



MASTER BUILDERS AUSTRALIA

national survey of building and construction

December Quarter 2008

Each quarter Master Builders in all states and territories are asked to complete an online survey canvassing their views on the national economy and conditions within their own enterprises

COLLAPSE IN BUILDER SENTIMENT

Building and construction outlook worsens...

Master Builders' latest quarterly survey shows expectations for building industry activity continued to plummet in the December quarter of 2008. The index has fallen to 30, well below the neutral 50 mark, indicating that builders believe industry activity will deteriorate over the next six months (see chart). The survey revealed softer own business activity during the quarter and a further sharp fall in expectations for own business activity, profits and investment. Employment intentions continued to fall away sharply with builders now intending to cut employees and subcontractors in the period ahead.

...in wake of global financial crisis

Builders were asked a series of special questions on the global financial crisis in the December quarter survey. The results show that over 80 per cent expect to see a reduction in their own business activity over the next 12 months as a result of the global financial crisis. Around half of these respondents believe that activity will fall by between 0 and 20 per cent as a result of the global financial crisis, with half expecting activity to fall by more than 20 per cent. Similarly, around half believe staffing/sub-contract numbers will fall by between 0 and 10 per cent, with half expecting activity to fall by more than 10 per cent.

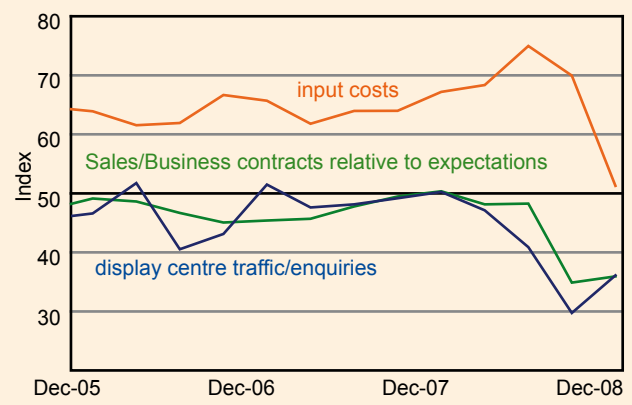
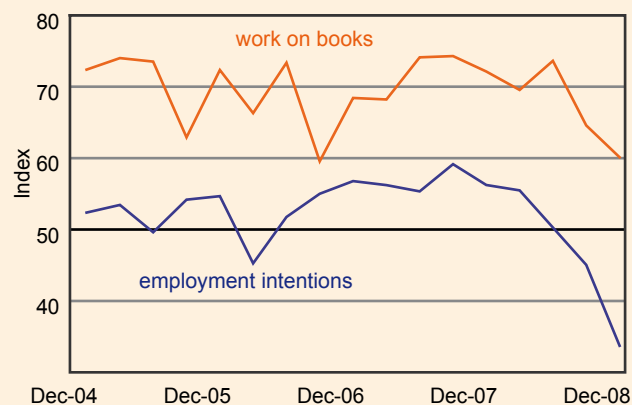
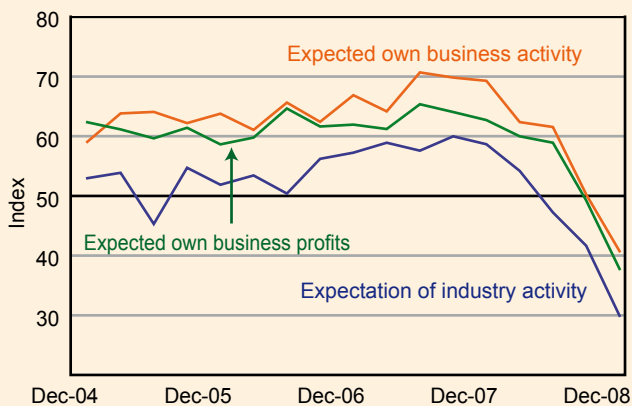
Aggressive policy response...

Builders were surveyed after the Reserve Bank slashed official interest rates by 2 percentage points in the three months to November, and following the Government's announcement of a \$1.5 billion first home owner grant 'boost' scheme as part of the Government's economic security stimulus package.

...light at end of tunnel?

Encouragingly, the December quarter survey provides some evidence that the aggressive policy response may be beginning to achieve the desired result. Although key forward indicators remain in the doldrums, the latest results for sales and display centre traffic/enquiries and sales/business contracts do reveal signs of a turnaround (see chart).

Nonetheless, it is likely to take time for a pick up in display centre traffic/enquiries, if sustained, to generate additional sales contracts and therefore lead to improved building activity. Timing is critical—although work on builders' books appears to be holding up, the pipeline beyond six months is beginning to dry up.



Outlook for the building industry turns sour...

The downturn in expectations for building industry activity continued unabated in the December quarter. The index has now fallen to 30, well below the neutral 50 mark, indicating that builders believe industry activity will deteriorate over the next six months.

...softer business conditions...

Builders' own business activity fell again in the December quarter and at 52.2, the index is at its lowest level since 2001. Despite this, the index remains slightly above 50 indicating that builders still perceive their current, own business activity to be satisfactory.

Builders were most positive about their own business conditions in South Australia and Tasmania in the December quarter, with falls in all states and territories during the quarter except South Australia and Victoria.

...poor sentiment...

Expectations for own business activity over the next six months fell sharply again in the December quarter, reinforcing the strong down trend that has developed. At 40.7, the index has fallen below the neutral 50 mark, with builders for the first time in the series' 11 year history now expecting own business activity to deteriorate over the next six months.

...profit downgrades...

The reading for current own business profits remained at the neutral or 'satisfactory' 50 mark in the December quarter after previous declines from healthy levels of the past few years.

Builders have become pessimistic about where their own profits are heading, with the index falling back markedly again in the December quarter. At 37.8, the index has fallen well below the 50 mark, indicating that builders expect business profits to deteriorate over the next six months.

...cuts to investment and employment plans...

Intentions regarding own business investment in plant and equipment fell sharply in the December quarter. The index is now at its weakest level since the 2000/01 downturn.

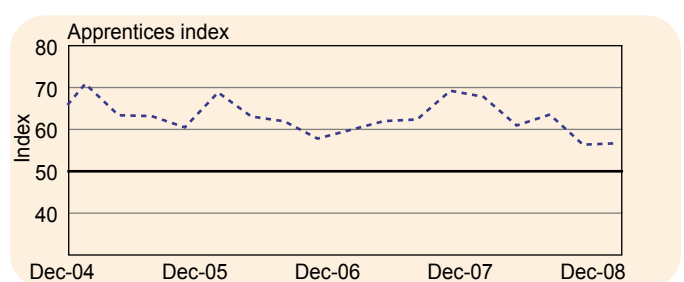
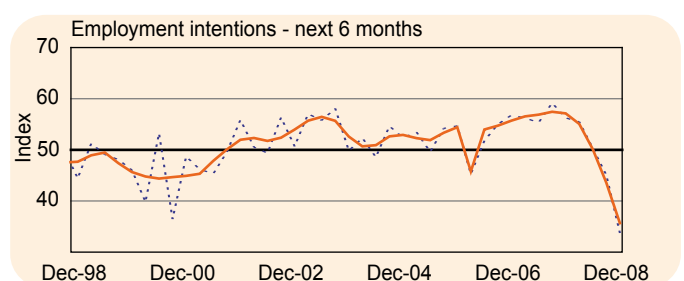
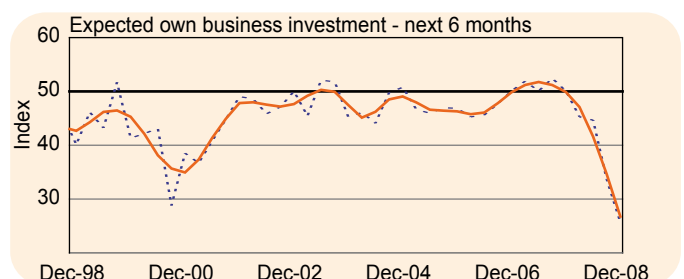
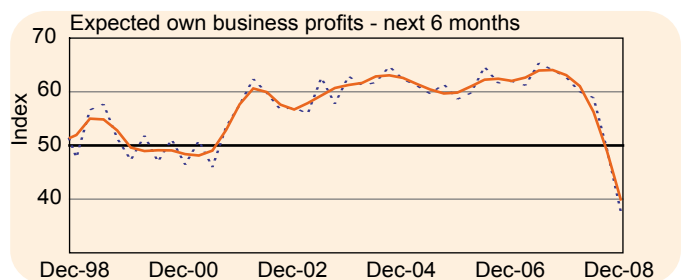
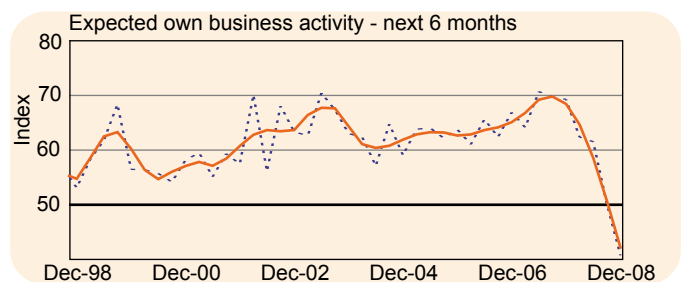
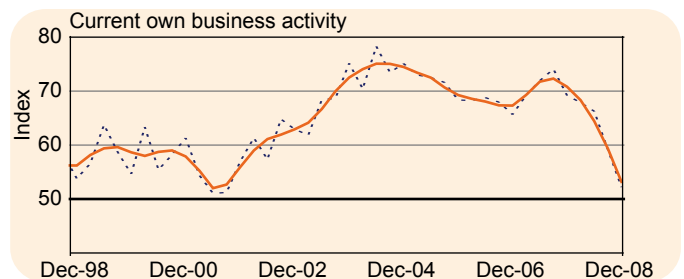
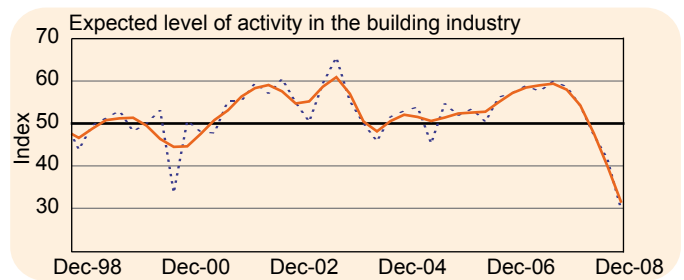
At 33.7, the index measuring intentions regarding the likely level of employees and subcontractors for the next six months is now well below the neutral 50 mark, indicating that builders intend to reduce their workforce in the period ahead.

...apprentices at risk

The proportion of builders expecting to release apprentices over the next six months has increased over the past year or so as conditions have deteriorated. Although over two thirds of respondents are not looking to change their level of apprentices, the situation needs close monitoring in the wake of softer business conditions, profit downgrades and cuts to investment plans.

Backlog of work begins to thin...

Builders continue to have a reasonably solid backlog of work, although the index is down on a year ago. The percentage of respondents reporting more than six months of work on the books was 30.8 in the December quarter, down on the 37.8 recorded in the previous quarter and 44.5 per cent a year ago.



Pick up in display centre traffic/enquiries...

An important leading indicator of activity is display centre traffic/enquiries.

After falling below the neutral 50 mark through the course of 2008, the index showed signs of a turnaround in the December quarter. Nearly 20 per cent of respondents said that, compared to the previous three months, display centre traffic/enquiries had been 'somewhat higher' in the December quarter, up from only 4.3 per cent in the September quarter.

...needs to be sustained

Hopefully this result is a sign that an aggressive policy response of lower interest rates and a tripling of the first home owner grant for new homes is beginning to bear fruit. Nonetheless, it is likely to take time for a (sustained) pick up in display centre traffic/enquiries to generate additional sales contracts and therefore lead to improved building activity.

Cost pressures ease...

The other 'silver lining' in what is otherwise a pretty grim picture, is that input cost increases (labour, materials) are beginning to come down (see chart) as capacity constraints begin to ease. Respondents are asked whether they expect input cost increases to be higher or lower over the next six months, compared to the past six months.

In a significant change from previous surveys which highlighted accelerating input costs, builders now expect cost escalation to remain essentially unchanged over the next six months compared to the past six months.

Non-residential—vulnerable...

Builders with significant operations in both residential and non-residential sectors are asked a series of questions relating to the respective sectors. In the non-residential sector, builders reported current conditions as falling back again in the December quarter and at 35.1, the index measuring expectations about future activity continued to slide below the 50 mark.

...residential—down but not out

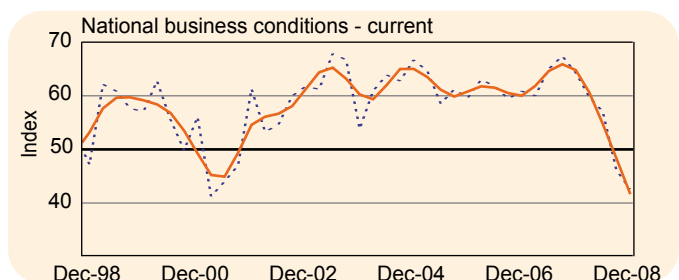
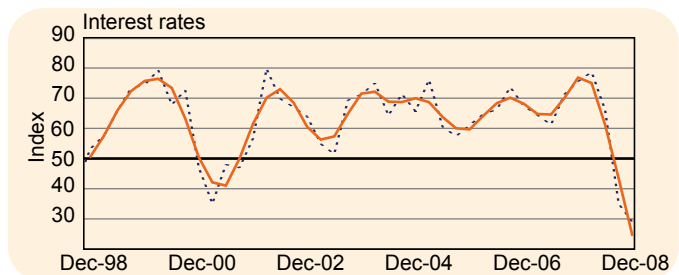
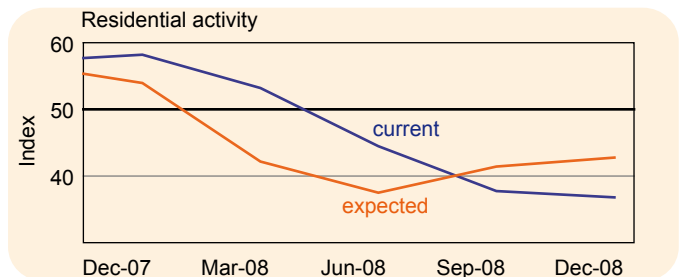
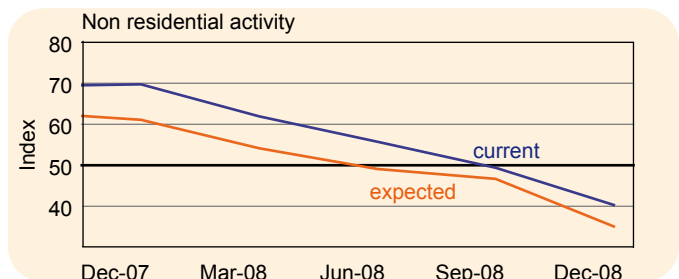
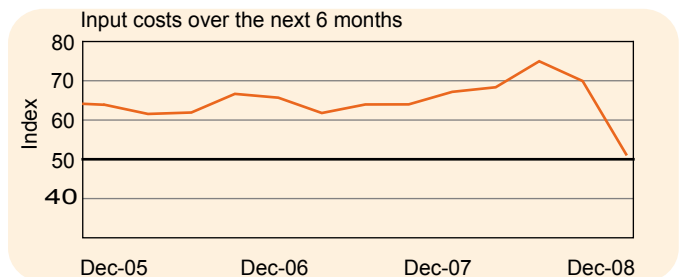
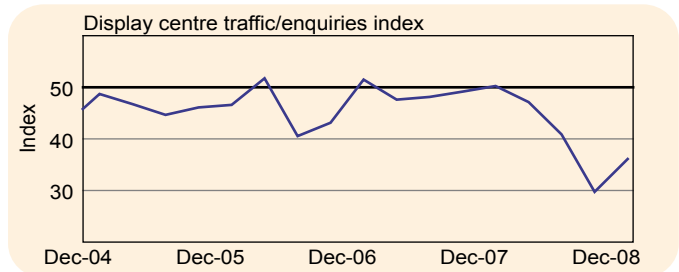
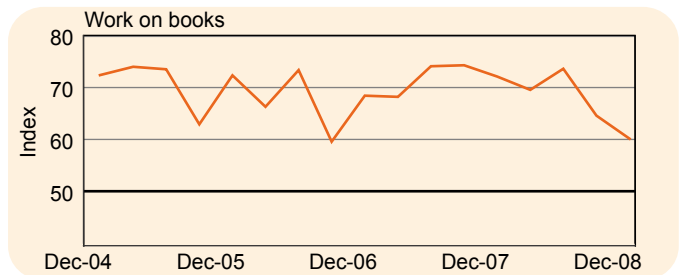
For the residential sector, the index for current conditions remained weak (36.8), but some comfort can be taken from the fact that the index was virtually unchanged from the previous quarter. And builders' perceptions in regard to where residential activity is headed improved slightly in the December quarter.

Although the index—at 42.8—indicates that builders believe residential activity will deteriorate over the next six months, there was a pick up in the proportion of respondents expecting improved conditions, suggesting recent fiscal and monetary policy stimulus may be starting to impact.

...financial constraints...

Builders expect interest rates to fall (see chart), although concerns about the credit squeeze and borrowing costs mean builders have become increasingly concerned about the availability of finance as a constraint on their business.

From virtually no effect in the middle of last year, the latest survey reveals more than half of respondents were concerned that availability of finance was having a moderate to large constraining effect on their businesses.



Pessimism on the overall economy

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. Perceptions of national business conditions have fallen away dramatically over the past year, with the index at 42.6 in the December quarter compared to 64.3 a year ago. Expectations about where national business conditions are heading in the next six months have also plummeted, with the index at 31.4, the weakest level recorded (including the 2000/01 downturn) since the series began in 1997.

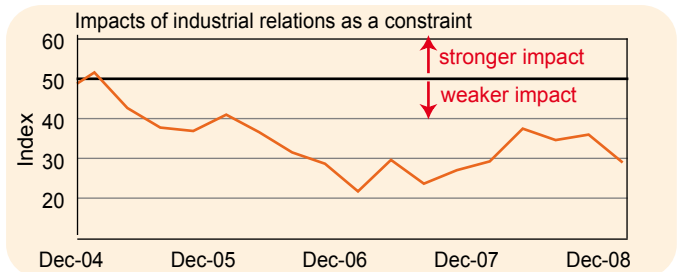
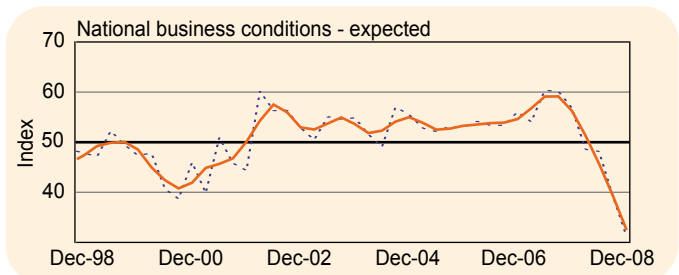
IR constraint eases...

Respondents are also asked to indicate the degree to which they perceive industrial relations is acting as a constraint on their business. A dramatic fall in the index occurred in 2005 and 2006 associated with the introduction of the BCII Act and establishment of the ABCC. The index began to rise in the first three quarters of 2008 as industrial relations became more of an issue for builders once again, although the index eased back in the December quarter (see chart).

Some easing of skill shortages...

Respondents are 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 continued to ease in the December quarter, in line with weaker building activity. Over the past year, difficulties finding labour have eased significantly for all categories surveyed. Nonetheless, some difficulties remain in attracting certain categories of labour, for example, project managers and site managers with acute shortages in a number of the smaller states.



National availability of labour

	Dec 2007	Sep 2008	Dec 2008
Project Managers	66.1	53.5	40.3
Site Managers	66.0	53.4	40.2
Foremen/Supervisors	59.7	46.4	36.1
Carpenters	54.7	39.1	26.8
Bricklayers	52.3	36.1	25.4
Tilers - floor and wall		36.4	28.2
Plaster Fixers	42.3	33.1	23.0
Office Staff	46.5	33.0	22.8
Tilers - roof		32.0	19.5
Electricians	41.2	31.3	18.8
Steel Fixers	43.0	30.5	23.3
Concreters	42.7	29.9	19.6
Building Consultants	37.7	29.0	18.2
Painters	38.1	28.6	17.7
Labourers	37.9	26.1	15.9
Scaffolders	37.8	26.4	16.4

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.

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 2008, 739 responses were received from builders involved in all sectors of the building and construction industry: residential, renovations, commercial building, engineering construction, subcontracting 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 also release 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:

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

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