



December Quarter 2007

BUILDER SURVEY REVEALS CONCERN OVER WORSENING SKILLS SHORTAGES AS ACTIVITY DIPS

SUMMARY

Master Builders' latest quarterly survey reveals builder concern over skilled labour shortages and rising input costs. After some moderation in the recent past associated with the housing slowdown, pressures related to finding skilled labour increased again in the December quarter.

Builders reported increasing difficulty in virtually all categories of sub-contractor/employee labour surveyed. Project managers, site managers and foremen/supervisors are in chronic shortage (see Table). In addition, builders are finding carpenters, bricklayers and tilers much more difficult to find and all categories have worsened over the past 12 months. Acute skill shortages exist in several of the smaller states.

Availability of Labour

	Dec Quarter 2006	Sep Quarter 2007	Dec Quarter 2007
Project Managers	67.2	63.9	66.1
Site Managers	63.2	62.8	66.0
Foremen/Supervisors	63.4	60.9	59.7
Carpenters	43.2	48.6	54.7
Bricklayers	39.2	43.3	52.3
Tilers	45.2	42.5	48.7
Office Staff	39.8	41.2	46.5
Steel Fixers	38.7	39.3	43.0
Concreters	38.1	40.6	42.7
Plaster Fixers	40.9	39.6	42.3
Electricians	38.2	35.6	41.2
Painters	33.8	33.8	38.1
Labourers	28.7	31.7	37.9
Scaffolders	30.6	35.2	37.8
Building Consultants	29.0	40.8	37.7

Note: Respondents are asked about the degree of difficulty in finding a range of subcontractors/employees. The higher the index, the more builders are experiencing large difficulty in finding employees or sub-contractors. A low index reading indicates slight or no difficulty in finding subcontractors/employees.

Input Costs over the Next Six Months

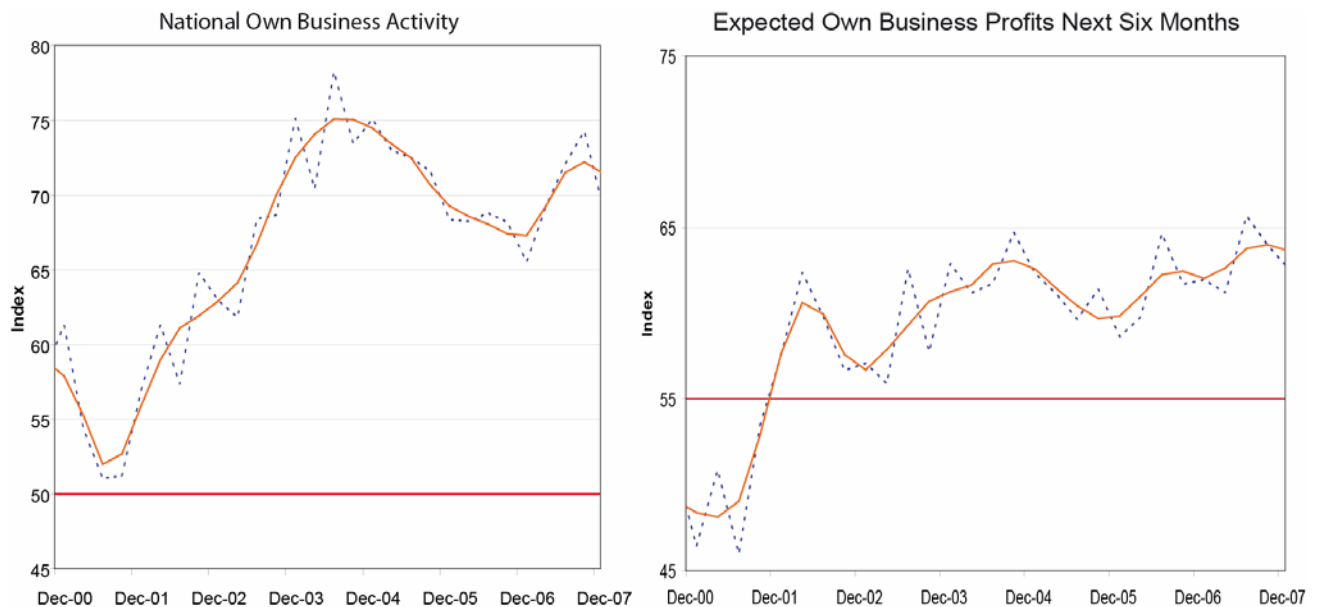
	Mar 07	Jun 07	Sep 07	Dec 07
Much Higher	0.7	3.4	2.5	6.9
Somewhat Higher	53.6	53.0	54.8	61.8
About the Same	38.0	41.3	40.5	27.9
Somewhat Lower	7.5	0.5	0.6	3.4
Much Lower	0.2	1.8	1.6	0.0
Index	61.8	64.0	64.0	67.2

Note: An index reading of 50 indicates a neutral result, that is, input cost increases are expected to remain unchanged. The higher the index moves above 50, the more builders expect prices to accelerate.

The December survey also reveals that builders expect input cost increases to accelerate over the next six months. In relation to inputs of labour and materials, respondents are asked whether they expect cost increases to move higher or lower over the next six months, compared to the past six months. As the Table above shows, the index has worsened over the course of calendar 2007.

Builders' perceptions about own business activity dipped in the December quarter (see Chart), as did other indicators of building activity including sales, profits, investment and employment.

Nonetheless, activity remains at a very healthy level, there is a large backlog of work yet to be done and forward indicators such as display centre traffic and enquiries remain solid.

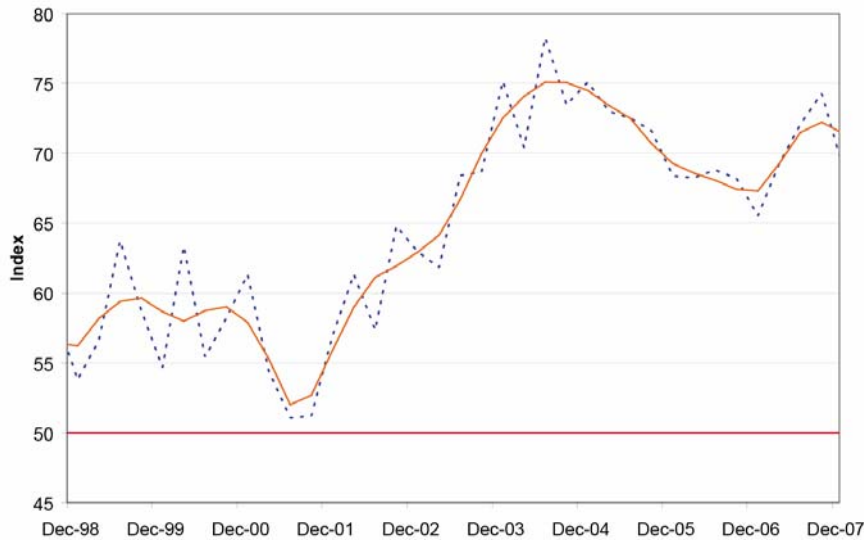


SURVEY RESULTS

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 back in the December quarter. Nonetheless, builders still perceive their current own business activity to be very good after the index picked up sharply in the first three quarters of 2007 following the moderate two year fall from the 2004 peak.

Builders were most positive about their own business conditions in South Australia and Queensland, with index readings of 75.2 and 74.8 respectively.

Own business expectations for the next six months fell marginally in the December quarter (Chart 2) but the index is on an up trend and well above the 50 level, indicating that builders expect own business activity to improve strongly over the next six months.

CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS

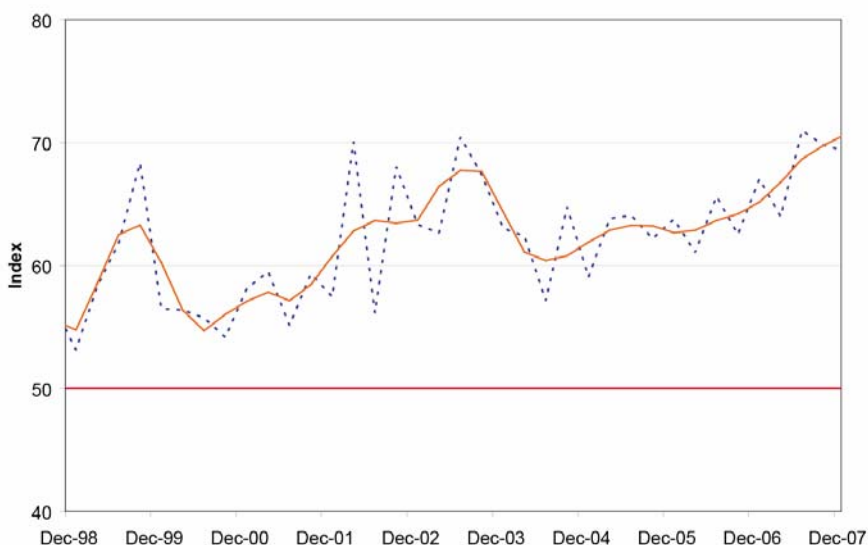
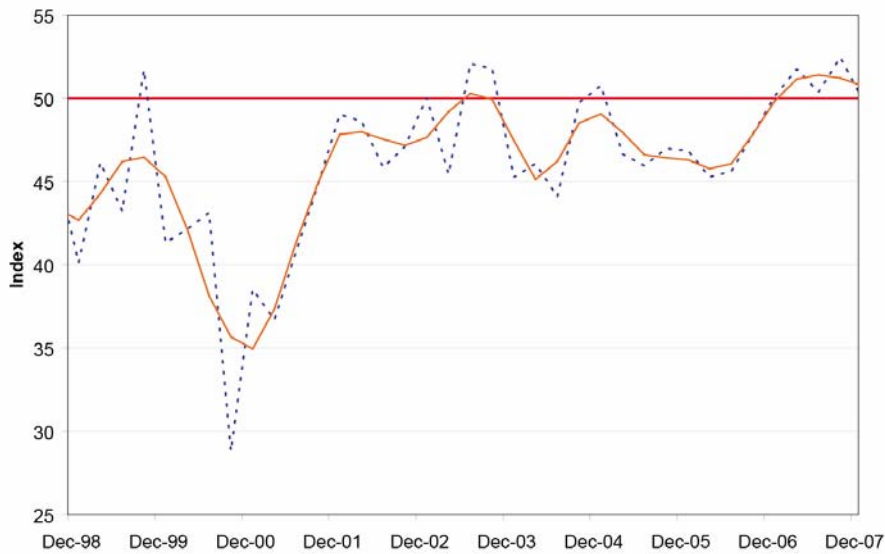


CHART 3: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



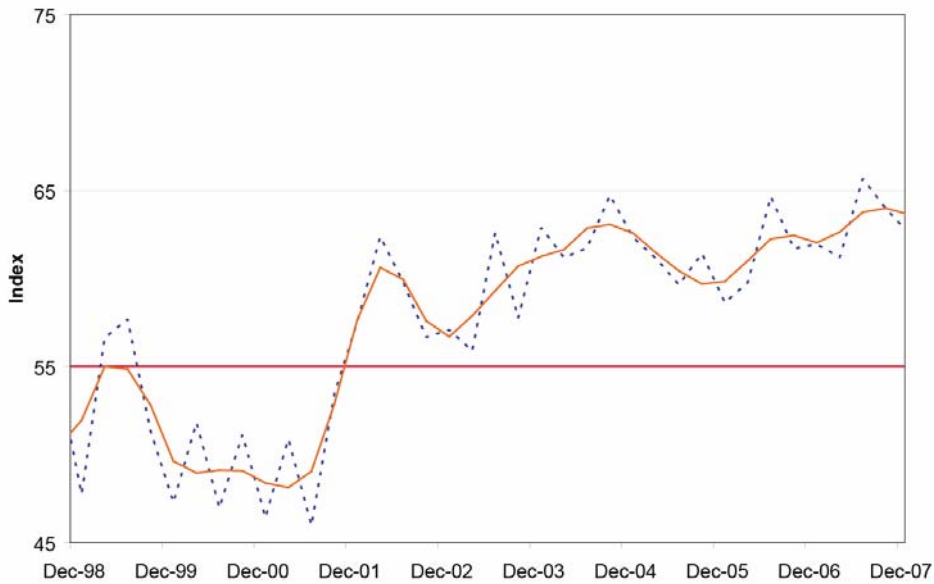
Intentions regarding own business investment in plant and equipment fell back in the December quarter although the index has remained above 50 since September quarter 2006. Investment intentions have fluctuated between 44 and 52 for a number of years, following a sharp improvement from depths reached in the 2000-01 downturn (see Chart 3).

The index measuring builders' intentions regarding the likely level of employees and subcontractors over the next six months, fell in the December quarter. However, the index remains well above 50, indicating that builders expect to put on more full time employees in the period ahead (Chart 4).

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 but the series remains strongly positive following recovery from the 2000-01 construction downturn.

As Chart 5 shows, builders' perceptions about where their own profits are heading in the next six months fell back again in the December quarter (to 62.6). Nonetheless, with the index well above 50, builders remain very optimistic about future business profits.

Expectations of building industry activity in the next six months, relative to the past six months, fell in the December quarter but the index remains well 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

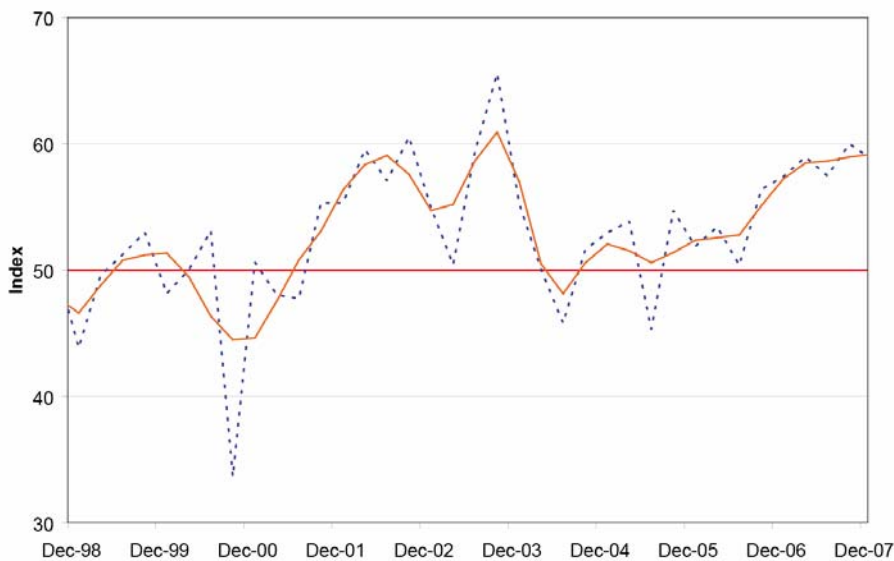
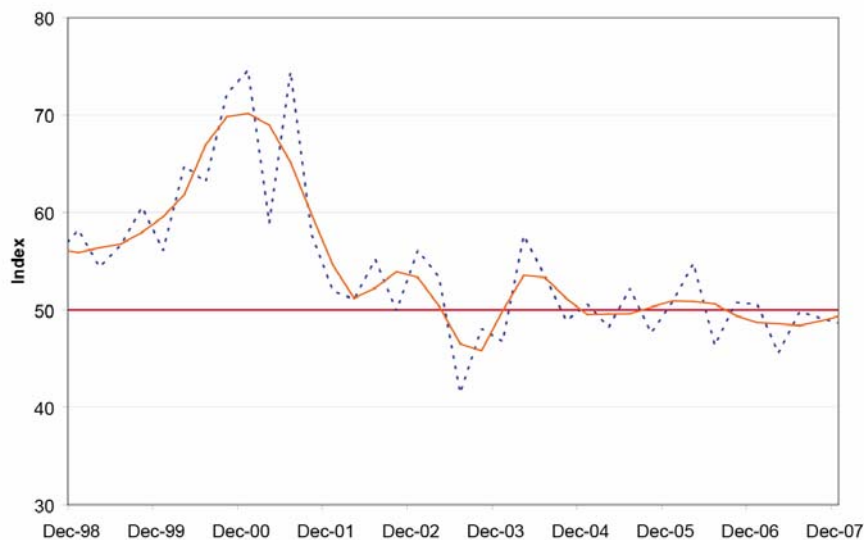


CHART 7: AVAILABLE CAPACITY



In the 2000-01 downturn, spare capacity became available in the building and construction industry. However, as activity began to grow strongly between June 2001 and June 2003 builders became increasingly concerned that capacity would be inadequate in relation to expected demand. Since this period, the trend in the index has tracked around 50, although during 2007 it has drifted downwards indicating that builders are once again becoming concerned that current capacity may be less than adequate in terms of meeting expected demand.

Respondents were asked about available work on books.

Builders have a healthy backlog of work, despite a fall in the index for the December quarter to 72.1 (Table 1). The index remains significantly above the level of the index in 2006.

In the December quarter, the percentage of respondents reporting 3 to 6 months or more than 6 months of work on the books was 76.7 per cent compared with 70.5 per cent in the December quarter of last year.

Table 1: Work on Books

	Dec 06	Sep 07	Dec 07
More than 6 months	41.5	54.6	45.4
3-6 months	29.0	19.4	31.3
1-3 months	22.8	20.2	17.7
Less than 1 month	6.7	5.8	5.6
INDEX	68.4	74.3	72.1

Table 2: Display Centre Traffic/Enquiries

December Quarter:	2004	2005	2006	2007
Much Higher	0.6	4.0	9.3	3.3
Somewhat Higher	6.1	15.1	20.7	22.7
About the Same	83.2	48.0	40.1	50.2
Somewhat Lower	7.4	29.2	26.5	19.2
Much Lower	2.6	3.7	3.4	4.6
INDEX	48.7	46.6	51.5	50.3

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 rose to 50.3 from 49.2 recorded in the September quarter and as the Table shows, has improved over the past two years.

Respondents were asked what the effect of industrial relations was in terms of a constraint on activity.

Table 3: Impact of Industrial Relations

December Quarter	2003	2004	2005	2006	2007
Critical	23.7	14.3	4.8	0.6	5.3
Large	19.7	21.0	17.4	4.8	8.4
Moderate	11.3	35.9	32.6	17.7	21.3
Slight	28.6	14.4	27.4	34.4	27.9
No Effect	16.7	14.3	17.9	42.5	37.1
INDEX	51.2	51.6	41.0	21.7	29.2

Builders believe that industrial relations as a constraint on activity has fallen significantly over recent years. The index was 29.2 in the December 2007 quarter, up on the corresponding quarter of the previous year but still at a very low level following the dramatic fall that has occurred over the past two and a half years. Two thirds of respondents now believe industrial relations are having only a slight or nil effect on business activity. This is in line with ABS statistics on working days lost in the construction industry and provides further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

Table 4: Availability of Labour, National

	Dec Quarter 2006	Sep Quarter 2007	Dec Quarter 2007
Project Managers	67.2	63.9	66.1
Site Managers	63.2	62.8	66.0
Foremen/Supervisors	63.4	60.9	59.7
Carpenters	43.2	48.6	54.7
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Labourers	28.7	31.7	37.9
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Building Consultants	29.0	40.8	37.7

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

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

At the national level, pressures related to finding skilled labour appear to be building again after moderating somewhat in 2005 and 2006 in line with the housing downturn, particularly on the eastern seaboard.

Large difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and, increasingly, carpenters and bricklayers. For all other categories surveyed, difficulties finding labour have worsened over the past year. Acute skill shortages exist in several of the smaller states.

Respondents were asked about input cost increases.

Table 5: Input Costs over the Next Six Months

	Mar 2007	Jun 2007	Sep 2007	Dec 2007
Much Higher	0.7	3.4	2.5	6.9
Somewhat Higher	53.6	53.0	54.8	61.8
About the Same	38.0	41.3	40.5	27.9
Somewhat Lower	7.5	0.5	0.6	3.4
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Index	61.8	64.0	64.0	67.2

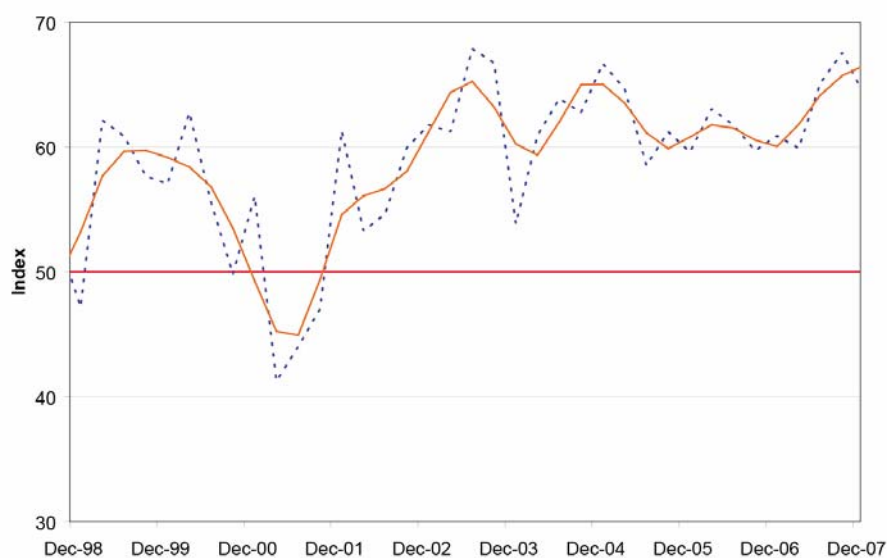
In order to gather information on input costs, respondents were asked whether they expected input cost increases (labour, materials) to be higher or lower over the next six months, compared to the past six months.

As Table 5 shows, the index rose in the December quarter, with builders indicating that they expect input cost increases to move higher over the next six months. The index has worsened over the course of calendar 2007.

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.

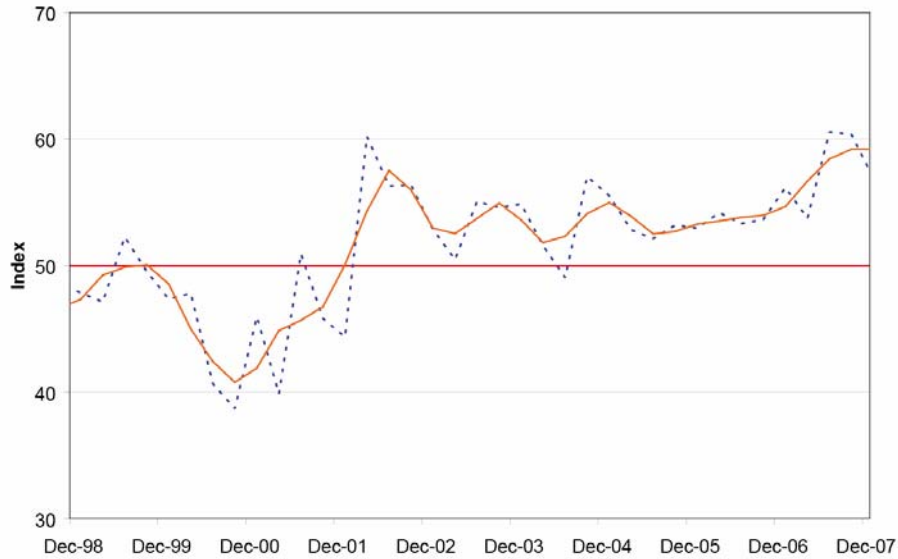
CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



The index is at a high level, indicating that respondents remain confident about the performance of the overall economy despite higher interest rates. Perceptions of current general business conditions fell in seasonally adjusted terms in December quarter 2007, with the index at 64.2 compared with 67.5 in the September quarter (Chart 8).

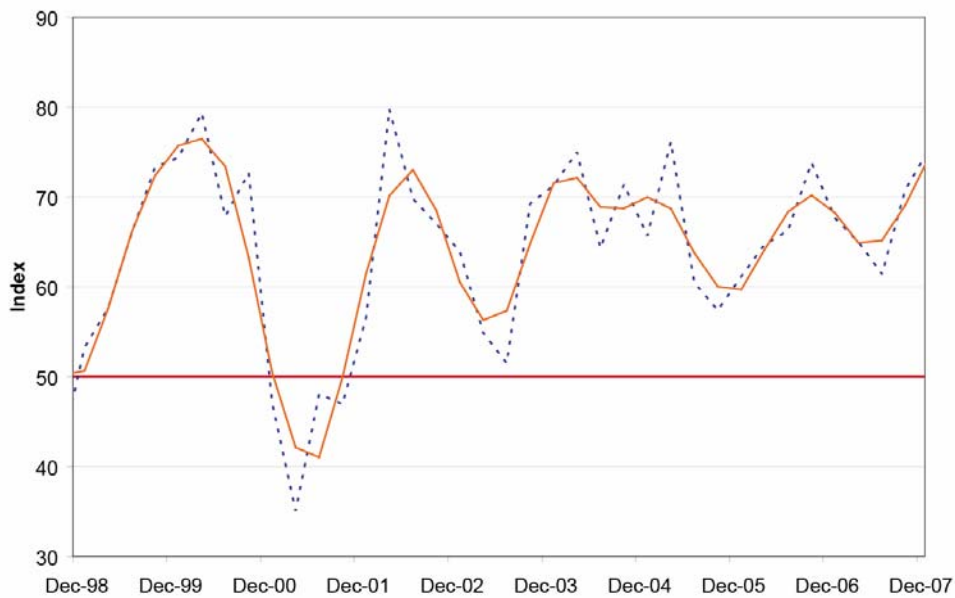
Expectations about where business conditions are headed fell in the December quarter 2007 (Chart 9) but with the index well above 50 builders remain positive about where the national economy is headed over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS



Expectations for interest rates rose in the December quarter in the wake of rate hikes announced by the Reserve Bank in August and November. Builders expect interest rates to rise moderately over the next 12 months.

CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



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:

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

In the non-residential sector current conditions remained very strong in the December quarter with expectations about future activity also remaining strong, despite a small fall in the December quarter. Current conditions in the residential sector appear to be improving, although nearly a quarter of respondents still describe them as poor or very poor. Confirming results of previous surveys, builders now expect residential activity to improve over the next six months, a turnaround from views expressed this time last year.

Table 6: Where do you believe activity is headed in the residential sector in the next six months?

	Dec Quarter 2006	Sep Quarter 2007	Dec Quarter 2007
Improving rapidly	1.0	1.8	0.8
Improving slowly	16.3	41.1	39.6
No change	43.3	40.2	36.5
Deteriorating slowly	38.4	16.1	20.8
Deteriorating rapidly	1.0	0.7	2.3
Index	44.5	56.8	53.9

OTHER QUESTIONS

Builders were asked the following questions:

How concerned are you about housing affordability? Over the next 12 months, do you expect housing affordability to improve or worsen? What effect is availability of land/labour/finance/infrastructure charges/development, planning approval process having on your business?

How concerned are you about planning/development approval delays?

The results show builders have concerns about housing affordability, with 38 per cent of respondents expressing a large or major concern and 66 per cent believing that housing affordability will deteriorate over the next 12 months.

Table 7: Ranking of Constraints

Ranking	Moderate, large or major effect on business	
	September 2007	December 2007
1. Development/planning approval process	65.2	58.1
2. Availability of labour	51.9	52.0
3. Infrastructure charges and levies	50.1	48.6
4. Availability of land	42.0	38.0
5. Availability of finance	27.0	24.7

Builders were most concerned about the development/planning approval process, with 58 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Builders were also concerned about delays in the planning/development approval process, with nearly three quarters of respondents indicating a moderate to major level of concern.

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 2007, 854 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:

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