



December Quarter 2004

BUILDING ACTIVITY AND CONFIDENCE REMAIN SOLID

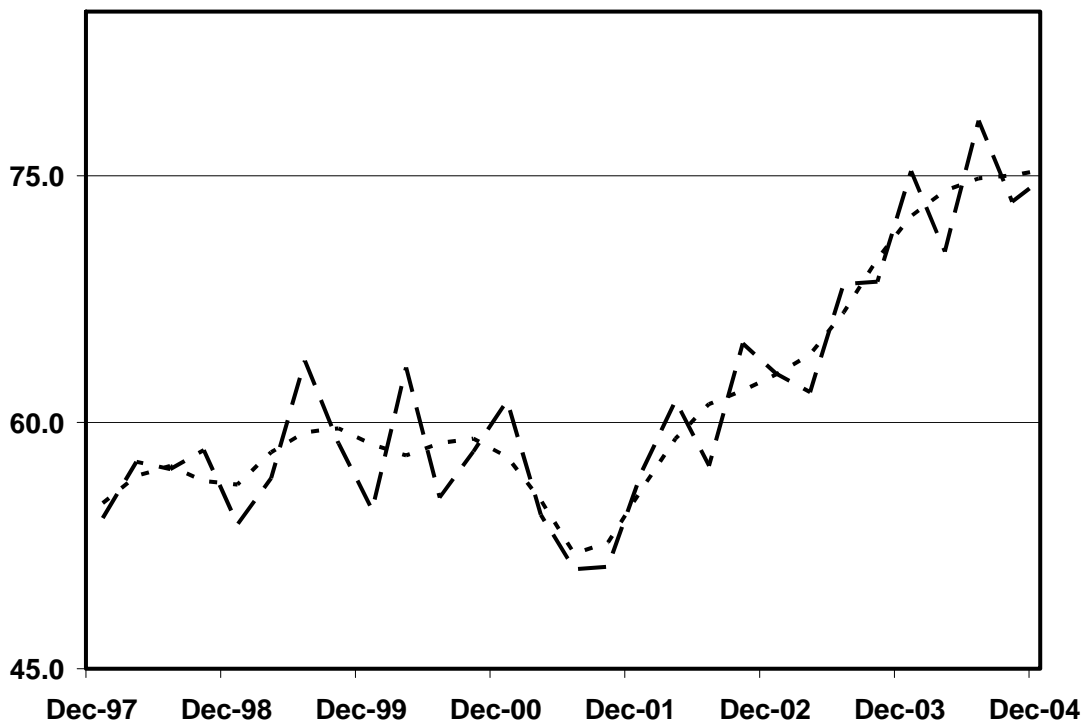
SUMMARY

The survey results for the December quarter 2004 show that current industry conditions improved slightly in the past three months and expectations for the next six months are still optimistic about improved conditions. This is a solid outcome and clearly reflects the amount of work currently in the pipeline in the residential and non-residential sectors.

Industry perceptions of own business conditions in the December quarter rose to 75.0 compared with 73.4 three months ago.

Within this result there was little variation between the residential and commercial sectors with the index for residential (not seasonally adjusted) at 78.1 and the outcome for commercial slightly higher at 79.7.

CURRENT OWN BUSINESS CONDITIONS



In contrast to the outcome for current conditions, expectations for the next six months fell to 56.8 compared with 67.8 in the September quarter. This fall reverses the large rise recorded last quarter.

However it should be noted that any reading above 50 indicates an expectation of rising activity, suggesting that optimism in the industry is still high.

Concern about available capacity also heightened, with the index falling to 48.1 compared with 54.1 three months ago, indicating less capacity available. While concerns over capacity have lessened considerably since the June quarter 2003 peak, this outcome suggests that availability of capacity remains a significant concern for the industry.

A supplementary question on the impact of higher interest rates on forward orders/inquiry rates/new contracts was also asked. The results clearly indicate that the negative impact of higher interest rates became less pronounced in the December quarter with 76.5 per cent of respondents indicating that new business not or only slightly effected compared with 58.8 per cent in the September quarter.

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 slightly in the December quarter.

All state/territories recorded strong business conditions, headed by Tasmania, NT, Newcastle and South Australia, with index readings of 93.5, 86.0, 85.6 and 82.3 respectively.

In contrast with current business conditions, expectations for the next six months fell appreciably in the December quarter (Chart 1). However with the index remaining significantly above the 50 level this indicates that builders expect activity levels to rise even further in the next 6 months.

CHART 1: OWN BUSINESS ACTIVITY (NEXT 6 MONTHS)

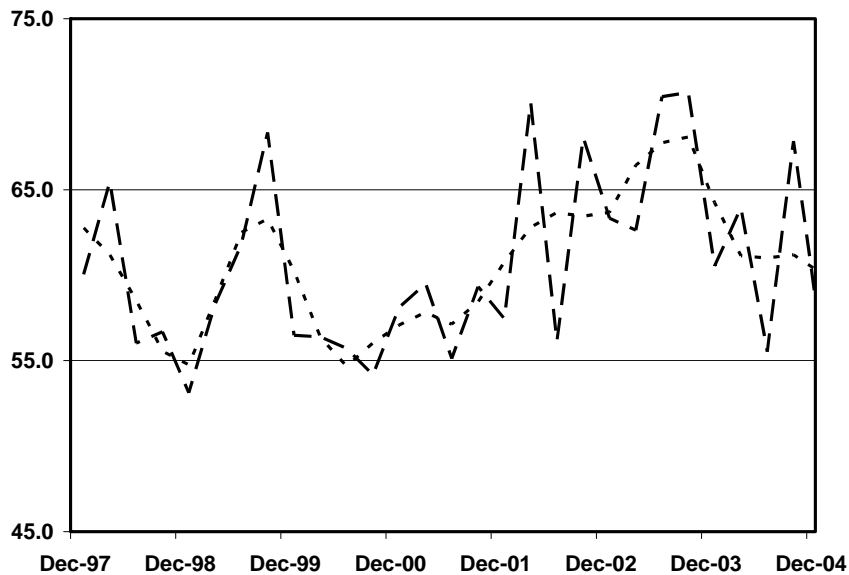
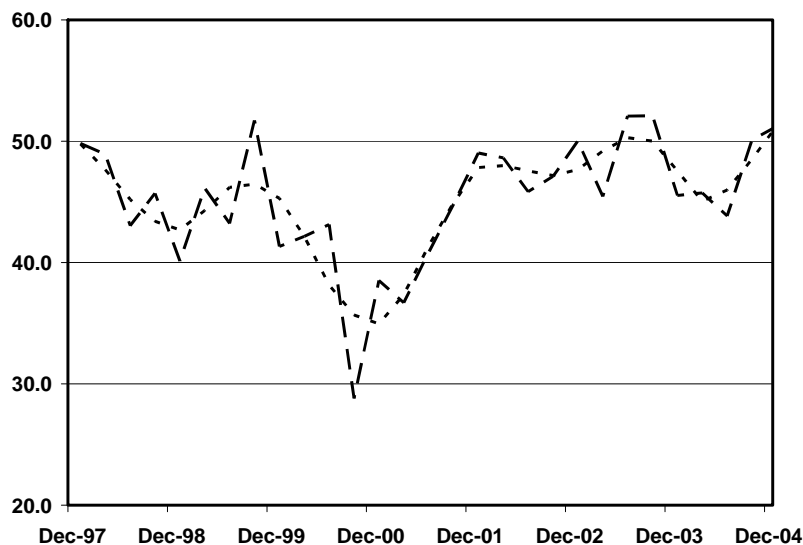


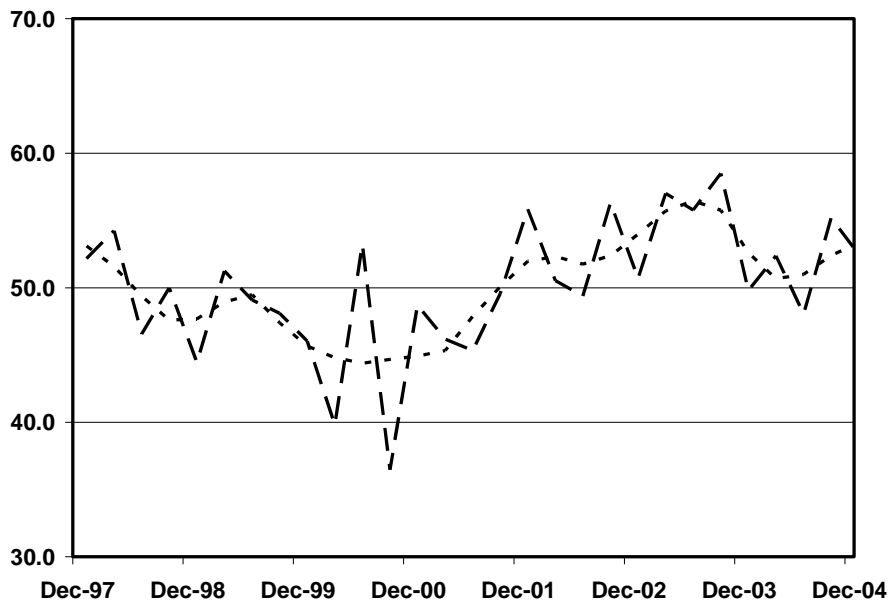
CHART 2: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



In line with expectations of rising activity over the next six months, expectations for own business investment also rose in the past quarter. The improvement in investment expectations over the past four years from a low of 28.9 in the September quarter 2000 mirrors the performance of the general industry. The rise in intentions takes the index to just below the record high of the September quarter 2003.

Employment intentions for the next 6 months (Chart 3) deteriorated slightly in the December quarter but nevertheless still indicate a situation of rising employment in the industry. Employment intentions have followed a similar pattern to those for investment, rising from the September quarter 2000 low before peaking in the second half of 2003 and then weakening but generally remaining positive.

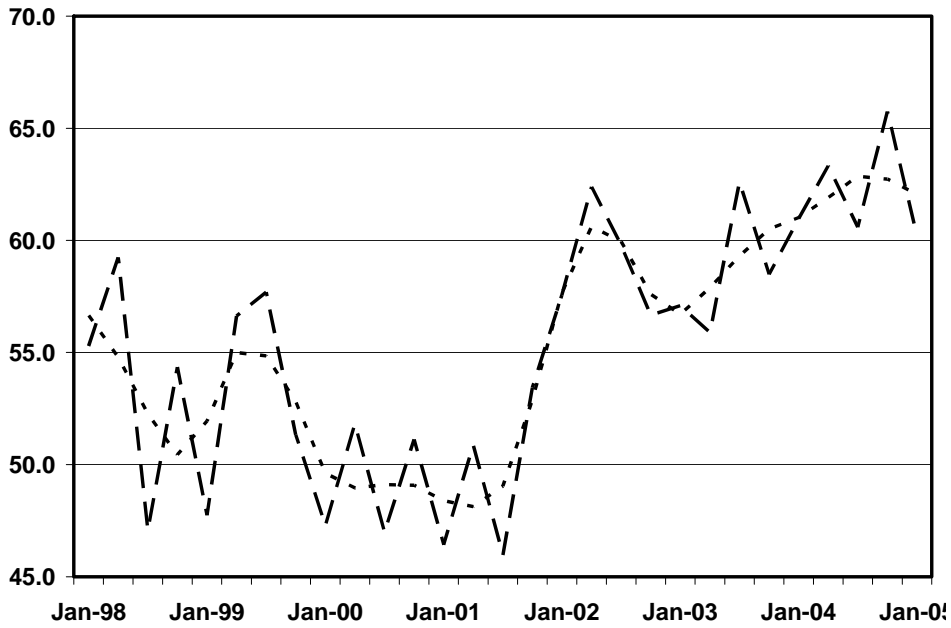
CHART 3: EMPLOYMENT INTENTIONS (NEXT 6 MONTHS)



The reading for current business profits fell slightly in the December quarter to 60.3 compared with the record level of 62.7 in the September quarter. Once again, this series has recovered strongly from a most recent low of 46.2 in the March quarter 2001 to the current very robust reading.

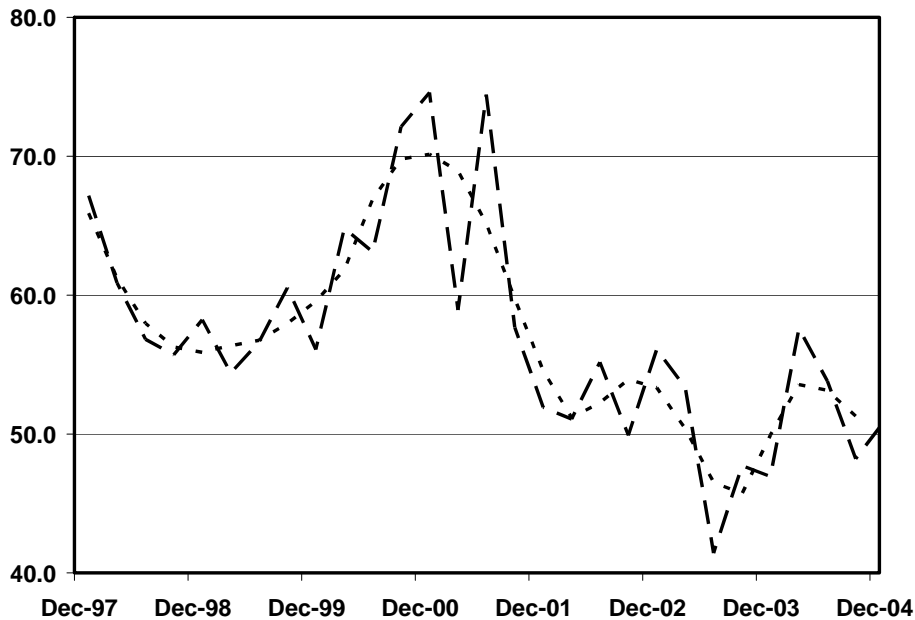
Perceptions of future profitability also weakened in the December quarter to 60.2 compared with the record level of 65.7 in the September quarter. Nevertheless this reading of well above 50 indicates a good deal of optimism about the outlook for profits

CHART 4: EXPECTED OWN BUSINESS PROFITS (NEXT 6 MONTHS)



Capacity constraints had become an increasingly important concern for the building and construction industry between the June quarter 2001 and the June quarter 2003 when available capacity was at the lowest level recorded. Since this period, capacity had generally become less of a problem. However, in the past three quarters capacity in trend terms has worsened.

CHART 5: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	1.6
3-6 months	18.0
1-3 months	42.0
Less than 1 month	38.4
INDEX	27.6

The overall index was 27.6, indicating that respondents considered they had, on average, around two –three months work on their books.

This compared with a reading of 23.5 in the September quarter suggesting that conditions had improved in the past three months.

The amount of work on the books was equal in the residential and commercial sectors although it is worth noting that the amount of work on the books in the commercial sector continues to fall while work on books in the residential sector is rising.

Respondents were asked about the level of display centre traffic in the last 3 months.

Table 2: Display Centre Traffic

Much Higher	0.6
Somewhat Higher	6.1
About the Same	83.2
Somewhat Lower	7.4
Much Lower	2.6
INDEX	48.7

The index for display centre traffic was much improved in the December quarter rising to 48.7 compared with 42.7 in the September quarter. Display centre traffic is an important leading indicator of activity and this reading is consistent with a pick up in activity levels.

Traffic levels in the non-residential and residential sectors were similar.

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

Table 3: Impact of Industrial Relations

Critical	14.3
Large	21.0
Moderate	35.9
Slight	14.4
No Effect	14.3
INDEX	51.6

As can be seen from Table 3, 71.2 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business. The overall index of 51.6 was higher than the 47.0 recorded last quarter indicating a significant deterioration in industrial relations.

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

**Table 4: Employment of Apprentices
(Next Six Months)**

Put on More	42.7
No Change	56.4
Release Some	0.9
INDEX	70.9

Whilst the majority of respondents (56.4 per cent) were not expecting to change the number of apprentices they employ, 42.7 per cent said they were likely to put on more apprentices compared with only 0.9 per cent of businesses who said they were likely to release apprentices.

This resulted in an increase in the overall index to 70.9 compared with 61.8 in the September quarter indicating a major improvement in the outlook for the employment of apprentices.

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

Table 5: Availability of Labour

	Sept Quarter	Dec Quarter
Bricklayers	(60.2)	69.1
Foremen/ Supervisors	(60.0)	68.1
Carpenters	(47.2)	67.1
Site Managers	(60.0)	62.1
Plaster Fixers	(38.7)	58.9
Project Managers	(58.4)	58.0
Concreters	(39.0)	56.2
Electricians	(28.9)	51.7
Steel Fixers	(42.0)	50.6
Painters	(29.7)	46.8
Scaffolders	(36.4)	44.2
Office Staff	(31.9)	32.7
Labourers	(23.9)	32.6

The responses indicated that workers had become universally more difficult to come by in the December quarter indicating a significant and unwelcome tightening of the labour market. Bricklayers, carpenters, plaster fixers and foremen/supervisors in particular became significantly more difficult to find. Readings around these levels indicate that builders are having a large amount of difficulty in finding these skilled tradespeople available. Moderate or worse shortages now exist for all categories of workers except scaffolders, office staff and labourers.

There were also significant regional differences, with Tasmania, South Australia and NT in particular experiencing critical shortages across a range of areas. Availability of resources worsened considerably in these areas whereas some improvement in availability was noted in Victoria and the ACT.

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 improved significantly in the December quarter with the index rising to 67.0 compared with 62.6 in the September quarter (Chart 6). This is the second highest recorded outcome and in original terms the index was at a record high indicating that builders remain very confident about the performance of the overall economy and that the negative impact of the late 2003 interest rate increases has waned.

CHART 6: CURRENT GENERAL BUSINESS CONDITIONS

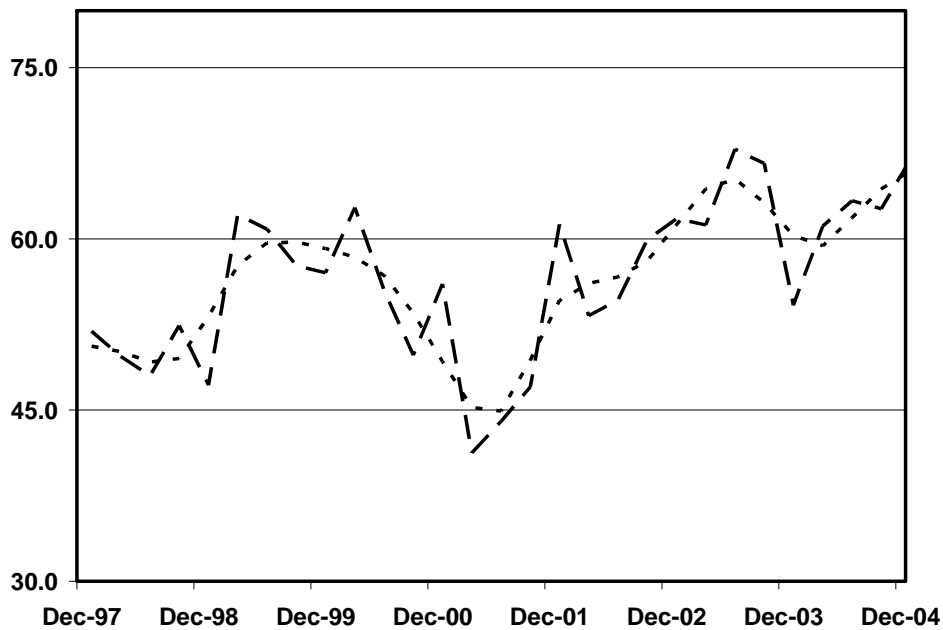
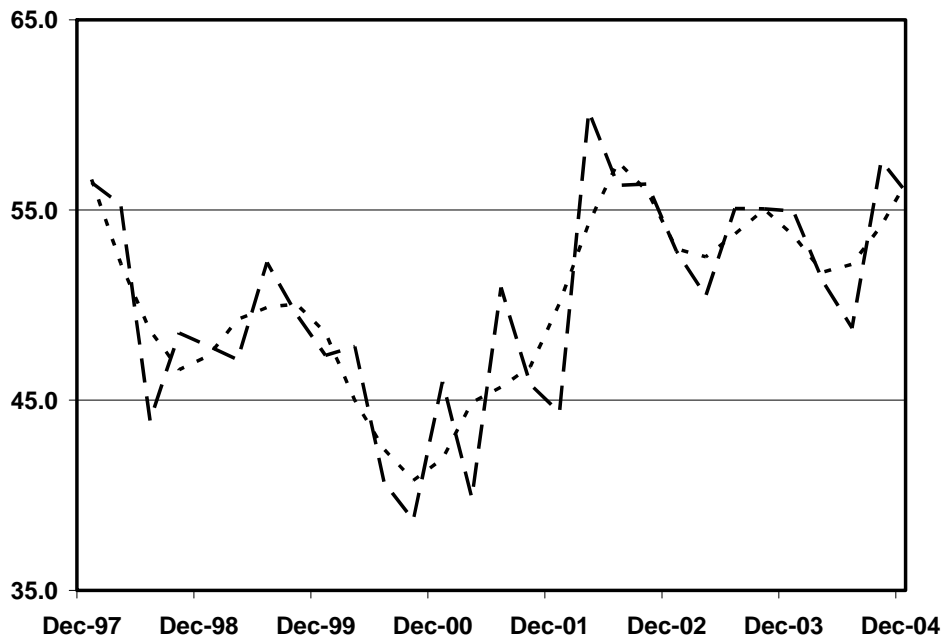


CHART 7: EXPECTED GENERAL BUSINESS CONDITIONS (NEXT 6 MONTHS)

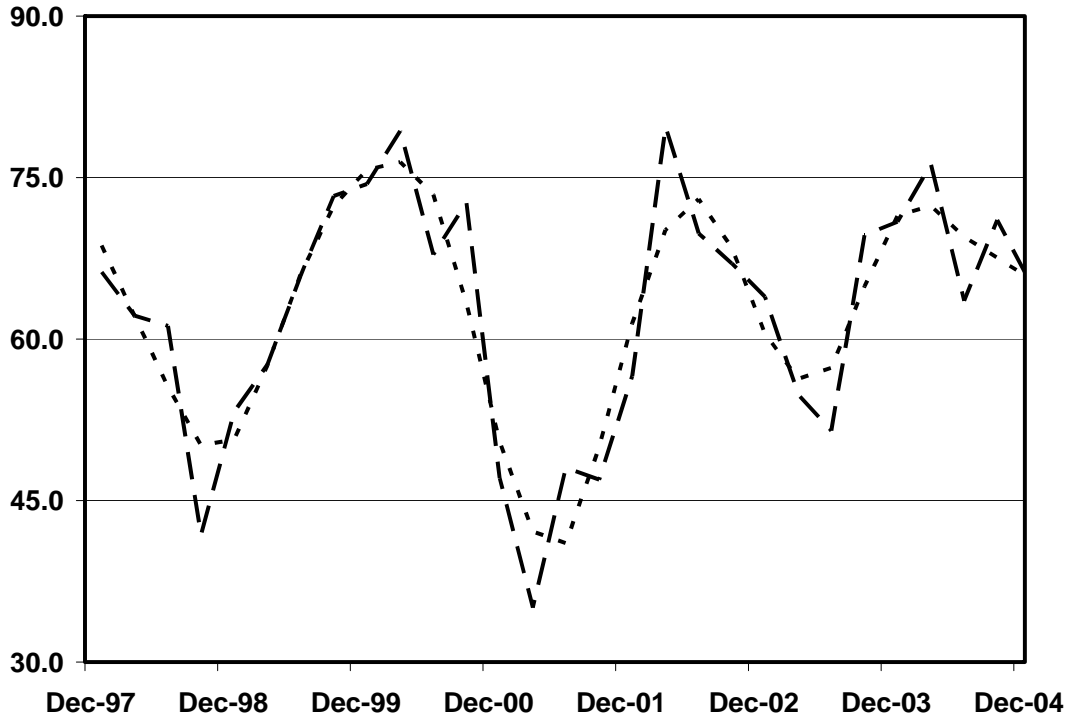


While current general business conditions were perceived to have improved, expectations for general business conditions in the next six months were a little weaker but still well above the 50 mark

indicating that builders expect the national economy to strengthen even further over the next 6 months. This optimism is consistent with other surveys of the national economy. (Chart 7)

Expectations for interest rates recorded an index of 65.4 in the December quarter compared with 71.2 in the September quarter. This indicates less pronounced expectations of rising interest rates in the twelve months ahead. The lower index probably reflects less press speculation of post election interest rate increases.

CHART 8: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



SUPPLEMENTARY QUESTIONS

In order to gather information on the impact of the November and December 2003 increases in interest rates on the building and construction industry, respondents were asked about the impact on forward orders/inquiry rates/new contracts.

Table 6: Effect on Recent Interest Rate Increases

No Effect	32.9
Slight	43.6
Moderate	17.2
Large	5.7
Major	0.6
INDEX	24.4

An index of 24.4 was recorded for the impact of interest rates, with 76.5 per cent of respondents indicating that new business orders were not or only slightly effected as a result of the rises in interest rates. This reading is the lowest recorded since the late 2003 rate rises suggesting that the impact of tighter monetary policy has waned over the course of 2004.

ABOUT THE SURVEY

The survey of building and construction is a national 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.