AUSTRALIAN INDUSTRY GROUP

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Australian PCI®: Construction down again in February

February marked the 21st consecutive month the national construction industry has contracted 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 4.2 points weaker at 35.6 in the month (readings below 50 indicate a contraction in activity).

The weakness in activity was spread across the sub-sectors. Commercial construction was particularly subdued amid a scaling back in public building work while house building declined at a more pronounced rate than the previous month. In addition, new orders on aggregate continued to decline with the sub-index falling 1.7 points to 34.2.

Australian Industry Group Director Public Policy, Peter Burn, said: "The difficulties for the construction industry continued in February with declines in activity in each of the four sub-sectors. The tentative signs of recovery that had emerged in the closing months of 2011 as interest rates were lowered, appear to have dissipated since the start of this year. With new orders also weak in February and with market interest rates now somewhat higher, the outlook for the next few months remains flat particularly for commercial and residential construction," Dr Burn said.

Housing Industry Association Senior Economist, Andrew Harvey, said: "To see new orders for houses and apartments still declining at a significant rate is highly disappointing. It confirms that, in isolation, the interest rate cuts of late 2011 will not be enough to turn around a weak residential building sector. The ongoing policy gamble of an almost sole focus on the resources sector, combined with interest rate settings that remain too high, continues to hang like the sword of Damocles on not only the construction sector but the Australian economy in aggregate," Mr Harvey said.

Australian PCI® Key Findings for February:

- The national construction industry contracted further in February – down 4.2 points to 35.6 - according to the latest Australian Industry Group **Australian Performance of Construction Index** (**Australian PCI®**) in conjunction with the Housing Industry Association (readings below 50 indicate a contraction in activity).
- February marked the 21st straight month of contraction for the sector.
- All four major sub-sectors remained in the red in February: house building (37.9), apartments (34.4), commercial (26.3), engineering (41.7).
- The new orders sub-index fell 1.7 points to 34.2.
- Employment fell at a steeper rate in February – down 6.8 points to 38.5.
- Growth in wages continued with the sub-index rising 1.2 points to 59.9.
- Subdued demand, reduced public sector work, tight credit conditions and economic uncertainty were again cited as the main factors undermining activity.

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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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