Master Builders
AUSTRALIA

June Quarter 2004

NATIONAL SURVEY OF BUILDING & CONSTRUCTION

BUILDING INDUSTRY PEAKS AS EXPECTATIONS DETERIORATE

SUMMARY

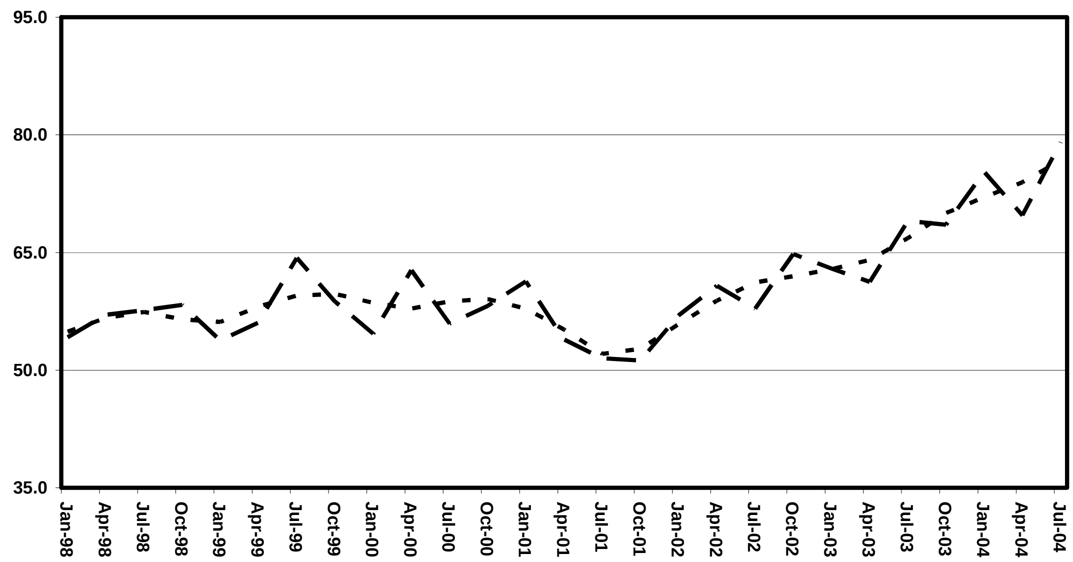
The survey results for the June quarter 2004 show that most indicators of current industry conditions improved considerably in the past three months while expectations for the next six months deteriorated appreciably.

This suggests that activity levels remained high in the June quarter but that the outlook for the remainder of 2004 is not as promising.

Industry perceptions of own business conditions in the June quarter rose to a record level of 79.1 compared with 69.7 three months ago and well above the record high of the December quarter.

Within this result there was little variation between the residential and commercial sectors with the index for residential (not seasonally adjusted) at 74.7 and the outcome for commercial higher at 76.1.

CURRENT OWN BUSINESS CONDITIONS



In contrast with the outcome for current conditions, expectations for the next six months deteriorated significantly to 56.0 compared with 63.4 in the March quarter. This is the lowest outcome recorded since the June quarter 2001.

The improvement in current business conditions was also reflected in a higher level of concern about available capacity with the index falling to 53.8 compared with 58.4 three months ago, indicating less capacity available. While concerns over capacity have lessened considerably since the June quarter 2003 this outcome suggests that availability of capacity remains a significant concern for the industry.

A supplementary question on impact of higher interest rates on forward orders/inquiry rates/new contracts was also asked. The results clearly indicate that the perceived negative input of higher interest rates became more pronounced in the June quarter with 75.8 per cent of respondents indicating that new business was somewhat or much lower compared with 56.5 per cent in the March quarter.

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 the chart on page 1, own business conditions improved significantly in the June quarter to above the previous record high of the December quarter. All but one state/territory recorded strong business conditions, headed by Tasmania, Western Australia and South Australia with index readings of 87.7, 84.8 and 82.4 respectively. The weakest conditions were recorded in Victoria where an index of 64.6 was recorded.

In stark contrast with current business conditions, expectations for the next six months fell appreciably in the June quarter (Chart 1). The trend reading for expectations for the six months ahead are now at their lowest level since the December quarter 2002.

CHART 1: OWN BUSINESS ACTIVITY (NEXT 6 MONTHS)

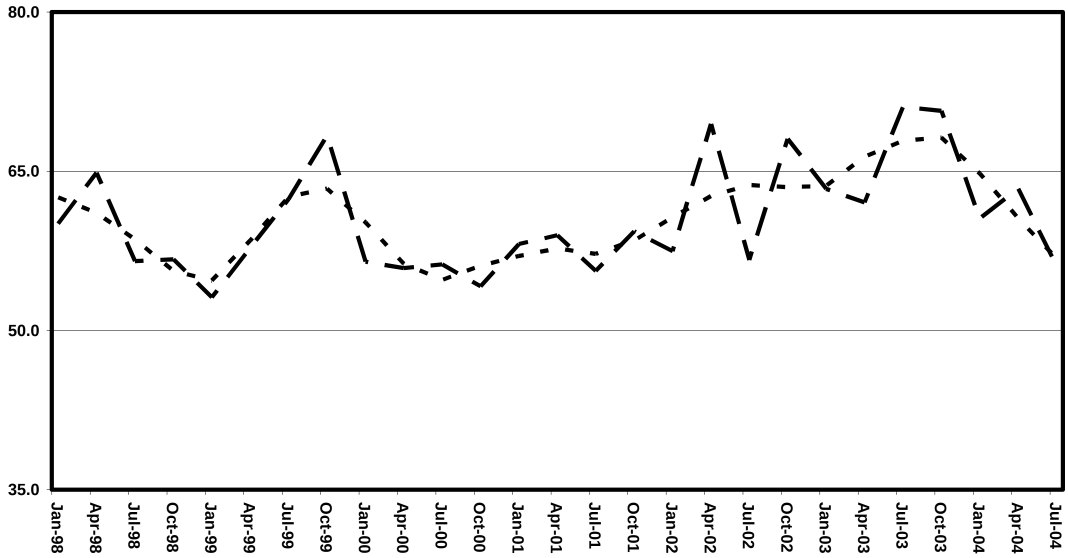
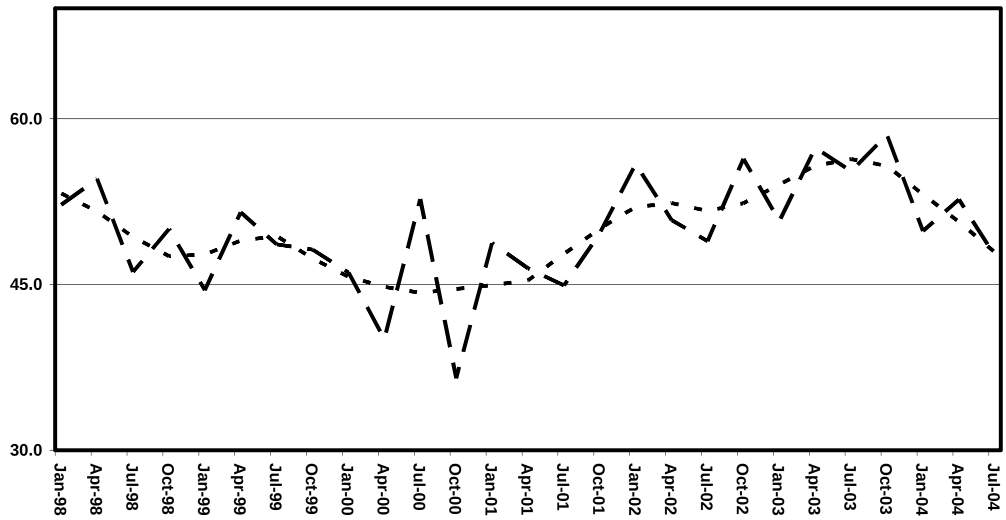


CHART 2: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)

In line with the fall in expectations of activity over the next six months, expectations for own business investment also fell significantly in the past quarter. Investment expectations had improved considerably over the past three years from a low of 28.9 in the September quarter 2000 but have now fallen significantly from a peak of 52.5 in the September quarter 2003 to the current reading of 43.5.

Employment intentions for the next 6 months (Chart 3) also worsened significantly in the June quarter following a rise in the March quarter. Employment intentions have followed a similar pattern to those for investment, rising over the past two years, before peaking in the second half of 2003 and then generally weakening.

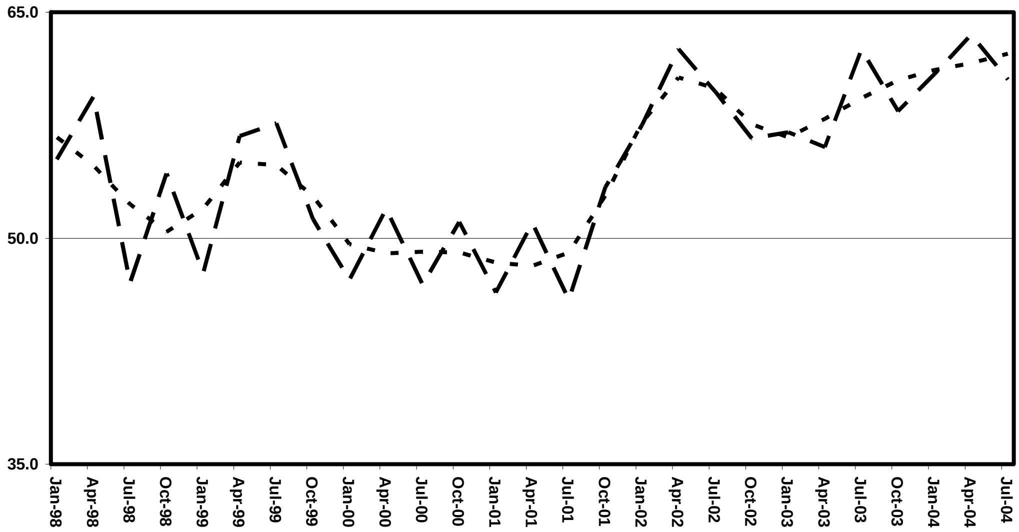
CHART 3: EMPLOYMENT INTENTIONS (NEXT 6 MONTHS)



Current business profits fell slightly in the June quarter to 59.9 compared with 60.5 in the March quarter. Once again, this series had recovered strongly from a most recent low of 46.3 in the March quarter 2001 to the current reading.

Perceptions of future profitability although remaining at very high levels did fall somewhat in the quarter to 60.5 compared with 63.5 in the March quarter. Expectations were higher in the commercial sector (61.2) than the residential sector (53.7).

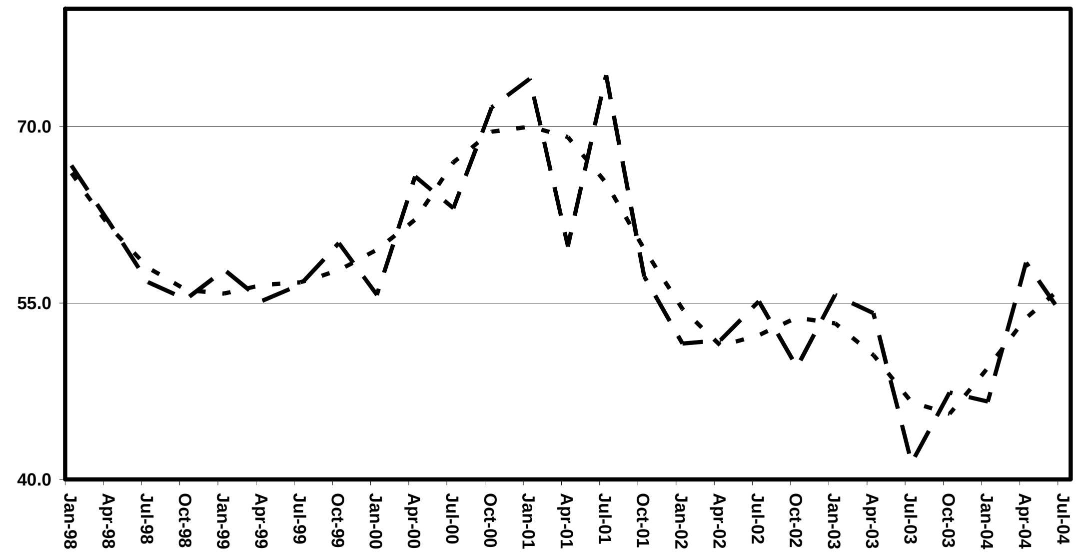
CHART 4: EXPECTED OWN BUSINESS PROFITS (NEXT 6 MONTHS)



Capacity constraints had become an increasingly important concern for the building and construction industry between the June quarter 2001 and the June quarter 2003 when available capacity was at the lowest level recorded. Since this period, capacity had been becoming less of a problem. However, in the June quarter capacity problems worsened once again in line with the robust readings for activity in the quarter.

Capacity constraints were less of a concern in the residential sector with an index of 63.5 compared with 52.1 in the commercial sector.

CHART 5: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	3.1
3-6 months	21.0
1-3 months	26.1
Less than 1 month	49.8
INDEX	25.8

The overall index was 25.8, indicating that respondents considered they had, on average, around two months work on their books.

This compared with a reading of 28.8 in the March quarter suggesting that conditions had deteriorated in the June quarter.

The amount of work on the books was lower in the residential sector than the commercial sector although it is worth noting that the amount of work on the books in the commercial sector fell dramatically in the June quarter with only 13.4 per cent of respondents having more than 3 months work on the books compared with 43.7 per cent in the March quarter.

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

Table 2: Display Centre Traffic

Much Higher	0.0
Somewhat Higher	6.0
About the Same	64.8
Somewhat Lower	22.8
Much Lower	6.8
INDEX	42.5

The index for display centre traffic deteriorated somewhat in the June quarter to 42.5 compared with 50.8 in the March quarter. Display centre traffic is an important leading indicator of activity and this deterioration is consistent with other indicators from this survey that suggest a significant slowing at activity in the second half of 2004.

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

Table 3: Impact of Industrial Relations

Critical	12.5
Large	20.4
Moderate	32.3
Slight	22.1
No Effect	12.7
INDEX	49.5

As can be seen from table 2, 65.2 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business. The overall index of 49.5 was slightly lower than the 52.5 recorded last quarter indicating a slight decrease in industrial problems.

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

Table 5: Employment of Apprentices (Next Six Months)

Put on More	26.9
No Change	72.6
Release Some	0.5
INDEX	63.2

Whilst the overwhelming majority of respondents (72.6 per cent) were not expecting to change the number of apprentices they employ, 26.9 per cent said they were likely to put on more apprentices compared with only 0.5 per cent of businesses who said they were likely to release apprentices.

This resulted in an overall index of 63.2 compared with 62.1 in the March quarter indicating an improved outlook for apprentices.

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

Table 4: Availability of Labour

	March Quarter	June Quarter
Foremen/ Supervisors	(59.7)	61.0
Site Managers	(58.9)	63.8
Project Managers	(57.4)	61.2
Carpenters		56.0
Bricklayers	(53.4)	62.1
Plaster Fixers	(51.8)	52.8
Concreters	(48.9)	48.0
Steel Fixers	(47.7)	45.0
Scaffolders	(45.4)	34.4
Painters	(44.8)	44.4
Electricians	(36.4)	38.2
Labourers	(29.2)	27.0
Office Staff	(28.8)	33.9

In general, the responses indicated that workers had become less easy to come by. Only concreters, scaff-olders, steel fixers appeared to be more readily available. The ability to find all other workers had deteriorated. Project Managers, Site managers, foremen/ supervisors, carpenters and bricklayers are particularly difficult to find at this stage. The availability of bricklayers had deteriorated significantly over the quarter.

There were also significant regional differences, with Western Australia, ACT, Tasmania and Queensland in particular having significant shortages across all areas except office staff and extreme shortages apparent in managers, carpenters and bricklayers, Availability of resources has improved considerably in New South Wales and Victoria.

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 improved once again in the June quarter with the index rising to 63.5 compared with 61.2 in the March quarter (Chart 6). This result clearly reflects the general improvement in economic conditions since the mid-2003 lull and also the reported strength of activity in building and construction in the quarter.

CHART 6: CURRENT GENERAL BUSINESS CONDITIONS

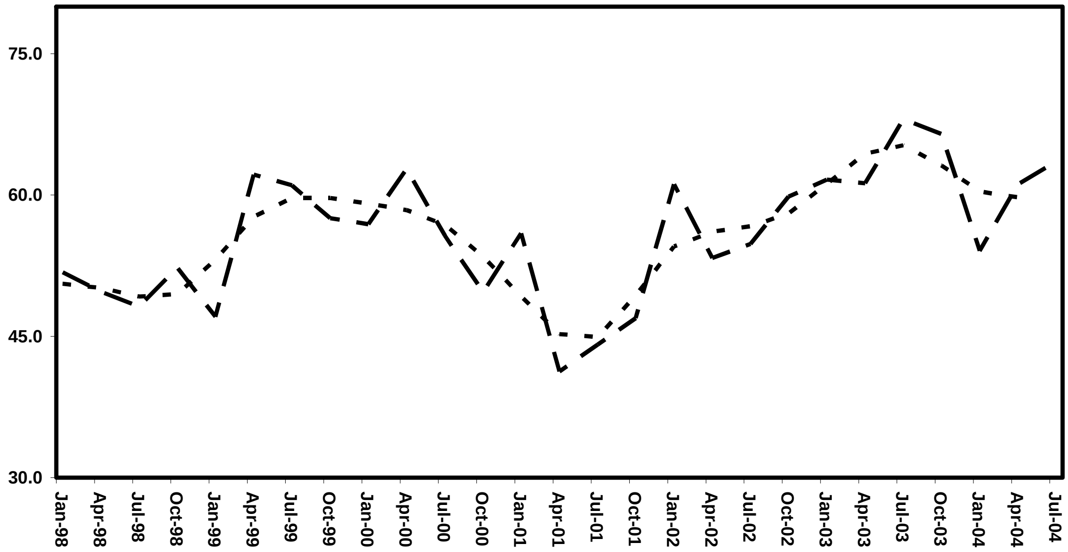
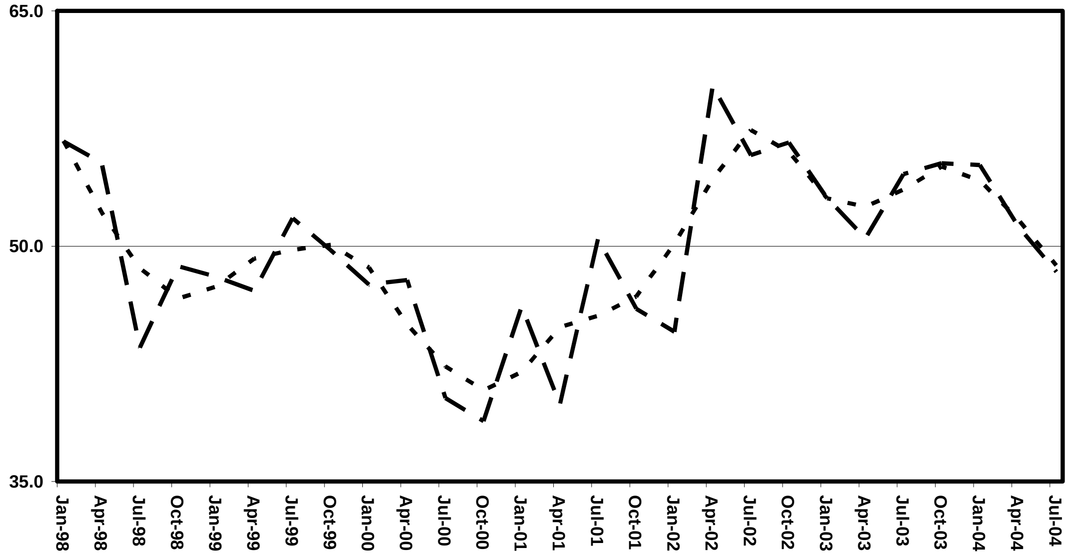


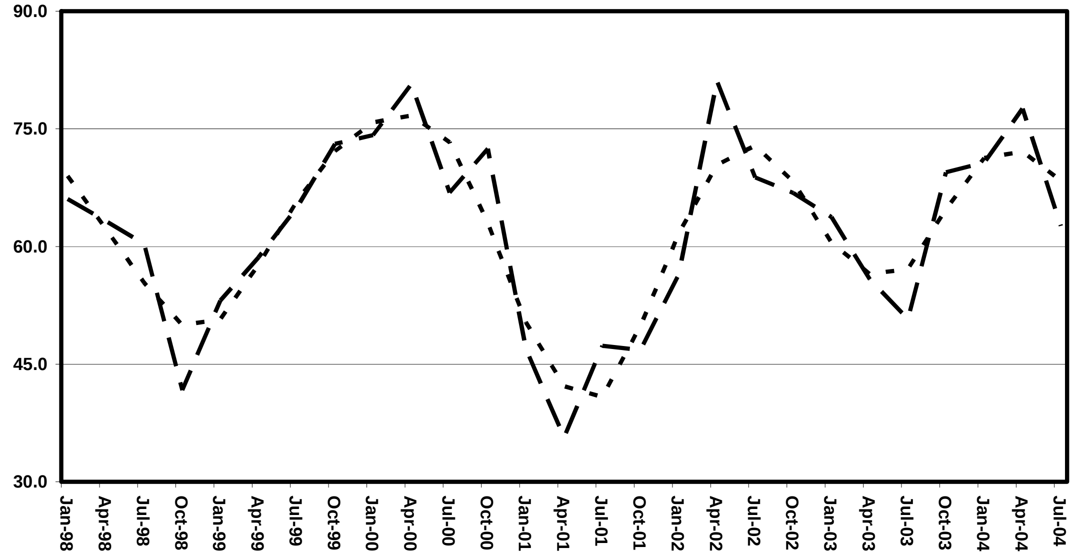
CHART 7: EXPECTED GENERAL BUSINESS CONDITIONS (NEXT 6 MONTHS)



While current general business conditions were perceived to have improved, expectations for general business conditions in the next six months were significantly weaker (Chart 7).This result is in line with perceptions for the building and construction industry where current conditions remain robust but expectations are deteriorating. Expectations for national business conditions were lower in the residential sector at .43.9 compared with 46.3 for commercial and expectations in the residential sector deteriorated appreciably between the March and June quarters.

Expectations for interest rates recorded an index of 62.6 in the June quarter compared with 77.6 in the March quarter. This indicates less pronounced expectations of rising interest rates in the twelve months ahead. However, 69.0 per cent of respondents still expect a rise in interest rates with only a very small 0.8 per cent predicting a fall in rates over the next twelve months. The lower index largely reflects an increase in the number of respondents who now expect no change in interest rates in the year ahead. The Reserve Bank announced rises in interest rates in November and December 2003.

CHART 8: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



SUPPLEMENTARY QUESTIONS

In order to gather information on the impact of the November and December increases in interest rates on the building and construction industry, respondents were asked about the impact on forward orders/inquiry rates/new contracts.

Table 6: Effect on Recent Interest Rate Increases

Much Higher	0.3
Somewhat Higher	9.6
About the Same	14.3
Somewhat Lower	40.8
Much Lower	38.0
INDEX	24.9

An index of 24.9 was recorded for the impact of interest rates, with 75.8 per cent of respondents indicating that new business orders were somewhat or much lower as a result of the rises in interest rates. Given the strength of the industry before this rise and the momentum that was apparent, the index outcome well below 50 indicates a significant and impact on forward business. This impact is now assessed as being much greater than it was in the March quarter when the index was considerably higher at 37.4 and only 56.5 per cent of respondents assessed the impact as somewhat or much lower.

ABOUT THE SURVEY

The survey of building and construction is a national survey of Master Builders' members which will be published on a quarterly basis. The survey allows members of Master Builders to present their views of the national economy and the condition of their own enterprises.

The survey will also provide information on on-going constraints on activity and availability of resources and selected supplementary questions, in this case on home warranty insurance.

Various state/territory offices of Master Builders will also be releasing their individual survey results.

In calculating the index the responses are weighted according to firm size. A reading of 50 indicates a neutral or satisfactory outcome, readings above 50 suggest a more positive result and those below 50 a more negative outcome.

CONTACT DETAILS

02 6249 1433 02 6249 1373
enquiries@masterbuilders.com.au
www.masterbuilders.com.au
Level 3 Construction House, 217 Northbourne Ave, Turner ACT 2612