

Construction contracts for fifth month

October 2022

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Key findings

- All four construction subsectors were in contraction in October. This is the first time all sectors have declined in the Australian PCI® since August 2021.
- The employment index fell into contraction recording the lowest result since July 2020
- Demand-side pressures, including rising interest rates and economic uncertainty, are dampening construction sales and new orders.
- Supply-side constraints, especially a shortage of skilled trades, continue to inhibit activity, but there are signs of materials supply chain pressures easing.
- The selling prices indicator was virtually unchanged at 77.1. While input prices moderated, at 83.7 the indicator remains higher than selling prices.
- Capacity utilisation fell slightly to 82.8% but remains elevated as it has been since the start of 2021.

The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) fell by 3.2 points to 43.3 points in October (seasonally adjusted). This indicates contraction in activity across the construction sector for the fifth month and the rate of decline increased compared to September. Results below 50 points indicate contraction in the sector, with lower results indicating a stronger rate of contraction.

Australian PCI® ▼ 3.2 points (seasonally adjusted)	43.3
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Australian PCI® ▼ 0.7 points (trend)	44.3
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Activity ▼ 2.2 points (seas. adj.)	39.8
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Employment ▼ 12.7 points (seas. adj.)	42.2
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New orders ▲ 0.2 points (seas. adj.)	43.2
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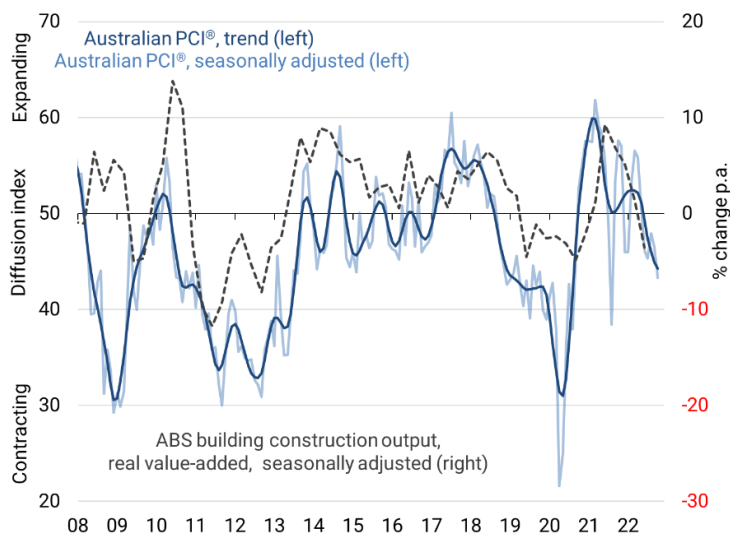
Housing activity ▲ 5.8 points (seas. adj.)	33.3
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Apartments activity ▲ 15.9 points (seas. adj.)	40.9
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Commercial activity ▼ 14.7 points (seas. adj.)	44.4
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Engineering activity ▼ 8.3 points (seas. adj.)	41.7
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Australian PCI® and ABS building industry output



Construction sector activity: The activity indexes for all four sectors in the **Australian PCI®** indicated contraction in October for the first time since August 2021 (seasonally adjusted). Activity levels declined for the sixth month in housing and the third month in apartments, though both indexes rebounded from lows in September. Commercial and engineering construction which had previously been more resilient were both declined rapidly (seasonally adjusted).

Construction sector new orders: The decline in new orders index in the **Australian PCI®** was similar to the results in September easing by 0.2 points to 43.2 points in October (seasonally adjusted). New orders were stable in apartments but contracted for housing, commercial and engineering. The cumulative effect of higher interest rates and increased economic uncertainty kept orders in contraction as constructors reported a slow-down in interest and customers pulling out of builds.

Construction prices: The input prices index eased for the fourth month, dropping to 83.7. While it is the lowest result since February 2021 it remains elevated, and only indicates that input price growth is slowing, not reversing. The selling prices index was similar to September and marked two years of continuous growth, down from the recent peak in July.

Construction wages and employment: The average wages index accelerated in October lifting 6.2 points to 78.9; wage pressures have been significant for most of 2021 and 2022. The employment index contracted and recorded the lowest result since July 2020 (seasonally adjusted). All construction sectors continued to report some labour shortages, but the number of staff absent due to illness has reduced.

Construction supplier deliveries: Supplier deliveries rose in October, lifting by 3.5 points to 52.1 points. This is the first month of positive results since May 2021 (seasonally adjusted). While delivery delays and stock shortages for some inputs were reported across all sectors, on balance more respondents reported an increase in supplies being delivered.

Construction capacity utilisation: The capacity utilisation index moderated 0.4 percentage points to 82.8% in October. The index has been elevated for well over a year, averaging 82.9% of capacity being used across the industry since January 2021 compared to the long-run average of 74.0% (since January 2008).

Construction highlights: Supply deliveries improved and demand was stable for some longer term projects. Fewer employee hours were lost to illness. There were pockets of strong demand with some builders becoming more selective with projects they undertook.

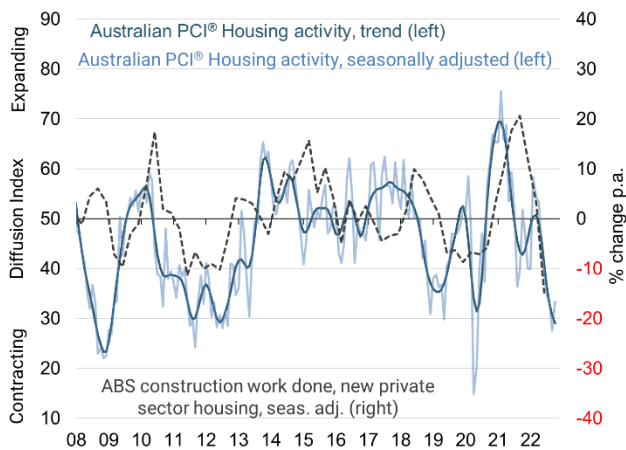
Construction concerns: The cumulative effect of interest rate rises and increased economic uncertainty were key concerns in October. Wet weather events and flooding along the east coast hampered access to sites. Respondents continued to report labour shortages and supply delays. Input costs remain elevated but the rate of growth was stable.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average	AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average
Australian PCI®	43.3	-3.2	49.5				
Activity	39.8	-2.2	47.8	House building activity	33.3	5.8	42.0
Employment	42.2	-12.7	54.6	Apartment building activity	40.9	15.9	41.8
New Orders	43.2	0.2	50.3	Commercial building activity	44.4	-14.7	50.5
Supplier Deliveries	52.1	3.5	43.0	Engineering construction	41.7	-8.3	52.9
Input Prices	83.7	-4.9	93.3	Capacity utilisation			
Selling Prices	77.1	-0.1	80.6	<i>Seasonally adjusted</i>			
Average Wages	78.9	6.2	76.9	% of total capacity being utilised	82.8	-0.4	83.6
CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted				Level	Change	Change	Share of total
Construction work done , \$bn per quarter, June 2022				\$bn	% q/q	% y/y	% of construction activity
Volume of residential building				17.4	-6.8	-7.6	33.5
Volume of non-residential building				12.2	-1.1	0.6	23.3
Volume of engineering construction				22.5	-2.7	-4.1	43.2
Construction output , real value-added, \$bn per quarter, Jun 2022				37.0	0.2	4.2	7.1% of total GDP
Construction employment , million people employed, August 2022				1262	7.1	11.4	8.6% of employed people
Building approvals , \$bn per month, June 2022				\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals				7.5	-0.4	2.2	59.2
Value of non-residential building approvals				5.2	7.1	11.4	40.8

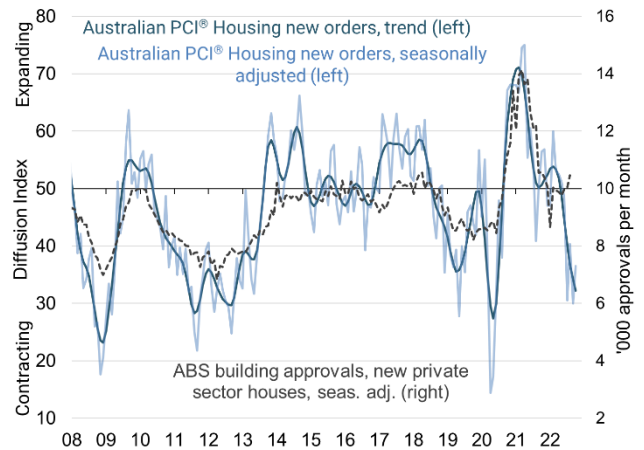
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

For more detail about the Ai Group Australian PCI® visit: <https://www.aigroup.com.au/resourcecentre/economics/>

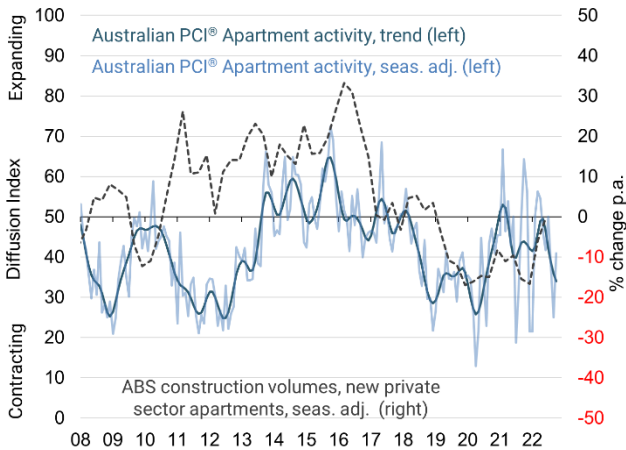
House building activity



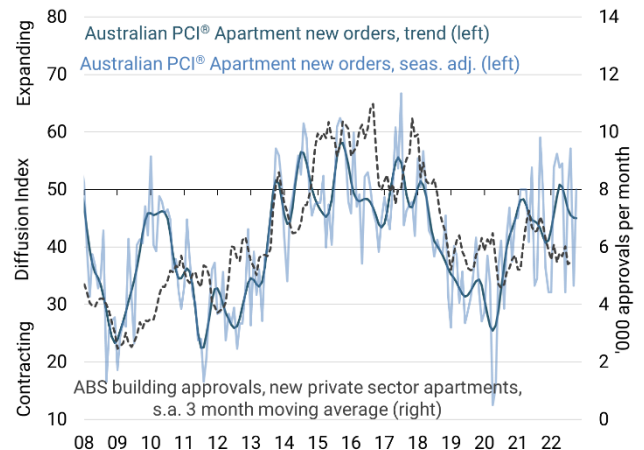
House building new orders



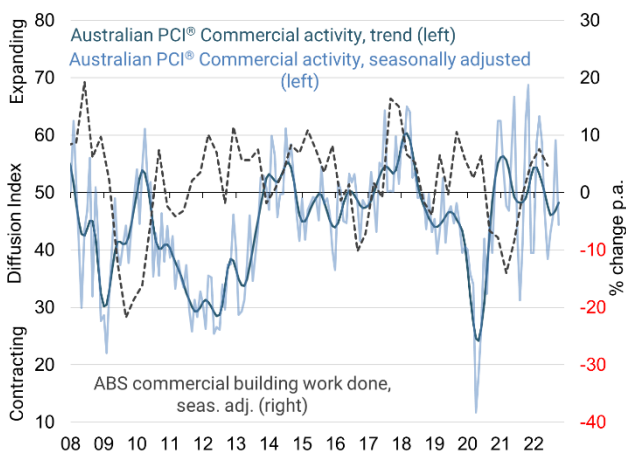
Apartment building activity



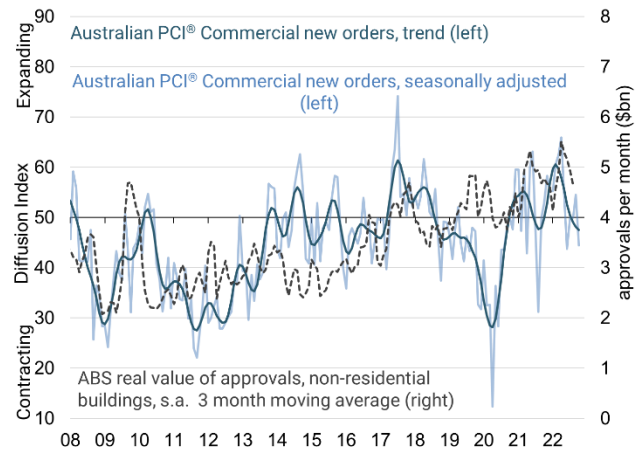
Apartment building new orders



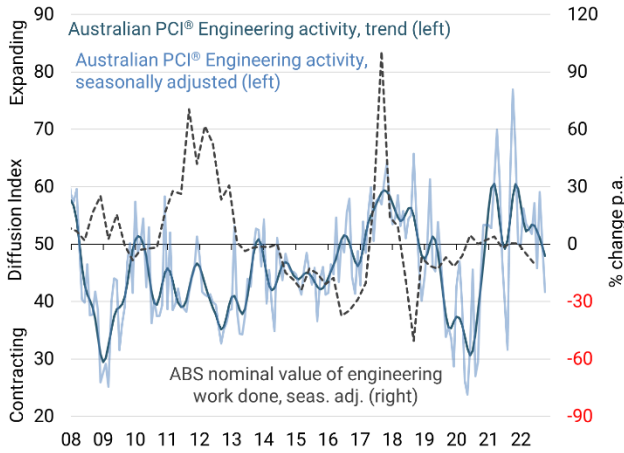
Commercial construction activity



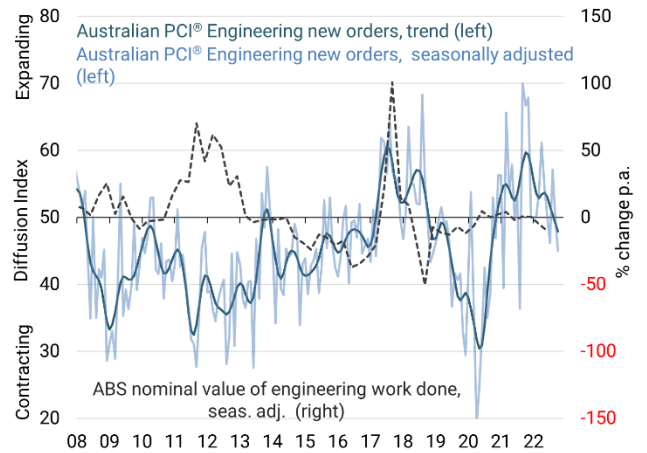
Commercial construction new orders



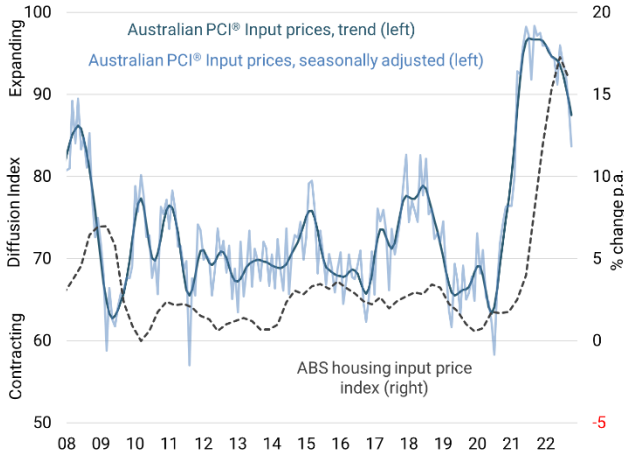
Engineering activity



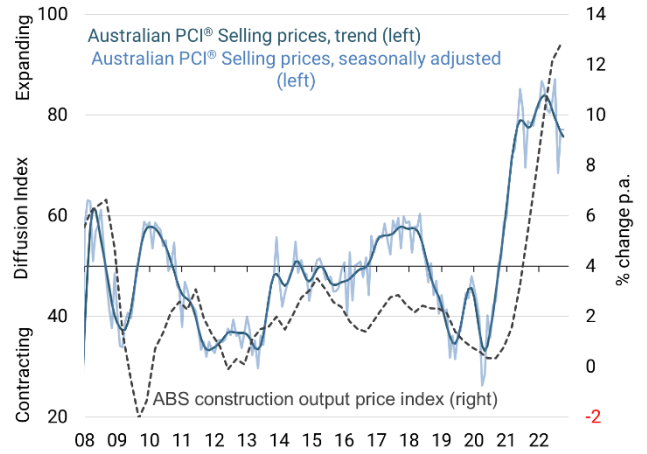
Engineering new orders



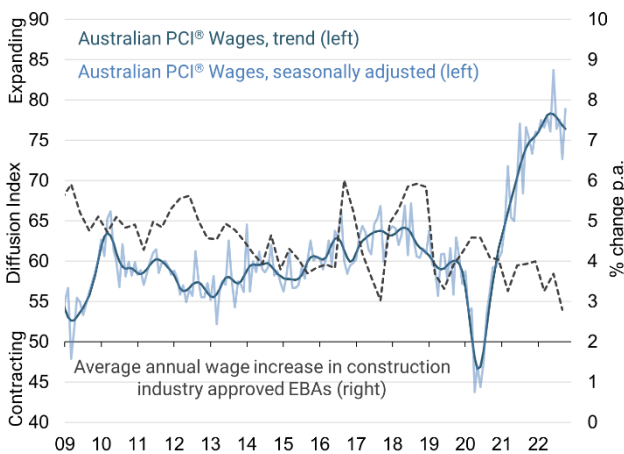
Input prices



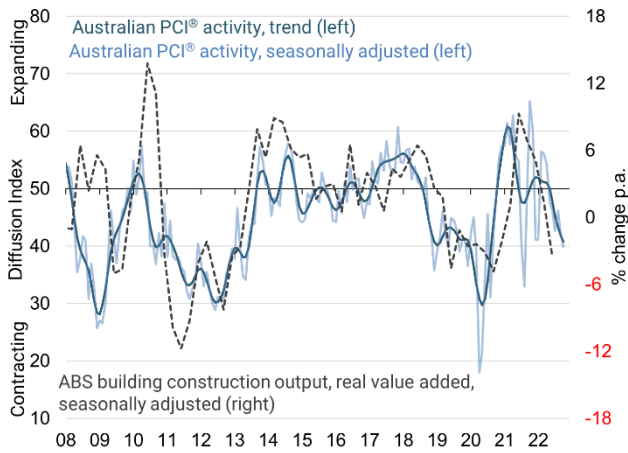
Selling prices



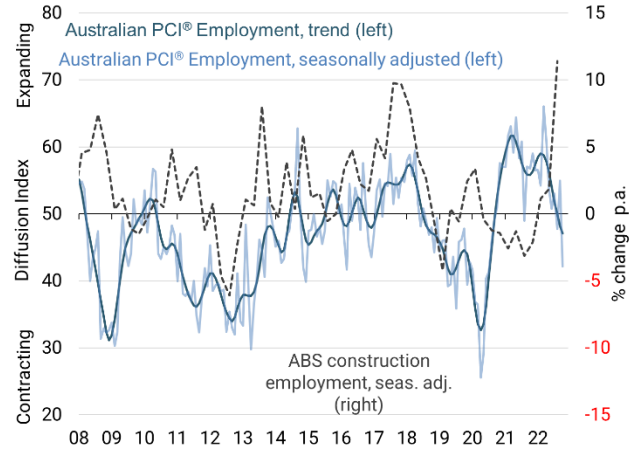
Average wages



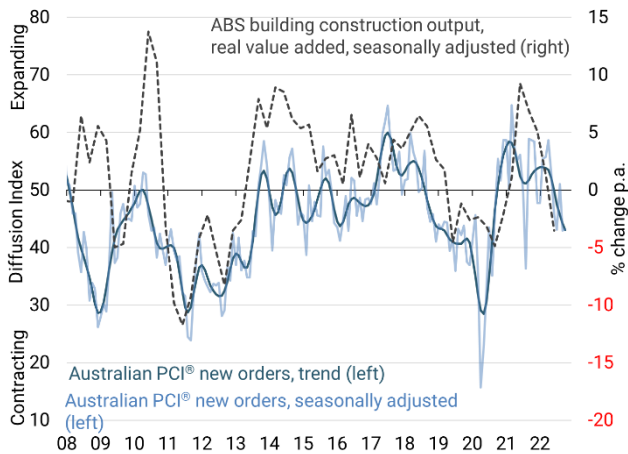
Activity



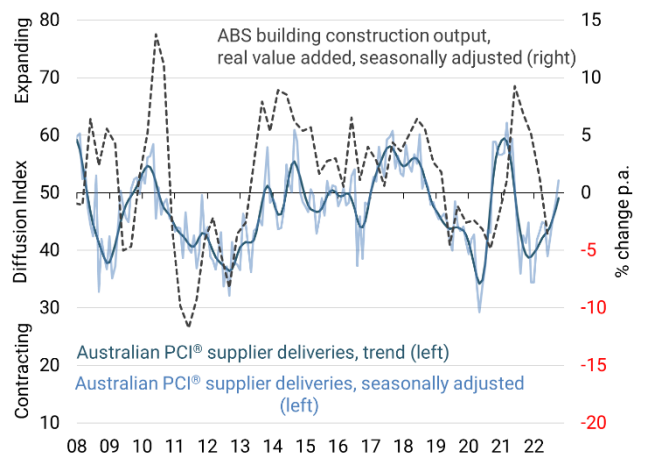
Employment



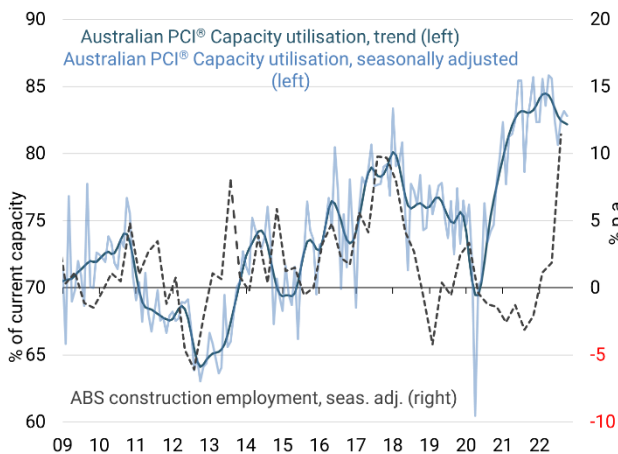
New orders



Supplier deliveries



Capacity utilisation



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.

In the Australian PCI, the definitions of the four sectors are:

1. **House building** (ANZSIC code 3011 “House construction”) includes the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), organising or managing construction as the prime contractor.
2. **Apartment building** (ANZSIC code 3019 “Other residential building construction”) includes the construction of residential buildings other than a house primarily used for long-term residential purposes, such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. **Commercial construction** (ANZSIC code 3020 “Non-residential building construction”) includes the construction of 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 types of non-residential buildings.
4. **Engineering construction** (ANZSIC code 3101 “Road and bridge construction” and ANZSIC code 3109 “other heavy and civil engineering construction”) includes the construction of transport infrastructure 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.



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, supplier deliveries and employment with varying weights. An Australian PCI® result above 50 points indicates that construction 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. Sector weights are derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology.

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