AUSTRALIAN INDUSTRY GROUP

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Australian PCI®: Construction decline continues as new orders weaken

Further drops in activity and new orders saw the national construction industry spend another month in the red according to the latest Australian Industry Group **Australian Performance of Construction Index** (**Australian PCI®**), in conjunction with the Housing Industry Association. The seasonally adjusted index fell by 1.2 points to 39.8 in January, marking the 20th consecutive month that the sector has contracted (readings below 50 indicate a contraction in activity).

Activity was particularly subdued in the commercial (30.4) and apartment building (34.6) sectors. However, the pace of decline eased in the house building sector (41.1) with businesses citing the interest rate cuts in November and December of last year as helping to support an improvement in customer enquiries and activity. Despite a negative activity reading in the month, engineering construction (47.8) remained the best performing sector.

Businesses mainly attributed the on-going weakness in the industry to tight credit conditions, a lack of new tender opportunities and strong competition for existing work.

Australian Industry Group Director Public Policy, Peter Burn, said: "Commercial and residential construction continued to drag on the overall construction sector in January. Engineering construction remains distinctly stronger than the rest of the sector due in large part to resource-related projects. While the rest of the industry remains well and truly in negative territory, the interest rate reductions towards the end of last year appear to have helped reverse the accelerating falls in new orders for residential construction with the new orders sub-index for house building rising again in January following solid improvements since last September," Dr Burn said.

Housing Industry Association Chief Economist, Harley Dale, said: "It is encouraging to see an easing in the pace of decline for house building, vindicating the two interest rate cuts at the end of last year, but also justifying the case for further reductions given that the house building sub-index has still been contracting for over eighteen months. Tight credit conditions being cited yet again as a primary driver of what is an entrenched contraction in the **Australian PCI®** represents just one reality bite as to why it will take more than just monetary policy easing to set the residential and commercial construction sectors back on a sustainable recovery path," Dr Dale said.

Australian PCI® Key Findings for January:

- The Australian Industry Group **Australian Performance of Construction Index** (**Australian PCI®**), in conjunction with the Housing Industry Association, remained in negative territory in January falling 1.2 points to 39.8 (readings below 50 indicate a contraction in activity).
- Weakness in the industry reflected a steeper decline in new orders. The new orders sub-index dropped by 6.6 points to 35.9.
- Decreasing new order inflows saw construction activity fall again in the month with the activity sub-index declining by 3.4 points to 37.0.
- By sector, activity was weakest in commercial construction (30.4) amid a further scaling back in public building work and overall weakness in approvals.
- Negative readings were also recorded across the other major sub-sectors: apartment building (34.6), house building (41.1) and engineering construction (47.8).
- Amid highly competitive market conditions, selling prices continued to decline, registering 32.8 in the month.

Further Comment:

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Background: The Australian Industry Group Australian Performance of Construction Index (**Australian PCI®)** in conjunction with the Housing Industry Association 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 150 companies.

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