



MASTER BUILDERS AUSTRALIA

NATIONAL SURVEY OF BUILDING & CONSTRUCTION

Business confidence...starting to tail

Business confidence slipped in the December quarter, as falling building approvals and a moderation in the real estate market suggest a softer period ahead in the residential sector. The index for work on the books took a hit, although still remains firmly in positive territory.

Meanwhile the outlook for non-residential building activity dipped below 50. However, given the strong pipeline of work and strength in the non-residential building approvals data over the past six months, we expect this fall to be temporary.

The December quarter index score for confidence in the building and construction industry was recorded at 55.7 down from 57.4 in the September quarter.

Business conditions...activity still strong

Business conditions in the building and construction industry fell in the December quarter following a peak in the September quarter.

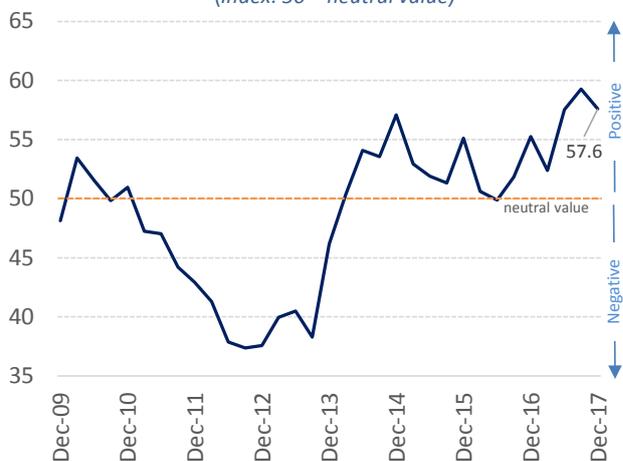
Nevertheless business conditions, which includes metrics for current conditions for residential and non-residential business, and measures performance against a range of business indicators, including profits, turnover levels and work-in-progress, remain high, recording an index score of 57.6.

The indicators for turnover/revenue and work in progress were particularly positive, despite both falling moderately in the quarter. Profits held steady, with more survey respondents recording a positive result for profits than negative. However, there are still some observable differences across jurisdictions, with conditions generally tighter in WA, SA and to an increasing extent in Queensland, while prospects remain more positive in NSW, Victoria and the ACT.

Chart 1: Business Confidence
(Index: 50 = neutral value)



Chart 2: Business Conditions
(Index: 50 = neutral value)



*Business confidence is a simple average of where builders believe their own business activity and profits are heading in the next six months.

*Business conditions index is a simple average of builders' own business conditions and profits reported by respondents.

Residential sector...continues to motor along

The index for current activity in the residential sector edged up slightly to 55.8 in the December quarter. Meanwhile, expectations for future activity remain positive, increasing to 58.6. Indeed, the December quarter was the first time since June 2014 that the index for future conditions crept above the index for current conditions. Whether the next 6 months turns out to be more positive remains to be seen, although it does suggest the expected wind down in residential activity may be short lived and relatively moderate.

The uptick in current conditions for residential builders was largely driven by an improvement in the urban markets, with work still strong in Sydney and Melbourne. However, the index tends to jump around a bit during periods of transitions. The index for current conditions may fall further in line with an expected fall in residential building activity in Sydney and Melbourne over the next 12 months.

Chart 3: Current and Future Conditions, Residential
(Index: 50 = neutral value)



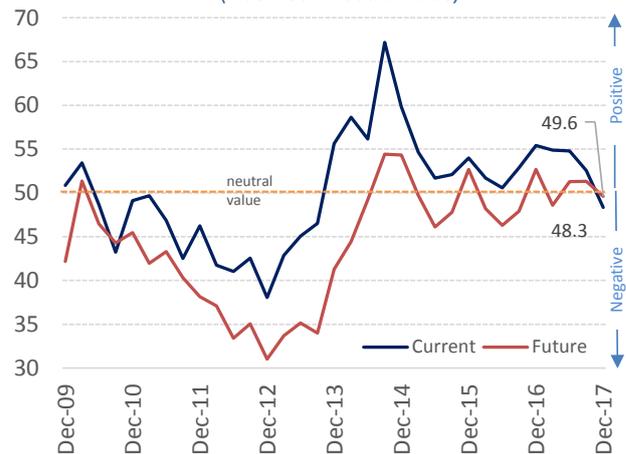
Non-Residential sector...leading the way in 2018

After teetering just above 50 for the past 6 months the index for current conditions in the non-residential sector dipped into negative territory in the December quarter recording an index score of 49.6. However, being so close to 50 suggests a large share of non-residential building businesses still consider current conditions to be positive.

The index for activity over the next six months followed suit, falling to 48.3 – below the index for current conditions for the first time in more than seven years. However, this fall could very well turn out to be temporary, with non-residential building work expected to pick up in 2018.

Specifically, some big projects in the office and retail sectors should support better prospects in the capital city markets over the next 12 months.

Chart 4: Current and Future Conditions, Non-Residential
(Index: 50 = neutral value)



About the survey

The survey of building and construction is a national survey of Master Builders' members published on a quarterly basis. In the December quarter 2017, 493 responses were received from builders involved in all sectors of the building and construction industry: residential, renovations, commercial building, engineering construction, sub-contracting and materials supply. The survey allows members of Master Builders to present their views on the national economy and the condition of their own enterprises. The survey also provides information regarding on-going constraints on activity and availability of resources as well as selected supplementary questions. Various state/territory offices of Master Builders also release individual survey results.

In calculating the index the responses are weighted according to firm size. An index reading of 50 indicates a neutral or satisfactory outcome, readings above 50 usually suggest a more positive result and those below 50 a more negative outcome.

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Master Builders Australia
Level 3, 44 Sydney Avenue FORREST ACT 2603
PO Box 7170 YARRALUMLA ACT 2600
Tel: 61 2 6202 8888 enquiries@masterbuilders.com.au
www.masterbuilders.com.au

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