

## December Quarter 2009

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

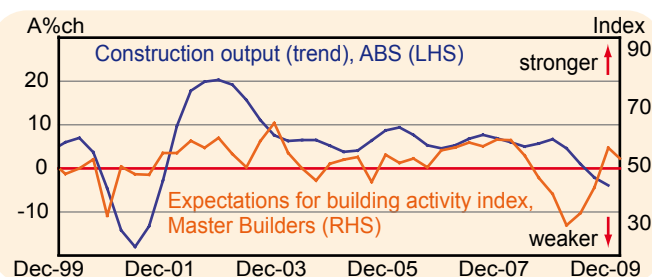
## STIMULUS CUSHIONS DOWNTURN

Master Builders latest quarterly survey suggests the building and construction industry continues to perform better than expected. Builders' own current activity levels and expectations for building industry activity both fell back in the December quarter and remain below long run averages. However, the positive is the decline has not eroded gains from the bounce-back experienced over the past nine months following the global financial crisis.

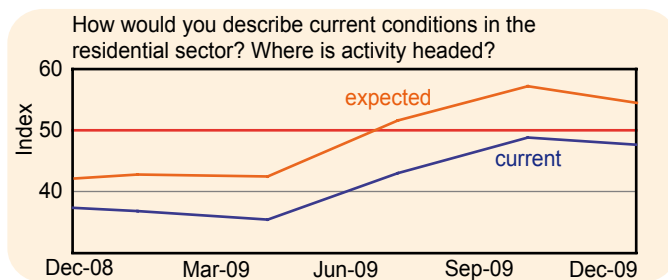
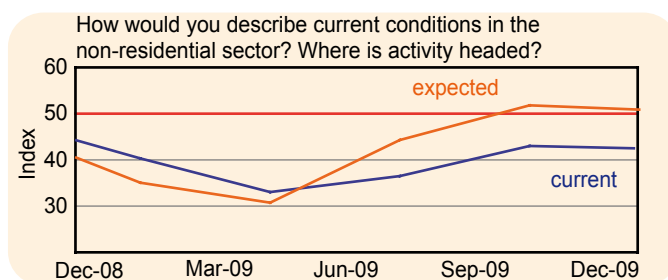
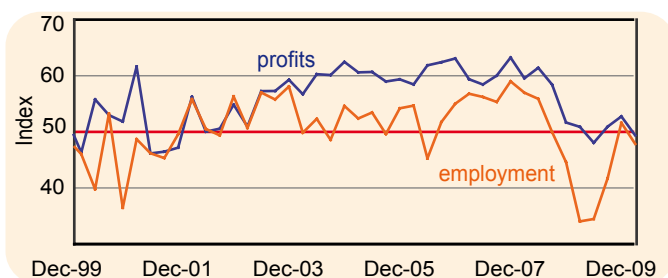
### ...builders still hamstrung by finance constraints

Whether the rebound in builder confidence from the depths of pessimism experienced at the height of the global financial crisis actually translates into improved business conditions remains to be seen. The industry has certainly stabilised after threatening to nose-dive early in 2009. Nonetheless, although pockets of the industry are doing well, particularly those exposed to government stimulus spending, most other sectors are still 'doing it tough':

- Builders' actual (own) conditions dipped in the December quarter. After a wild ride over the past 12 months, the index is beginning to stabilise albeit at a level well below the norm.
- Profitability also fell back in the December quarter and the index slipped into negative territory again. On a more positive note, builders see profits improving (slightly) over the next six months.
- Jobs may not be cut to the extent previously thought. In the latest survey, builders are now indicating that their workforce will remain stable or decline fractionally in the period ahead.
- Sales and forward orders are still falling and there is spare capacity in the industry. There is also little difficulty finding labour, although the easing in skill shortages may have troughed.
- Non-residential building is struggling overall, and builders do not expect much to change in the period ahead. Residential builders are still expecting to see some improvement, but are becoming less upbeat about prospects.
- Financial constraints associated with the credit squeeze and higher borrowing costs remain an ongoing concern, and builders expect interest rates to rise significantly over the next 12 months.

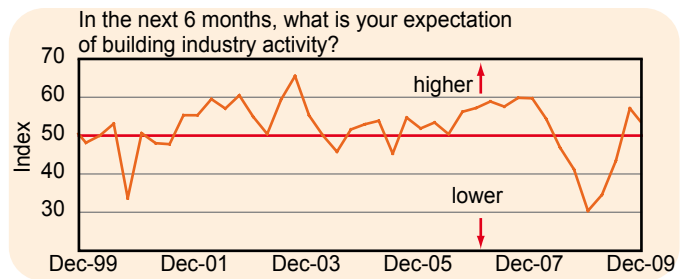


Source: ABS, Master Builders Australia National Survey



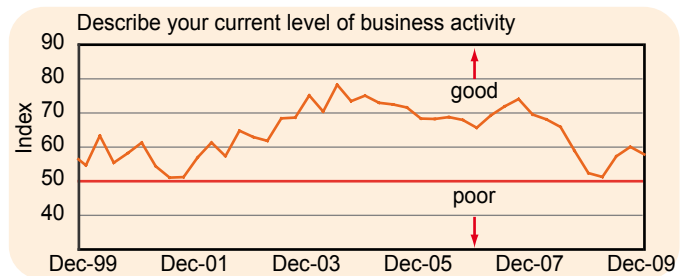
### Expectations for building industry fall back...

Expectations for building industry activity fell back in the December quarter. As the chart shows, there have been wild gyrations in the index over the past 18 months. At 52.6, the index is close to the neutral 50 mark, indicating that builders believe industry activity will be much the same over the next six months relative to the past six months.



### ...dip in own business conditions...

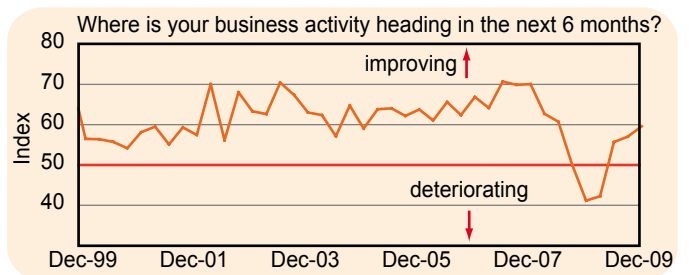
Builders' current level of own business activity fell in the December quarter. The index declined to 57.9, down from 60.1 recorded in the previous quarter. The index has recovered substantially from weak recordings in late 2008/early 2009, though it remains well below levels achieved in 2007 when building conditions were strong.



Builders were most positive about own business conditions in the ACT, Victoria and South Australia.

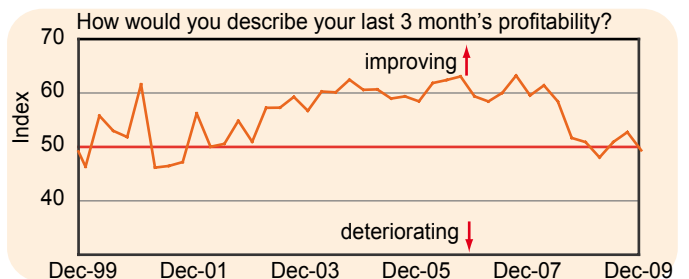
### ...recovery in own business outlook continues

Builders expect their own business activity to improve over the next six months. The index rose slightly in the December quarter, the fourth consecutive improvement after extremely poor results in the December 2008 and March 2009 quarters. At 59.6, the index has moved from 9 below the neutral 50 mark to 9 above, reflecting extreme uncertainty in the wake of the global financial crisis.



### Profits weaken before expected improvement...

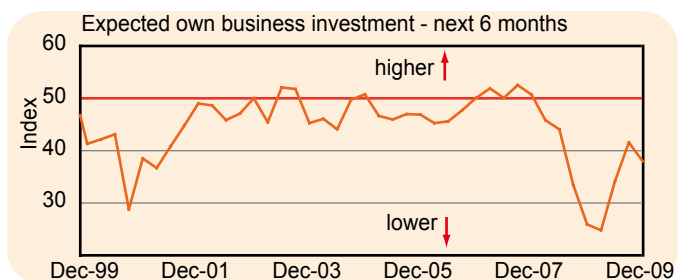
The reading for own business profitability fell in the December quarter and has slipped back into negative territory. At slightly below the 'satisfactory' level, the index is well down on 'good' levels of profitability achieved prior to the global financial crisis.



Builders see profits improving slightly over the next six months, the second consecutive quarterly improvement after a string of poor results.

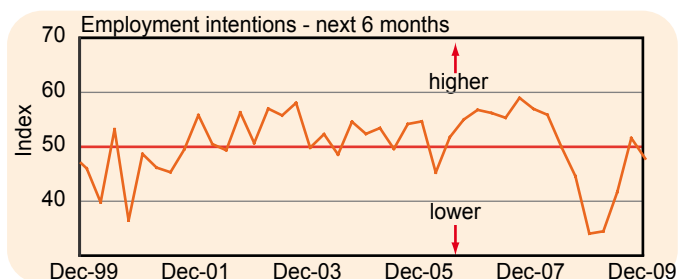
### Builders to cut investment...

Builders' intentions regarding investment in plant and equipment in the next 6 months (compared with the previous 6 months), remained firmly in the 'lower' category in the December quarter. The index fell to 38.0 from 41.6 in the previous quarter and remains well below the neutral 50 mark.



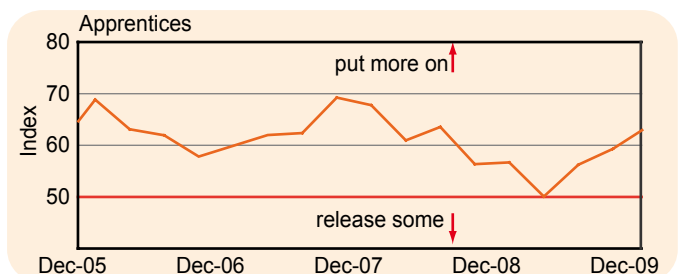
### ...workforce on hold...

Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months relative to now. In the December quarter, the index fell back to 47.8, down from the previous quarter (51.6) and now slightly below the neutral 50 mark, indicating that builders think their workforce will remain stable, or perhaps decline fractionally, in the period ahead.



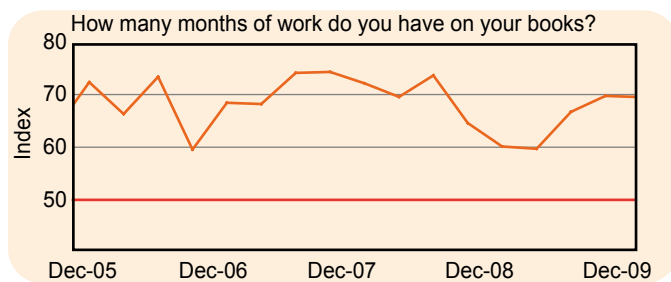
### ... apprentices not in the firing line

Although nearly 70 per cent of respondents are not looking to change their apprentice levels, the proportion of builders saying they will put on more has recovered since the beginning of the year, though not back to levels seen two years ago.



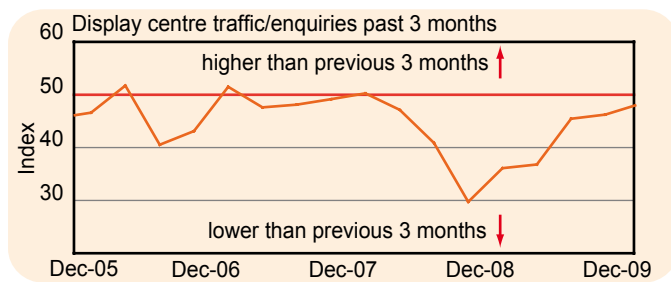
### Backlog of work still holding...

Builders' backlog of work has strengthened over the past six months after falling back in the wake of the uncertainty surrounding the global financial crisis. The index is now close to where it was prior to the global financial crisis with the percentage of respondents reporting more than six months of work on the books stronger than a year ago.



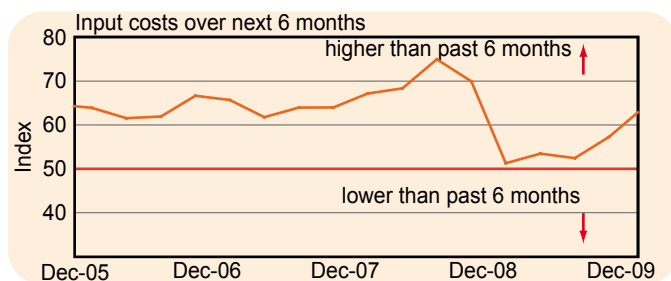
### Display centre traffic/enquiries...

There was little change in the index for display centre traffic/enquiries in the December quarter. Indications are that the pace of decline in display centre traffic/enquiries may be abating. The index, at 47.8 is a little below the neutral, 'no change' 50 mark indicating traffic/enquiries are still falling, despite a gradual improvement in the index over the past 12 months.



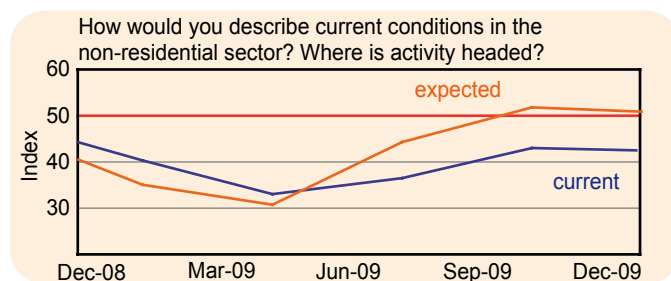
### Cost pressures rising again...

After cooling rapidly in the previous four quarters, cost pressures are beginning to re-surface. The index rose to 64.0 in the December quarter, up from the 57.3 recorded in September after stabilising close to the neutral mark 50 in the previous three quarters. 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. Until this year cost increases had been a serious concern with the index peaking at 75 in the June quarter 2008.



### Non-residential—struggling...

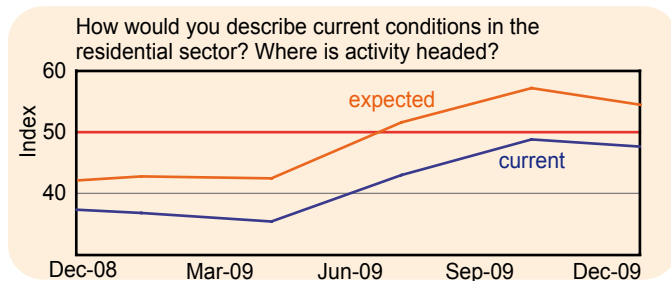
Builders with significant operations in both residential and non-residential sectors are asked a series of questions relating to the respective sectors—'how would you describe current conditions' and 'where do you believe activity is headed'.



In the non-residential sector builders continued to report current conditions as poor, with the index falling marginally during the December quarter. The index measuring expectations about future activity fell back close to the neutral 50 mark, suggesting non-residential builders are not expecting much change in conditions.

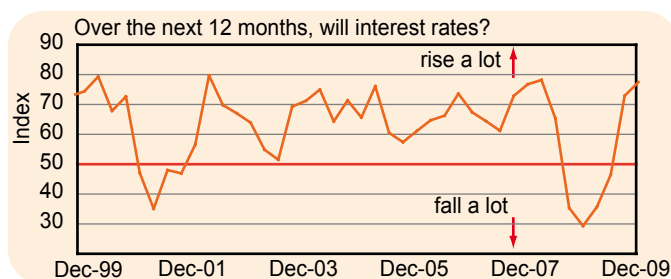
### ...residential—builders less upbeat

For the residential sector, the index for current conditions fell back, and at 47.4 is below the 'satisfactory' mark. In terms of where builders believe the residential sector is headed, the sharp improvement recorded in the June and September quarters was retraced to an extent in the December quarter. The index moved down from 57.2 to 54.2, not much above the neutral mark and indicating that builders are now not so confident about any improvement in conditions over the next six months.



### Financial constraints not going away...

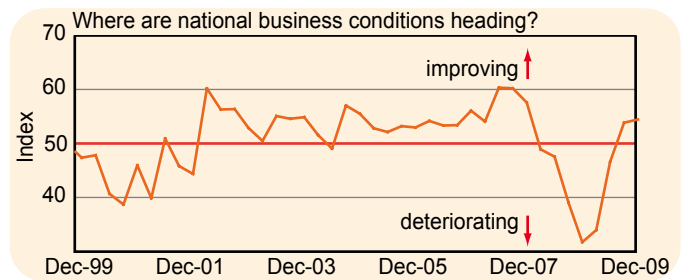
Concerns about the credit squeeze and borrowing costs continue to be reflected in the survey, with the availability of finance remaining a constraint on business. In the December survey, 35.8 per cent of respondents were concerned that availability of finance was having a large or major constraining effect on their businesses, up on the previous quarter and up sharply on survey results of 18 months-two years ago.



Builders now expect interest rates to rise significantly over the next 12 months (see chart) as the Reserve Bank continues to take away the stimulatory effect of previous cuts to interest rates.

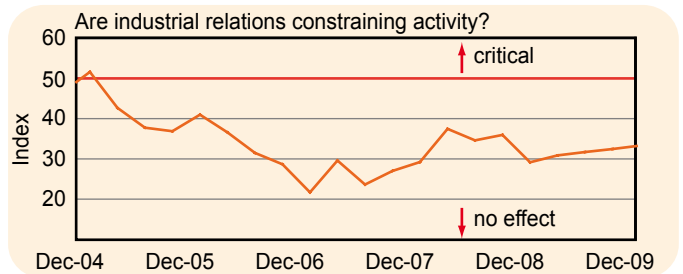
### National economic conditions ...

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. Perceptions about national business conditions fell slightly in the December quarter after some recovery following the dramatic fall in the second half of 2008 and in the March quarter of 2009. There was little change in expectations about where national business conditions are heading in the next six months (see chart), although the index is now above the neutral 50 mark after plumbing the depths in late 2008/early 2009.



### IR constraint—low but the trend is up...

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. After easing back in the wake of the global financial crisis, there has been a slight pick up in the past three quarters (see chart).



### Easing in skill shortages may have troughed...

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 increased again in the December quarter, but the index remains well down on a year ago across all categories surveyed. Builders had been experiencing extreme difficulty finding a range of subcontractors/employees before the global financial crisis and economic downturn hit.

Although the situation has eased considerably, some difficulties still exist in many of the smaller states e.g. South Australia, Tasmania and the ACT and difficulties finding project managers, site managers and foreman/supervisors appear to be increasing.

#### National availability of labour

	Dec 2008	Sep 2009	Dec 2009
Project Managers	40.3	39.6	46.5
Site Managers	40.2	39.0	45.2
Foremen/Supervisors	36.1	38.1	42.9
Carpenters	26.8	24.0	27.0
Bricklayers	25.4	27.0	25.7
Tilers - floor and wall	19.5	27.6	29.5
Plaster Fixers	23.0	22.2	26.1
Office Staff	22.8	21.4	22.2
Tilers - roof	19.5	23.0	24.1
Electricians	18.8	20.8	25.0
Steel Fixers	23.3	23.2	27.5
Concreters	19.6	22.5	25.2
Building Consultants	18.2	18.7	23.1
Painters	17.7	20.2	22.7
Labourers	15.9	14.8	16.7
Scaffolders	16.4	18.9	22.1

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 2009, 652 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 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:

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