AUSTRALIAN INDUSTRY GROUP

HIA

Embargoed until 0930: 9 January 2012

Australian PCI®: Construction weakness eases with lift in resource sector work

A boost in resource-related engineering construction helped ease the rate of decline across the national construction sector in December. The Australian Industry Group **Australian Performance of Construction Index** (**Australian PCI®**) in conjunction with the Housing Industry Association, increased by 1.4 points to 41.0 in December although it remained below the 50 point level separating expansion from contraction for the 19th consecutive month.

While engineering construction was back in positive territory (51.3), house building continued to fall (32.9). Meanwhile, apartment building recording its slowest decline in five months with a lift of 9.9 points to 33.3 and commercial construction was 32.8.

Australian Industry Group Director Public Policy, Peter Burn, said: "The broader multi-speed economy phenomenon is playing out within the Australian construction industry with a clear divide between the expanding engineering construction sub-sector and the still-contracting commercial and residential construction sub-sectors. The increased pace of contraction in the house building sub-sector in December remains deeply concerning. Nevertheless, the easing of the pace of contraction in overall activity and in new orders across all sub-sectors, serve as glimmers of hope that 2012 may see a return to more balanced growth across the industry," Dr Burn said.

Housing Industry Association Chief Economist, Harley Dale, said: "A less marked rate of contraction in the national construction industry in December 2011 should in no way disguise the very weak residential and non-residential building conditions. The **Australian PCI®** has now contracted for nineteen consecutive months.

"A more marked rate of contraction for house building is an especially concerning update for the end of 2011, and the same outcome is evident for the employment sub index of the **Australian PCI®**. There is a clear need not only for further interest rate relief but also for government action in terms of both shorter-term stimulatory measures and a re-invigorated plan for policy reform," Mr Dale said.

Australian PCI® Key Findings for December:

- The Australian Performance of Construction Index (**Australian PCI®**) in conjunction with the Housing Industry Association lifted 1.4 points to 41.0 in December (readings below 50 indicate a contraction in activity).
- The easing in the rate of decline was largely attributed to the boost in engineering construction (51.3) thanks to increasing work from the resource sector.
- While commercial construction (32.8) and apartment building (33.3) declined at a slower rate in December, house building fell 5.7 points to 32.9.
- Tight credit conditions, a lack of new tender opportunities together with strong competition for existing work hampered growth in the month.
- New orders declined for the 19th consecutive month (42.5) although the pace of decline was slower.
- Employment continued to fall at a marked rate while wages grew at a faster rate, up 1.8 points to 60.1.

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:
Gemma Williams Ai Group: 02) 6233 0704 or 0401 664 047

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