

Construction industry recovery continues in February 2021

The Australian Industry Group and HIA Australian Performance of Construction Index (**Australian PCI[®]**) eased by 0.2 points to 57.4 points in February 2021 (seasonally adjusted). The recovery seen in late 2020 is continuing into 2021.

Three of the four activity indexes in the **Australian PCI[®]** expanded strongly in February 2021 (results well above 50 points, seasonally adjusted), with the activity index hitting a new record high. The new orders index fell to 50.1 points, suggesting slower activity in the coming months. Capacity utilisation declined to 77.7% of available capacity in February after hitting a recent high in December.

All four sectors in the **Australian PCI[®]** recovered strongly in February (results above 50 points, seasonally adjusted). The housing activity index surged to a new record high and apartment building activity turned positive for the first time since February 2018, but commercial and engineering activity slowed from December's peaks. New orders for commercial and engineering projects turned negative in February, suggesting growth may slow again in coming months.

Residential builders reported customers are still asking for commencement 'as soon as possible' due to government grant eligibility, but delays in planning and finance approvals are occurring due to COVID-19. Commercial builders noted an increase in demand for alterations projects from retailers, restaurants, offices and hospitals requiring new fit-outs or modifications for COVID-19 reasons.

Feb 2021

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| Australian PCI[®] ▼ -0.2 points (seasonally adjusted) | 57.4 |
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|------------------------------------------------------------|-------------|
| Australian PCI[®] ▲ +1.6 points (trend) | 59.7 |
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|-----------------------------------------------|-------------|
| Activity ▲ +4.0 points (seas. adj.) | 61.4 |
|-----------------------------------------------|-------------|

| | |
|-------------------------------------------------|-------------|
| Employment ▲ +4.7 points (seas. adj.) | 61.7 |
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|-------------------------------------------------|-------------|
| New orders ▼ -8.5 points (seas. adj.) | 50.1 |
|-------------------------------------------------|-------------|

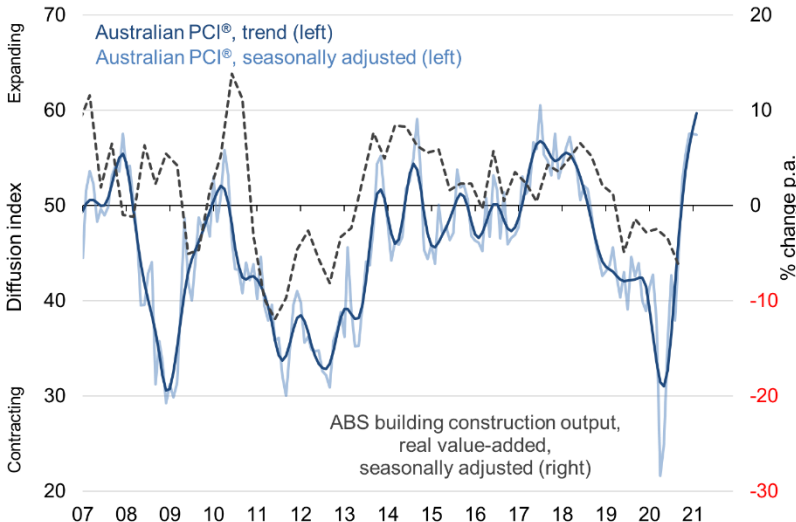
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|--------------------------------------------------------|-------------|
| Housing activity ▲ +10.2 points (seas. adj.) | 75.5 |
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|-----------------------------------------------------------|-------------|
| Apartments activity ▲ +21.1 points (seas. adj.) | 66.7 |
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|----------------------------------------------------------|-------------|
| Commercial activity ▼ -8.0 points (seas. adj.) | 54.5 |
|----------------------------------------------------------|-------------|

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|-----------------------------------------------------------|-------------|
| Engineering activity ▼ -0.5 points (seas. adj.) | 52.8 |
|-----------------------------------------------------------|-------------|

Australian PCI[®] and ABS building industry output



Construction sectors: The house building activity index hit a new record high in February but new orders for houses decelerated. The index for apartment building activity turned firmly positive and new orders stabilised (50 points). This suggests some of the surge in demand for new houses is now flowing into apartments. Commercial building and engineering construction are continuing to recover in February, but at a slower pace than in December and January. New orders for commercial and engineering projects turned negative in February, suggesting growth may slow again in coming months.

Construction prices: The index for input prices rose a further 3.8 points to 80.2 points, as demand for building materials and supplies surged. This index is now at its highest level since 2018 and well above its own long-run average (72.4 points). The selling prices index hit a record high of 66.3 points, indicating more builders are able to pass on their cost increases.

Construction wages and employment: The average wages index rose to 64.4 points (highest since 2018) and the employment index rose to a strongly expansionary 61.7 points (highest since 2014 and close to the series record of 62.8 points in Sep 2014), as activity and employment resumed in more locations and across more segments of construction.

Construction activity: The **Australian PCI®** activity index hit a record high of 61.4 points in February, with a sharp jump in activity in residential construction (housing and apartments). Activity slowed in the commercial and engineering sectors.

Construction new orders: Looking ahead, the new orders index in the **Australian PCI®** slowed to 50.1 points in February, stabilising after a sharp spike in December ahead of changes to housing grants. The new orders index for house building stayed high (66.7 points) and new orders for apartments were stable (50 points) but orders for commercial and engineering projects indicated shrinkage (47.4 and 39.5 points respectively) after a short-lived expansion in both sectors December.

Construction supplier deliveries: The supplier deliveries index accelerated slightly to 56.9 points and remains relatively elevated. Builders are increasing their orders and some are still catching up on supplies after extended freight disruptions.

Construction capacity utilisation: Capacity utilisation fell to 77.7% of available capacity being utilised across the construction industry, well above the average for this series (72.8%). This suggests further growth in employment is needed.

Construction highlights: Residential builders said customers are still asking for their projects to commence 'as soon as possible' due to government grant eligibility. Some of the surge in demand for new houses is now flowing into apartments. Commercial builders noted an increase in demand for alterations from retailers, restaurants, offices and hospitals requiring new fit-outs or modifications in order to meet 'COVID-19 safe' operational requirements.

Construction concerns: Builders in all sectors said that various delays are still occurring due to COVID-19, including delays to planning and finance applications, delays to essential supplies and localised skilled labour shortages.

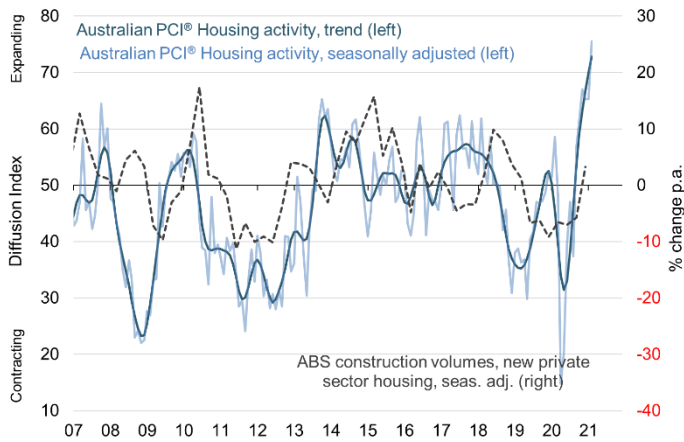
| AUSTRALIAN PCI® SEASONALLY ADJUSTED | Index Feb 2021 | Change from Jan 2021 | 12-month average | AUSTRALIAN PCI® SEASONALLY ADJUSTED | Index Feb 2021 | Change from Jan 2021 | 12-month average |
|-------------------------------------|----------------|----------------------|------------------|-------------------------------------|----------------|----------------------|------------------|
| Australian PCI® | 57.4 | -0.2 | 43.9 | Construction sectors | | | |
| Activity | 61.4 | 4.0 | 42.7 | House building activity | 75.5 | 10.2 | 49.8 |
| Employment | 61.7 | 4.7 | 46.0 | Apartment building activity | 66.7 | 21.2 | 37.7 |
| New Orders | 50.1 | -8.5 | 42.1 | Commercial building activity | 54.5 | -8.0 | 40.2 |
| Supplier Deliveries | 56.9 | 0.3 | 46.0 | Engineering construction | 52.8 | -0.5 | 40.0 |
| Input Prices | 80.2 | 3.8 | 70.4 | Capacity utilisation | | | |
| Selling Prices | 66.3 | 6.7 | 45.2 | % of total capacity being utilised | 77.7 | -4.7 | 74.1 |
| Average Wages | 64.4 | 3.3 | 54.2 | | | | |

| CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted | Level | Change | Change | Share of total |
|---------------------------------------------------------------------------|-------|--------|--------|----------------------------|
| Construction work done , \$bn per quarter, Dec 2020 | \$bn | % q/q | % y/y | % of construction activity |
| Volume of residential building | 17.9 | 2.7 | -0.7 | 34.9 |
| Volume of non-residential building | 11.5 | -2.4 | -4.5 | 22.5 |
| Volume of engineering construction | 21.8 | -2.8 | -0.3 | 42.6 |
| 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 | 1,183 | 2.0 | -0.9 | 9.2% of employed people |
| Building approvals , \$bn per month, January 2021 | \$bn | % m/m | % y/y | % of building approvals |
| Value of residential building approvals | 5.9 | -17.1 | 11.4 | 64.5 |
| Value of non-residential building approvals | 3.2 | -16.3 | -31.4 | 35.5 |

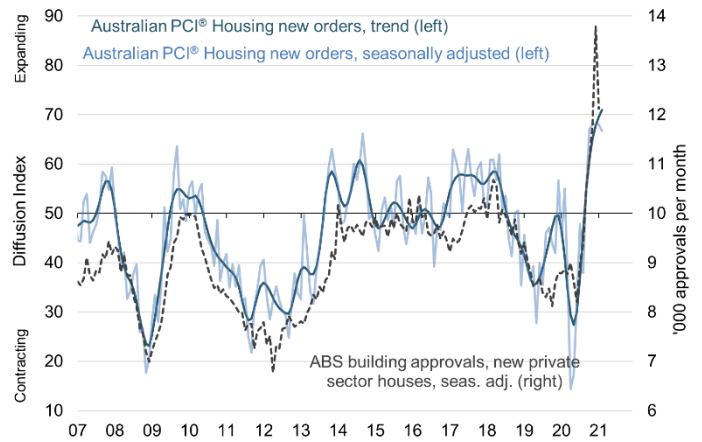
ABS data sources: *National Accounts; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.*

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

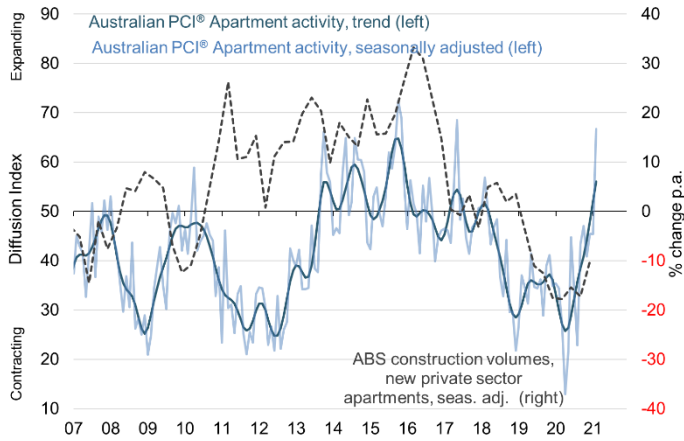
House building activity



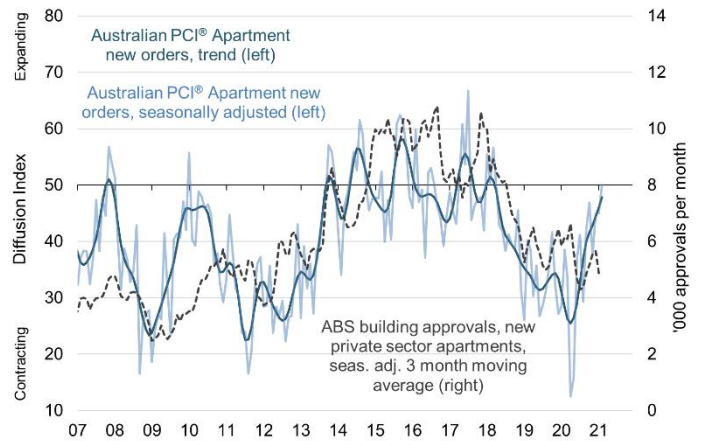
House building new orders



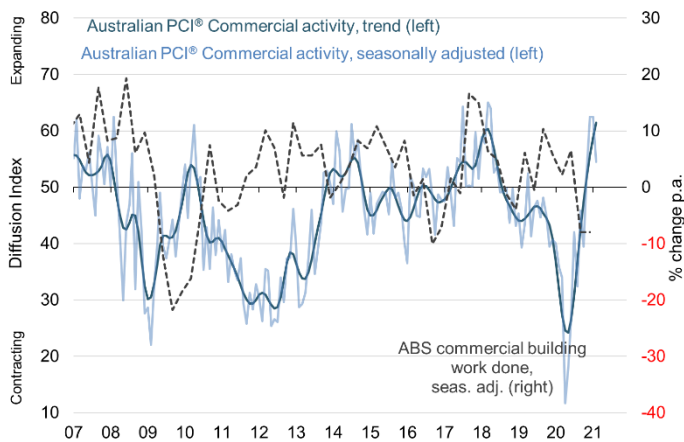
Apartment building activity



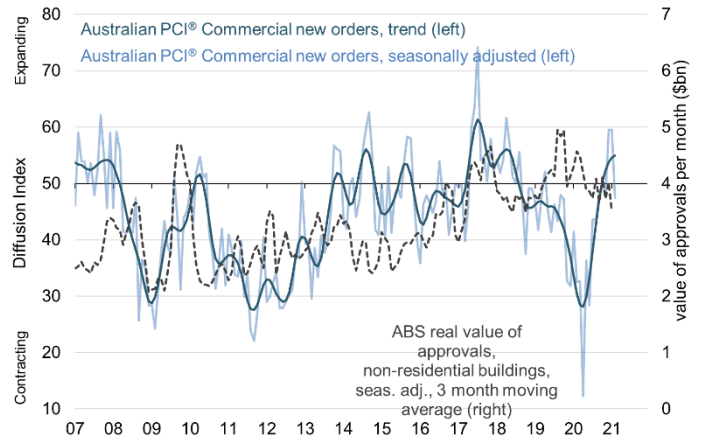
Apartment building new orders



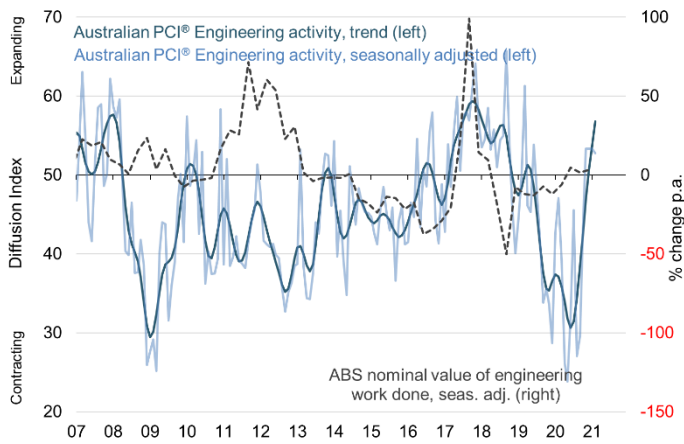
Commercial construction activity



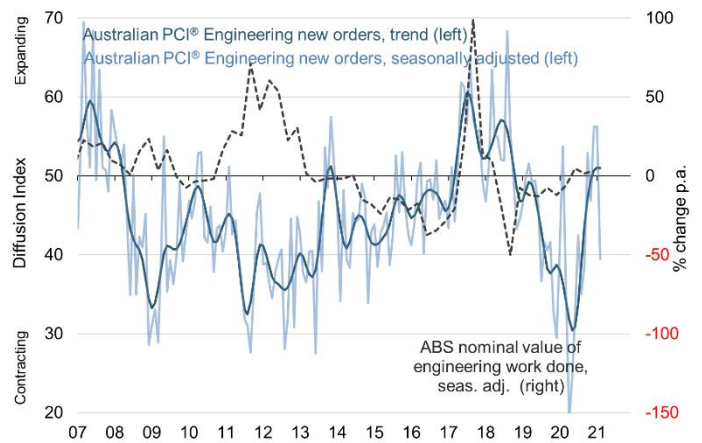
Commercial construction new orders



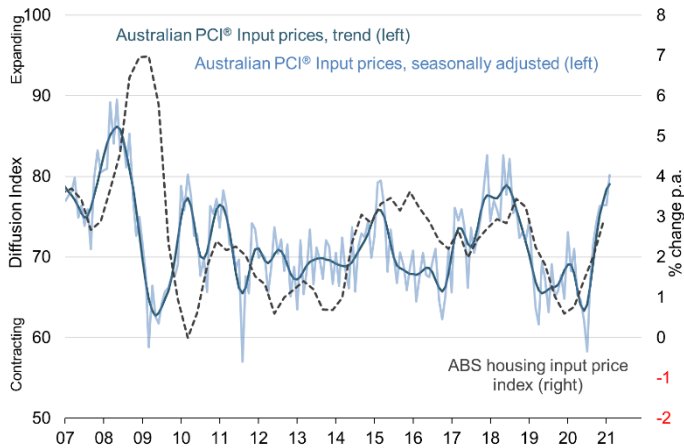
Engineering activity



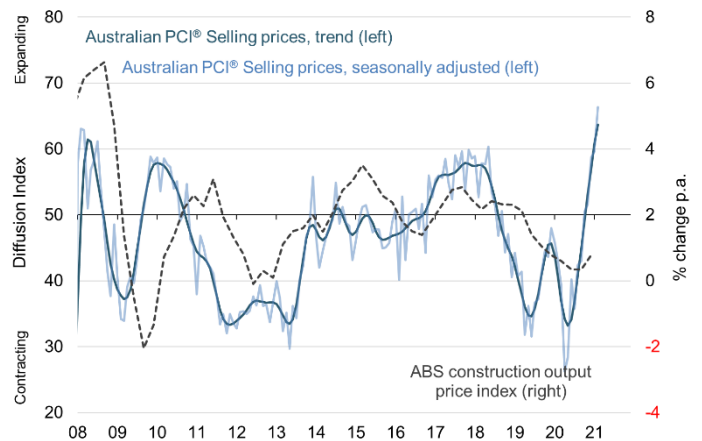
Engineering new orders



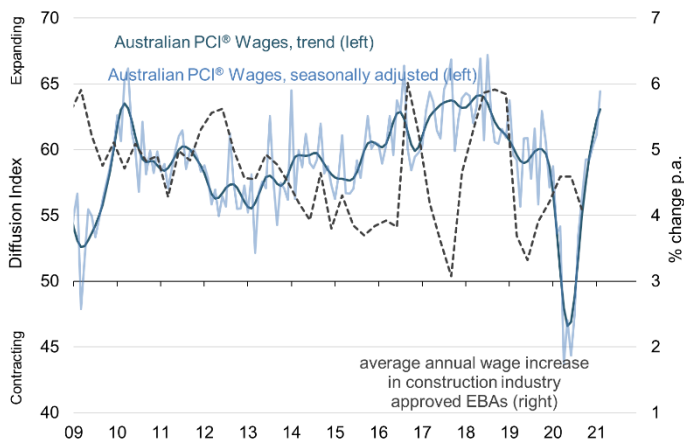
Input prices



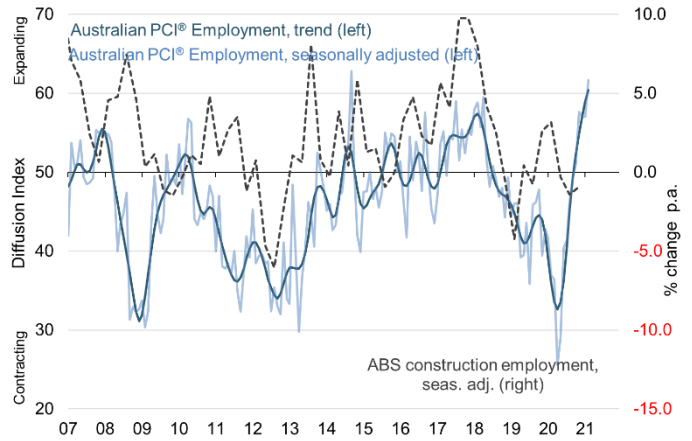
Selling prices



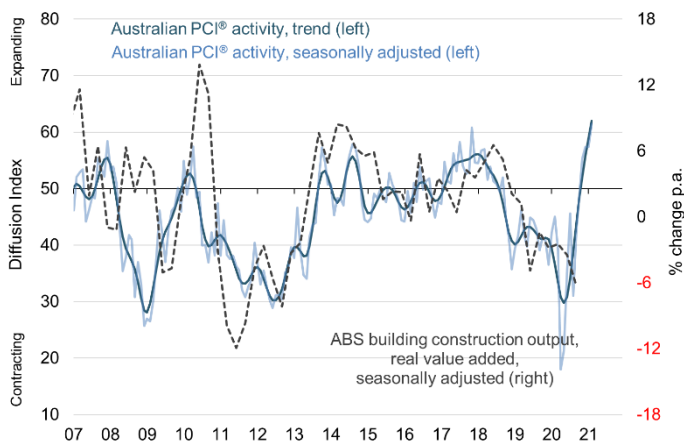
Average wages



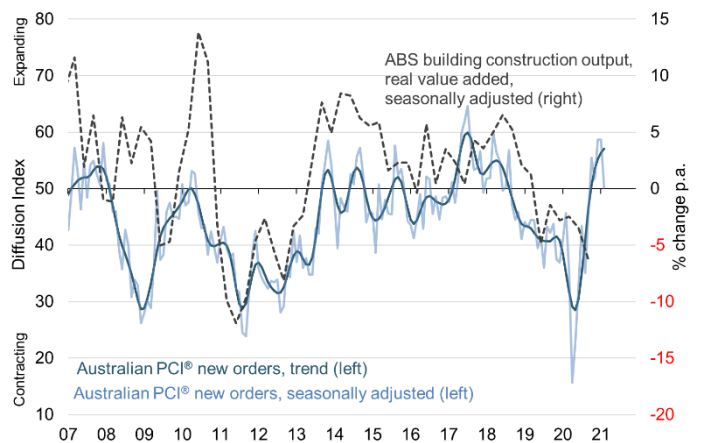
Employment



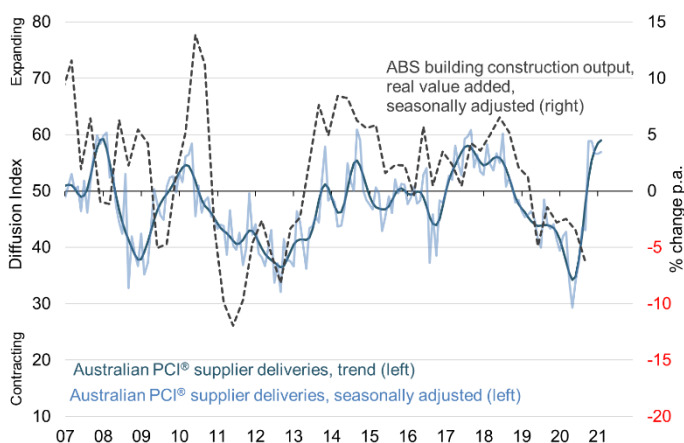
Activity



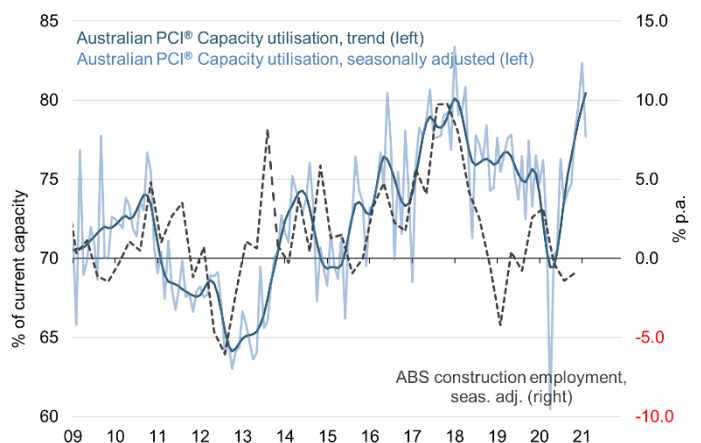
New orders



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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