AUSTRALIAN INDUSTRY GROUP

HIA

**Embargoed until 0930: 7 September 2012**

## Australian PCI®: Construction decline continues in August as new orders weaken

A sharp fall in new orders in August largely contributed to another month of contraction for the construction industry 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 was 32.2 in August – down slightly from 32.6 in July (readings below 50 indicate a contraction in the industry with the distance from 50 indicative of the strength of the decline).

Apartment building was the weakest performing sub-sector in the month – down 10.8 points to 22.1 – offsetting gains from the previous month. Engineering construction remained the strongest of the sub-sectors – although still in decline at 35.7 with respondents citing a slowing in resource sector demand and project delays as affecting activity.

Australian Industry Group Director of Public Policy, Peter Burn, said: "The continuing severe slump in residential and commercial construction is a drag on the overall economy. In August a weakening in the engineering construction sector contributed to a further worsening in the sector as a whole. Even though interest rates have fallen recently, the near-term outlook for the construction sector deteriorated with a further fall in new orders. The drop off in new orders was particularly sharp for engineering construction and the apartment sub-sector," Dr Burn said.

Housing Industry Association Chief Economist, Harley Dale, said: "Against a backdrop of five weak quarters for new dwelling investment, as confirmed in this week's national accounts, it is concerning that the first two **Australian PCI®** updates for 2012/13 provide no sign of a turnaround. The persistent weakness in the sub-indices for activity and new orders into the new financial year raises question marks as to whether we will see any tangible evidence of improved conditions in the construction industry by the December 2012 quarter. You would hope to be seeing a modest improvement by that quarter, but the odds of sighting that improvement appear to be lengthening," Harley Dale said.

### Australian PCI® Key Findings for August:

- The latest Australian Industry Group **Australian Performance of Construction Index** (**Australian PCI®**), in conjunction with the Housing Industry Association was down 0.4 points to 32.2 in August (readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease).
- The **Australian PCI®** has now been in negative territory for 27 consecutive months.
- The new-orders sub-index fell 5.8 points to 28.8.
- Across the sub-sectors: house building rose to 31.5, commercial construction increased to 34.0, apartment building dropped sharply to 22.1 and engineering consecution fell to 35.7.
- Employment continued to contract.
- The selling-price index was 38.5 in August.
- Survey respondents cited subdued conditions, a shortage of new tender opportunities, project delays and difficulty securing funding as impacting growth.

**Further Comment:**
Peter Burn, Ai Group: 02) 9466 5503 or 0427 666 579
Harley Dale, HIA: 02) 6245 1329 or 0414 994 186
**Media enquiries:**
Tony Melville - Ai Group: 02) 6233 0700 or 0419 190 347

**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.

@The_AiGroup