Master Builders
AUSTRALIA

December Quarter 2003

NATIONAL SURVEY OF BUILDING & CONSTRUCTION

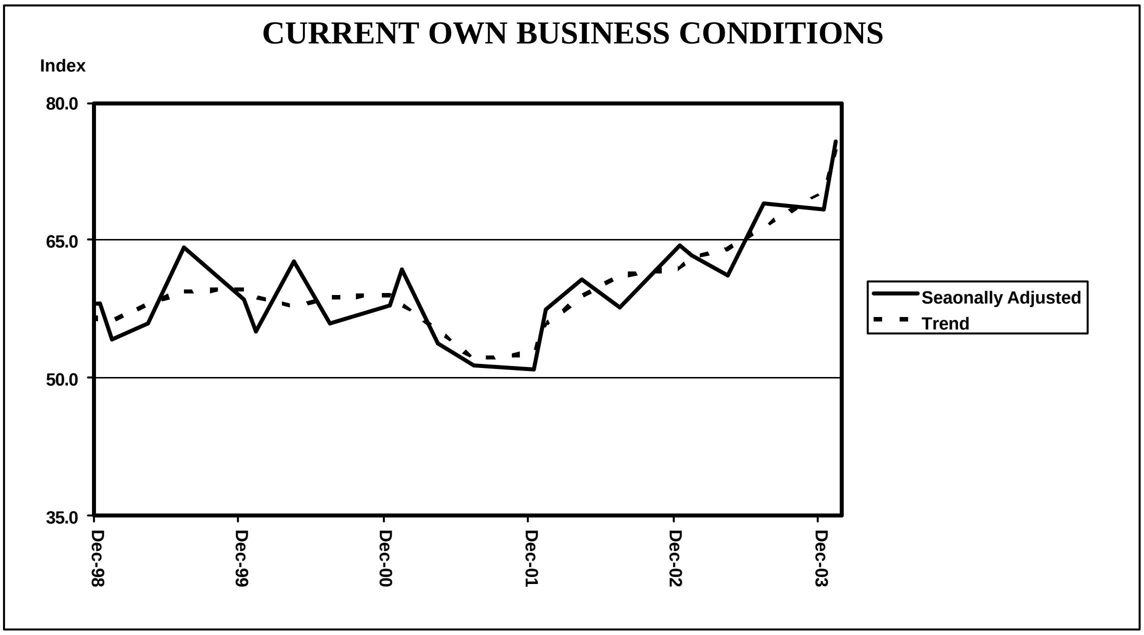
CURRENT CONDITIONS IMPROVE BUT EXPECTATIONS WEAKEN

SUMMARY

The survey results for the December quarter 2003 indicate that industry conditions continued to improve in the past three months although, expectations for the next six months has deteriorated.

Industry perceptions of own business conditions improved further in the December quarter with the net balance of respondents improving to 75.9 compared with 68.3 three months ago. 92.3 per cent of respondents rated their own business conditions as satisfactory or better.

However within this result there was some variation between the residential and commercial sectors with the index for residential above the overall result at 81.5 and the outcome for commercial lower at 75.8. This outcome was generally consistent across the survey with the residential sector generally more positive than the commercial sector.



In contrast to the outcome for current conditions, expectations for the next six months weakened considerably to 61.0 compared with 70.4 in the September quarter even though the trend for expectations is still improving. The timing of the survey around late October/early November may explain this reversal of sentiment with heightened expectations of the subsequent rise in interest rates around this time. At the time of the survey a net balance of 71.1 was recorded for interest rate expectations with 83.6 per cent of respondents expecting a rise in interest rates.

Businesses were increasingly concerned about available capacity with the net balance reporting adequate capacity falling further to 46.2 compared with 47.6 three months ago. Concerns over capacity have worsened considerably since the June quarter 2001 when the net balance was 74.6, indicating significant excess capacity at that time.

Supplementary questions on home warranty insurance indicate a net balance of 67.6 (not seasonally adjusted) having trouble finding insurance with only 2.2 per cent of respondents indicating that finding insurance was less difficult. A net balance of 90.3 was recorded on the cost of this insurance with 81.4 per cent of respondents indicating that the cost of insurance had risen.

SURVEY RESULTS

OWN BUSINESS

The following section provides an assessment by respondents on current conditions in their own business and expectations for on-going performance.

As indicated in the chart on page 1, own business conditions improved significantly in the December quarter to the highest level since data was available in December 1998. All but one state/territory recorded strong business conditions, headed by Queensland and New South Wales, with net balances of 92.0 and 91.2 respectively. The weakest conditions were recorded in the Northern Territory where a net balance of 45.5 was recorded.

In contrast to current business conditions, expectations for the next six months (Chart 1) deteriorated somewhat in the December quarter with the net balance falling from 70.4 in the September quarter to 61.0. As discussed above, the timing of the survey corresponding as it did closely with the November interest rate rise, may have resulted in this turn-around in sentiment.

Expectations in the residential and commercial sectors were both in line with this result.

CHART 1: OWN BUSINESS ACTIVITY (NEXT 6 MONTHS)

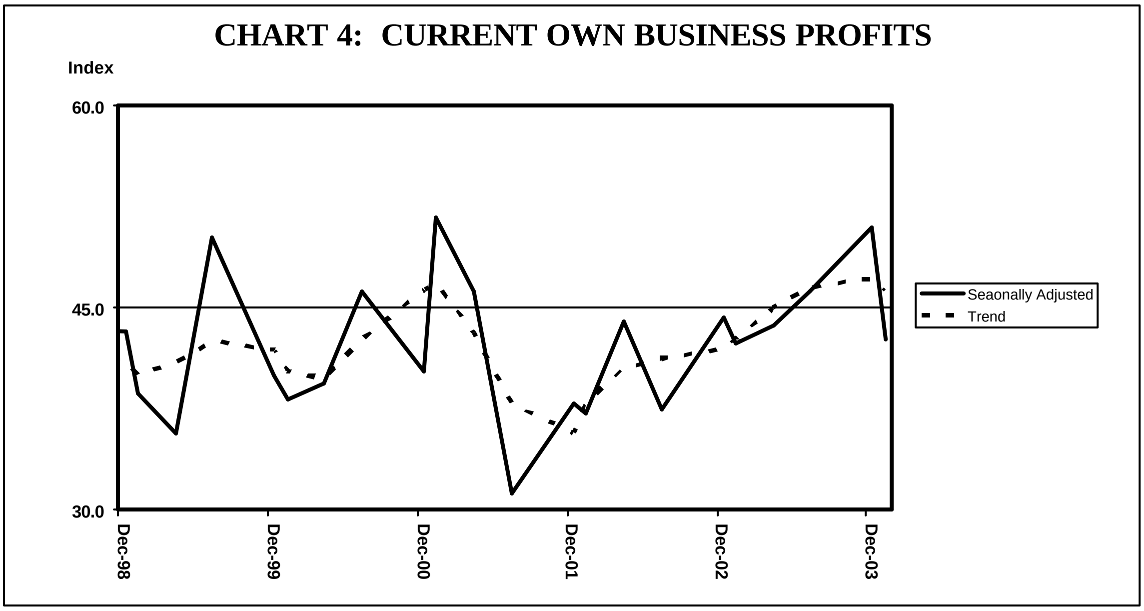
CHART 2: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)

In line with the fall in expectations of activity, expectations for own business investment also deteriorated in the past quarter. Investment expectations have improved considerably over the past three years from a low of 29.3 in the December quarter 2000 to a peak of 52.9 recorded last quarter. Despite the fall, own investment expectations remain relatively strong compared with recent history.

Employment intentions (Chart 3) also fell significantly in the December quarter to below 50 for the first time in 6 quarters. Employment intentions have followed a similar pattern to those for investment, rising significantly over the past two years, peaking in the September quarter before this fall in the December quarter.

Current business profits (Chart 4) also recorded a fall in the December quarter to 42.5. Once again, this series has recovered strongly from a most recent low of 37.4 in the June quarter 2001 to a peak of 51.0 recorded last quarter.

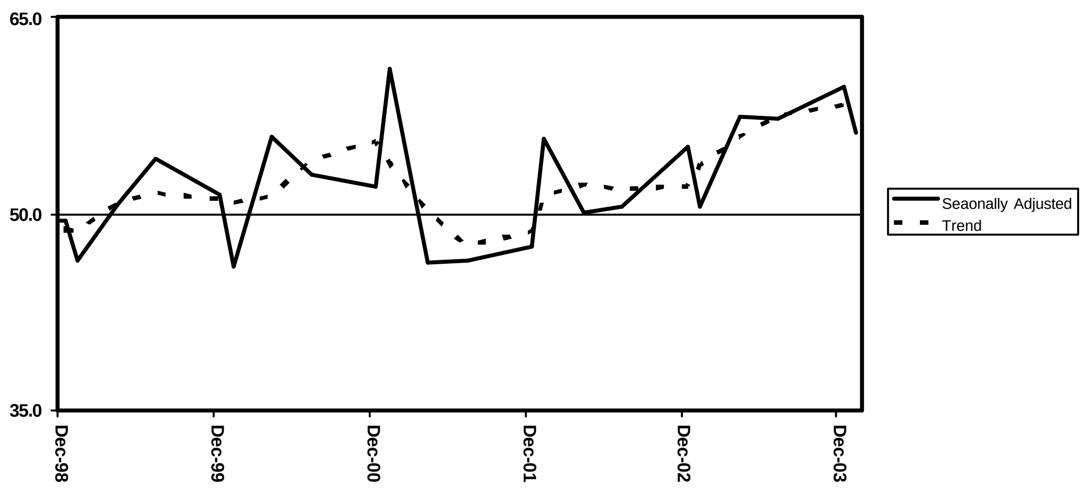
Perceptions of profitability were somewhat higher in the residential sector than the commercial sector.



Despite the fall in current business profits, expectations for business profits remained reasonably solid with the net balance recording a much smaller fall from 59.8 to 56.2. Nevertheless, profit expectations are still significantly higher than they were this time last year.

Expectations for profits (Chart 5) were broadly similar in the commercial and residential sectors.

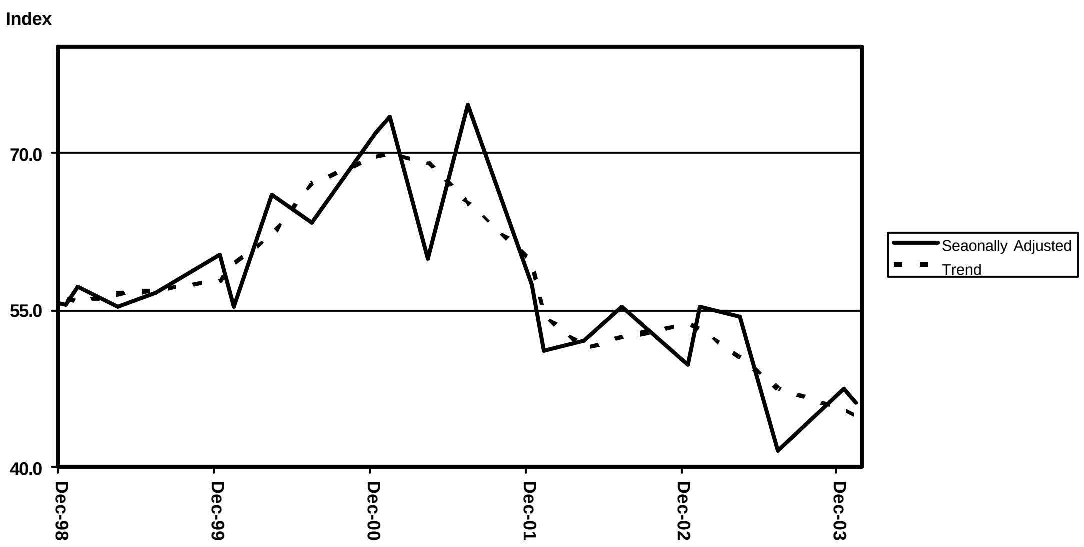
CHART 5: EXPECTED OWN BUSINESS PROFITS (NEXT 6 MONTHS)



Capacity constraints have become an increasingly important concern for the building and construction industry over the past two to three years. Available capacity was at its maximum in June quarter 2001 when a net balance of 74.6 was recorded. Since this time capacity has fallen steadily to a net balance recorded in the December quarter of 46.2, indicating that current capacity is less than adequate to deal with expected business activity in the next twelve months.

Capacity constraints were more of a concern in the residential sector with an index of 42.3 compared with 51.6 in the commercial sector.

CHART 6: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	8.6
3-6 months	22.9
1-3 months	26.1
Less than 1 month	42.4
INDEX	**32.6**

The net balance of respondents was 32.6, indicating that respondents considered they had, on average, around three months' work on their books.

Not surprisingly the amount of work on the books was much lower in the residential sector than the commercial sector.

Respondents were asked what the impact of industrial relations was on business activity.

Table 2: Impact of Industrial Relations

Critical	23.7
Large	19.7
Moderate	11.3
Slight	28.6
No Effect	16.7
INDEX	**51.2**

As can be seen from table 2, 54.7 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business. Results however varied widely from State to State with Western Australia, New South Wales and Victoria recording net balances of 71.2, 68.5 and 60.1 respectively, indicating that industrial relations were a major problem in these States.

Industrial relations were perceived to be a greater problem in the commercial sector with an index of 55.5 compared with 50.8 in residential.

Respondents were asked for their intentions regarding apprentices over the next six months.

Table 3: Employment of Apprentices (Next Six Months)

Put on More	24.2
No Change	69.5
Release Some	6.4
INDEX	**58.9**

Whilst the overwhelming majority of respondents (69.5 per cent) were not expecting to change the number of apprentices they employ, encouragingly 24.2 per cent said they were likely to put on more apprentices compared with 6.4 per cent of businesses who said they were likely to release apprentices.

The commercial sector was much more optimistic about apprentices with an index of 63.6 compared with 44.2 in the residential sector. This is not surprising given the generally larger size of commercial businesses which would facilitate the employment of apprentices.

Respondents were asked about their ability to find a range of subcontractors/employees.

Table 4: Availability of Labour

Plaster Fixers	51.5
Project Managers	51.2
Foremen/Supervisors	48.8
Site Managers	48.5
Bricklayers	47.1
Electricians	45.1
Concreters	44.6
Steel Fixers	44.0
Painters	38.5
Office Staff	35.0
Scaffolders	33.4
Labourers	31.6

In general, the responses indicated that workers were moderately easy to come by. There appeared to be adequate supply of labourers, scaffolders, office staff and painters. In contrast, plaster fixers and project managers were, in general, more difficult to find.

However, availability of resources was perceived as a much greater problem in the commercial sector with indexes for all categories significantly higher than those in the residential sector. In particular there were large reported shortages in the project managers, site managers and foremen/supervisor categories.

There were also significant regional differences with resources much more difficult to find in New South Wales, Queensland and the Australian Capital Territory. In Queensland all categories were in short supply with extreme difficulties indicated in finding bricklayers, plaster fixers, painters and steel fixers. In New South Wales the most difficult to find were bricklayers, project managers, plaster fixers, concreters and steel fixers. In the ACT difficulties were apparent in finding foremen, site managers and bricklayers.

NATIONAL ECONOMY

In addition to providing information on conditions in their own business, respondents were asked to comment on their perceptions for the economy in general.

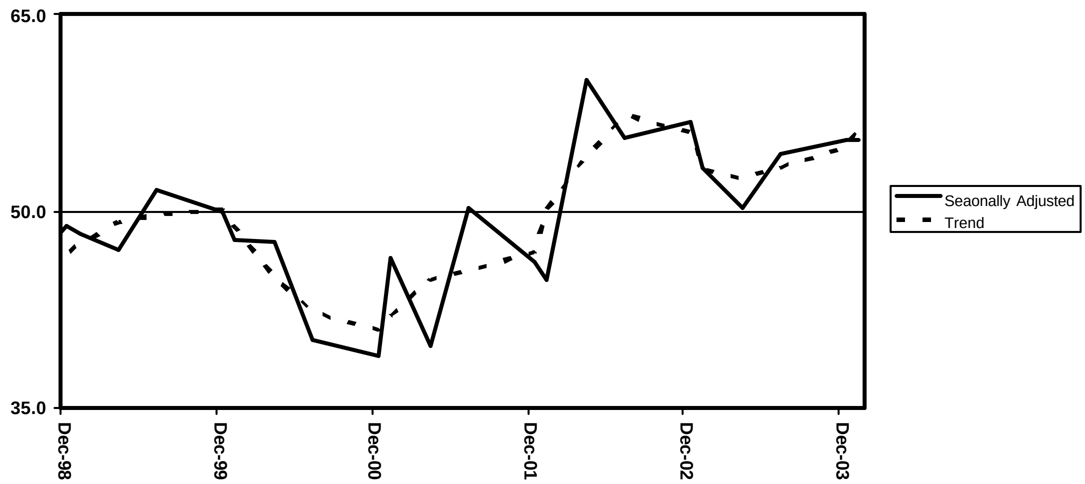
Perceptions of current general business conditions deteriorated markedly in the December quarter with the net balance of respondents falling to 52.8 (its lowest level since December 2001) compared with 67.6 in the September quarter (Chart 7). This result is somewhat surprising and is at odds with the generally strong result recorded for own business perceptions.

CHART 7: CURRENT GENERAL BUSINESS CONDITIONS

While current general business conditions were perceived to have deteriorated, expectations for general business conditions in the next six months were unchanged (Chart 8). However, as indicated above, and somewhat in contrast to other series, expectations for general business conditions peaked around two years ago.

Expectations for national business conditions were higher in the residential at 58.0 compared with 53.2 for commercial.

CHART 8: EXPECTED GENERAL BUSINESS CONDITIONS (NEXT 6 MONTHS)

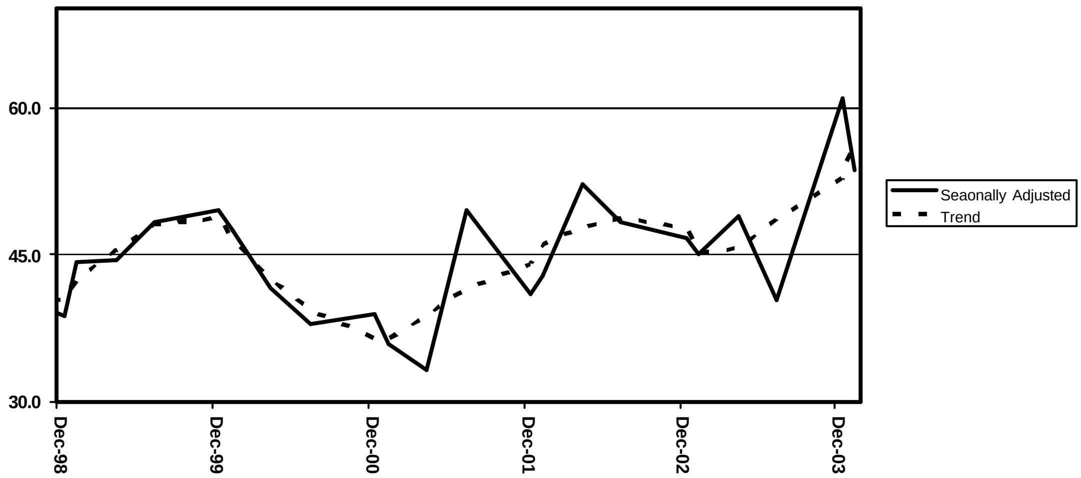


Expectations for the national economy for the year ahead deteriorated somewhat in the December quarter to a net balance of 53.5, but this followed very large rises in the net balance in the previous two years.

Respondents in the residential sector were much more optimistic with an index of 60.0 compared with 45.5 for commercial.

Despite the fall, the outcome still reflects a degree of optimism about the national economy given the current strength in activity with 79.7 per cent of respondents expecting GDP growth to be about the same or higher in the next twelve months and only 20.3 per cent expecting lower growth.

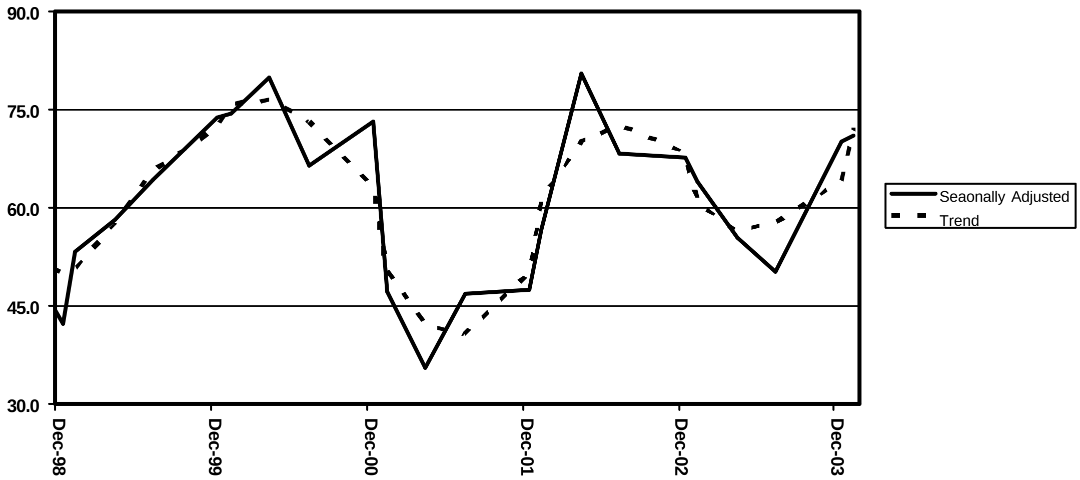
CHART 9: NATIONAL ECONOMIC EXPECTATIONS (NEXT 12 MONTHS)



Expectations for interest rates recorded a net balance of 71.1, indicating a strong expectation of rising interest rates in the twelve months ahead. 83.6 per cent of respondents expected a rise in interest rates with only a very small 0.4 per cent predicting a fall in rates over the next twelve months. The Reserve Bank announced a rise in interest rates on 5 November 2003.

Reflecting the generally more optimistic perceptions in the residential sector they also had a greater expectation of interest rate rises with an index of 74.2 compared with 67.6 for commercial.

CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



SUPPLEMENTARY QUESTIONS

In order to gather information on the impact of the current home warranty insurance situation on the building and construction industry, respondents were asked about the degree of difficulty in finding insurance and the cost of that insurance relative to a year ago.

Table 5: Finding Home Insurance Warranty

More Difficult	37.4
About the Same	60.4
Less Difficult	2.2
INDEX	**67.6**

A net balance of 67.6 was recorded for finding home warranty insurance, with 37.4 per cent of respondents indicating that it was more difficult to find insurance and only 2.2 per cent describing finding insurance as less difficult.

Finding insurance was considered much more difficult in the residential sector with an index of 74.1 compared with 62.4 for commercial.

Table 6: Cost of Insurance (Relative to a Year Ago)

Higher	81.4
About the Same	18.0
Lower	0.7
INDEX	**90.3**

With regard to the cost of insurance relative to a year ago, 81.4 per cent of respondents indicated that the cost of insurance was higher, with only 0.7 per cent of respondents indicating a lower cost.

Cost perceptions were broadly similar across both sectors.

ABOUT THE SURVEY

The survey of building and construction is a national electronic survey of Master Builders' members which will be published on a quarterly basis. The survey allows members of Master Builders to present their views of the national economy and the condition of their own enterprises.

The survey will also provide information on on-going constraints on activity and availability of resources and selected supplementary questions, in this case on home warranty insurance.

Various state/territory offices of Master Builders will also be releasing their individual survey results.

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

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