



June Quarter 2005

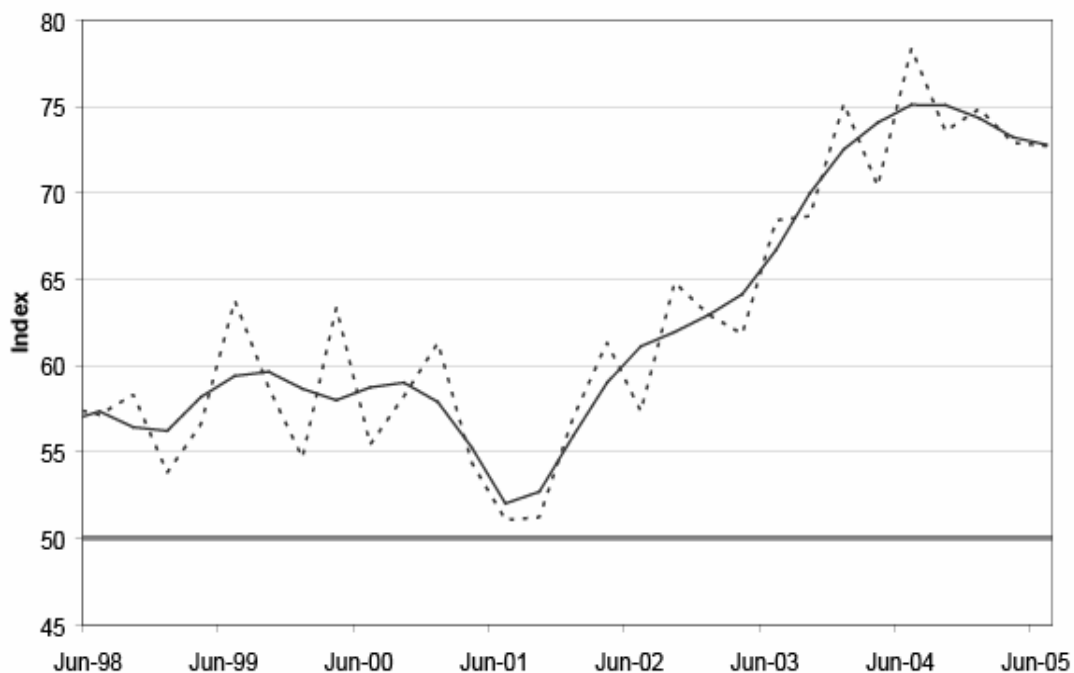
BUILDER ACTIVITY HOLDING UP BUT OUTLOOK FOR INDUSTRY FALLS

SUMMARY

The survey results show that current industry conditions flattened out at a high level in the June quarter 2005, following the moderate decline in business activity from a peak in mid-2004.

Industry perceptions of own business conditions in the June quarter remained virtually unchanged at 72.7 compared with 72.9 three months ago. Within this result there was little variation between the residential and commercial sectors.

CURRENT OWN BUSINESS ACTIVITY



Expectations for the next six months rose, with builders remaining optimistic about own business prospects. The index rose to 64.5 compared with 63.7 in the March quarter. Any reading above 50 indicates an expectation of rising activity. The trend in the index has turned positive in the past four quarters after falling in late 2003 and the first half of 2004.

This solid outcome reflects the healthy amount of work currently in the pipeline in the residential and non-residential sectors. Nearly 50 per cent of respondents indicate that they have more than six month's of work on the books, with another quarter saying they have a solid 3 to 6 months of work on the books.

Whilst builders were confident about their own business prospects, respondents were not optimistic about the likely level of overall industry activity in the next six months. The index fell sharply to 44.1 in the June quarter from 54.5 in March, despite a reduction in the number of builders who believe interest rates will rise over the next 12 months.

Consistent with less buoyant market conditions over the past few quarters, the June quarter survey indicates an easing in the level of skilled labour constraints from that experienced last year. However, skill shortages remain in most of the smaller states and there are difficulties attracting certain categories of workers, for example project managers, site managers and foremen/supervisors.

A supplementary question on input costs (labour, materials) was asked and over half the respondents said they believed input costs will be higher in the next 12 months, whereas only 4 per cent said costs would be lower. Another supplementary question was asked on retirement intentions, with nineteen per cent of the builders surveyed saying they planned to leave the industry within the next 5 years.

SURVEY RESULTS

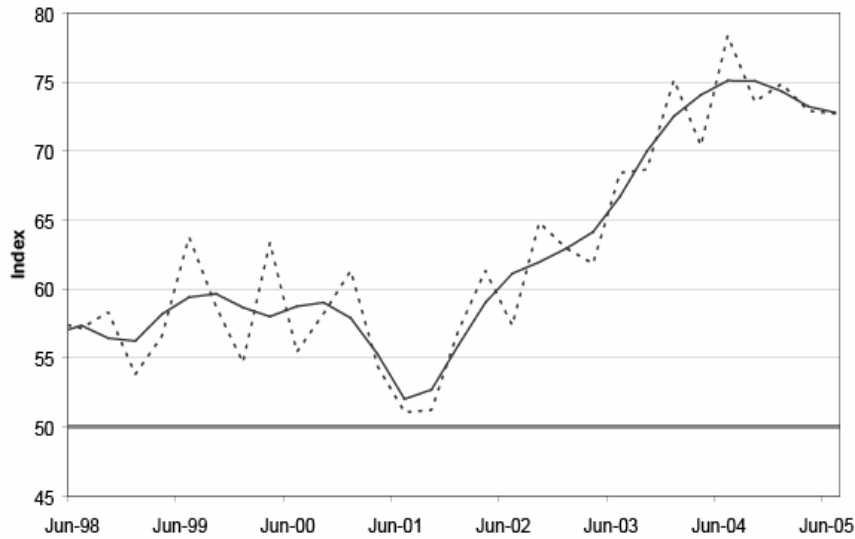
OWN BUSINESS

The following section provides an assessment by respondents on current conditions in their own business and expectations for on-going performance.

As indicated in Chart 1, own business conditions were essentially unchanged over the quarter. Current own business activity remains at a high level, though down from the peak in 2004.

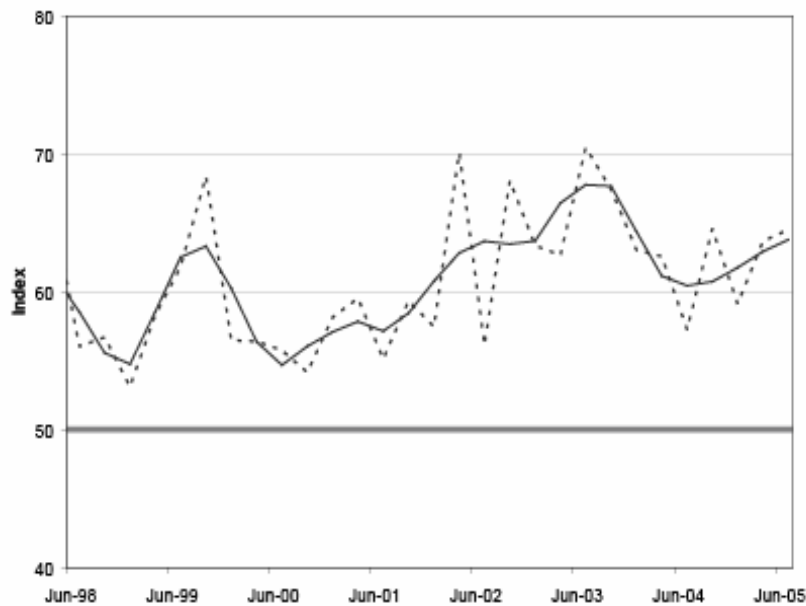
All state/territories recorded strong business conditions, headed by Tasmania, Western Australia and the Northern Territory, with index readings of 78.8, 75.6 and 76.2 respectively.

CHART 1: CURRENT OWN BUSINESS ACTIVITY



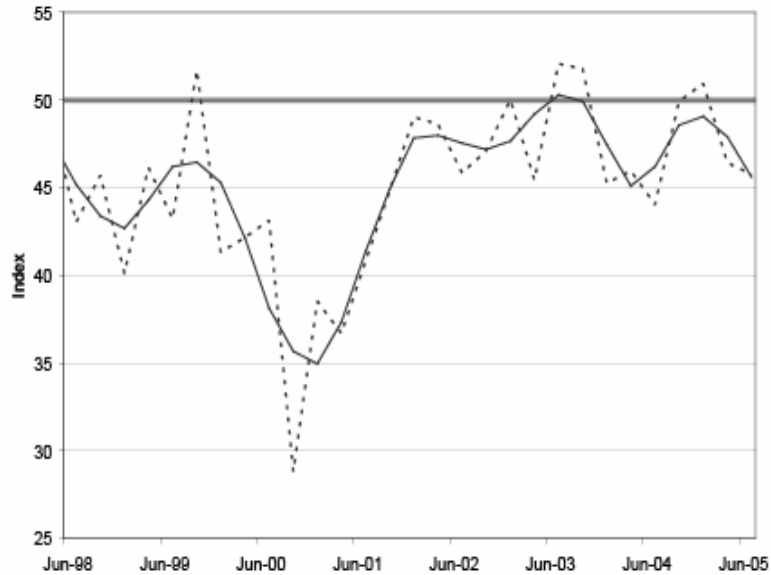
Own business expectations for the next six months rose marginally in the June quarter (Chart 2). The index is significantly above the 50 level, indicating that builders expect own activity levels to rise in the next six months.

CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS



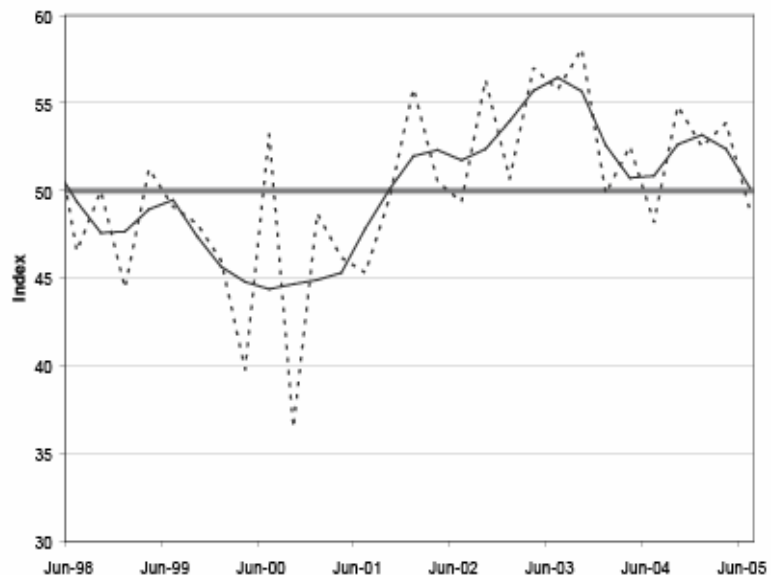
Despite expectations of rising activity over the next six months, expectations for own business investment fell in the June quarter. Investment intentions have fluctuated between 45 and 50 over the past three years, following a sharp improvement from a trough in the 2000-01 downturn.

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



Employment intentions for the next 6 months (Chart 4) fell in the June quarter 2005. Employment intentions have followed a similar pattern to investment, with a falling trend over the past two quarters.

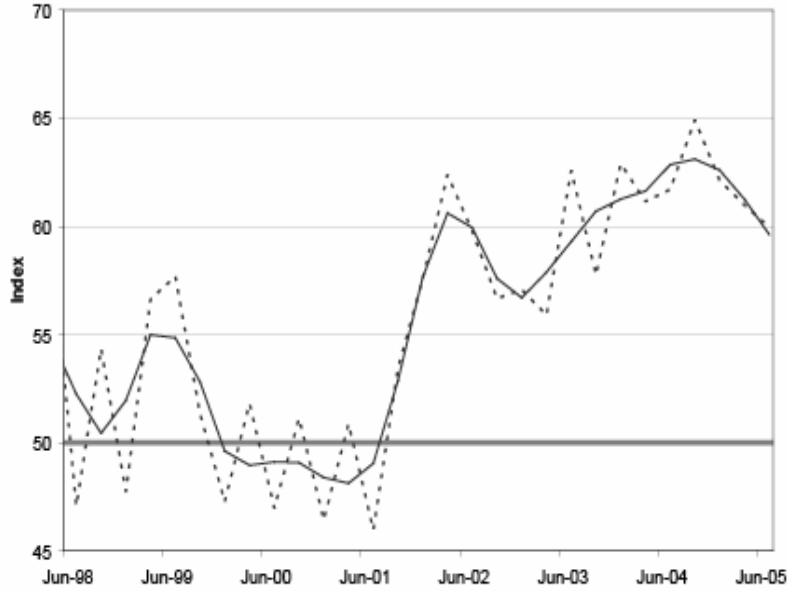
CHART 4: EMPLOYMENT INTENTIONS NEXT 6 MONTHS



The reading for current business profits fell in the June quarter to 59.0 compared with 60.9 in the March quarter. The series remains solidly positive after recovering strongly from a low of 46.2 in 2000-01.

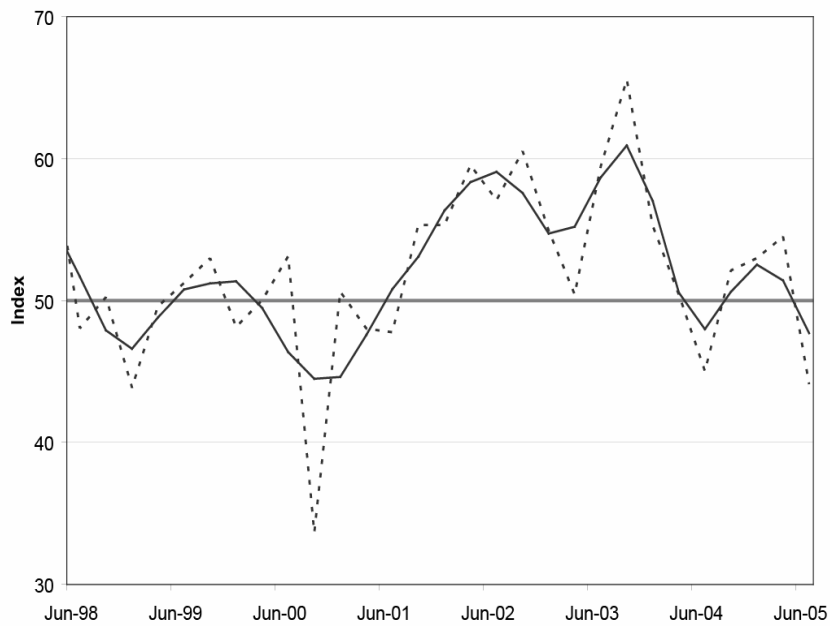
Perceptions of future profitability also weakened slightly in the June quarter, to 60.0 compared with 61.0 in the previous quarter. The series peaked at a level of 64.9 in September quarter 2004. Nevertheless the current reading of well above 50 indicates a good deal of optimism about the outlook for profits.

CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



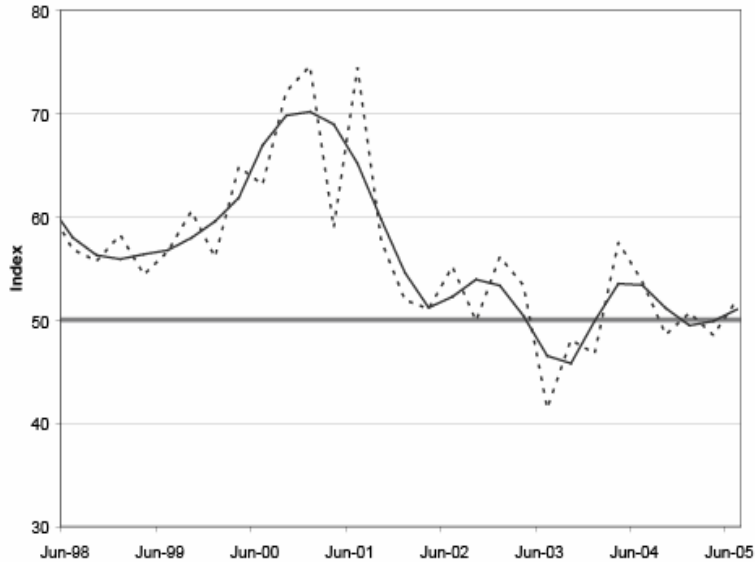
Expectations of building industry activity in the next six months, relative to the past six months, fell sharply in the current quarter. The index fell to 44.1 in the June quarter from 54.5 in the previous quarter. The index is at the lowest level since the 2000-01 downturn.

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



Capacity constraints became an increasingly important concern for the building and construction industry between the June quarter 2001 and the June quarter 2003 as activity grew strongly and available capacity was at the lowest level recorded. Since this period, capacity has generally become less of a problem and builders believe current capacity is adequate to meet expected demand over the next 6 months.

CHART 7: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	49.9
3-6 months	26.3
1-3 months	18.3
Less than 1 month	5.5
INDEX	73.5

The overall index was almost unchanged in the June quarter.

In the June quarter, 26.3 per cent of respondents indicated that they had between 3 and 6 months of work on the books, and 49.9 per cent had more than 6 months.

The index has fallen back slightly from a high of 76.6 recorded in the September quarter 2004.

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

Table 2: Display Centre Traffic/Enquiries

Much Higher	1.0
Somewhat Higher	11.5
About the Same	56.4
Somewhat Lower	27.4
Much Lower	3.7
INDEX	44.7

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

The index for display centre traffic/enquiries fell back again in the June quarter to 44.7 compared with 46.7 in the March quarter and 48.7 in December quarter 2004.

However, display centre traffic is up on the trough experienced in the middle of 2004.

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

Table 3: Impact of Industrial Relations

Critical	6.9
Large	17.3
Moderate	23.0
Slight	25.6
No Effect	27.2
INDEX	37.7

As can be seen from Table 3, more than half of respondents indicated that industrial relations were having a slight or nil effect on business activity.

The overall index of 37.7 was lower than the 42.7 recorded last quarter indicating an improvement in industrial relations during the March quarter.

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

Table 4: Employment of Apprentices (Next Six Months)

Put on More	32.6
No Change	61.2
Release Some	6.2
INDEX	63.2

Whilst the majority of respondents (61.2 per cent) were not expecting to change the number of apprentices they employ, 32.6 per cent said they were likely to put on more apprentices compared with only 6.2 per cent of respondents who said they were likely to release apprentices.

The overall index was virtually unchanged at 63.2 in the June quarter, still strongly positive, although down from the 70.9 high recorded in the December quarter 2004.

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

Table 5: Availability of Labour

	Mar Quarter	Dec Quarter
Bricklayers	45.7	48.9
Foremen/ Supervisors	58.5	52.2
Carpenters	45.0	44.3
Site Managers	60.9	55.1
Plaster Fixers	46.3	44.9
Project Managers	60.5	54.3
Concreters	36.9	39.0
Electricians	31.0	33.4
Steel Fixers	34.9	40.7
Painters	31.8	31.7
Scaffolders	31.7	35.3
Office Staff	34.5	35.9
Labourers	25.5	29.0
Building Consultants		24.2

It should be noted that the data are volatile between quarters and are not seasonally adjusted or trended.

The responses indicate that workers were again less difficult/easier to come by in the June quarter, confirming some relaxation of the tight labour market conditions prevalent in the building and construction industry over the past year or so.

However, most of the smaller states continue to experience more generalised skilled labour shortages than the larger states.

Indexes relating to project managers, site managers, and foremen/supervisors remain above 50, indicating that builders are still having difficulty finding these categories of workers.

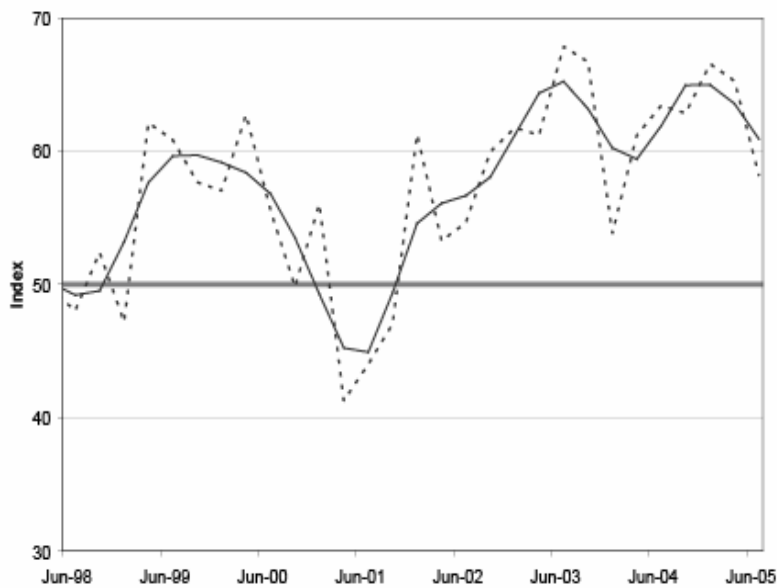
Bricklayers, concreters, steel fixers, scaffolders, and electricians became less easy to find in the June quarter.

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.

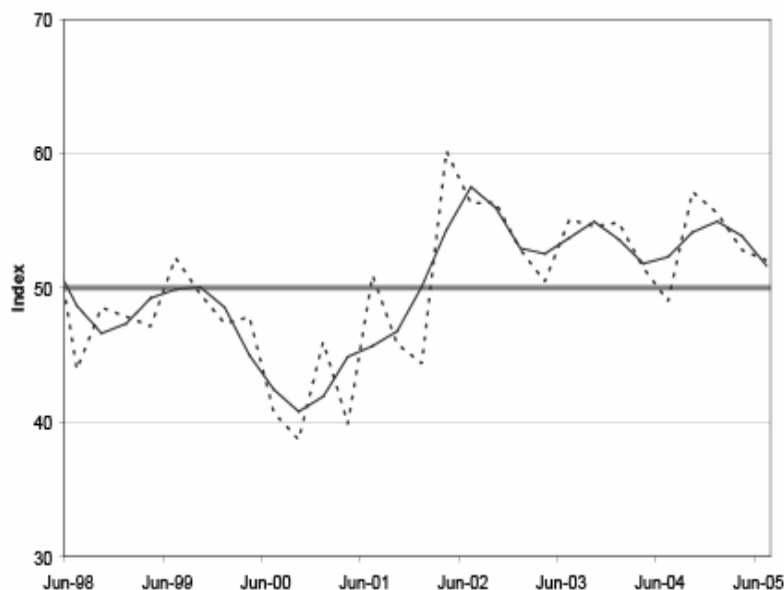
Perceptions of current general business conditions fell in seasonally adjusted terms in the June quarter 2005, with the index falling to 58.2 compared with 65.3 in the March quarter (Chart 8). Nonetheless, the index remains at a high level indicating that builders remain reasonably confident about the performance of the overall economy despite negative impacts flowing from speculation about interest rates.

CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



Similarly, expectations about where business conditions were headed eased fractionally. Perceptions on the outlook for business conditions have weakened since the September quarter 2004 and the index is approaching the 50 mark (Chart 9) indicating that builders expect little improvement in the national economy over the next six months.

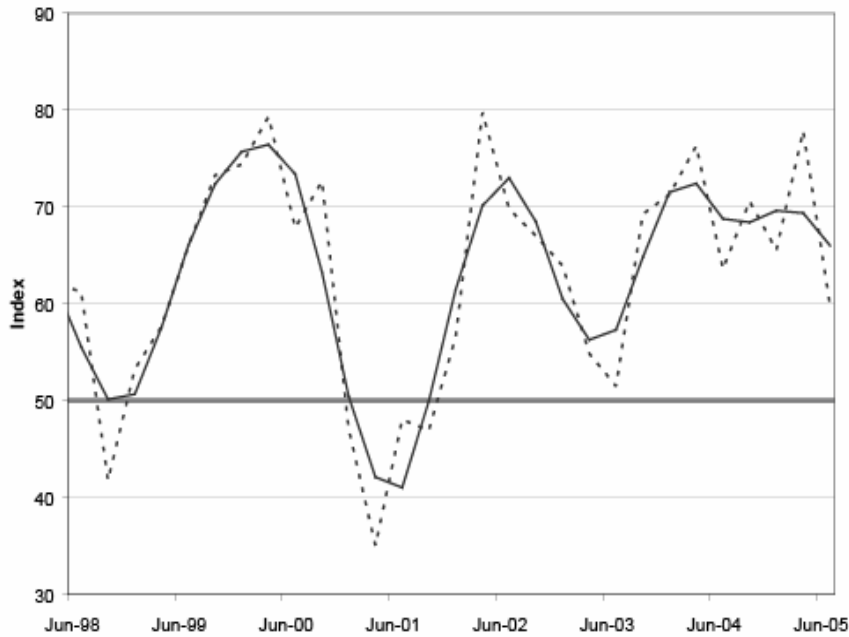
CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS



The June quarter survey comes after the Reserve Bank decision to lift interest rates by 25 basis points and the release of ABS figures showing the economy has weakened more than expected.

Expectations for interest rates recorded an index of 59.8 in the June quarter compared with 77.9 in March quarter. Less pronounced expectations of rising interest rates over the next twelve months come in the wake of the actual rate rise in March which appeared to have a greater impact than anticipated, and indications the economy is slowing. Nonetheless, nearly 60 per cent of respondents expect interest rates to rise moderately this year.

CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



SUPPLEMENTARY QUESTIONS

Table 6: Input Costs Over the Next 6 Months

Much Higher	1.9
Somewhat Higher	60.0
About the Same	32.8
Somewhat Lower	5.1
Much Lower	0.1
Index	64.6

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

As Table 6 shows, over 60 per cent of respondents expect input costs to be higher over the next six months, 32.8 per cent believe input costs will be about the same, and only 5.2 per cent of builders expect input costs to be lower.

Table 7: Builder Intentions to Retire from the Industry

Next 12 Months	1.4
1 to 5 Year's Time	17.3
5 to 10 Year's Time	27.2
More than 10 Years	54.0

In order to better understand the implications of an ageing workforce for the building and construction industry, respondents were asked when they planned to retire.

As Table 7 shows, 18.7 per cent intend to retire over the next five years, highlighting the challenge this poses for the building industry as it moves into an era of labour shortages.

ABOUT THE SURVEY

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

The survey will also provide 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 be releasing 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.