



December Quarter 2005

ACTIVITY FALLS AGAIN CONDITIONS STILL RELATIVELY STRONG BUILDERS STAY CONFIDENT

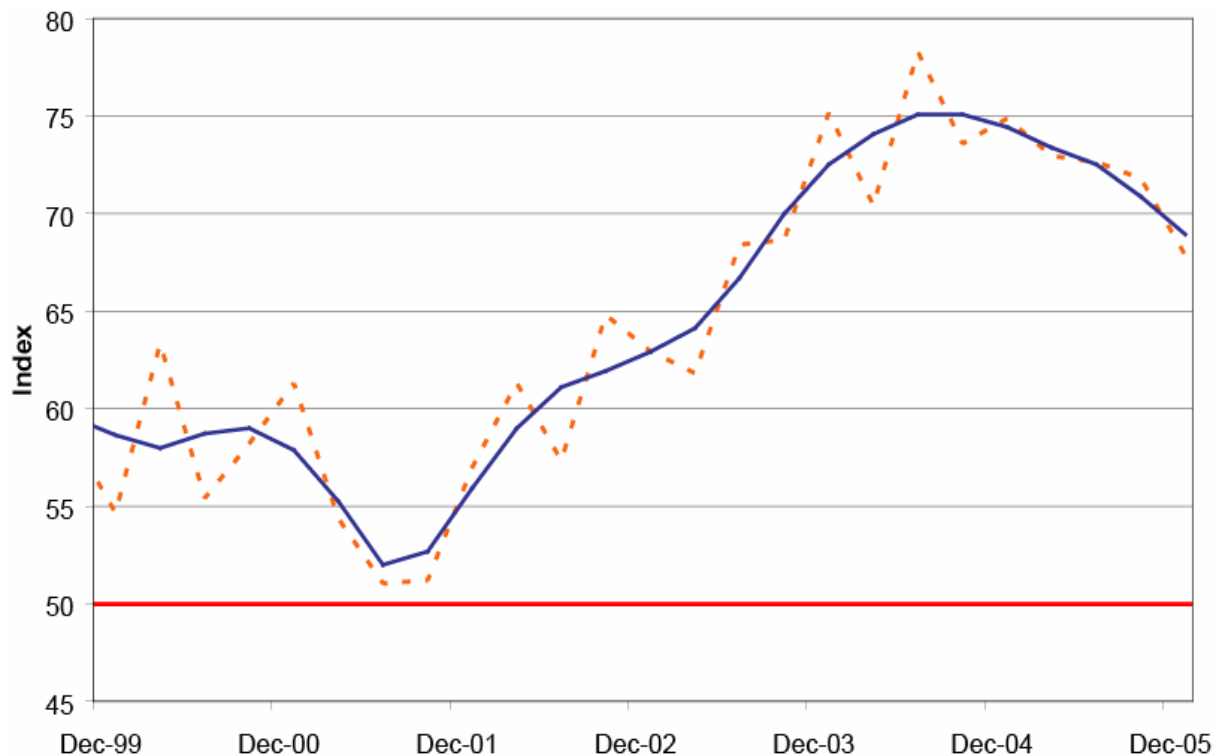
SUMMARY

Builders' perceptions about own business activity declined again in the December quarter and the index has now fallen by 13.3 per cent since the index peaked in the middle of 2004. Nonetheless, the latest survey results show that current industry conditions remain at a high level.

Similarly, the survey's reading for current business profits has also eased back in recent quarters, but remains at a high level. With healthy profitability and a large amount of work in the pipeline, builders are optimistic about future industry activity.

The survey index for current own business conditions fell to 67.9 in the December quarter compared with 71.8 three months ago although, as the chart shows, the index for builder activity is still strongly positive. Any reading above 50 is positive, indicating an expectation of rising activity.

CURRENT OWN BUSINESS ACTIVITY



The index measuring builders' expectations for their own business activity over the next six months rose to 64.2 compared to 61.4 recorded in the previous quarter. The index has been on a rising trend, after falling in late 2003 and the first half of 2004.

As well as being confident about their own business prospects, builders are reasonably confident about the likely level of overall building and construction industry activity over the next six months. Although the index fell back in the December quarter corresponding with a slight increase in the number of builders expecting interest rates to rise significantly over the next 12 months, the trend in the index remains positive.

Although there was little variation in responses from residential and commercial builders in relation to questions relating to own business activity and profits, the non-residential sector was clearly more positive in response to the question on expectations of industry activity over the next six months. They were also more positive on: level of employees/sub-contractors in six months time; sales in the past six months relative to what had been expected; current capacity to meet expected demand over the next six months; and enquiries/display traffic in the current quarter versus the previous quarter.

Rising wage and material costs remain an issue for builders. In response to a question on input costs, 60 per cent of respondents said that, compared with the past six months, they believed input cost increases would be higher in the next 6 months, whereas only 7 per cent said they would be lower.

After some easing of pressures related to finding skilled labour in the first half of 2005, the December quarter survey results are virtually unchanged on the previous quarter. However, particular difficulties attracting certain categories of predominantly non-residential related occupations - for example, project managers, site managers and foremen/supervisors - worsened in the December quarter. And acute skill shortages, across the board, exist in many of the smaller states.

Against a backdrop of record employment in the construction industry and the problems experienced in attracting workers, the survey results show that builders expect their own business levels of employees and sub-contractors to be higher over the next six months compared to existing levels. The survey also reveals a pick up in the number of respondents indicating that they would put on more apprentices over the next six months.

SURVEY RESULTS

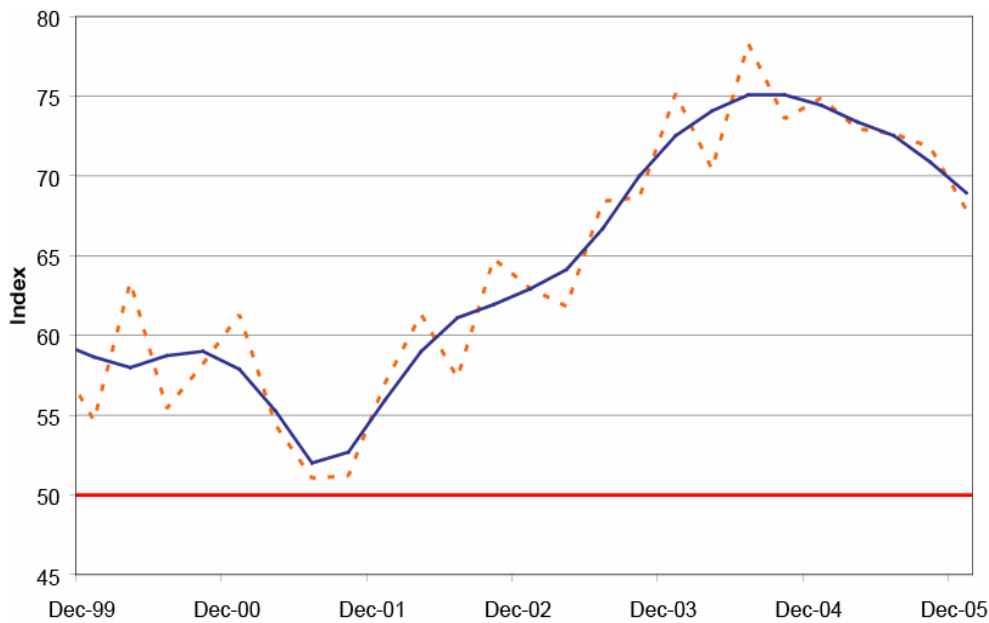
OWN BUSINESS

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

As indicated in Chart 1, own business conditions fell back in the quarter. Current own business activity remains at a high level, though well down from the peak in 2004.

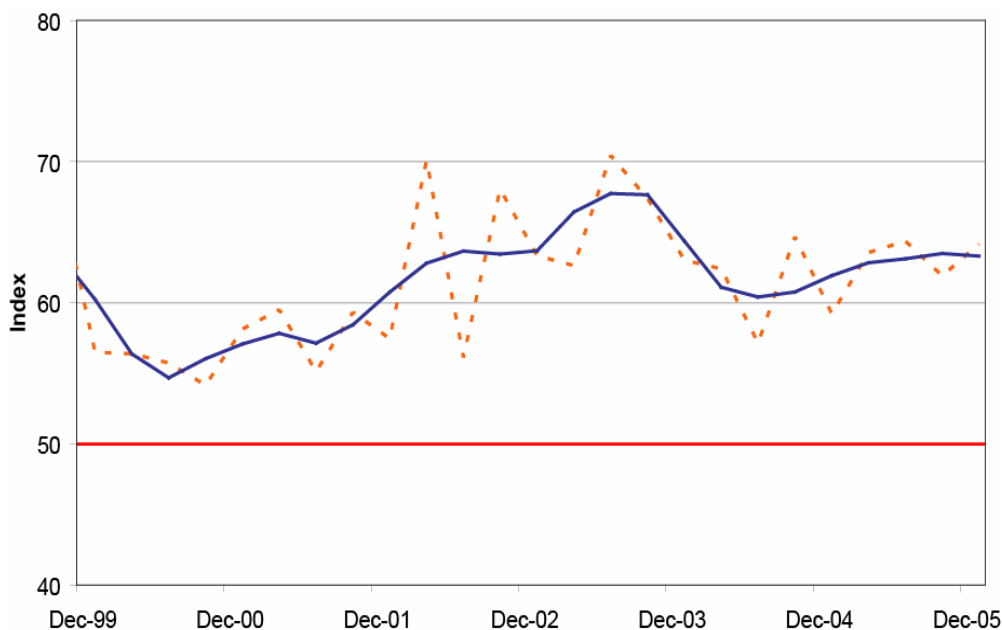
All state/territories recorded strong business conditions, headed by Western Australia, the Northern Territory and Queensland, with index readings of 75.8, 74.5 and 71.9 respectively.

CHART 1: CURRENT OWN BUSINESS ACTIVITY

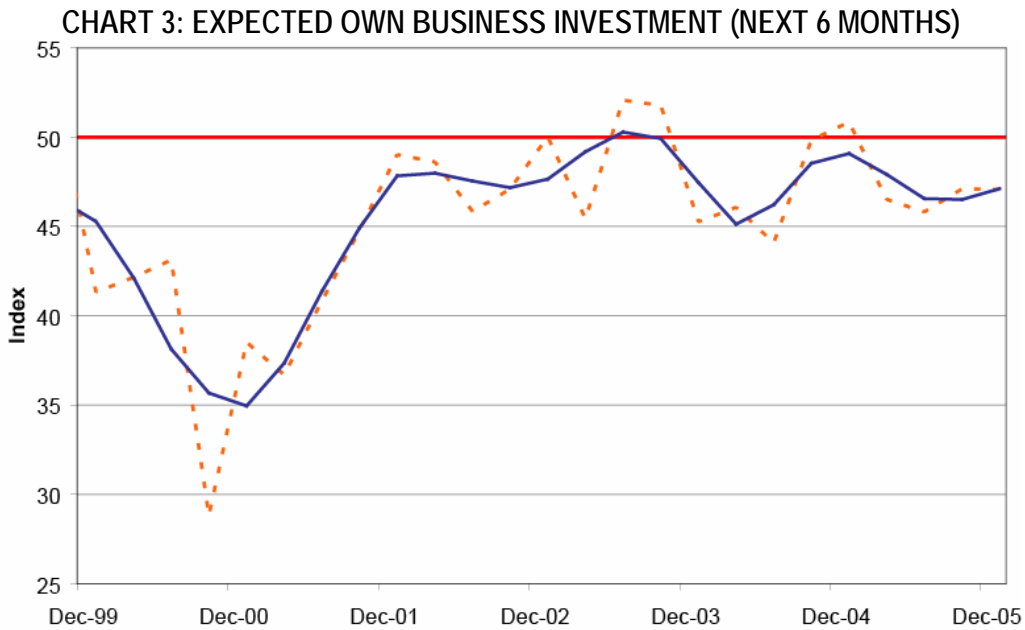


Own business expectations for the next six months, rose in the December quarter (Chart 2). The index is significantly above the 50 level, indicating that builders expect own activity levels to rise in the next six months.

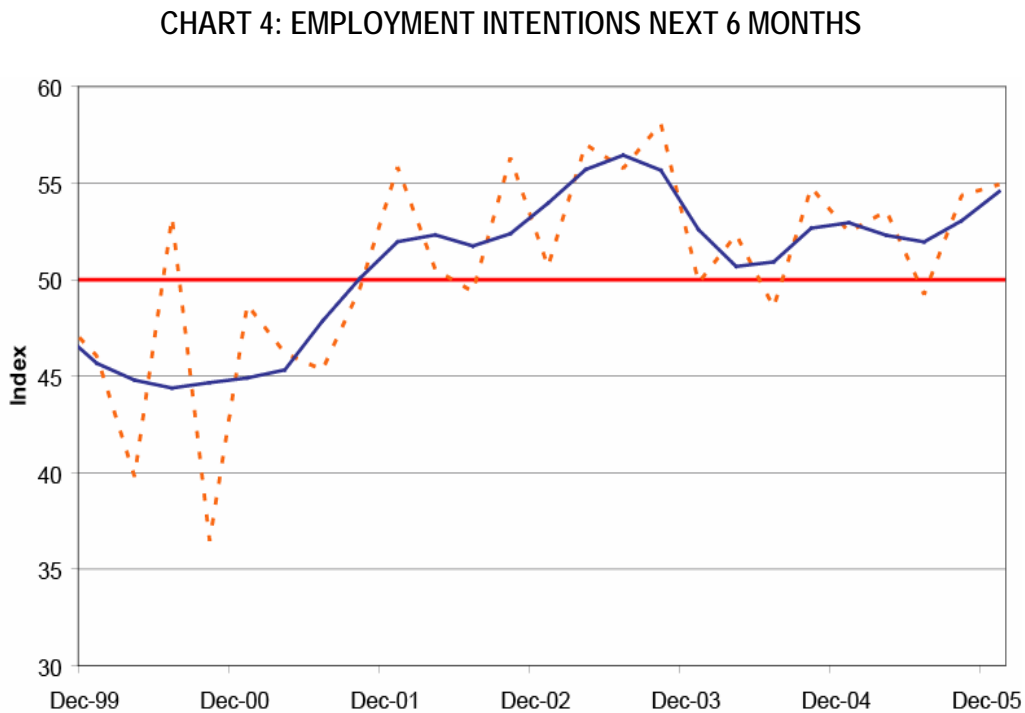
CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS



Expectations for own business investment were unchanged in the December quarter. Investment intentions have fluctuated between 45 and 50 over the past three years, following a sharp improvement from the trough of the 2000-01 downturn.



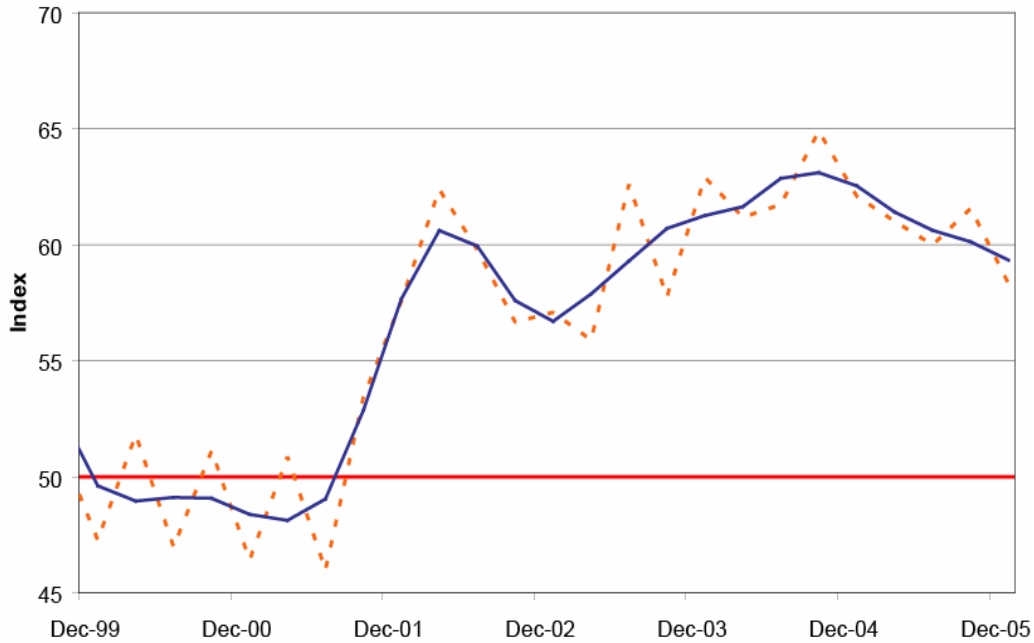
Employment intentions for the next 6 months (Chart 4) rose in the December quarter 2005, with the index now above where it was at the beginning of the year.



The reading for current business profits fell in the December quarter to 58.0 compared with 59.6 in the September quarter. The series remains solidly positive after recovering strongly from a low of 46.2 in 2000-01.

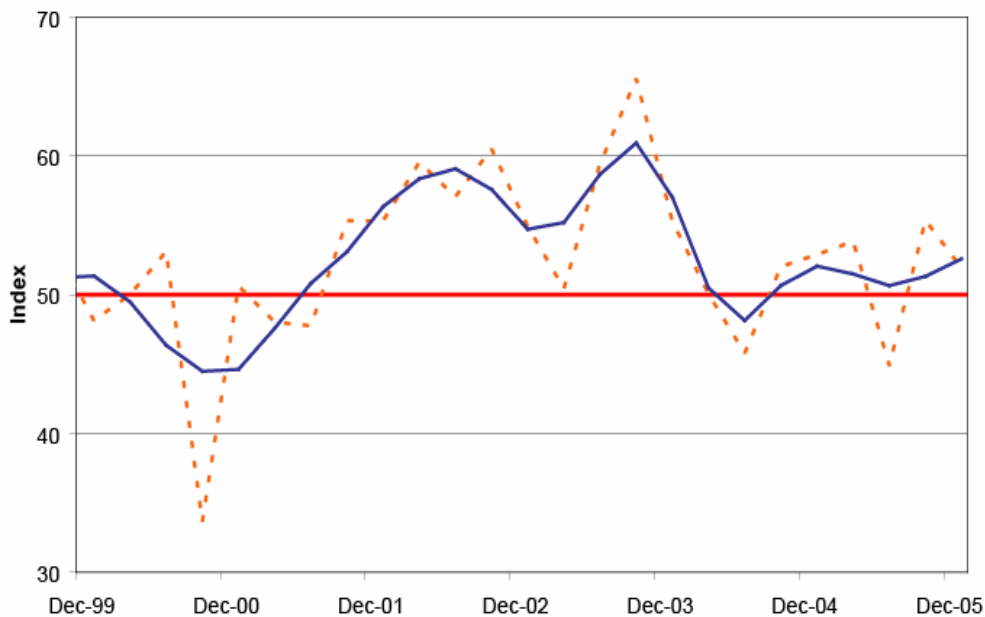
Perceptions of future profitability also declined in the December quarter, to 58.3 compared with 61.6 in the previous quarter. The index is down 10 per cent from the peak of 64.9 in September quarter 2004. Nevertheless the current reading of well above 50 indicates a good deal of optimism about the outlook for profits.

CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



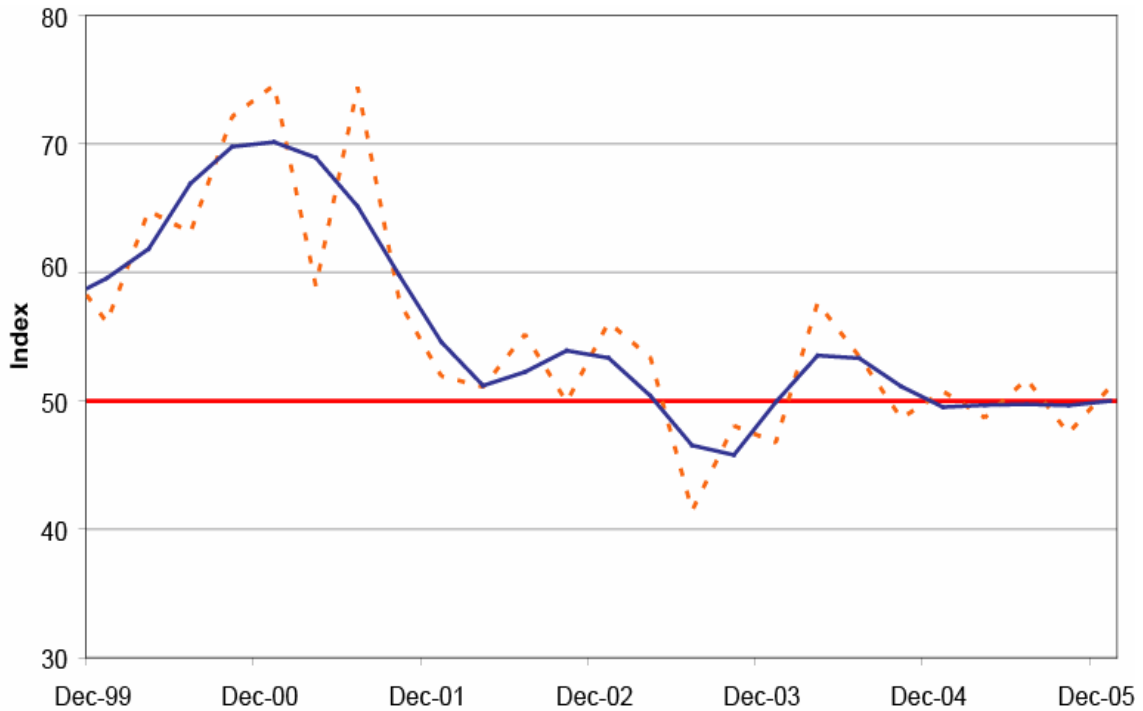
Expectations of building industry activity in the next six months, relative to the past six months, fell back a little in the December quarter after a rebound in the September quarter. The index now stands at 51.9 with the trend line weakly positive and remaining above 50.

CHART 6: EXPECTED LEVEL OF ACTIVITY IN THE BUILDING INDUSTRY NEXT SIX MONTHS



Capacity constraints became an increasingly important concern for the building and construction industry between the June quarter 2001 and the June quarter 2003 as activity grew strongly and available capacity was at the lowest level recorded. Since this period, capacity has generally become less of a problem and builders believe current capacity is adequate to meet expected demand over the next 6 months.

CHART 7: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	48.9
3-6 months	25.6
1-3 months	19.3
Less than 1 month	6.3
INDEX	72.3

The overall index bounced back in the December quarter after a decline in the previous quarter.

In the December quarter, one quarter of respondents indicated that they had between 3 and 6 months of work on the books, with nearly half saying they had more than 6 months.

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

Table 2: Display Centre Traffic/Enquiries

Much Higher	4.0
Somewhat Higher	15.1
About the Same	48.0
Somewhat Lower	29.2
Much Lower	3.7
INDEX	46.6

Display centre traffic/enquiries is an important leading indicator of activity.

The index for display centre traffic/enquiries rose marginally in the December quarter to 46.6 compared with 46.1 in the September quarter.

Display centre traffic is up on the trough experienced in the middle of 2004.

Although the index has yet to turn positive, it has improved from the 42.5 recorded in the middle of 2004.

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

Table 3: Impact of Industrial Relations

Critical	4.8
Large	17.4
Moderate	32.6
Slight	27.4
No Effect	17.9
INDEX	41.0

As can be seen from Table 3, 45 per cent of the respondents indicated that industrial relations were having a slight or nil effect on business activity.

The overall index of 41.0 was upon the 36.9 recorded last quarter, but with the index well below the 50 mark there appears to be relatively little concern about the impact of industrial relations on activity during the December quarter.

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

Table 4: Employment of Apprentices (Next Six Months)

Put on More	41.9
No Change	53.9
Release Some	4.2
INDEX	68.8

Whilst more than half of respondents (53.9 per cent) were not expecting to change the number of apprentices they employ, there was a sharp increase in the number saying they were likely to put on more apprentices (41.9 per cent). Only 4.2 per cent of respondents said they were likely to release apprentices.

The overall index was up in the December quarter, to a strongly positive 68.8 from levels recorded in the past 3 quarters.

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

Table 5: Availability of Labour

	Sep Quarter 2005	Dec Quarter 2005
Bricklayers	45.9	40.1
Foremen/ Supervisors	55.7	58.6
Carpenters	48.6	46.2
Site Managers	54.6	61.4
Plaster Fixers	38.4	41.0
Project Managers	52.4	59.6
Concreters	36.2	35.7
Electricians	29.3	31.8
Steel Fixers	37.1	33.9
Painters	29.9	29.0
Scaffolders	29.0	29.0
Office Staff	34.8	34.8
Labourers	33.0	26.8
Tilers	42.7	41.6
Building Consultants	24.8	28.1

After some easing of pressures related to finding skilled labour in the first half of 2005, the December quarter survey index results are virtually unchanged on the previous quarter.

However difficulties attracting certain categories of predominantly non-residential related workers, for example project managers, site managers and foremen/supervisors worsened during the December quarter, reaching levels of around 60, indicating that builders are experiencing major difficulties finding these categories of workers.

In addition, most of the smaller states continue to experience generalised skilled labour shortages, some acutely so.

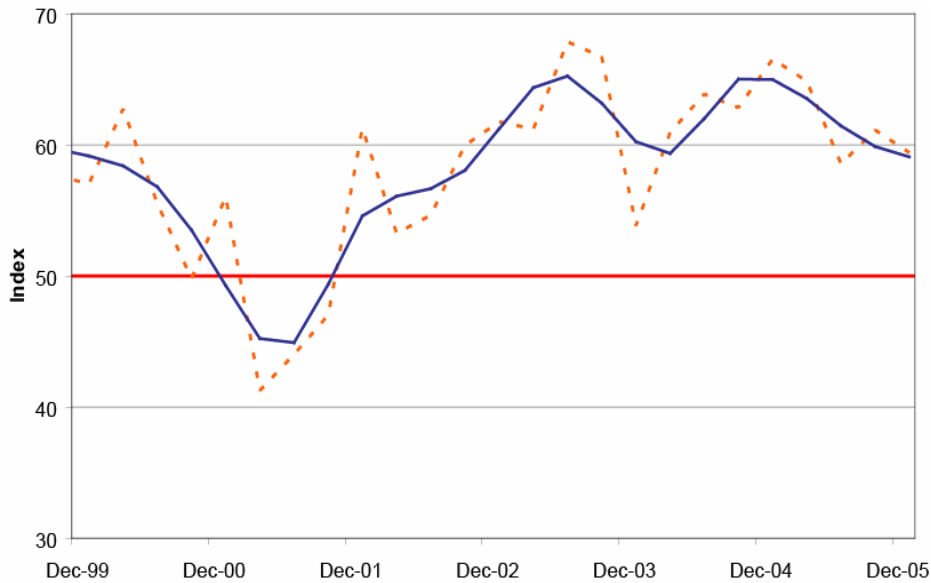
An index reading above 50 indicates large or critical difficulty in finding employees or sub-contractors; a level around 50 indicates moderate difficulty; and an index reading of less than 50 indicates slight or no difficulty.

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.

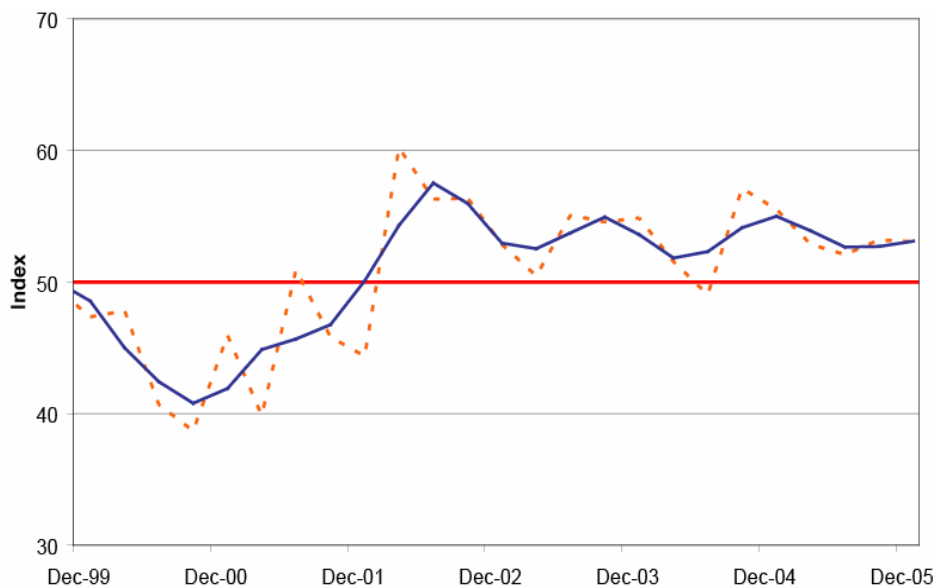
Perceptions of current general business conditions fell in seasonally adjusted terms in the December quarter 2005, with the index declining to 59.4 compared with 61.1 in the September quarter (Chart 8). The index is at a high level, indicating that builders remain reasonably confident about the performance of the overall economy despite negative impacts flowing from high petrol prices and speculation on interest rates.

CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



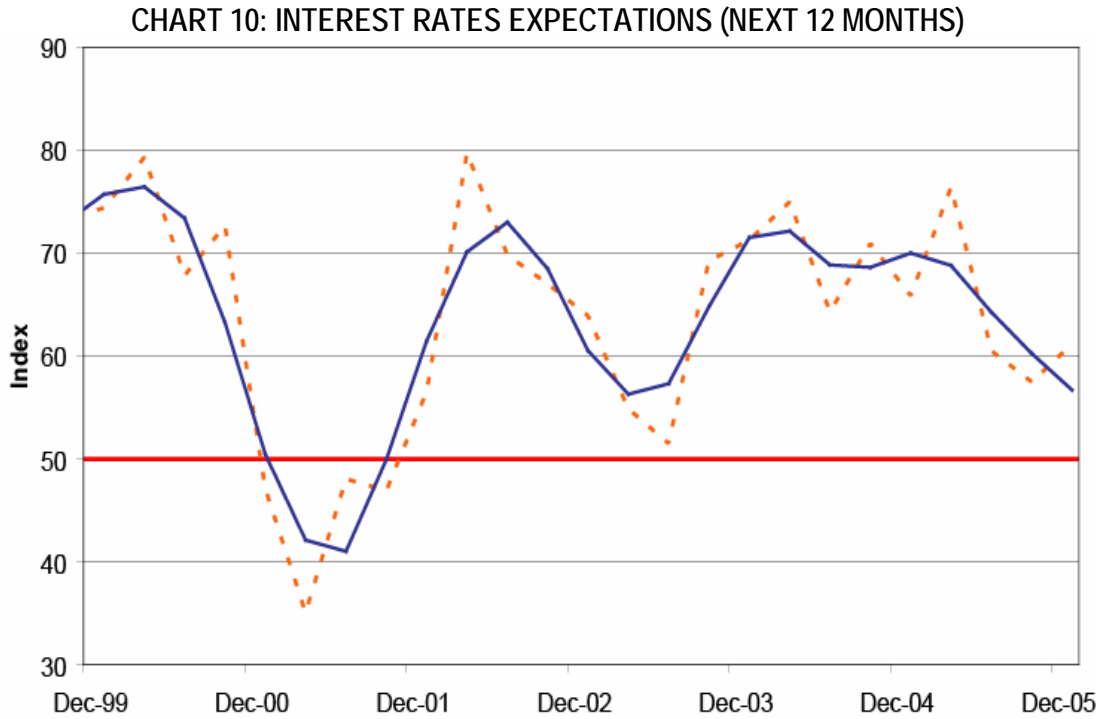
Expectations about where business conditions are headed were unchanged in the December quarter. Perceptions regarding the outlook for business conditions are virtually flat after a gradual weakening experienced during 2004-05. The index is over 50 (Chart 9) indicating that builders expect some improvement in the national economy over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS



Expectations for interest rates recorded an index of 61.2 in the December quarter, up on the previous quarter though still down from the 76.5 recorded in the March quarter when the Reserve Bank raised interest rates by 25 basis points.

Nonetheless, the Reserve Bank recently indicated that the next move in interest rates is likely to be up and, accordingly, over forty percent of respondents expect interest rates to rise moderately over the next 12 months.



SUPPLEMENTARY QUESTIONS

Table 6: Input Costs Over the Next 6 Months

Much Higher	2.2
Somewhat Higher	58.7
About the Same	31.9
Somewhat Lower	7.1
Much Lower	0.2
Index	63.9

In order to gather information on input costs, respondents were asked whether they expected input cost increases (labour, material) to be higher or lower over the next six months, compared to the past 6 months.

As Table 6 shows, 60 per cent of respondents expect input costs to be higher over the next six months, 32 per cent believe input costs will be about the same, and only 7.2 per cent of builders expect input costs to be lower.

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, 711 responses were received from builders involved in residential work, 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 will also release their 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.

The index is calculated by taking a weighted sum of the proportion of responses to every answer from an index between 100 and 0. The strongest response is given the greatest weighting of one with the weakest given the lowest weighting of zero, and proportional weighting in between.

As a result, if all respondents answered the strongest response, the index would be 100. If they all answered the weakest response, the index would be zero.

If n is the number of response categories, $prop$ is the proportion of responses in a given category and i is the response category, then the formula for the index is:

$$Index = \sum_{i=1}^n prop_i \left(\frac{n-i}{n-1} \right)$$