



PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

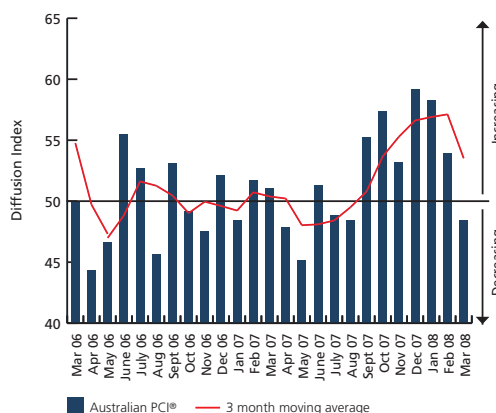


MARCH 2008

CONSTRUCTION DECLINES AS MOST SECTORS WEAKEN

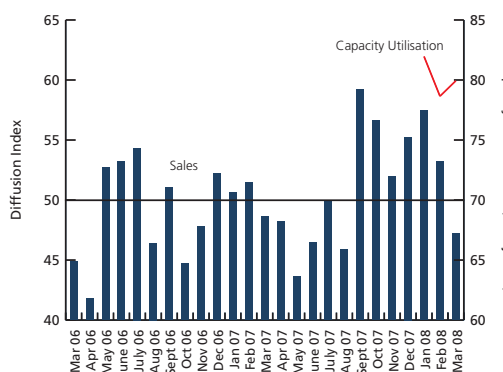
KEY FINDINGS

- The national construction industry deteriorated in March 2008, posting its first decline in seven months, due to weaker commercial construction activity, and a further fall in house and apartment building.
- At 48.4 in March, the Australian Industry Group/Housing Industry Association Performance of Construction Index (Australian PCI®) was 5.5 points lower than in February, and below the critical 50.0 points level separating expansion from contraction.
- Firms linked the fall in activity to higher interest rates, weaker consumer sentiment, and greater caution from property developers. This was reflected in a marked decline in the level of incoming new work. Residential builders also cited the negative influences on activity of weakness in new home starts and declining housing affordability.
- For the industry as a whole, activity and new orders posted large declines in March following rises in the previous six months. This was reflected in a reduction in supplier deliveries to their weakest level since August 2007.
- Despite the overall fall in activity, growth in engineering construction was maintained at the highest rate in the past three months.



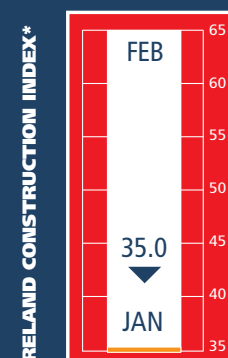
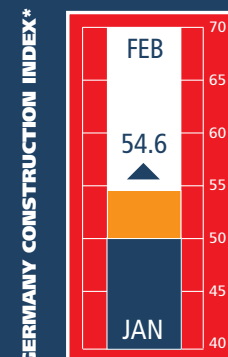
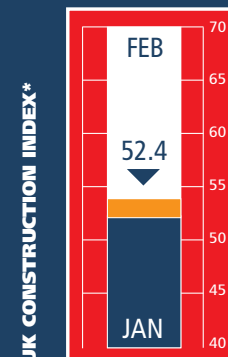
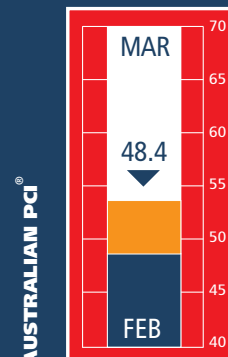
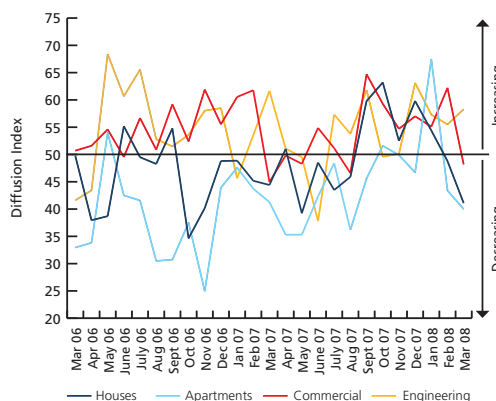
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in March registered 47.2.
- This was 6.0 points below the index reading for February, and signalled a contraction in total construction activity following six successive months of growth.
- The weaker activity outcome for March reflected declines in house and apartment building for a second straight month, and a fall-off in commercial construction work from a high base reached in February 2008.
- This deterioration outweighed continued expansion in engineering construction activity in March.
- Firms reported an average capacity utilisation rate of 79.9%, up from 78.7% in February 2008.



ACTIVITY BY SECTOR

- Apartment building remained the weakest performing sector in March, the sub-index declining in seasonally adjusted terms by 3.4 points to 40.0, the most subdued level since August 2007.
- For a second month in a row (and following growth between September 2007 and January 2008), house building declined, with the sub-index falling by 7.7 points to 41.1, consistent with a further reduction in new orders.
- Activity in the commercial construction sector also declined with the sub-index falling by a marked 14.0 points to 48.2, reflecting earlier falls in new orders and moderating demand in March. Reports by some firms also linked this decline to delays in the commencement of projects.
- In contrast, engineering construction continued to expand, the rate of growth strengthening in March with the sub-index up 2.8 points on February to 58.3.





NEW ORDERS

- New orders (seasonally adjusted) contracted in March, reflecting declines in the house and apartment sectors, and slower new orders growth in commercial and engineering construction.
- The new orders index for March registered 44.4, a decline of 7.9 points on the reading of the previous month.
- Moreover, it was the most subdued level of incoming construction business in the past 10 months.
- It points to continued weakness in activity in coming months, particularly given the further deterioration in demand in the house and apartment building sectors.

NEW ORDERS BY SECTOR

- In the apartment sector, new orders were at the lowest level of all sectors (for a second consecutive month), the index registering 30.9, to be 11.2 points down on the previous month.
- New orders in the house building sector also registered a marked decline, falling by 9.8 points to 38.1, as firms reported fewer customer enquiries and diminished buyer confidence.
- While new orders growth was maintained within the commercial construction sector in March, the rate of increase moderated with the index declining by 6.4 points to 55.0.
- For engineering construction the index stood at 50.5. Although this was down 5.1 points on the previous month, it was the fourth consecutive month of growth (and the seventh in the past eight months), consistent with the solid pipeline of infrastructure projects.

EMPLOYMENT AND WAGES

- The growth registered in engineering and commercial construction work, sustained a further rise in employment in March, although the rate of increase eased slightly on the previous month.
- The employment sub-index in March declined by 0.5 points to 54.4.
- Nevertheless, it marked the sixth consecutive month that firms have hired additional staff, with the rate of growth only 2.4 points below the average for that period (56.8).
- Firms signalled a pick-up in wages growth during March, with an index reading of 78.2, a rise of 8.4 points on the previous month.

DELIVERIES INPUT COSTS AND SELLING PRICES

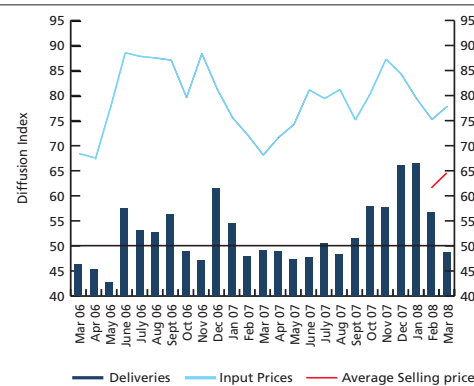
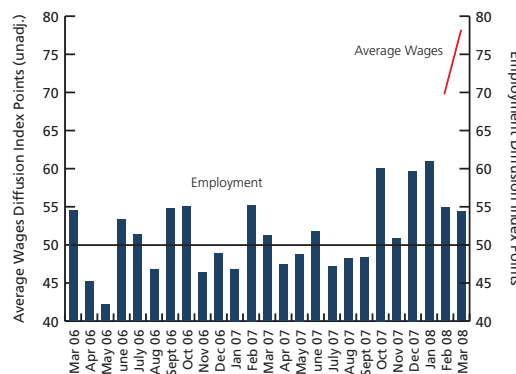
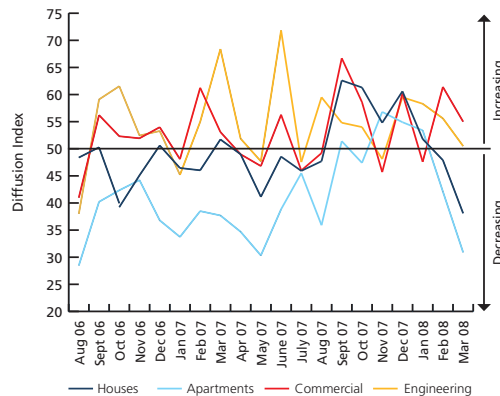
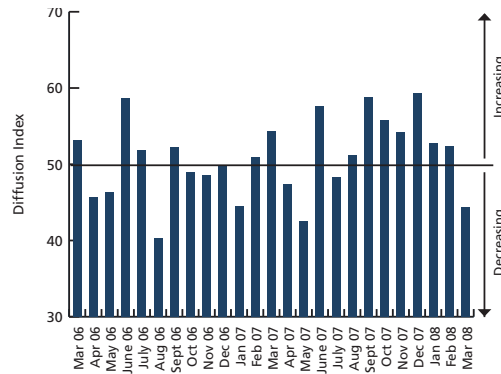
- Declines in activity in three of the four sectors monitored, contributed to a fall in supplier deliveries during March.
- The supplier delivery index stood at 48.6 in March, down by 8.1 points on the previous month.
- The rate of growth in input costs increased in March, with the index at 78.0, a rise of 2.6 points on the previous month.
- The output cost index lifted by 3.0 points to 64.6, only slightly above the level of input cost growth, signalling continued pressure on margins.

NATIONAL INDEXES

	Mar 08	Mar 07	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sep 07	Aug 07	Jul 07	Jun 07	May 07
AUSTRALIAN PCI®	48.4	51.1	53.9	58.3	59.2	53.2	57.4	55.2	48.4	48.8	51.3	45.1
ACTIVITY	47.2	48.6	53.2	57.5	55.2	52.0	56.6	59.2	45.9	49.9	46.4	43.7
- HOUSES	41.1	44.4	48.8	54.4	59.8	52.5	63.2	59.8	45.9	43.5	48.5	39.2
- APARTMENTS	40.0	41.3	43.4	67.5	46.7	49.9	51.6	45.6	36.2	48.4	42.3	35.3
- COMMERCIAL	48.2	45.0	62.2	55.1	57.0	54.7	59.3	64.7	46.6	51.1	54.9	48.3
- ENGINEERING	58.3	61.7	55.5	57.3	63.1	50.1	49.6	61.8	53.8	57.3	37.8	49.5
CAPACITY	79.9	na	78.7	82.0	na	na	na	na	na	na	na	na
NEW ORDERS	44.4	54.3	52.3	52.8	59.3	54.2	55.7	58.8	51.1	48.3	57.6	42.5
WAGES	78.2	na	69.8	67.9	na	na	na	na	na	na	na	na
EMPLOYMENT	54.4	51.3	54.9	60.9	59.7	50.9	60.1	48.3	48.2	47.1	51.7	48.8
DELIVERIES	48.6	49.2	56.7	66.4	66.0	57.7	57.9	51.5	48.2	50.5	47.7	47.3
INPUT PRICES	78.0	68.3	75.4	79.5	84.4	87.4	80.7	75.3	81.4	79.6	81.3	74.4
SELLING PRICES	64.6	na	61.6	59.4	na	na	na	na	na	na	na	na

Results are based on a sample of 120 companies.

* Seasonal adjusted results are based on factors derived from NTC Economics construction indexes, adjusted for Australian conditions. The capacity utilisation, wages and selling prices indexes are reported in unadjusted terms.



WHAT IS THE AUSTRALIAN PCI®?

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 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.

More information can be obtained from the Ai Group web site www.aigroup.asn.au

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