and trade-up buyer markets,” Mr Phillips said.

Australian PCI® Key Findings for June:

- The seasonally adjusted **Australian Industry Group/ Housing Industry Association Performance of Construction Index** fell by 4.3 points to 42.6 in June, to remain below the critical 50 points no-change level for a 16th consecutive month.
- Firms linked the persistent weakness in industry conditions to the deteriorating economy and low business confidence, which had led to continuing delays in tenders and cut backs on new construction projects. However, a number of respondents cited the positive impact of low interest rates and the First Home Owners Grant in supporting house building activity.
- All sectors experienced continued falls in activity, although the pace of decline increased more markedly in apartment building and engineering construction, while commercial construction also fell substantially. House building exhibited a greater degree of resilience.
- On an aggregate industry basis both activity and new orders posted sharper declines in June. Ongoing weakness in demand resulted in a further reduction in employment.

Further Comment:

Tony Pensabene:

03 9867 0258 or 0417 012 863

Ben Phillips, HIA:

02 6245 1329 or 0424 147 321

Media Inquiries: Tony Melville, Ai Group:

02 6233 0716 or 0419 190 347

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. **Australian PCI®** 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.