



PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

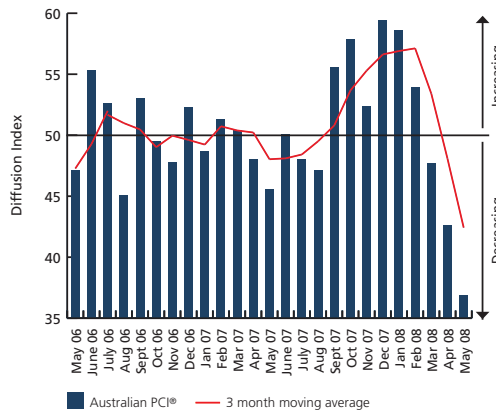


MAY 2008

CONSTRUCTION INDUSTRY CONDITIONS WORSEN

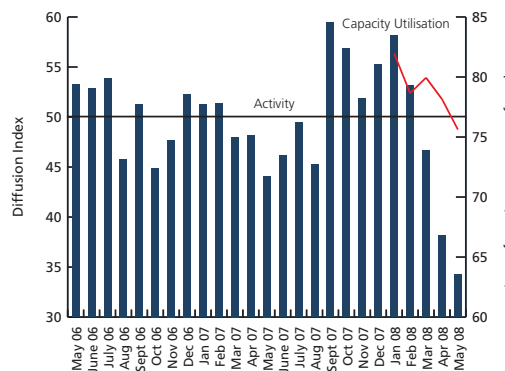
KEY FINDINGS

- The downturn in the national construction industry deepened in May 2008, due to continued reductions in activity across all sectors.
- The Australian Industry Group/ Housing Industry Association Performance of Construction Index (Australian PCI®) registered 36.9 in May 2008, to remain below the critical 50.0 points level separating expansion from contraction.
- Moreover, it marked the third consecutive month of deterioration in overall construction, and the sharpest rate of decline since the survey began in September 2005.
- Firms linked the decline to reductions in incoming work, citing the negative influences of higher interest rates, increased difficulty in raising funds, and low consumer and investor confidence. There were also reports that market uncertainty had led to delays in project commencements.
- The industry as a whole posted larger declines in activity and new orders in May. This contributed to a fall in employment levels for the second month in a row.
- The rate of increase in input costs strengthened in May, with firms mainly attributing this to higher fuel and steel prices.



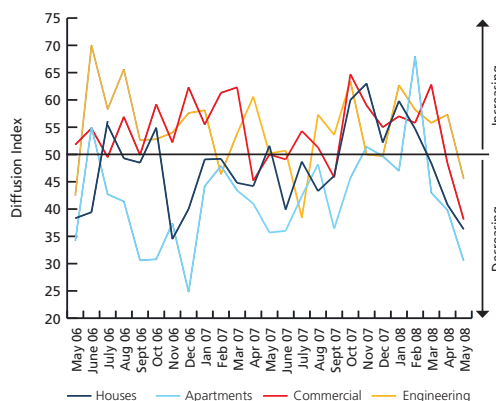
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in May registered 34.3.
- This was 3.9 points below the index reading for April, signalling a higher rate of decline in total construction activity.
- However, the falls in engineering activity over the past two months, are from a high base and follow a sustained period of growth.
- For the second straight month, reductions in activity were broadly based across all four construction sectors monitored. The house building and commercial sectors registered higher rates of decline, whilst apartment building and engineering construction fell for a fourth and second consecutive month respectively.
- The average rate of capacity utilisation in May stood at 75.6%, down from 78.2% in the previous month.

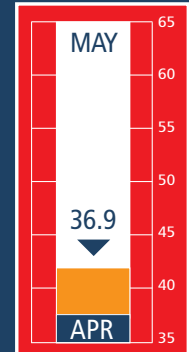


ACTIVITY BY SECTOR

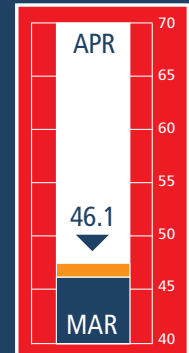
- Commercial construction was the weakest performing sector during May, the sub-index declining in seasonally adjusted terms by 10.4 points to 27.7. This was the most subdued level recorded over the past 33 months, which firms linked to tighter credit conditions and delays on new projects.
- Consistent with a marked reduction in incoming new orders, house building activity fell for a fourth consecutive month, the sub-index declining by 5.7 points to 30.6.
- Activity in the apartment building sector also continued to decline, although at a lesser rate, with the sub-index increasing by 2.2 points to 32.7.
- Engineering construction posted another weak number, the sub-index registering 46.5 in May, a marginal rise of 0.9 points on the previous month. Some firms attributed this to the completion of existing projects which have yet to be replaced by new work.



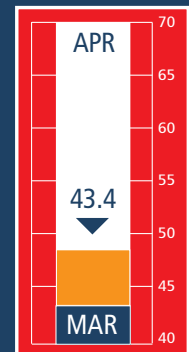
AUSTRALIAN PCI®



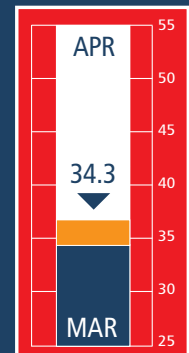
UK CONSTRUCTION INDEX*



GERMANY CONSTRUCTION INDEX*



IRELAND CONSTRUCTION INDEX*





NEW ORDERS

- New orders (seasonally adjusted) contracted in May for a third straight month, reflecting declines in all sectors.
- The new orders index for May registered 36.1, a decline of 4.5 points on the reading of the previous month.
- Moreover, it was the lowest level of incoming construction business recorded in the series' history (which began in September 2005), with firms noting that subdued market demand had led to a reduction in requests for quotes and tenders.
- The further fall in new orders on a broad industry front, indicates that the current weakness in activity is likely to persist over the coming months.

NEW ORDERS BY SECTOR

- New orders were at their lowest level in the house building sector, the sub-index registering 30.7, a decline of 7.6 points on the previous month.
- New orders in the apartment sector maintained the decline evident since January 2008, the index falling by a further 0.7 points in May to 34.6.
- For the commercial construction sector, new orders continued to exhibit weakness with the index registering 38.7. While this was a marginal rise of 0.9 points on the previous month, it represented the second most subdued level of incoming new business during the past 22 months.
- New orders in engineering construction fell for a third straight month in May, the index down by 7.9 points to 41.2, suggesting that the robust activity levels of recent years, are likely to continue to pull back to some extent in coming months.

EMPLOYMENT AND WAGES

- The reduction in new work and the completion of existing projects led to a further cut back in employment levels during May.
- The employment sub-index in May declined by 7.6 points to 36.5.
- This was the second consecutive month that firms have reduced their workforces, and the strongest decline registered in the survey's history.
- Firms reported growth in wages at a rate unchanged on the previous month, the index registering 67.1, just 0.2 points below April's reading.

DELIVERIES INPUT COSTS AND SELLING PRICES

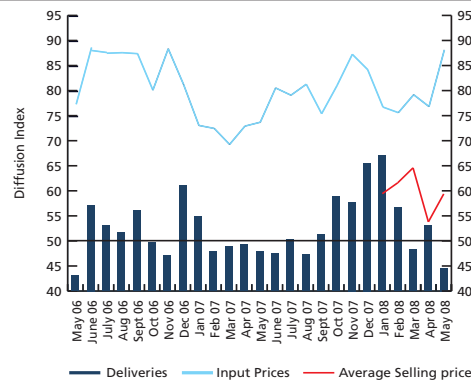
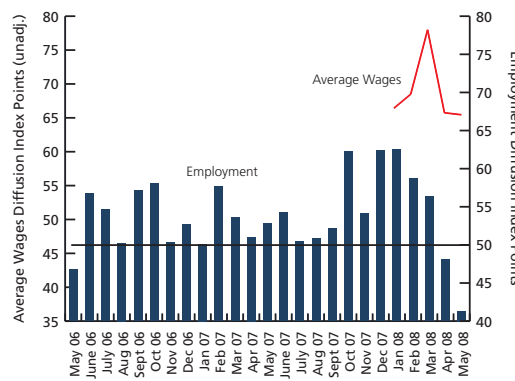
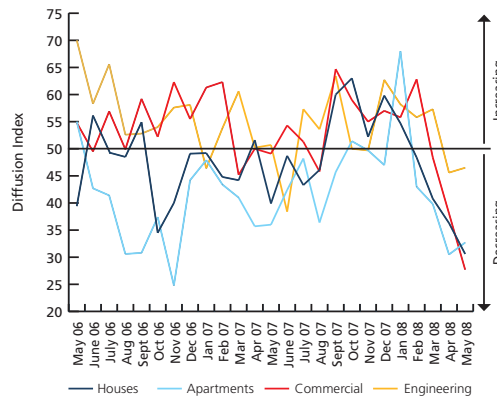
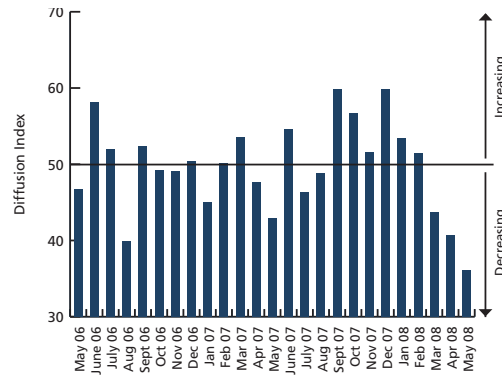
- Supplier deliveries declined during the month in response to reduced workloads and lower input requirements.
- The supplier delivery index stood at 44.6 in May, down by 8.4 points on the previous month.
- Growth in input costs accelerated in May, driven by elevated oil prices and higher costs for steel purchases, the input cost sub index lifting by 11.3 points to an 18-month high of 88.3.
- Despite a rise of 5.6 points in the output cost index to 59.4, the gap between output and input cost growth widened during May, signalling increased pressure on margins.

NATIONAL INDEXES

	May 08	May 07	Apr 08	Mar 08	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sep 07	Aug 07	Jul 07
AUSTRALIAN PCI®	36.9	45.6	42.6	47.7	53.9	58.6	59.4	52.4	57.9	55.6	47.1	48.0
ACTIVITY	34.3	44.1	38.2	46.6	53.1	58.1	55.2	51.9	56.9	59.4	45.3	49.5
- HOUSES	30.6	39.9	36.3	40.8	48.4	54.7	59.8	52.2	63.0	60.0	46.1	43.3
- APARTMENTS	32.7	36.0	30.5	39.8	43.0	68.0	47.0	49.7	51.4	45.7	36.4	48.2
- COMMERCIAL	27.7	49.1	38.1	48.4	62.8	55.8	57.0	55.0	59.0	64.7	45.8	51.3
- ENGINEERING	46.5	50.7	45.6	57.3	55.8	58.2	62.7	49.7	50.0	63.4	53.6	57.3
CAPACITY	75.6	na	78.2	79.9	78.7	82.0	na	na	na	na	na	na
NEW ORDERS	36.1	42.9	40.6	43.8	51.5	53.4	59.9	51.6	56.7	59.8	48.8	46.4
WAGES	67.1	na	67.3	78.2	69.8	67.9	na	na	na	na	na	na
EMPLOYMENT	36.5	49.4	44.1	53.3	56.1	60.3	60.2	50.9	60.1	48.7	47.2	46.8
DELIVERIES	44.6	47.8	53.0	48.4	56.6	67.0	65.6	57.8	58.8	51.3	47.3	50.3
INPUT PRICES	88.3	73.8	77.0	79.3	75.8	76.9	84.3	87.4	81.2	75.5	81.4	79.2
SELLING PRICES	59.4	na	53.8	64.6	61.6	59.4	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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