

Construction activity 'weakened in June'

09:40 AEST Tue Jul 7 2009

Building and construction activity has weakened for a 16th straight month as firms grappled with delayed projects and difficult credit conditions, a survey shows.

The Australian Industry Group-Housing Industry Association performance of construction index (PCI) fell by 4.3 index points in June to 42.6 points.

The index has been below the 50 level, which separates expansion from contraction, since March 2008.

The distance from 50 indicates the strength of the decline or expansion.

The PCI had risen for the past three months, but the pace of decline accelerated in June as firms struggled with difficult trading conditions.

"Firms linked the persistent weakness in industry conditions to the deteriorating economy and low business confidence which had led to continuing delays in tenders and cutbacks on new construction projects," the report said.

Ai Group associate director of economics and research, Tony Pensabene, said the decline in activity in June was due to the volatile apartment sector.

"The survey also signalled a fall-off in work generated from both engineering and commercial construction projects," Mr Pensabene said in a statement.

House building activity also was weaker, contracting for a 17th straight month in June, but Mr Pensabene was hopeful of a rebound in the housing sector.

"Given the recent encouraging trend in orders and the stronger demand flowing from the first home owners grant and low interest rates, it is possible that these weaker housing conditions will be temporary," Mr Pensabene said.

The deteriorating activity and lack of new business resulted in continuing declines in new orders across all sectors, with engineering construction the hardest hit.

"As a consequence of the fall in new orders, activity is expected to remain subdued during coming months," the report said.

Firms also continued to scale back their deliveries from suppliers, but the pace of decline moderated for a fourth straight month in June.

HIA senior economist Ben Phillips said the weakness in the apartment sector reflected the "extremely tough credit conditions" for developers and builders.

Mr Phillips said the impact on the housing market of the first home buyers grant was "levelling out".

"Prospects for growth over the remainder of 2009 will fall upon the currently very weak investor and trade-up buyer markets," Mr Phillips said in a statement.

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