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Australian PCI[®]: Construction falls as demand weakens

The national construction industry contracted in November, following a drop in new orders, a weakening in activity and a fall in employment, according to the latest Australian Industry Group/Housing Industry Association Performance of Construction Index (**Australian PCI[®]**). The seasonally adjusted **Australian PCI[®]** was down 3.3 points to 47.6 for November, slipping below the critical 50 point level separating expansion from contraction.

A slump in apartment building and a further decline in engineering and commercial construction underpinned November's results. Despite the fall, the performance of the sector was still well above the lows of early this year.

Australian Industry Group, Director Public Policy, Dr Peter Burn said: "The survey results reaffirm the fragile state of current conditions in the construction industry which has slipped back from the tentative signs of recovery seen during the previous two months.

"Encouragingly, the housing sector has continued to grow, although the rate of improvement appears to have slowed over the past two months due to a weakening in first home buyer activity. Recent interest rate rises are likely to further dampen growth over coming months.

"The second straight month of falling new orders across the construction industry suggest the current soft market conditions are likely to persist, at least into the early part of next year," Dr Burn said.

Housing Industry Association, Senior Economist, Ben Phillips said: "The new homes and apartments market is simply treading water late in 2009, meanwhile, Australia's population grows at record levels. A much needed new homes recovery is being muted by higher interest rates and the removal of the first home buyers grant boost.

"High levels of taxes and charges on new housing continue to unfairly disadvantage the new homes sector, leaving Australia with a shortage of housing that may exist for years to come," Mr Phillips said.

Australian PCI[®] Key Findings for November:

- The seasonally adjusted Australian Industry Group /Housing Industry Association Performance of Construction Index contracted 3.3 points to 47.6 in November, slipping below the 50 point mark separating expansion from contraction.
- The weaker result was underpinned by a drop in new orders, activity and employment.
- However, despite the fall, the industry is still in a stronger position than in early 2009.
- Across the sectors, the apartment activity index dropped 4.7 points to 48.5. The engineering and commercial construction indexes also fell below 50 for the month.
- House building grew for the fifth consecutive month, the sub-index at 51.1 for November.
- Subdued demand, a result of ongoing tight credit conditions, saw the new orders index decrease 2.4 points on the previous month.

Further Comment:

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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.