

Construction industry recovery strengthens into 2021

The Australian Industry Group and HIA Australian Performance of Construction Index (**Australian PCI**[®]) improved by a further 2.3 points to 57.6 points in December 2020 and January 2021 (seasonally adjusted, combined result for two months), indicating a stronger pace of recovery in these two months compared to November 2020. This indicates four consecutive months of recovery (results above 50 points) in the Australian PCI and the strongest result since July 2017.

All four components of activity expanded strongly in December 2020 and January 2021 (results well above 50 points). The new orders index surged to 58.6 points, its highest level since March 2018, which bodes well for building activity over the next three to six months. Three of the four sectors in the **Australian PCI**[®] recovered strongly in December and January (index results well above 50 points), with only apartment building still contracting, albeit at a slower pace.

Australian PCI[®] survey participants attributed their recovery to factors including: Government assistance programs for housing and renovations; high iron ore prices (supporting mining engineering works); easier bank finance approvals for potential clients; a backlog of pent-up demand that has built up during shut-down periods in 2020 and 2021; households spending their seasonal holiday money on renovations instead; and new government and major project tender processes coming into the market after lengthy delays in 2020 due to COVID-19.

Dec 2020 and Jan 2021

MEDIA CONTACTS

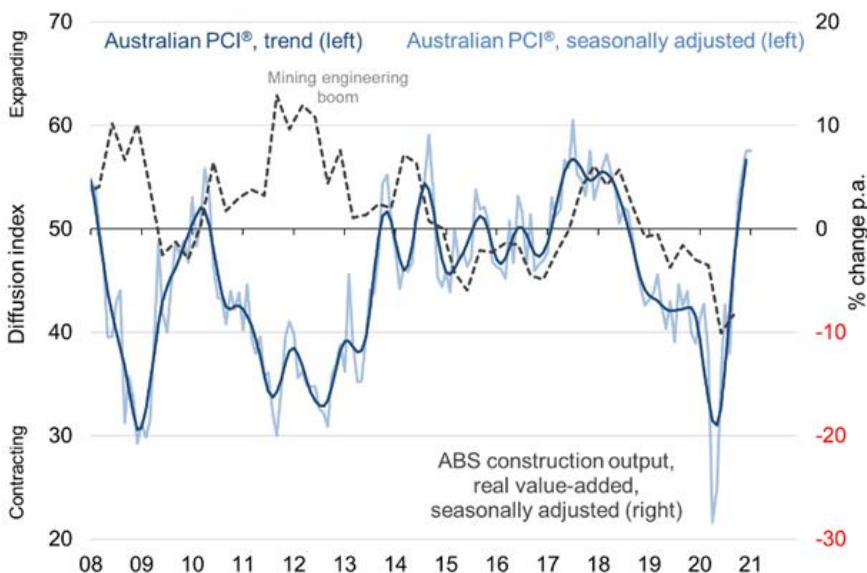
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Australian PCI [®] ▲ 2.3 points (seasonally adjusted)	57.6
Australian PCI [®] ▲ 2.8 points (trend)	56.6
Activity ▲ 2.1 points (seas. adj.)	57.4
Employment ▼ 0.6 points (seas. adj.)	57.0
New orders ▲ 6.9 points (seas. adj.)	58.6
Housing activity ▼ 1.7 points (seas. adj.)	65.3
Apartments activity ▲ 4.6 points (seas. adj.)	45.5
Commercial activity ▲ 9.7 points (seas. adj.)	62.5
Engineering activity ▲ 0.0 points (seas. adj.)	53.3

Australian PCI[®] and ABS construction industry output



Construction sectors: The house building activity index decelerated from its record high in November but remains strong. The house building new orders index hit a record high, reflecting the success of federal and state government house building and renovation grants plus low interest rates in supporting demand for new houses & renovations. Commercial building and engineering construction are both showing three months of recovery, with the commercial building activity index reaching its highest level (and strongest rate of growth) since April 2018. New orders for commercial building and engineering projects both turned firmly positive in December, after bouncing around neutral in the previous three months.

Construction prices: The index for input prices remained elevated at 76.4 points (up 0.1 point since November), as demand for building materials and house-building supplies surged. This index is now at its highest since July 2018 and is well above its own long-run average (72.3 points). The selling prices index moved into expansion (above 50 points) after a lengthy period of stagnation, indicating builders are feeling more confident about passing on some of their cost increases.

Construction wages and employment: The average wages index nudged up to 60.3 points (highest since 2019) and the employment index remained strongly expansionary at 57.0 points, as activity and employment resumes in more locations. JobKeeper and Apprentice Support schemes remain important supports to builders as they recover from 2020's disruptions.

Construction activity: The **Australian PCI®** activity index moved up by a further 2.1 points to 57.4 points in December and January, indicating three months of recovery. Activity improved in three of the four sectors and in all states. The activity index for the house building sector hit a record high in November and remains relatively elevated in early 2021.

Construction new orders: Looking ahead, the new orders index in the **Australian PCI®** jumped up by 6.9 points to 58.6 points in December and January, its highest level since March 2018. The new orders index for house building stayed at its record high (68.1 points) while orders for commercial and engineering projects moved up into expansion again.

Construction supplier deliveries: The supplier deliveries index decelerated slightly to 56.6 points but remains relatively elevated. Builders appear to be still in the process of catching up on supplies after extended freight disruptions.

Construction capacity utilisation: Capacity utilisation increased to its highest monthly result since April 2018 (and well above its own long-run average) at 79.8% of available capacity being utilised across the construction industry.

Construction highlights: Housing construction, renovations, commercial building and engineering construction are now recovering in all states due to Government assistance, easier access to finance and stronger household spending.

Construction concerns: The COVID-19 pandemic disrupted all segments of Australian construction. Builders are currently reporting strong demand but are nervous that orders will slow during 2021 as various federal government grants end.

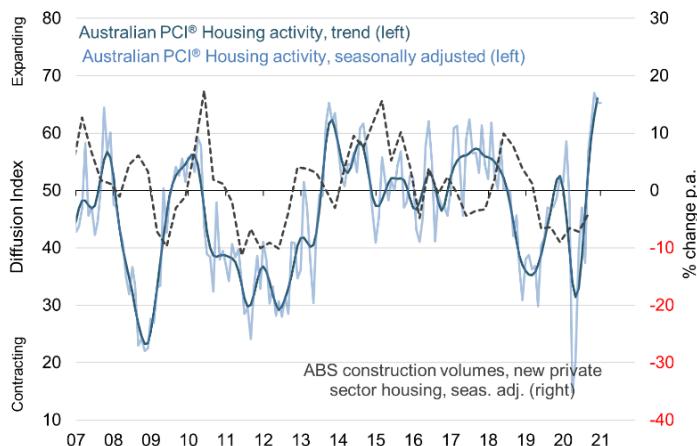
AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index Dec 2020 / Jan 2021	Change from Nov 2020	12-month average	AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index Dec 2020 / Jan 2021	Change from Nov 2020	12-month average
Australian PCI®	57.6	2.3	41.3	Construction sectors			
Activity	57.4	2.1	40.1	House building activity	65.3	-1.7	47.3
Employment	57.0	-0.6	42.7	Apartment building activity	45.5	4.6	34.1
New Orders	58.6	6.9	40.3	Commercial building activity	62.5	9.7	36.8
Supplier Deliveries	56.6	-2.2	43.3	Engineering construction	53.3	0.0	38.7
Input Prices	76.4	0.1	69.1	Capacity utilisation			
Selling Prices	58.7	7.2	42.1	% of total capacity being utilised	79.8	1.8	73.4
Average Wages	60.3	1.1	53.1				

CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted	Level	Change	Change	Share of total
Construction work done , \$bn per quarter, Sep 2020	\$bn	% q/q	% y/y	% of construction activity
Volume of residential building	17.2	-1.0	-8.9	33.6
Volume of non-residential building	11.8	-3.4	-4.5	23.0
Volume of engineering construction	22.2	-3.3	0.1	43.4
Construction output , real value-added, \$bn per quarter, Sep 2020	32.9	2.2	-8.3	6.9% of total GDP
Construction employment , million people employed, Nov 2020	1,160	-1.0	-1.4	9.2% of employed people
Building approvals , \$bn per month, November 2020	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals	6.7	5.7	21.7	66.3
Value of non-residential building approvals	3.4	-27.4	-7.1	33.7

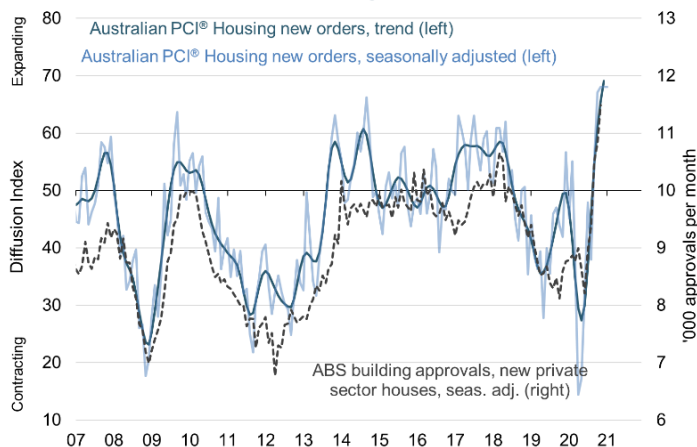
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

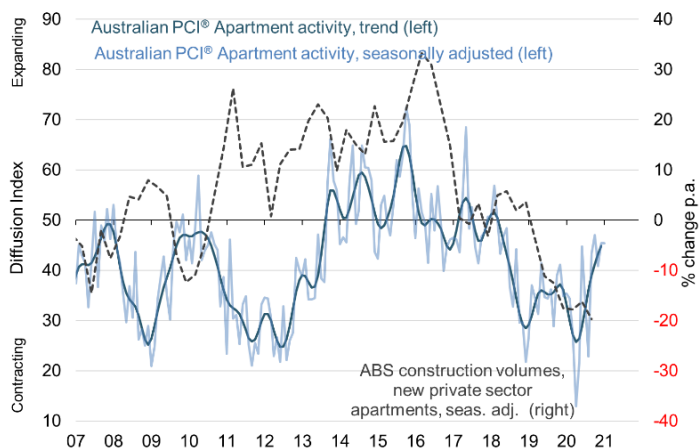
House building activity



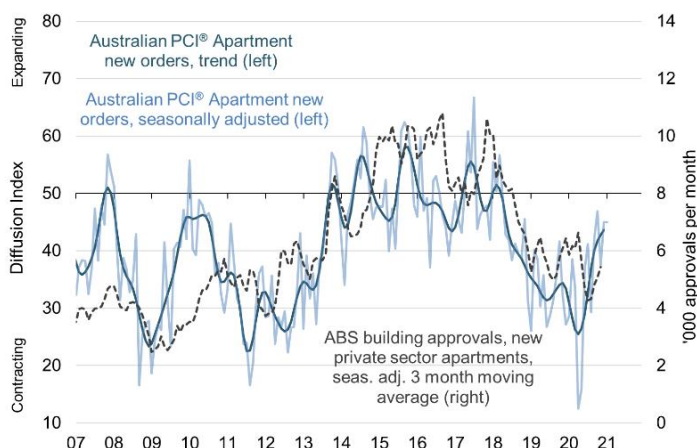
House building new orders



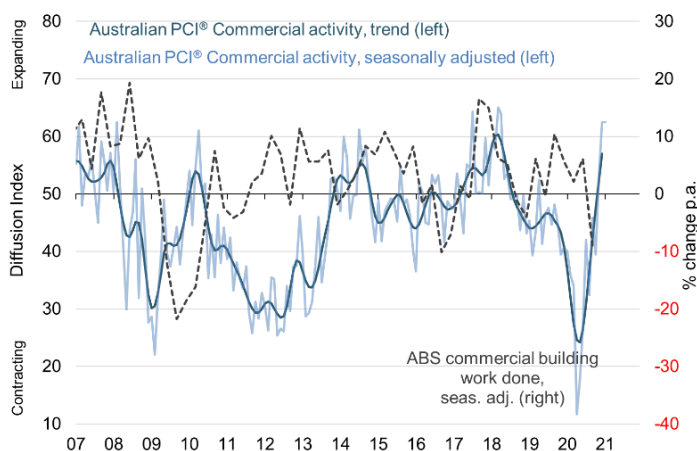
Apartment building activity



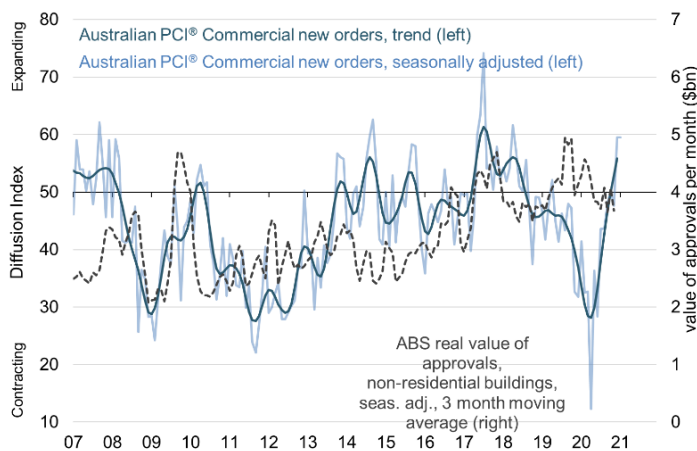
Apartment building new orders



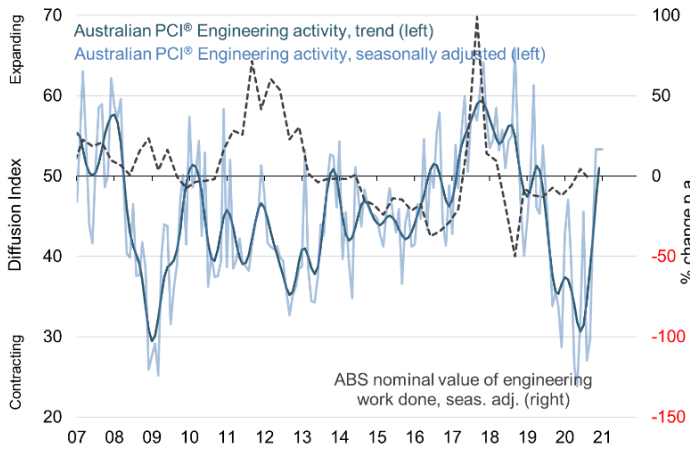
Commercial construction activity



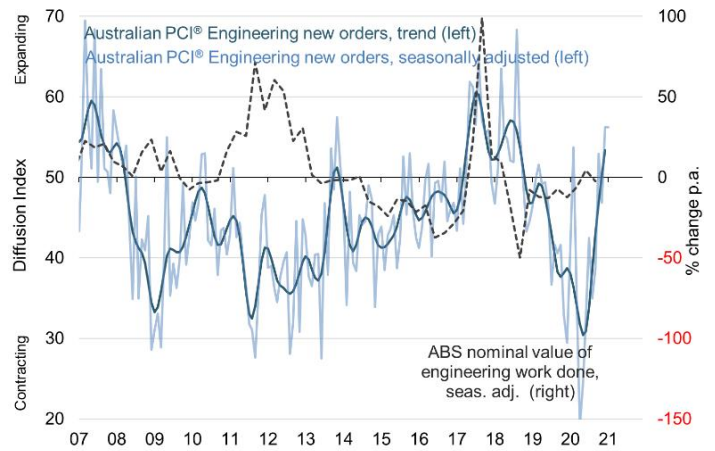
Commercial construction new orders



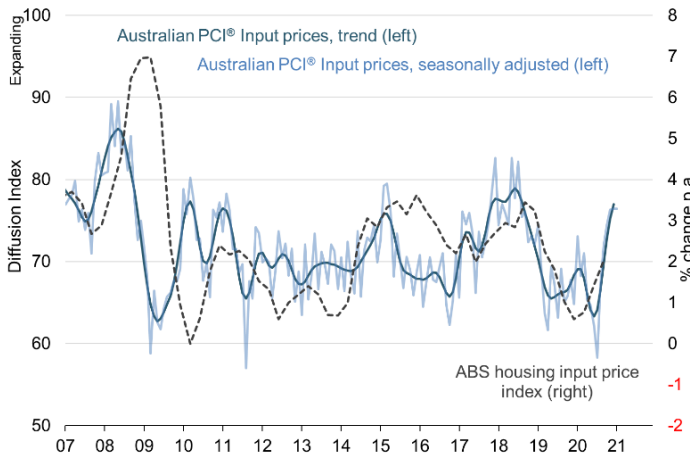
Engineering activity



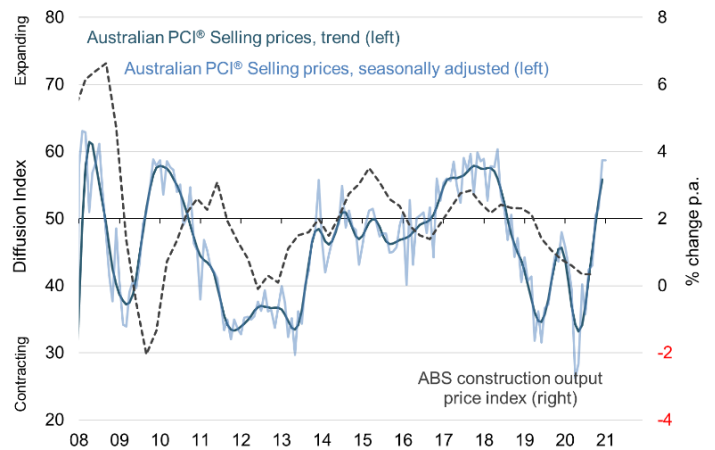
Engineering new orders



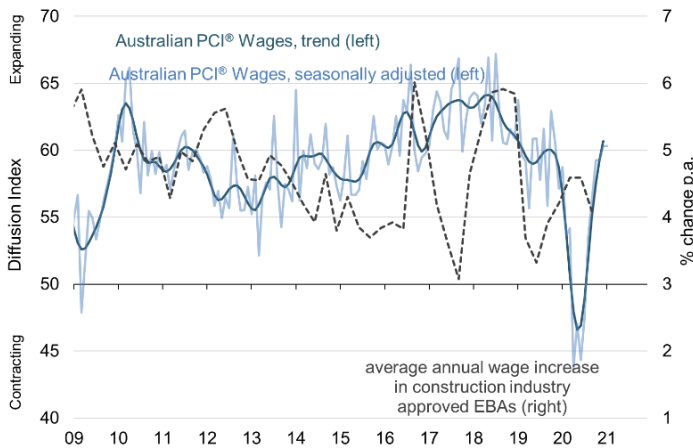
Input prices



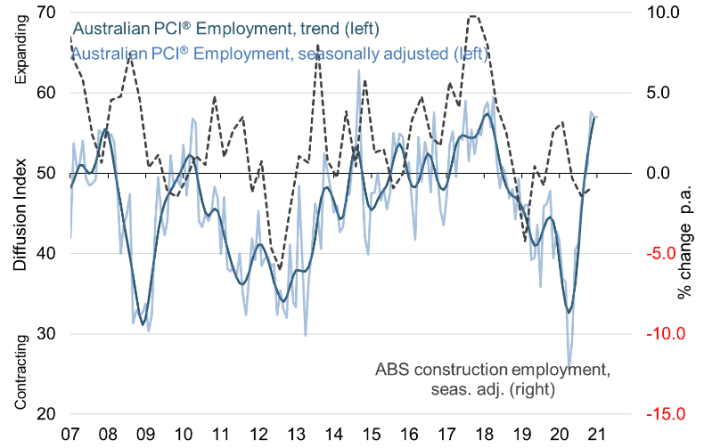
Selling prices



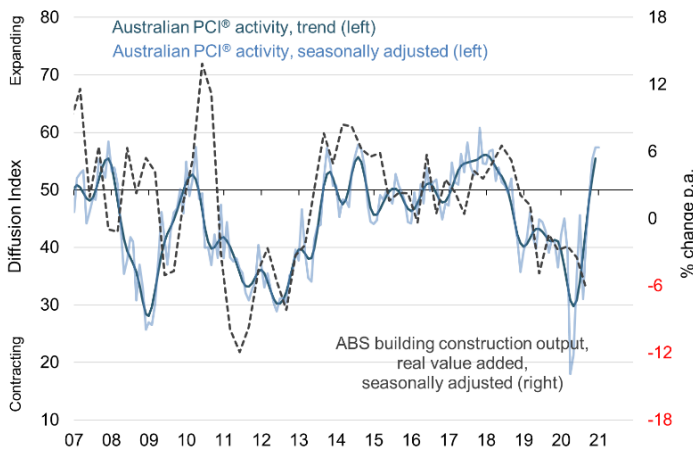
Average wages



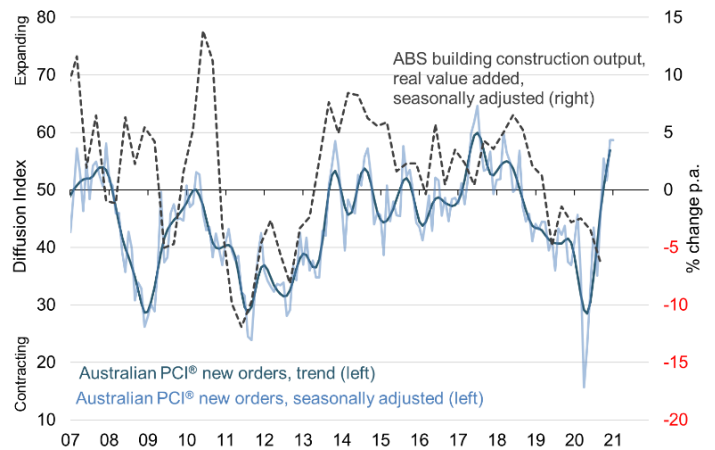
Employment



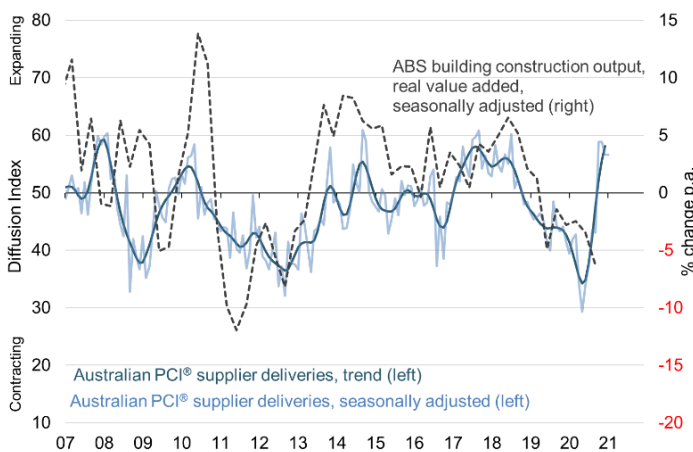
Activity



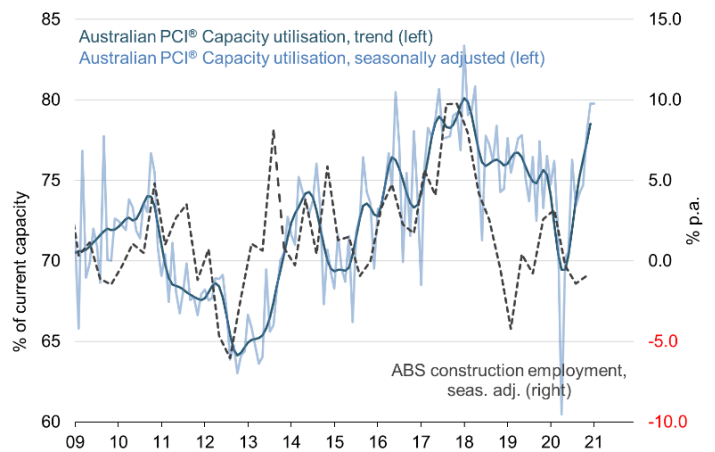
New orders



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, 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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