

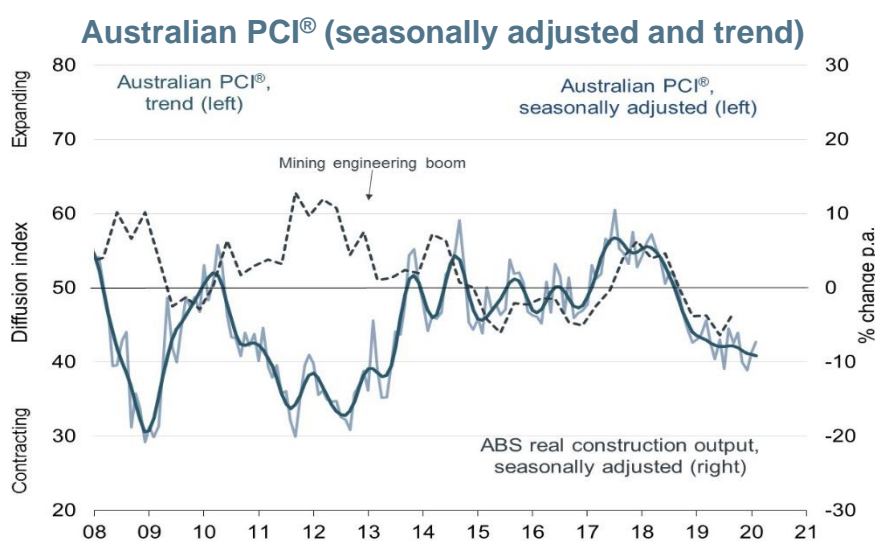
# Construction decline eases in February

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 1.4 points to 42.7 points in February (seasonally adjusted) indicating a further easing in the construction industry's rate of decline. Results under 50 points in the Australian PCI® indicate deteriorating conditions, with lower results indicating a faster pace of decline.

The milder decline in the Australian PCI® in February reflected slower reductions in activity, new orders and supplier deliveries. However, the persistence of soft demand in residential construction at the aggregate level over an extended period saw the Australian PCI® employment index fall at a steeper rate in the month.

Across the four construction sectors in the Australian PCI®, house building activity showed further improvement in February, expanding at its fastest pace in three months (trend). Elsewhere, conditions remained subdued. Engineering construction declined at slower rate, while the fall in commercial construction was sharper (a lower index result in the month) and the apartment building activity index remained deeply negative.

House building respondents cited positive support for home buyers from low interest rates and less restrictive bank lending, which is lifting first home buyer activity. Across other industry sectors, a lack of new tenders and project delays were key factors reported as constraining activity.



## FEBRUARY 2020

### MEDIA CONTACT

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**Australian PCI®**  
▲ 1.4 points  
(seasonally adjusted) **42.7**

**Australian PCI®**  
▼ 0.3 points (trend) **40.8**

**Activity**  
▲ 2.8 points  
(seasonally adjusted) **45.1**

**New orders**  
▲ 4.8 points  
(seasonally adjusted) **45.7**

**Employment**  
▼ 4.8 points  
(seasonally adjusted) **36.9**

**House building**  
▲ 1.6 points (trend) **55.0**

**Apartments**  
▲ -0.4 points (trend) **35.9**

**Engineering activity**  
▲ 2.5 points (trend) **40.5**

**Commercial activity**  
▼ -1.4 points (trend) **37.5**

**Construction sectors:** House building was the best performing of the four construction sectors in February (55.0 points, trend), with activity expanding at its highest rate in close to two years. In contrast, apartment building (35.9 points, trend) remained firmly negative, indicating a rate of decline that was largely unchanged from the previous month. Across the major project areas, commercial construction (37.5 points, trend) contracted at its sharpest rate since mid-2013, with reports of further drops in demand. The index for engineering construction (40.5 points, trend) also indicated a further fall in the month, but at a slower rate than in January.

**Construction wages and prices:** Strong cost pressures remain evident in the construction industry in February 2020 but have eased somewhat, with the input price index in the Australian PCI® decreasing by 4.9 points to 68.2 points. The selling prices index in the Australian PCI® decreased by 2.8 points to 43.0 points in February, which was the lowest month result – and indicating the sharpest rate of contraction in output prices - in five months. This reflects strong competition among builders in a highly competitive quoting and tendering environment. The ongoing gap between these pricing series in the Australian PCI® indicates that profit margins remain tight for construction businesses.

**Construction activity:** Across the construction industry, activity (45.1 points), new orders (45.7 points) and supplier deliveries (41.9 points) continued to contract in February, although at slower rates than in January (seasonally adjusted). Employment (36.9 points) fell at steeper pace in February, indicating more construction businesses are reducing rather than increasing their workforce, at an aggregate level.

**Construction highlights:** The Australian PCI® suggests the housing sector has continued to recover in 2020, with further (modest) growth in new orders. The commercial construction sector remains weak, although greater approvals numbers in recent months in some key project areas will support activity over the year ahead. The engineering construction sector has a relatively large range of urban infrastructure projects under way but reports the slow roll-out of new infrastructure projects.

**Construction concerns:** Respondents in the the Australian PCI® reported further price rises for imported materials and subsequent pressure on margins due to the depreciation of the Australian dollar. Some businesses attributed disruptions supplies of imported materials from China to the freight and travel restrictions associated with COVID-19. Locally, respondents reported weak demand and new orders in commercial construction (new tender and quoting opportunities) and infrastructure-related work.

AUSTRALIAN PCI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>Seasonally adjusted</i>				<i>Trend</i>			
<b>Australian PCI®</b>	<b>42.7</b>	<b>1.4</b>	<b>42.1</b>	<b>Australian PCI®</b>	<b>40.8</b>	-0.3	<b>41.9</b>
Activity	45.1	2.8	42.1	House building	55.0	1.6	44.7
Employment	36.9	-4.8	42.1	Apartments	35.9	-0.4	35.6
New Orders	45.7	4.8	41.3	Engineering construction	40.5	2.5	42.5
Supplier Deliveries	41.9	2.5	43.5	Commercial construction	37.5	-1.4	43.6
Input Prices	68.2	-4.9	66.6	<i>Seasonally adjusted</i>			
Selling Prices	43.0	-2.8	40.1	Capacity Utilisation (%)	76.2	1.5	75.7
Average Wages	53.6	-5.1	58.7		%	ppt	%

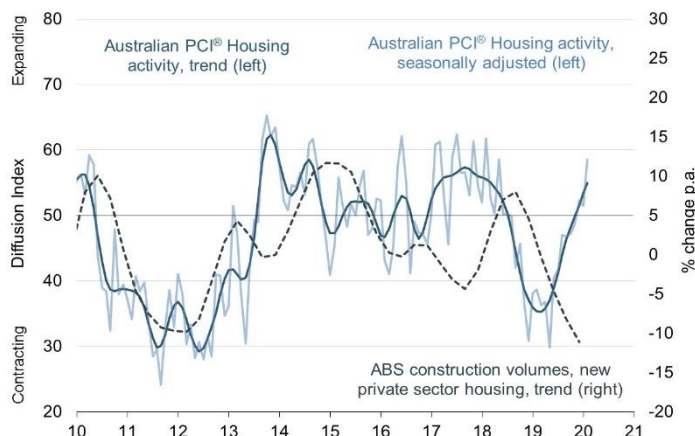
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

CONSTRUCTION REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total, %
<i>Latest ABS data, seasonally adjusted</i>	\$bn	%	%	%
Nom. value of residential building approvals, \$bn, year to Jan 2020	65.1	-	-12.0	55.8% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Jan 2020	51.5	-	15.7	44.2% of building approvals
Real value of building work done, \$bn, year to Dec 2019	120.2	-4.1	-7.1	58.1% of all construction done
Real value of engineering work done, \$bn, year to Dec 2019	84.6	-1.5	-8.0	41.9% of all construction done
Real value of all construction work done, \$bn, year to Dec 2019	204.8	-3.0	-7.4	-
Real value-added output, \$bn, year to Sep 2019	136.0	0.5	-3.3	7.2% of total GDP
Number of employed people, '000, November 2019, <i>trend</i>	1,188.8	1.7	2.7	9.1% of employed people

ABS data sources: *National Accounts; Business Indicators; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

### House building activity

- The volume of new house building work done fell by 6.3% q/q and 11.8% p.a. to \$8.8bn in the December quarter (Q4) of 2019 (seasonally adjusted), according to the ABS. House building accounted for 16.7% of all construction work done in Q4.
- The Australian PCI® house building index lifted by 1.6 points to 55.0 points in February (trend), indicating a faster rate of increase in activity than in January.
- This signaled the third consecutive month of growth in house building activity, consistent with a recovery in new orders. House builders said buyers appear to be responding to low interest rates and less restrictive bank lending, which is promoting first home buyer activity.



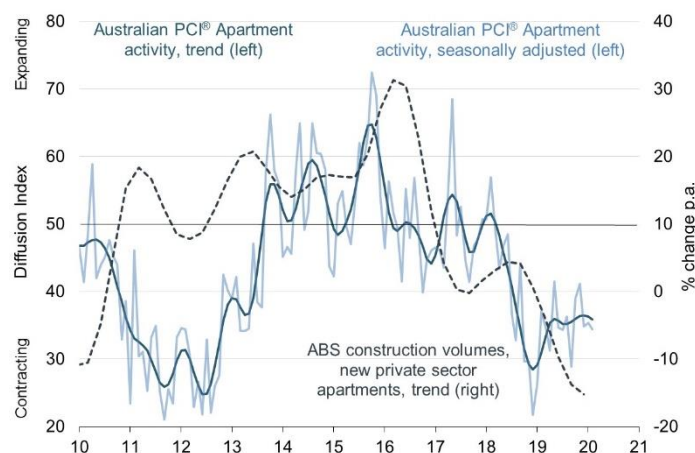
### House building new orders

- The total number of private house approvals increased by 0.8% m/m to 8,549 in January 2020, but remained 6.6% lower over the year (trend), according to the ABS.
- New orders in the house building sector expanded at a slightly stronger rate in February, with the Australian PCI® new orders index for house building moving up by 0.9 points to 51.5 points (trend).
- This was the highest monthly result for this forward-looking index in 20 months and the sector’s second consecutive month of growth. This suggests a better period of activity ahead for house building businesses.



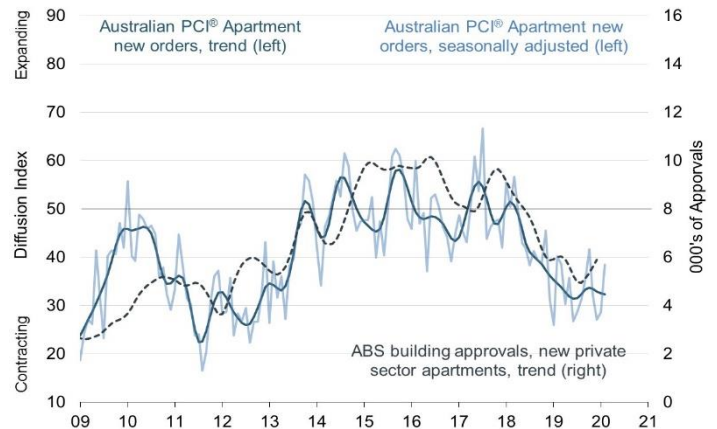
### Apartment building activity

- The volume of new multi-unit dwelling building work done in Q4 2019 fell by 3.5% q/q and 15.9% p.a. to \$7.0bn (seasonally adjusted and inflation-adjusted), according to the ABS. Apartment building activity accounted for 14.0% of all construction work done in Q4.
- The Australian PCI® apartment building activity index decreased by 0.4 points to 35.9 points (trend) in February. This was the 23<sup>rd</sup> month of contraction. The index level (and therefore the rate of contraction) was broadly unchanged from January 2020. This lengthy period of contraction reflects a long slow decline from all-time peaks in apartment approvals and activity in 2017.



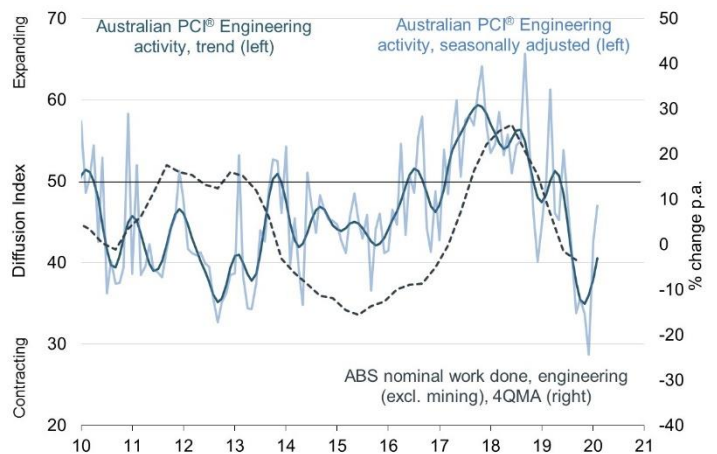
### Apartment new orders

- The total number of private ‘other dwellings’ approvals (apartments, flats and townhouses) decreased by 0.1% m/m to 5,516 in January 2020 to be 7.2% lower over the year to January (ABS, trend).
- The Australian PCI® apartment building new orders index decreased by just 0.2 points to 32.4 points in February (trend), signaling a largely unchanged rate of contraction.
- This index for apartment new orders has been under 50 points and indicating a decline for 23 consecutive months.



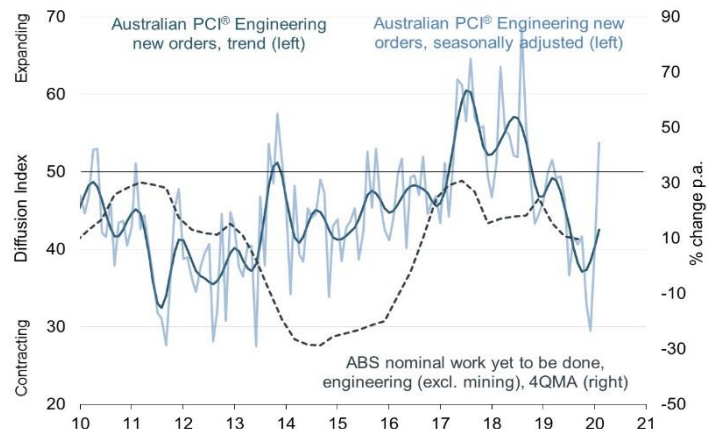
### Engineering construction activity

- The volume of engineering construction work done in Q4 2019 fell by 1.5% q/q and by 8.0% p.a. to \$20.8bn (seasonally adjusted and inflation-adjusted), according to the ABS. Engineering construction accounted for 41.9% of all construction work done in Q4 of 2019.
- The Australian PCI® engineering construction activity index increased by 2.5 points to 40.5 points (trend), indicating a slower rate of decline.
- February marked the ninth consecutive month of decline in engineering construction activity, although the rate of contraction has eased mildly over the past four months.



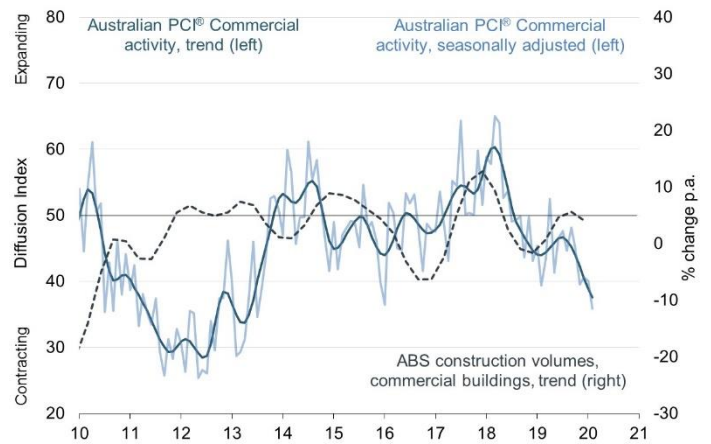
### Engineering new orders

- The Australian PCI® engineering construction sector’s new orders index increased by 2.2 points to 42.6 points in February (trend).
- This was the 16<sup>th</sup> month of contraction for this index, although the pace of decline was slower than in January.
- Some engineering sector respondents reported higher demand and increased workloads in February. However, this was outweighed by reports of delay due to slow progress in the planning stage of major projects and hesitancy by clients to commit to new major projects.
- A large set of existing long-term Government-funded projects and a recovery in mining investment will support engineering construction activity over the year ahead.



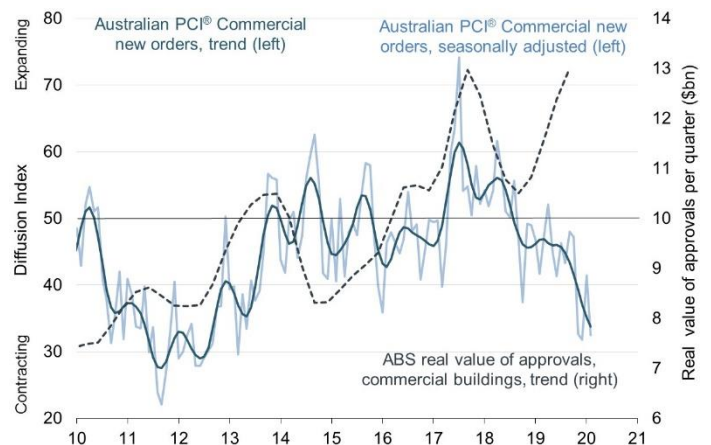
### Commercial construction activity

- The volume of non-residential building work done fell by 3.4% q/q in Q4 of 2019 (seasonally adjusted and inflation-adjusted) to be 3.3% higher over the year, according to the ABS.
- Non-residential building accounted for 23.0% of all construction work done in Q4 of 2019.
- The Australian PCI® commercial construction activity index fell by 1.4 points to 37.5 points in February (trend).
- This was the 19<sup>th</sup> consecutive month of contraction in the Australian PCI® commercial building index. This long decline reflects weak approvals over an extended period.
- Looking ahead, better approvals numbers in some key commercial and social building categories (including industrial premises, schools and hospitals) are likely to support commercial construction activity.



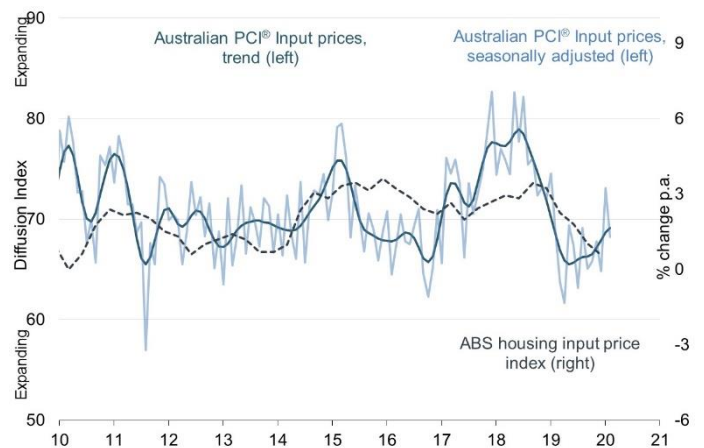
### Commercial new orders

- The real value of non-residential building approvals increased by 0.4% m/m and 10.1% p.a. to \$4.2bn in January 2020 (trend), according to the ABS.
- The Australian PCI® new orders index for commercial construction fell by 1.4 points to 33.8 points in February (trend).
- This was the lowest monthly result for the commercial construction new orders index in 7½ years and a 19<sup>th</sup> consecutive month of decline.



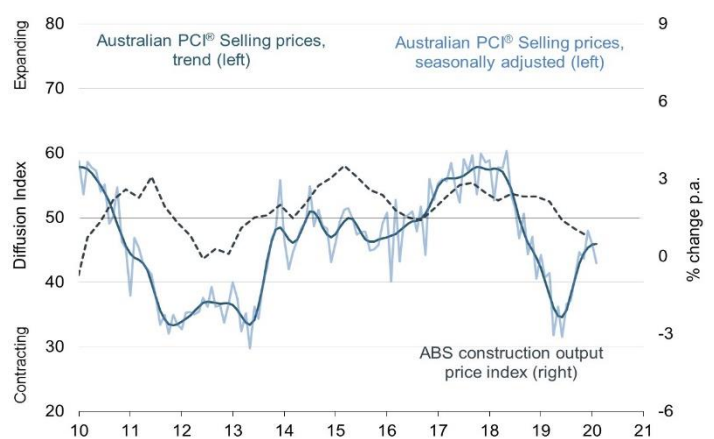
### Input prices

- House construction industry input prices rose by 0.6% p.a. in Q4 of 2019, according to the ABS Producer Price Index.
- The input price index fell by 4.9 points to 68.2 points, indicating that cost pressures in the construction industry eased during the month.
- The Australian PCI® input price index remained elevated compared to 2019 but was around its long-run average.
- Respondents said that input prices are still high in 2020 due to local supplier price rises, the lower Australian dollar and ongoing pressure from high energy prices.



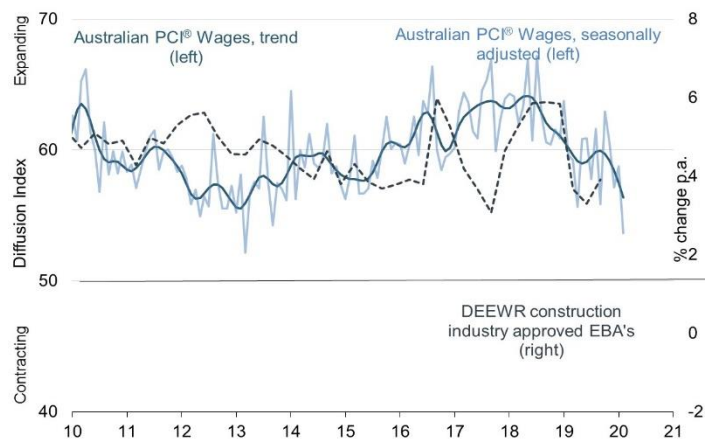
### Selling prices

- Building construction industry output (selling) prices rose by 0.8% p.a. in Q4 of 2019, according to the ABS Producer Price Index. This is well below headline consumer inflation of 1.8% p.a. over the same period.
- The selling prices index in the Australian PCI® fell by 2.8 points to 43.0 points in February.
- This negative result indicates that rising input prices and other costs are not, on average, being passed on to customers. They are largely being absorbed by builders instead, which is probably eating into already-slim margins. Constraints on the ability of businesses to raise prices reflects strong competition between builders in quoting and bidding for new work.



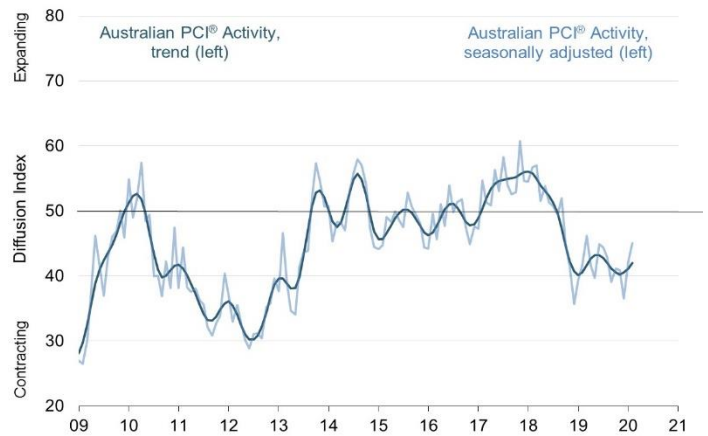
### Average wages

- Average wage rates in private sector construction rose by 0.5% q/q and 1.9% p.a. in Q4 of 2019, according to the ABS wage price index.
- Wages in approved EBAs in the construction industry rose by an average of 3.9% in Q3 2019 (above the average of 2.7% for all industries), according to the Department of Education, Employment and Workplace Relations' Federal Enterprise Bargaining Trends report.
- The Australian PCI® wages index decreased by 5.1 points to 53.6 points in February. It remains below its recent average of 58.7 points over the past 12 months.



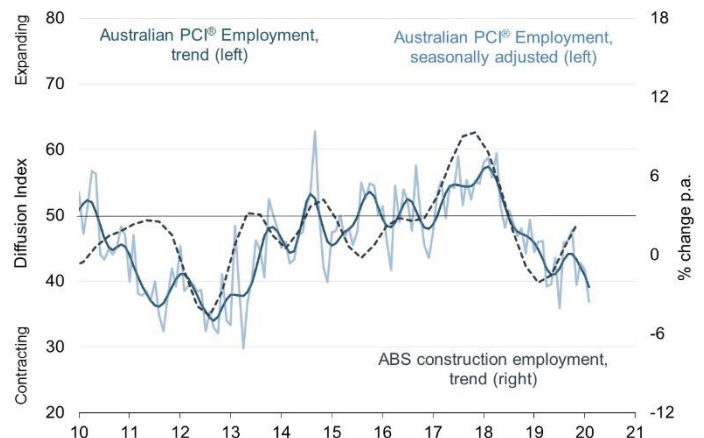
Activity

- The construction industry accounted for \$135.6bn in real value-added output in the year to Q3 2019 (7.2% of Gross Domestic Product, GDP). Construction industry annual value-added output increased by 0.5% in Q3 2019 but fell by 3.3% over the year to Q3 2019.
- The activity index in the Australian PCI® increased by 2.8 points to 45.1 points in February (seasonally adjusted), signaling a slower rate of contraction in construction activity. At an aggregate level, stronger house building activity in February was outweighed by declines in the other three construction sectors.
- This was the 17<sup>th</sup> consecutive month of declining industry activity, although the pace of contraction is slowing.



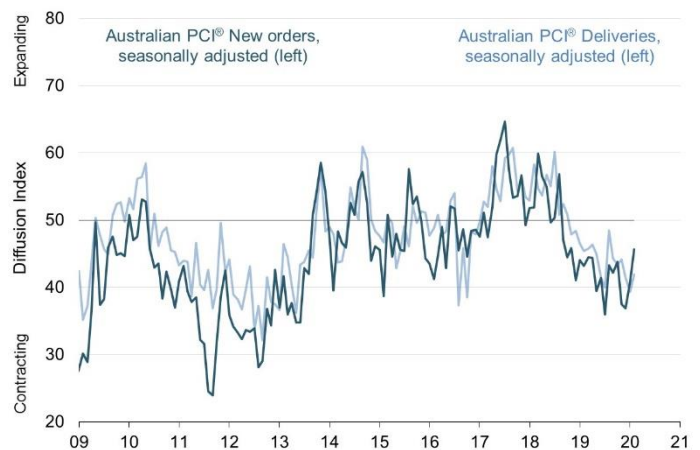
Employment

- There were 1,188,801 people employed in construction in November 2019 (9.1% of all people employed in Australia), according to the ABS. Total construction employment increased by 1.7% q/q and 2.7% p.a. to November 2019.
- The employment index in the Australian PCI® decreased by 4.8 points to 36.9 points in February (seasonally adjusted).
- This marked a 20<sup>th</sup> consecutive month of decline in this employment index and the sharpest rate of decline in seven months. It reflects the downturn in construction activity since mid-2018 and suggests more construction businesses are shedding rather than recruiting labour.



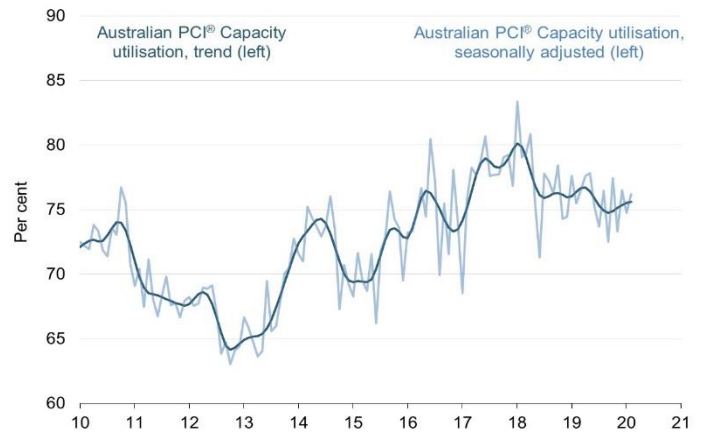
New orders and supplier deliveries

- The Australian PCI® new orders index increased by 4.8 points to 45.7 points in February, indicating a slower pace of decline across the industry (seasonally adjusted).
- Despite this easing, the continued decline in new orders remains a concern as the building industry looks for new growth opportunities in 2020.
- The Australian PCI® supplier delivery index increased by 2.5 points to 41.9 points in February (seasonally adjusted), indicating a continued (albeit slower) reduction in materials required for new building projects. Supplier deliveries to construction businesses tend to track closely to new orders for construction projects.



## Capacity utilisation

- The rate of capacity utilisation increased to 76.2% of available capacity being utilised across the construction industry in February, up slightly from 74.7% in January (seasonally adjusted).
- This is a touch above the 12-month average of 75.7% of capacity being utilised.



### Australian PCI® data definitions

The Australian PCI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PCI, the definitions of the four sectors are:

1. House building (ANZSIC code 4111 “House construction”). Businesses involved in the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), or in organising or managing these activities as the prime contractor.
2. Apartment building (ANZSIC code 4112 “Residential building construction n.e.c. (units)”). This covers buildings other than a house primarily used for long-term residential purposes, (or has attached to it) more than one dwelling unit such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. Engineering construction. (ANZSIC code 4121 “Road and bridge construction” and ANZSIC code 4122 “Non-building construction”). Businesses involved in the construction of engineering projects or infrastructure. This includes transport projects, telecommunications facilities, bridges, water and gas supply systems, pipelines, sports complexes, heavy industry constructions and other large-scale construction projects that do not generally involve the construction of buildings.
4. Commercial construction (ANZSIC code 4111 “Non-residential building construction”) involves the construction of non-residential buildings such as offices, industrial premises, hotels, hospitals, aged care facilities, education buildings, entertainment and recreation developments, and in carrying out alterations, additions, renovation, and in organising or managing these activities.



**What is the Australian PCI®?** The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) is a national composite index based on the diffusion of indices for activity, new orders, deliveries and employment with varying weights. An Australian PCI® reading above 50 points indicates that manufacturing is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PCI® results are based on responses from a national sample of construction businesses that includes all states and all sectors. The Australian PCI® uses the ANZSIC industry classifications for construction sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit [www.aigroup.com.au/resourcecentre/economics/](http://www.aigroup.com.au/resourcecentre/economics/)

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