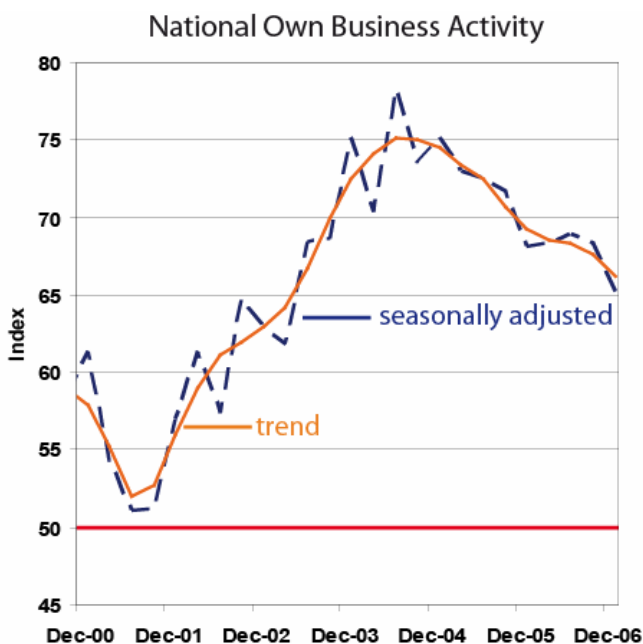




December Quarter 2006

BUILDER ACTIVITY CONTINUES TO EASE CONDITIONS STILL HEALTHY NSW SET TO TURN AROUND?

SUMMARY



conditions are reported as strong in the non-residential sector and conditions are expected to continue to improve.

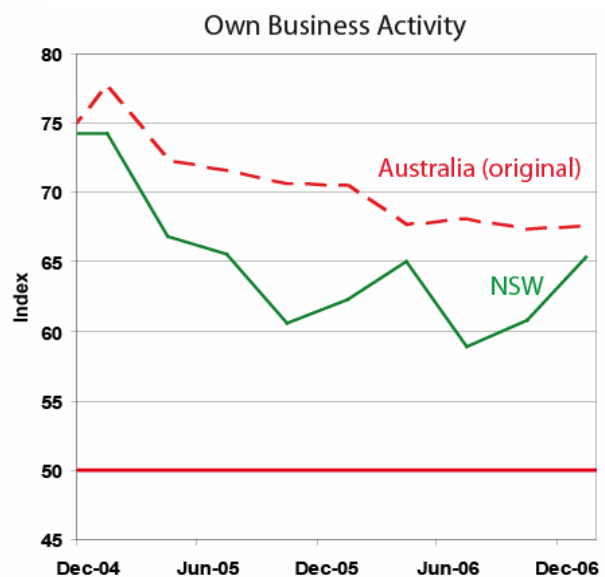
After a year or so of underperformance due to the severe downturn in residential building, builders in NSW have become more positive about their own business conditions (see Chart).

In the latest quarter, NSW builders were also more optimistic about the outlook for own business activity and profitability. In addition, there are signs some of the forward indicators for NSW are beginning to improve.

Builders' perceptions about own business activity fell in the December quarter 2006, continuing a trend decline seen in the index since the peak in mid 2004.

Nonetheless, business activity was still reported as good and conditions are expected to improve over the next six months. Own business profitability is currently very strong and builders expect profits to remain healthy. In general, builders remain positive about overall building and construction industry prospects.

The latest survey results show marked differences between sectors and states. Conditions in the residential sector remain weak and builders expect further deterioration over the next six months. In contrast,



Impact of Industrial Relations as a Constraint on Activity

	Dec 03	Dec 04	Dec 05	Dec 06
Critical	23.7	14.3	4.8	0.6
Large	19.7	21.0	17.4	4.8
Moderate	11.3	35.9	32.6	17.7
Slight	28.6	14.4	27.4	34.4
No Effect	16.7	14.3	17.9	42.5
INDEX	51.2	51.6	41.0	21.7

In the December quarter over three quarters of builders surveyed said they believe industrial relations were having only a slight or nil effect on business activity. The overall index of 21.7 is down sharply on the previous quarter and as the Table shows, industrial relations as a constraint on activity has fallen significantly over the past year. This is in line with recent ABS statistics on working days lost in the construction industry, and appears to provide further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

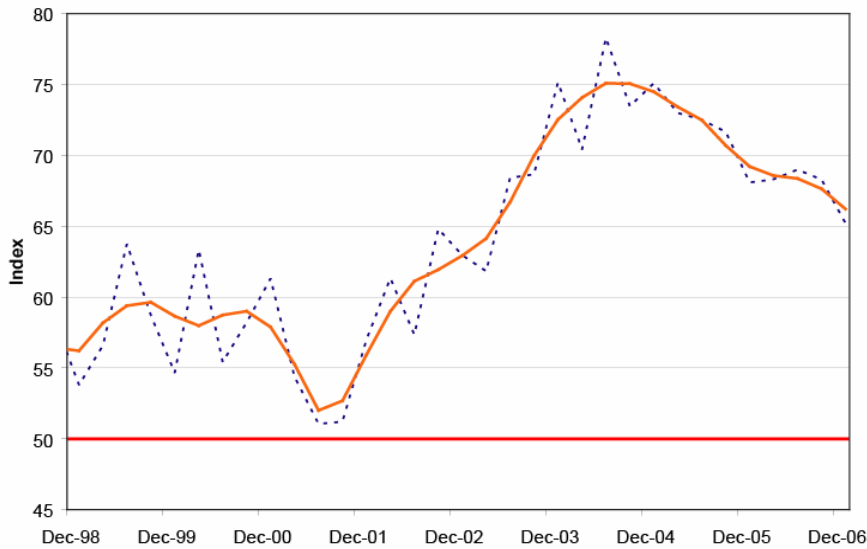
Nationally, input cost increases (labour, materials) remain a concern for builders. Fifty eight per cent of respondents expect input cost increases to accelerate over the next six months. Pressures related to finding skilled labour have moderated over the past 18 months, particularly in New South Wales and Victoria. However, it is apparent that acute skill shortages exist in several of the smaller states and difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and carpenters.

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.

CHART 1: CURRENT OWN BUSINESS ACTIVITY



As indicated in Chart 1, own business activity fell in the December quarter. Though well down from the peak in 2004, builders still perceive their current own business activity to be good.

Builders were most positive about their own business conditions in Western Australia, Queensland, the Northern Territory and the ACT, with index readings of 74.6, 71.2, 69.7 and 69.2 respectively.

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

CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS

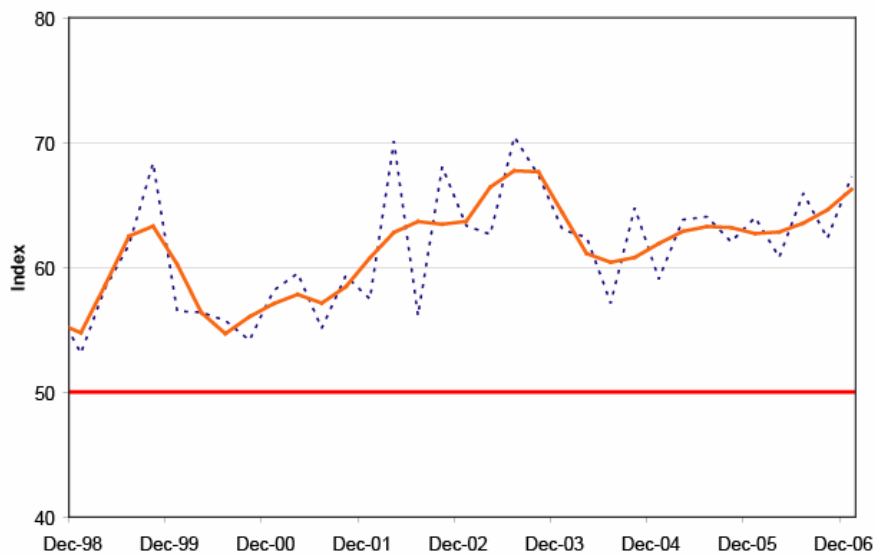
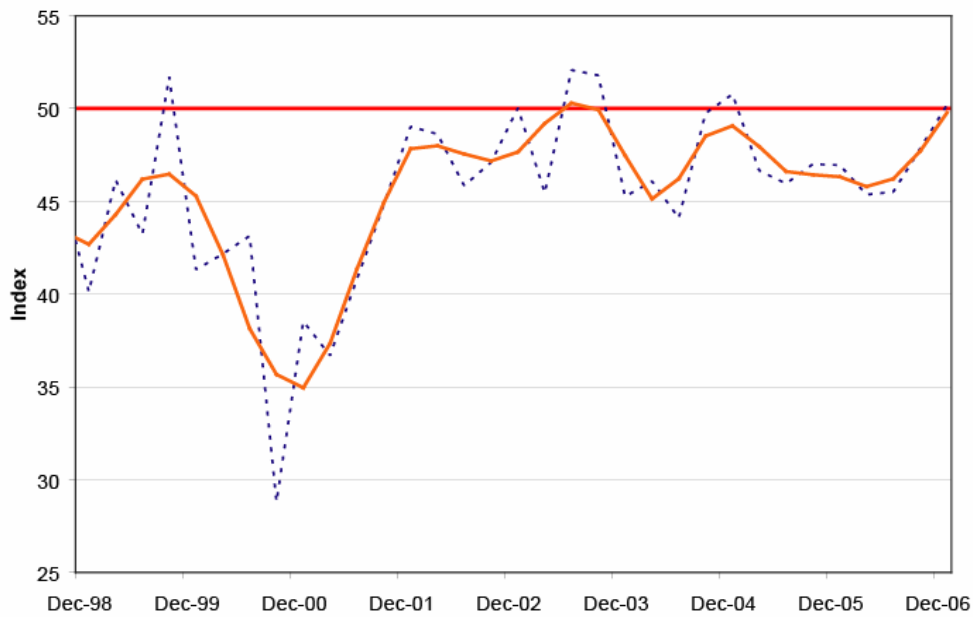


CHART 3: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



Intentions regarding own business investment in plant and equipment rose in the December quarter. Investment intentions have fluctuated between 44 and 52 over the past three years, following a sharp improvement from the trough of the 2000-01 downturn.

The index measuring builders' intentions regarding the likely the level of employees and subcontractors over the next six months, rose in the December quarter, indicating builders expect higher employment levels.

CHART 4: EMPLOYMENT INTENTIONS NEXT 6 MONTHS

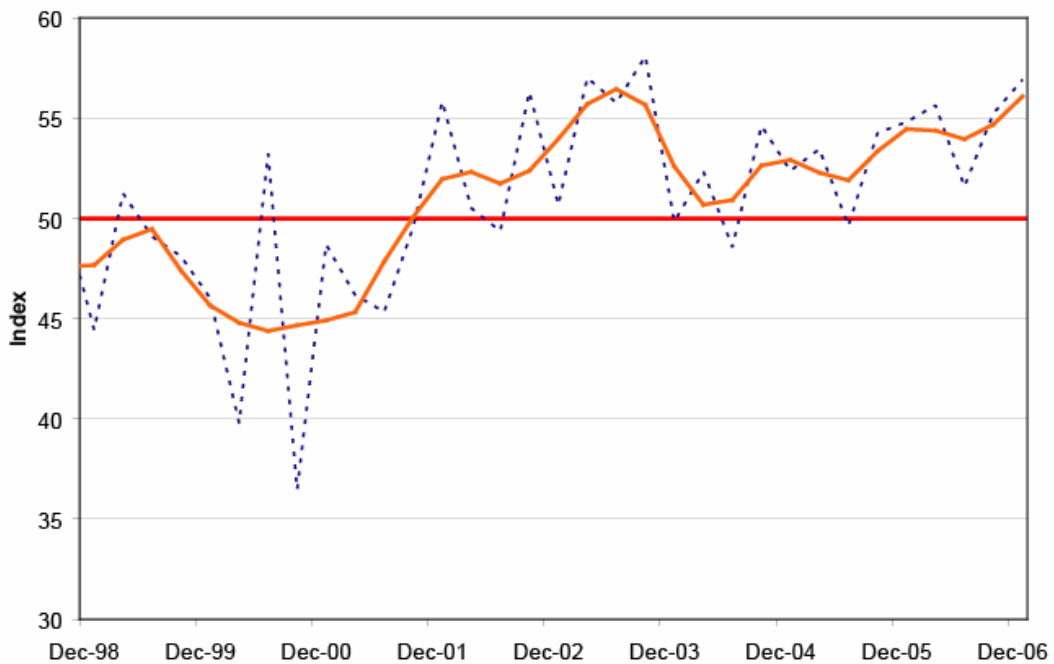
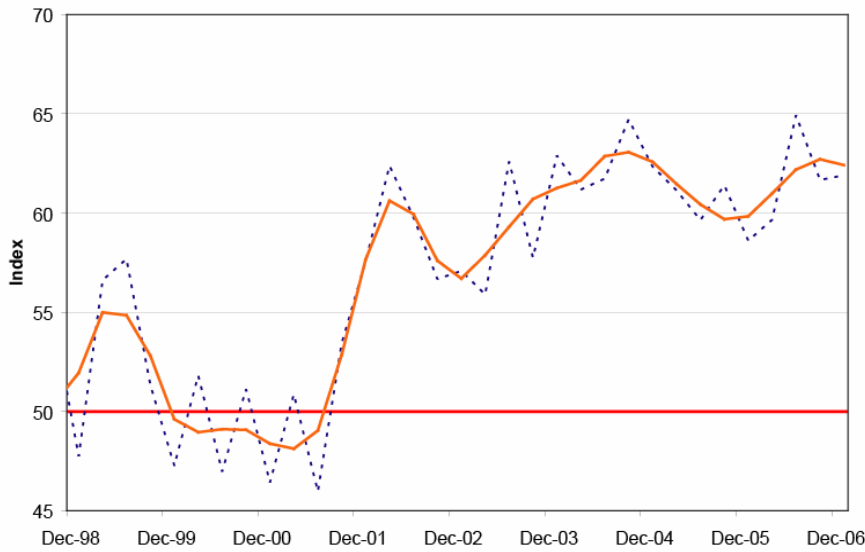


CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



The reading for current business profits fell in the December quarter to 59.1, compared with 63.6 in the previous quarter. The series remains strongly positive after recovering from a low of 46.2 in the 2000-01 construction downturn.

As Chart 5 shows, builders' perceptions about where their own profits are heading in the next six months edged marginally higher in the December quarter, to 61.9 compared with 61.7 in the previous quarter. Notwithstanding this, the index remains well above 50, indicating a good deal of optimism about business profits.

Expectations of building industry activity in the next six months, relative to the past six months, rose in the December quarter, despite the latest interest rate rise. The index is above 50, indicating that builders believe industry activity will be expanding over the next six months.

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

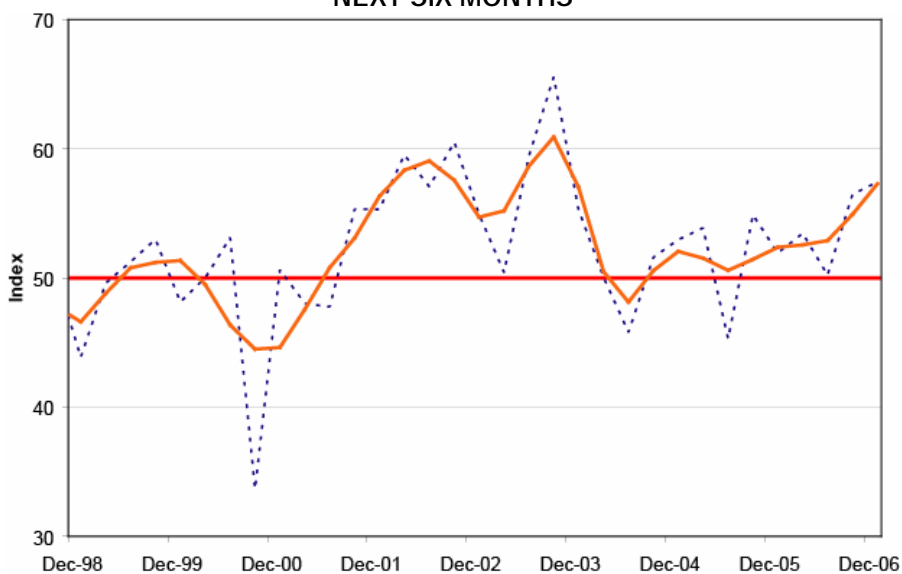
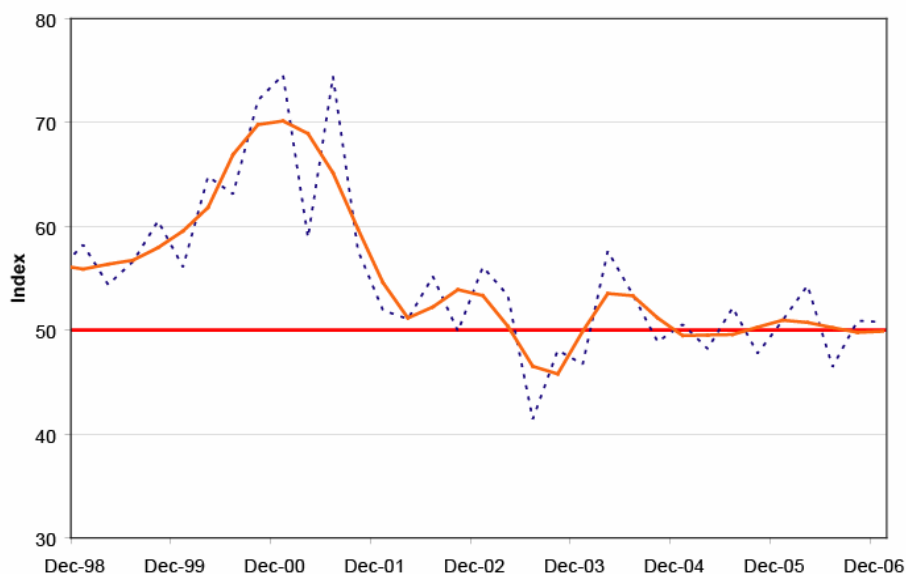


CHART 7: AVAILABLE CAPACITY



In the 2000-01 downturn spare capacity became available in the building and construction industry, but as activity began to grow strongly builders became increasingly concerned between June 2001 and June 2003 that capacity would be inadequate in relation to expected demand. Since this period, the trend in the index has generally tracked around 50, indicating that builders believe current capacity is adequate to meet expected demand.

Respondents were asked about available work on books.

Despite recent volatility, it is apparent that the work on books index has begun to trend down over the past year or so. The index has been quite erratic in recent quarters, with a rebound in the December quarter after a big fall in the previous quarter: the index for work on books increased to 68.4 in the December quarter from 59.6 in the September quarter (Table 1) following on from a 73.4 recorded in the June quarter.

In the December quarter, the percentage of respondents reporting 3 to 6 months or more than 6 months of work on the books increased to 70 per cent compared with 59 per cent in the previous quarter. Thirty per cent of respondents indicated that they had between 1 and 3 months or less than 1 month of work on the books compared with over 40 per cent in the previous quarter.

Table 1: Work on Books

	Mar 06	Jun 06	Sep 06	Dec 06
More than 6 months	43.2	45.9	31.9	41.5
3-6 months	20.8	33.5	27.1	29.0
1-3 months	27.6	15.5	28.9	22.8
Less than 1 month	8.4	5.1	12.1	6.7
INDEX	66.3	73.4	59.6	68.4

Table 2: Display Centre Traffic/Enquiries

	Mar 06	Jun 06	Sep 06	Dec 06
Much Higher	1.0	0.5	1.5	9.3
Somewhat Higher	26.0	6.2	11.3	20.7
About the Same	55.8	53.4	53.7	40.1
Somewhat Lower	13.4	34.6	24.9	26.5
Much Lower	3.8	5.3	8.5	3.4
INDEX	51.7	40.5	43.1	51.5

Respondents were asked about the level of display centre traffic/enquiries in the past three months compared with the previous three months.

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

In the December quarter, the index for display centre traffic/enquiries picked up again after weak results in the previous two quarters.

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

Table 3: Impact of Industrial Relations

	Dec 03	Dec 04	Dec 05	Dec 06
Critical	23.7	14.3	4.8	0.6
Large	19.7	21.0	17.4	4.8
Moderate	11.3	35.9	32.6	17.7
Slight	28.6	14.4	27.4	34.4
No Effect	16.7	14.3	17.9	42.5
INDEX	51.2	51.6	41.0	21.7

As can be seen from Table 3, over three quarters of respondents believe industrial relations were having only a slight or no effect on business activity in the December quarter.

The overall index of 21.7 was down sharply on the previous quarter and as the Table shows, builders believe that industrial relations as a constraint on activity, has fallen significantly over the past year. This is in line with ABS statistics on working days lost in the construction industry and appears to provide further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

Table 4: Availability of Labour, National

	Sep Quarter 2006	Dec Quarter 2006
Project Managers	51.1	67.2
Site Managers	52.5	63.2
Foremen/ Supervisors	53.0	63.4
Carpenters	43.9	43.2
Bricklayers	39.4	39.2
Electricians	26.7	38.2
Plaster Fixers	32.7	40.9
Tilers	40.1	45.2
Painters	25.9	33.8
Steel Fixers	31.6	38.7
Concretors	32.3	38.1
Scaffolders	24.4	30.6
Building Consultants	26.1	29.0
Office Staff	35.3	39.8
Labourers	30.1	28.7

At the national level, pressures related to finding skilled labour have moderated over the past 18 months, particularly on the eastern seaboard. However, it is apparent that acute skill shortages exist in several of the smaller states and difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and carpenters.

As Table 6 shows, builders in Western Australia (in particular), the Northern Territory and the ACT continue to experience major difficulties in finding labour across most skilled categories.

A high index reading indicates critical or large difficulty in finding employees or sub-contractors. A low index reading indicates builders are experiencing slight or no difficulty in finding subcontractors/employees.

Respondents were asked about the degree of difficulty in finding a range of subcontractors/employees.

Table 5: Availability of Labour, by Jurisdiction

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	NCL
Project Managers	M		M	M	M	L	M	L	M
Site Managers	M		M	M	M	M	L	M	M
Foremen/Supervisors	M		M	M	L	M	L	L	M
Carpenters			M	M	M			M	
Bricklayers					M			M	
Electricians									
Plaster fixers					M			M	
Tilers			M	M	L		M	M	
Painters									
Steel fixers				M				M	
Concretors					M				
Scaffolders								M	
Building Consultants					M		M		
Office Staff					M		M		
Labourers							M		

Large (L) or Moderate (M) difficulty in finding skilled workers
Blank suggests slight or no difficulty

Respondents were asked about input cost increases

Table 6: Input Costs Over the Next Six Months

Much Higher	2.8
Somewhat Higher	58.5
About the Same	37.4
Somewhat Lower	1.2
Much Lower	0.1
Index	65.7

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

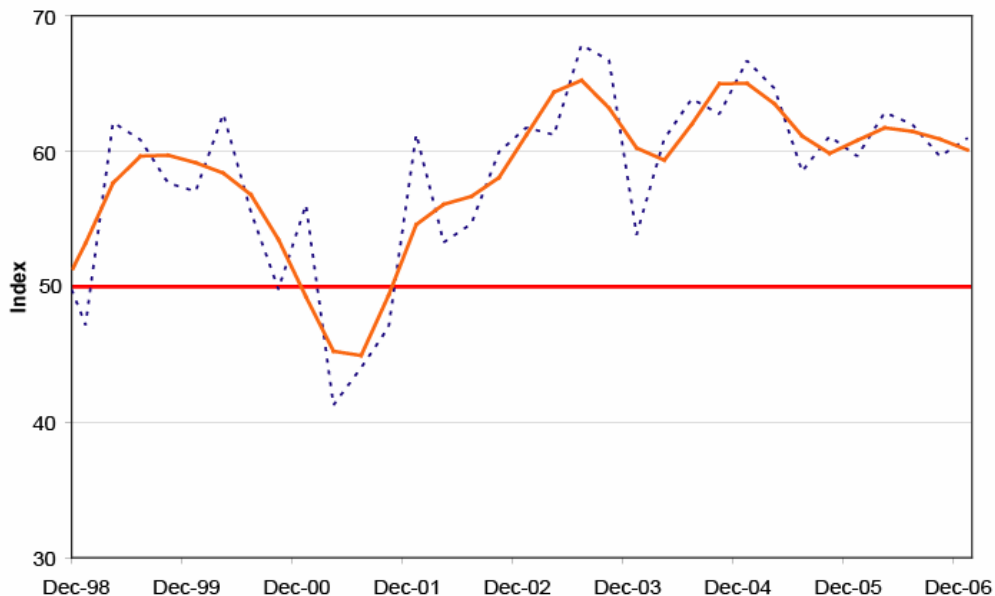
As Table 6 shows, over 60 per cent of respondents expect input costs to accelerate over the next six months, 37.4 per cent believe input costs will be about the same, and only 1.3 per cent of builders expect the rate of increase in input costs to slow.

The index reading of 65.7 in the December quarter is down on the 66.7 recorded in the previous quarter.

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.

CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



Perceptions of current general business conditions rose slightly in seasonally adjusted terms in the December quarter 2006, with the index increasing to 61.0 compared with 59.6 in the September quarter (Chart 8). The index is at a high level, indicating that respondents remain reasonably confident about the performance of the overall economy despite negative impacts of higher interest rates.

Expectations about where business conditions are headed rose in the December quarter 2006 (Chart 9). The index regarding the outlook for business conditions remains over 50 indicating that builders expect some improvement in the national economy over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS

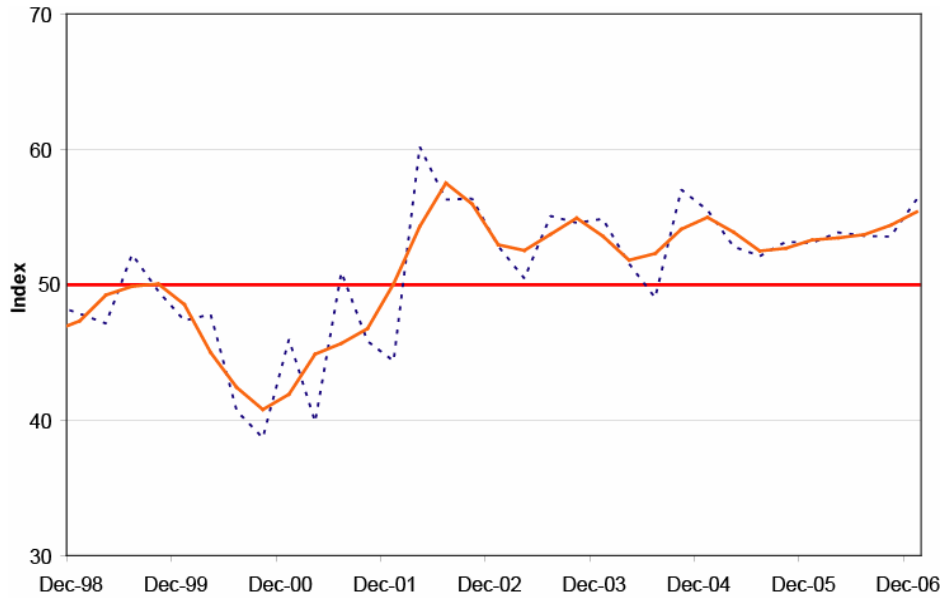
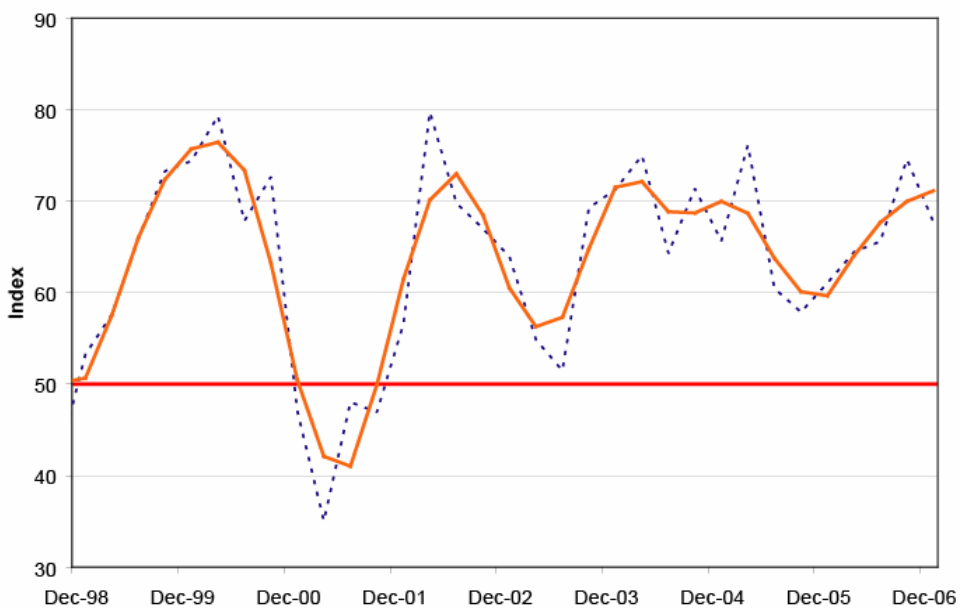


CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



Expectations for interest rates fell back in the December quarter 2006, after a spike up in the previous quarter. Looking forward, movement in the index can be expected to reflect speculation about further interest rate movements, either up or down.

RESIDENTIAL/NON-RESIDENTIAL CONDITIONS

Builders with significant operations in both residential and non-residential sectors were asked a series of supplementary questions. The questions asked were:

1. How would you describe current conditions in the residential sector?
2. Where do you believe activity is headed in the residential sector in the next six months?
3. How would you describe current conditions in the non-residential sector?
4. Where do you believe activity is headed in the non-residential sector in the next six months?

From builders' responses, it is apparent that there are marked differences between the two major sectors of the building and construction industry. The index for current conditions in residential building is close to the neutral 50 mark that indicates neither 'expansion nor contraction'. In contrast, current conditions in the non-residential sector are strong, as evidenced by the distance the index (66) is above the neutral 50 mark.

A similar story is found in relation to builders' perceptions on where activity is headed in the next six months, with deteriorating conditions expected for residential building contrasting with expansion in non-residential building.

State wide differences in current conditions and the outlook for the different sectors are shown in the following table.

Table 7: Residential/Non-Residential Current Conditions and Outlook

	1. Residential Current	2. Residential Future	3. Non-Residential Current	4. Non-Residential Future
NSW	45.0	48.8	54.8	55.0
VIC	57.5	48.9	59.5	48.8
Qld	63.2	45.0	65.7	60.0
SA	58.8	47.9	68.5	54.5
WA	69.2	37.9	72.5	55.9
Tas	47.1	32.4	73.4	56.3
NT	70.8	54.2	n.a.	n.a.
ACT	53.8	34.1	62.5	n.a.
Aust	53.3	44.5	66.0	59.4

Conditions in the residential building sector are very strong in Western Australia, Queensland and the Northern Territory. Whilst current conditions in the New South Wales residential building sector are weak, the index rose to 45.0 in the December quarter, an improvement on the 40.8 recorded in the previous quarter. Builders from most states, including Western Australia, were negative about where residential conditions are headed, with only the Northern Territory recording an index above 50.

In relation to current conditions in the non-residential sector, all states recorded index readings above 50, with builders in Western Australia, Tasmania and South Australia experiencing the strongest conditions. Apart from Victoria, builders are positive about where activity is headed in the non-residential sector over the coming six months.

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, 681 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 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:

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