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Australian PCI®: Construction activity resumes growth as house building strengthens

The national construction industry returned to modest growth in September 2009 following 18 months of contraction driven largely by stronger demand in the house building sector, according to the latest Australian Industry Group/Housing Industry Association Performance of Construction Index (**Australian PCI®**).

The seasonally adjusted **Australian PCI®** rose by 8.4 points to 50.8, to be above the critical 50 points no-change level for the first time since February 2008. By industry sector, growth was confined to house building where the rate of growth in activity increased to its highest level since December 2007.

The Australian Industry Group (Ai Group) Associate Director, Economics and Research, Tony Pensabene, said: "The **Australian PCI®** results provide further encouraging signs of an improvement in the industry from the extreme weakness reported at the start of the year, however, the conditions continue to exhibit volatility.

"Underlying the move into positive territory in September was house building activity, which expanded for a third consecutive month on the back of low interest rates and the stimulus from the First Home Owners Grant both of which are now in reverse. Moreover, while the pace in decline in new orders eased, it is clear that weak conditions persist in the apartment, engineering and commercial construction sectors

"Industry conditions remain tough overall with companies facing intense competition to secure new contracts amid the on-going difficulties of tight credit conditions and poor investor sentiment. While this persists, growth will be held back and conditions are likely to remain fragile," Mr Pensabene said.

HIA Senior Economist, Ben Phillips said: "It is very encouraging to see the **Australian PCI®** back in positive territory after such a long period of sustained sub 50 readings, and detached home building is responsible for much of the improvement. The unwinding of low interest rates and the first home buyers boost threatens to reverse this welcome trend and ensure any recovery in new home trade-up buyer activity and new investment activity remains in a holding pattern," Mr Phillips said.

"This narrow base to recovery is exacerbated by a lack of credit constraining high rise residential development, a factor also at play in the commercial sector. We should see modest growth in new dwelling investment in 2009/10 at a time when strong growth is required, and for the construction sector overall it will be a negative year," Mr Phillips said.

Australian PCI® Key Findings for September:

- The seasonally adjusted **Australian PCI®** rose by 8.4 points to 50.8 in September.
- Total industry activity moved from negative territory to a position of stabilisation.
- House building exhibited solid improvement in September, signalling the third consecutive month of growth in housing output.
- Engineering construction, commercial construction, and apartment building all registered a further fall in activity, although the pace of decline eased.
- New orders (seasonally adjusted) increased in September, although overall growth was at a modest level.
- Employment expanded in September as an increased number of firms adjusted capacity to accommodate higher workload requirements.
- In line with the improvement in overall market demand, deliveries from suppliers increased.

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.