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### **Australian PCI®: Construction continues to expand in July**

The national construction sector continued to grow in July, with the latest Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) rising 0.8 points to 52.6 – its second consecutive month above the critical 50-point level separating expansion from contraction.

Growth was recorded across three of the four construction industry sub-sectors. Consistent with the recent uplift in non-residential building approvals, commercial construction recovered strongly to reach its highest level in six and a half years (up 11.4 points to 61.2). The apartment building sector grew (up 2.7 points to 51.9) while house building continued to expand (down 3.4 points to 53.2). Engineering construction, however, returned to negative territory (down 3.9 points to 47.2).

Australian Industry Group Director – Public Policy, Peter Burn, said: “The residential and commercial construction sub-sectors are building a head of steam with a welcome strengthening in activity, an upturn in employment, further growth in new orders and more attractive selling prices. In July, momentum in these sub-sectors ensured the overall construction sector remained in positive territory despite the ongoing slow-down in engineering construction as investment in mining-related projects fades. While house building has been strong for some time and apartment building is at healthy levels, the broadening of growth to include commercial construction is a welcome addition to the mix. With fewer resources committed to expanding the mining sector, there is plenty of engineering construction capacity becoming available to accommodate a lift in infrastructure investment,” Dr Burn said.

Housing Industry Association Chief Economist, Harley Dale, said: “A second consecutive expansion in the **Australian PCI®** in July, driven by three of the four sub-sectors, is a tick in the box for the Australian economy as well as the construction industry itself. Labour market outcomes as well as economic growth will be assisted in 2014/15 by Australia’s construction industry, led by what is already a strong recovery in new home building activity. The **Australian PCI®** activity and new orders sub-indices for houses and apartments are providing a further signal that the building approvals cycle has peaked, within which approvals should remain at historically elevated levels for a time yet. In terms of actual construction activity, a more concerted focus on housing policy reform would greatly assist the prospect of extending the current up-cycle beyond this year,” Dr Dale said.

#### **Australian PCI® – Key Findings for July:**

- The latest Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) grew for the second consecutive month in July – up 0.8 points to 52.6 to be above the 50-point expansion level.
- Construction activity grew 2.7 points to 55.8 in July.
- June’s strong boost in the new orders sub-index was consolidated, if falling 1.8 points to 50.8.
- Across the sub-sectors: growth was recorded in house building (53.2), apartments (51.9) and commercial construction, which hit a 6½-year high (up 11.4 points to 61.2). Engineering construction fell 3.9 points into negative territory at 47.2.
- Construction employment expanded for the first time in eight months, rising 3.9 points to 51.3.
- Selling prices were 3.4 points higher than June at 54.0, but input prices remained strong at 65.7, despite an 8.0-point drop.

#### **Further Comment:**

Peter Burn, Ai Group: (02) 9466 5503 or 0427 666 579

Harley Dale, HIA: (02) 6245 1329 or 0419 190 186

**Media enquiries:** Tony Melville (Ai Group) – 0419 190 347

**Background:** The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) 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.