



# PCI AUSTRALIAN

PERFORMANCE OF CONSTRUCTION INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

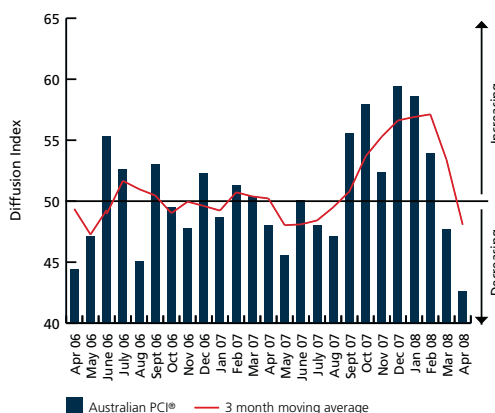


APRIL 2008

## CONSTRUCTION INDUSTRY CONTINUES TO DECLINE

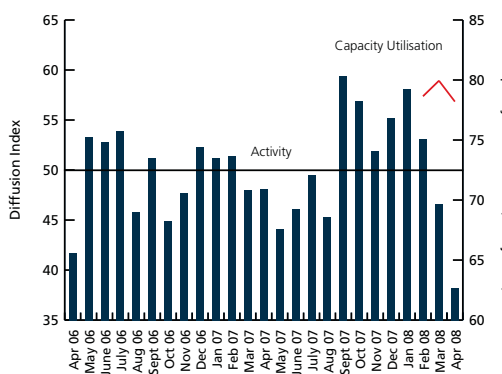
### KEY FINDINGS

- The national construction industry deteriorated further in April 2008, declining for a second consecutive month, due to reductions in activity across all sectors.
- At 42.6 in April, down by 5.1 points on the previous month, the Australian Industry Group/Housing Industry Association Performance of Construction Index (**Australian PCI®**) remained below the critical 50.0 points level separating expansion from contraction.
- Moreover, it marked the most subdued reading of industry conditions since the survey began in September 2005.
- Reports from firms indicated that the fall in activity reflected a further reduction in levels of incoming work, citing the negative influences of higher interest rates, tighter liquidity, and weaker consumer and investor confidence.
- For the industry as a whole, activity and new orders posted larger declines in April. This resulted in a reduction in employment levels, following growth over the previous six months.
- The rate of input cost increases remained high in April, despite a slight moderation in the pace of growth.



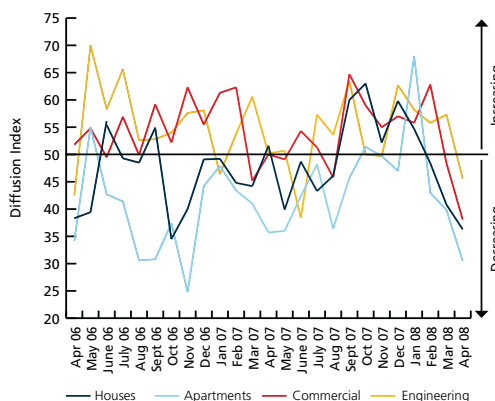
### CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index in April registered 38.2.
- This was 8.4 points below the index reading for March, and signalled the second successive month of decline in total construction activity.
- Declines in activity were broadly-based across all four construction sectors monitored, with the pace of contraction in the apartment sector increasing; commercial construction falling for a second straight month and; engineering activity declining markedly, albeit from a solid base.
- Firms also reported a third successive month of decline in house building activity.
- The average rate of capacity utilisation in April stood at 78.2%, down from 79.9% in the previous month.



### ACTIVITY BY SECTOR

- Apartment building remained the weakest performing sector during April, the sub-index declining in seasonally adjusted terms by 9.3 points to 30.5, the most subdued level since November 2006.
- Consistent with a further reduction in incoming new orders, house building maintained the decline evident since February 2008, with the sub-index falling by 4.5 points to 36.3.
- Activity in the commercial construction sector also declined, the sub-index falling by 10.3 points to 38.1, which firms linked to tighter credit conditions, lower order volumes and delays on new projects.
- Following a sustained period of strong growth, engineering construction registered the sharpest rate of decline of all sectors, the sub-index down 11.7 points on March to 45.6. This partly reflected the completion of work on key projects by some firms.

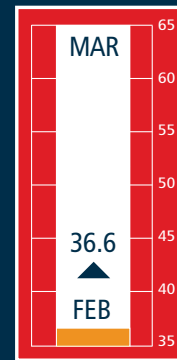
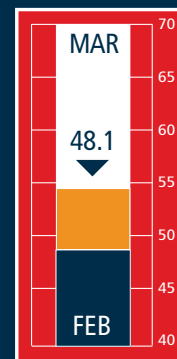
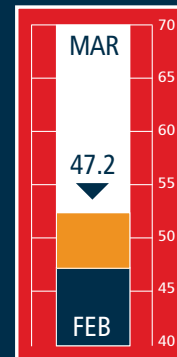
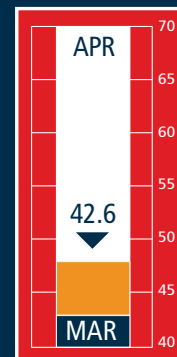


AUSTRALIAN PCI®

UK CONSTRUCTION INDEX\*

GERMANY CONSTRUCTION INDEX\*

IRELAND CONSTRUCTION INDEX\*





## NEW ORDERS

- New orders (seasonally adjusted) contracted in April for a second straight month, reflecting declines in all sectors.
- The new orders index for April registered 40.6, a decline of 3.2 points on the reading of the previous month.
- Moreover, it was the most subdued level of incoming construction business recorded since August 2006, with firms noting a general decline in demand and increased competition for tenders.
- It points to continued weakness in activity in coming months, particularly given that falls in new business have become broadly-based.

## NEW ORDERS BY SECTOR

- For the third consecutive month, new orders were at their lowest level in the apartment sector. However, the new orders sub-index rose by 4.9 points to 35.3, signalling a slight easing in the rate of decline.
- New orders in the house building sector also continued to decline at a similar rate to the previous month, the index registering 38.3, a marginal increase of 0.7 points on March.
- Following growth over the previous two months, new orders within the commercial construction sector fell sharply in April, the index turning down by 16.4 points to 37.8, the lowest level in the past 20 months.
- For engineering construction the index stood at 49.1, down by 0.7 points on the previous month, suggesting that activity levels which have been robust for some time, may start to pull back to some extent, or exhibit low growth outcomes in coming months.

## EMPLOYMENT AND WAGES

- The reduction in new work and the completion of existing projects led construction firms to cut back on their employment levels during April.
- The employment sub-index in April declined by 9.2 points to 44.1.
- This reduction, which followed employment growth over the previous six months, represented the most marked rate of decline recorded in almost two years.
- Firms signalled a moderation in wages growth during April, with an index of 67.3, a decline of 10.9 points on the previous month.

## DELIVERIES INPUT COSTS AND SELLING PRICES

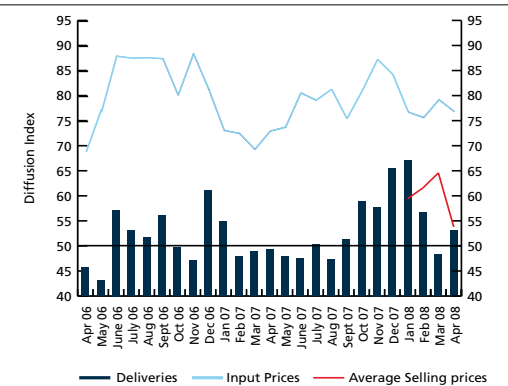
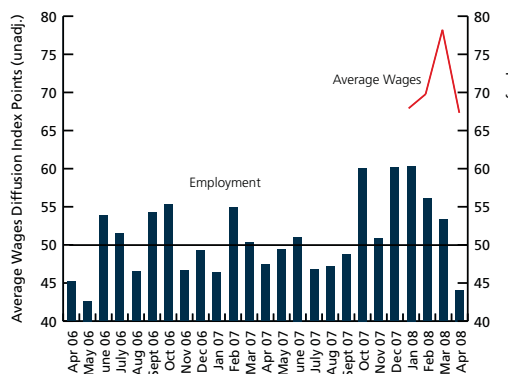
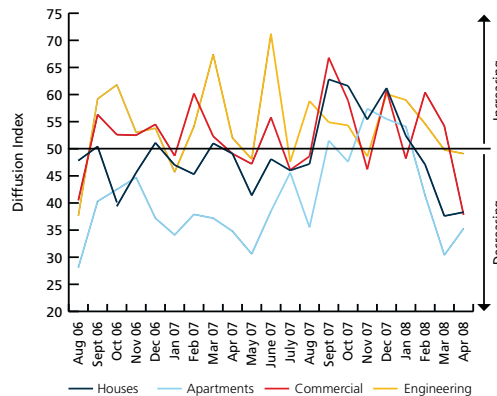
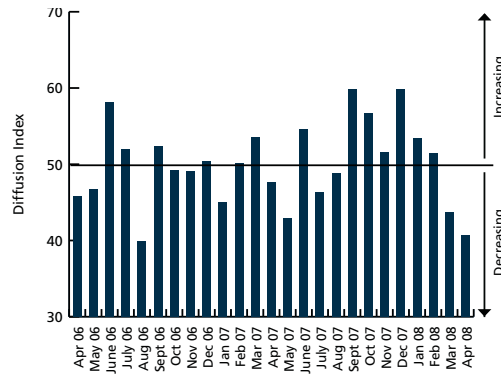
- Despite the decline in industry activity, supplier deliveries expanded, albeit moderately, in April.
- The supplier delivery index stood at 53.0 in April, up by 4.6 points on the previous month.
- Although remaining high, the rate of growth in input costs eased in April, the index at 77.0, down by 2.3 points on the reading in March.
- The output cost index declined by 10.8 points to 53.8, widening the gap between the level of input cost growth, and signalling increased pressure on margins.

## NATIONAL INDEXES

	Apr 08	Apr 07	Mar 08	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sep 07	Aug 07	Jul 07	Jun 07
<b>AUSTRALIAN PCI®</b>	42.6	48.0	47.7	53.9	58.6	59.4	52.4	57.9	55.6	47.1	48.0	50.1
<b>ACTIVITY</b>	38.2	48.1	46.6	53.1	58.1	55.2	51.9	56.9	59.4	45.8	49.5	46.1
- HOUSES	36.3	51.6	40.8	48.4	54.7	59.8	52.2	63.0	60.0	46.1	43.3	48.7
- APARTMENTS	30.5	35.7	39.8	43.0	68.0	47.0	49.7	51.4	45.7	36.4	48.2	42.4
- COMMERCIAL	38.1	50.0	48.4	62.8	55.8	57.0	55.0	59.0	64.7	45.8	51.3	54.3
- ENGINEERING	45.6	50.2	57.3	55.8	58.2	62.7	49.7	50	63.4	53.6	57.3	38.4
<b>CAPACITY</b>	78.2	na	79.9	78.7	82.0	na	na	na	na	na	na	na
<b>NEW ORDERS</b>	40.6	47.6	43.8	51.5	53.4	59.9	51.6	56.7	59.8	48.8	46.4	54.6
<b>WAGES</b>	67.3	na	78.2	69.8	67.9	na	na	na	na	na	na	na
<b>EMPLOYMENT</b>	44.1	47.4	53.3	56.1	60.3	60.2	50.9	60.1	48.7	47.2	46.8	51.0
<b>DELIVERIES</b>	53.0	49.3	48.4	56.6	67.0	65.6	57.8	58.8	51.3	47.3	50.3	47.4
<b>INPUT PRICES</b>	77.0	73.1	79.3	75.8	76.9	84.3	87.4	81.2	75.5	81.4	79.2	80.7
<b>SELLING PRICES</b>	53.8	na	64.6	61.6	59.4	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](http://www.aigroup.asn.au)

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