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Australian PCI[®]: modest growth in construction activity continues

The national construction industry continued to grow modestly in October reflecting a rise in building activity, improved employment levels and supplier deliveries, according to the latest Australian Industry Group/Housing Industry Association Performance of Construction Index (**Australian PCI[®]**). The seasonally adjusted **Australian PCI[®]** remained relatively steady, up 0.1 points to 50.9, slightly above September's level and still above the 50 point mark separating expansion and contraction.

The continued growth in house building, although at a much slower rate, combined with a boost in apartment building, kept construction in positive territory in October.

Australian Industry Group, Associate Director Public Policy, Dr Peter Burn said that while the growth in the sector is welcome, it clearly remains tentative and uneven.

"The survey results provide some encouraging signs of further improvement in the construction industry during October. Nevertheless, a more marked fall in commercial construction and a fifth consecutive month of decline in work undertaken on engineering construction projects shows that the pace of growth remains subdued and patchy across the industry. This reflects the on-going tightness of credit conditions, fewer new orders and excess capacity.

"While there was a pick-up in the apartment sector, house building grew at a slower pace in October on the back of the winding down of the First Home Owners subsidy and rising interest rates. This suggests that a durable upturn in housing activity remains some way off," Dr Burn said.

Housing Industry Association Senior Economist, Ben Phillips said: "HIA is concerned that the strong signs for new home building in the last report have been negated by increasing interest rates and the removal of the first home owners boost.

"The moderate recovery indicated by the index will simply not be enough to satisfy the demands of Australia's record breaking population growth," Mr Phillips said.

Australian PCI[®] Key Findings for October:

- The seasonally adjusted Australian Industry Group/Housing Industry Association Performance of Construction Index rose 0.1 points to 50.9 in October.
- The national construction industry recorded a second consecutive month of growth driven by a further rise in activity, employment and supplier deliveries.
- Improvement remains tentative with a reduction in new orders following a solid lift in September.
- House building continued to grow in October, albeit at a slower rate.
- The apartment sector posted its first rise in 21 months, the sub-index rose by 6.9 points to 53.2.
- Commercial and engineering construction continued to fall during the month.
- The continued growth contributed to a further rise in employment, registering 52.5 on the sub-index.

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.