

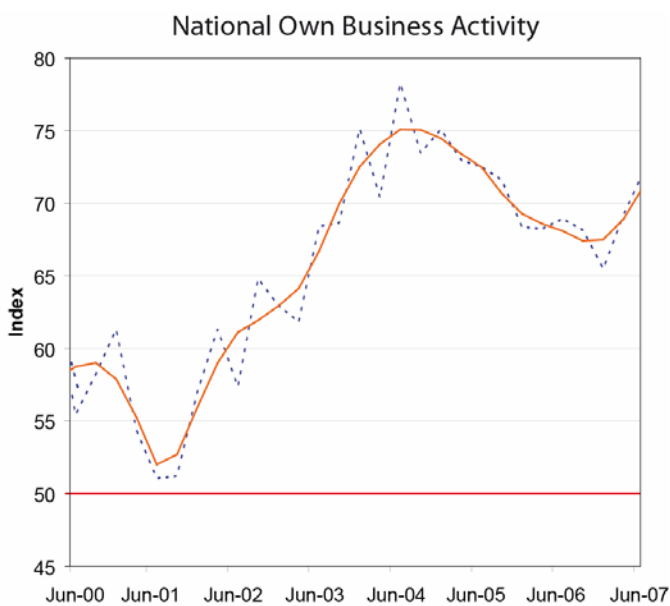


June Quarter 2007

BUILDER ACTIVITY STRENGTHENS AS RESIDENTIAL BEGINS TO TURN

SUMMARY

Builders' perceptions about own business activity rose again in the June quarter as the trend in the index begins to turn up again after a two year decline following the peak in 2004.



Builders expect their own business activity to pick up over the next six months. Own business profitability is currently very strong and builders expect profits to strengthen even further. Builders also remain positive about overall building and construction industry prospects.

In the non-residential sector, conditions are strong and are expected to continue to improve. Current conditions in the residential sector appear to be turning around, with only 16 per cent of respondents describing them as poor or very poor, down from 30 per cent in the previous quarter. And, confirming results of the March quarter survey, builders now expect residential activity to improve over the next six months (see table).

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

	Dec Quarter 2006	Jun Quarter 2007
Improving rapidly	1.0	1.2
Improving slowly	16.3	39.8
No change	43.3	43.5
Deteriorating slowly	38.4	13.2
Deteriorating rapidly	1.0	2.3
Index	44.5	56.1

It appears that builders are becoming more positive about the outlook for residential activity despite lingering concerns about housing affordability and constraints on their business. Nearly forty per cent of respondents expressed a large or major concern about housing affordability and over 50 per cent believing that housing affordability will deteriorate over the next 12 months.

Builders were most concerned about the development/planning approval process, with nearly 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Builders were also concerned about planning/development approval delays, with over 70 per cent indicating a moderate to major level of concern.

Ranking of Constraints

Ranking	Moderate, Large or Major effect on Business	
	March 07	June 07
1. Development/planning approval process	58.6	59.8
2. Availability of labour	51.1	44.9
3. Infrastructure charges and levies	44.9	40.1
4. Availability of land	34.4	36.9
5. Availability of finance	21.5	19.1

Impact of Industrial Relations

	Jun 04	Jun 05	Jun 06	Jun 07
Critical	12.5	6.9	1.3	1.3
Large	20.4	17.3	9.8	7.1
Moderate	32.3	23.0	28.7	19.3
Slight	22.1	25.6	33.8	29.4
No Effect	12.7	27.2	26.3	42.8
INDEX	49.5	37.7	31.5	23.6

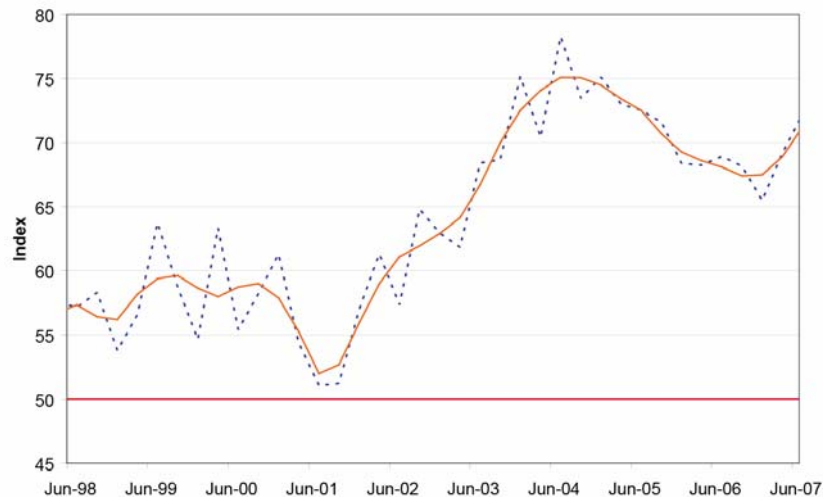
Builders believe that industrial relations as a constraint on activity has fallen significantly over the past two years. The overall index of 23.6 in the June quarter was down on the previous quarter and nearly three quarters of respondents believe industrial relations are having only a slight or nil effect on business activity. This is in line with ABS statistics on working days lost in the construction industry and appears to provide further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

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 rose again in the June quarter. Builders perceive their current own business activity to be good and the index has begun to pick up after falling for more than two years from the peak in 2004.

Builders were most positive about their own business conditions in Western Australia, Queensland and South Australia, with index readings of 76.3, 72.1 and 68.3 respectively.

Own business expectations for the next six months rose in the June quarter (Chart 2) and the index is on a clear up trend 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

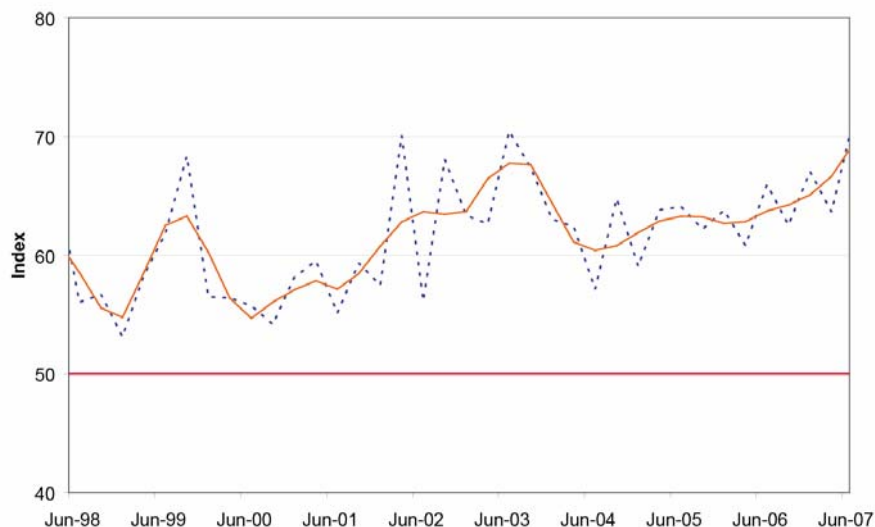
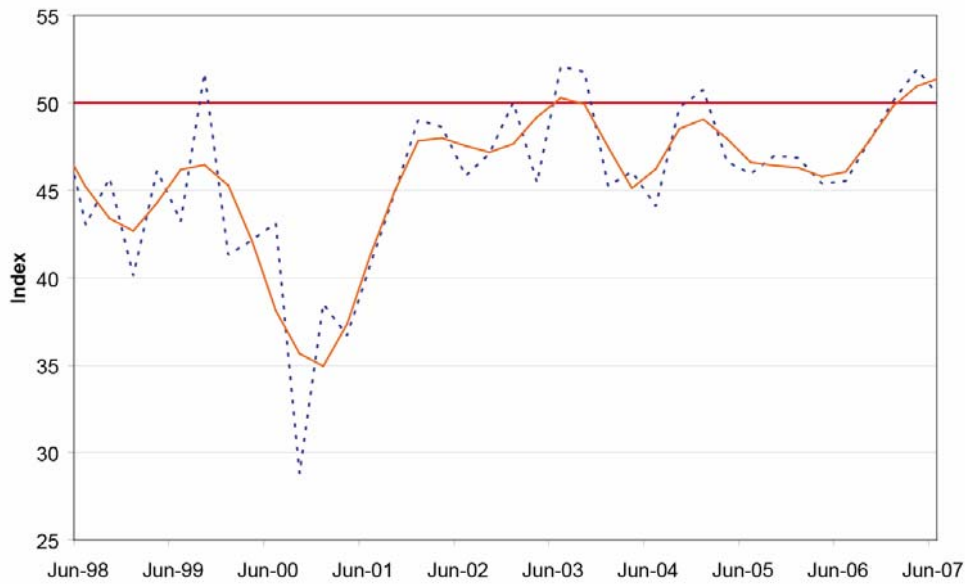


CHART 3: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



Intentions regarding own business investment in plant and equipment fell in the June quarter but in an encouraging sign, the index remains above 50. Investment intentions have fluctuated between 44 and 52 over the past three years, following a sharp improvement after the 2000-01 downturn (see Chart 3).

The index measuring builders' intentions regarding the likely the level of employees and subcontractors over the next six months, fell in the June quarter, but the result remains well above 50 indicating that builders expect higher employment levels in the period ahead (Chart 4).

CHART 4: EMPLOYMENT INTENTIONS NEXT 6 MONTHS

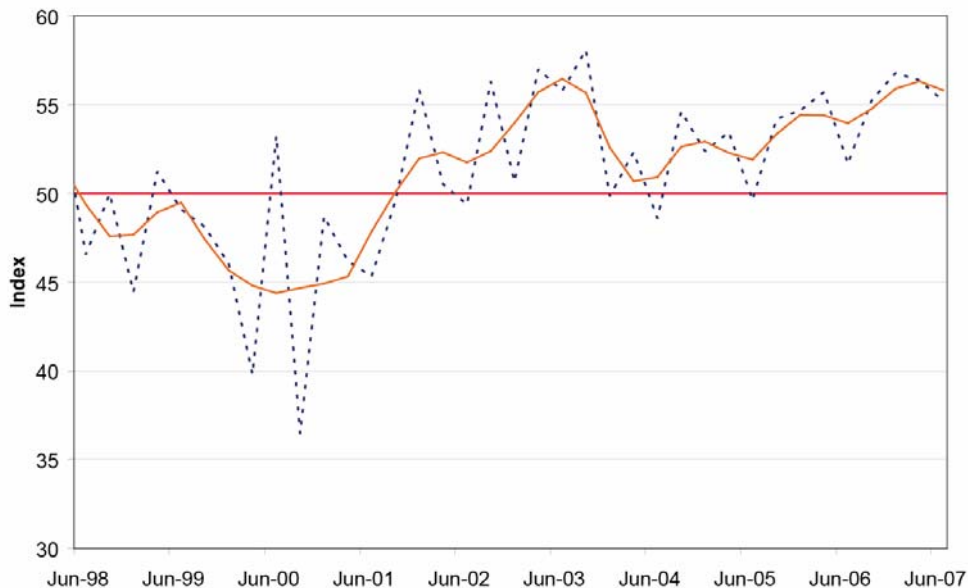
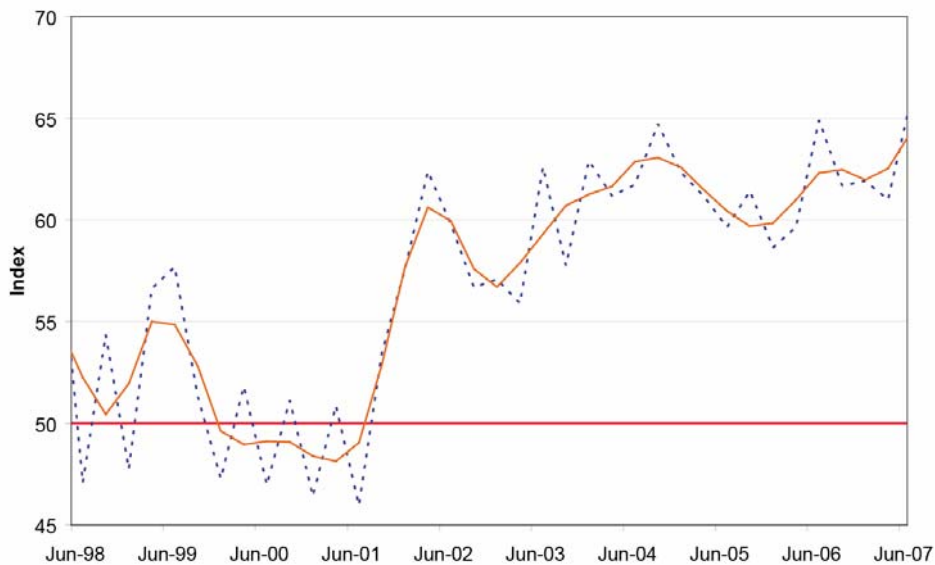


CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



The reading for current business profits rose in the June quarter and the series remains strongly positive and is trending up. Profits have been strong since recovering from the 2000-01 construction downturn.

As Chart 5 shows, builders' perceptions about where their own profits are heading in the next six months rose strongly in the June quarter to 65.9, the highest reading on record. With the index well above 50, builders are 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 June quarter but the index has moved well above 50 in the past 4 quarters, 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

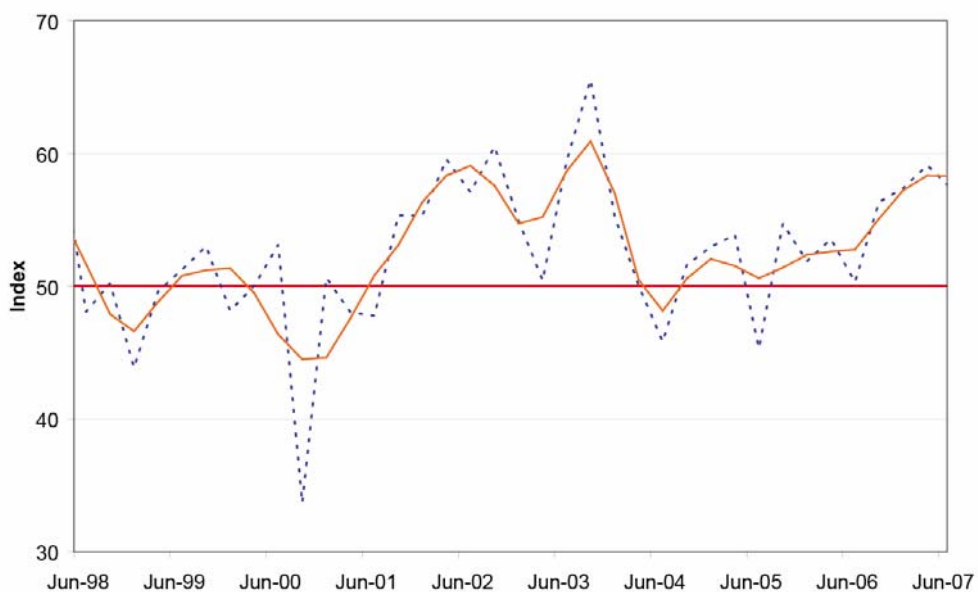
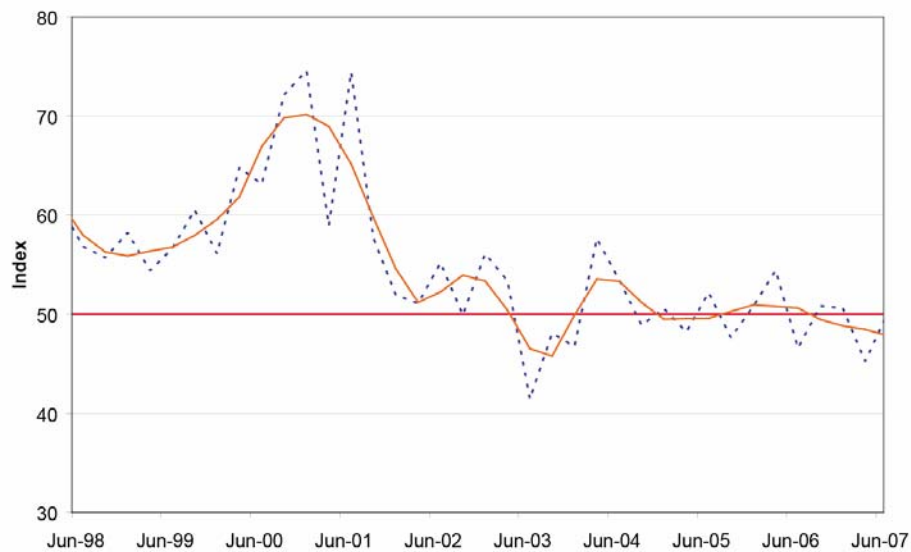


CHART 7: AVAILABLE CAPACITY



In the 2000-01 downturn spare capacity became available in the building and construction industry, but as activity began to grow strongly builders became increasingly concerned between June 2001 and June 2003 that capacity would be inadequate in relation to expected demand. Since this period, the trend in the index has generally tracked around 50, indicating that builders believe current capacity is adequate in terms of meeting expected demand.

Respondents were asked about available work on books.

Builders have a healthy backlog of work, with the index for the June quarter rising to 74.1 (Table 1) following the 68.2 recorded in the March quarter.

In the June quarter, the percentage of respondents reporting 3 to 6 months, or more than 6 months of work on the books was 73.4 per cent compared with 68.6 per cent in the previous quarter and 79.4 per cent in the June quarter of last year.

Table 1: Work on Books

	Jun 06	Mar 07	Jun 07
More than 6 months	45.9	46.0	55.2
3-6 months	33.5	22.6	18.2
1-3 months	15.5	21.3	20.4
Less than 1 month	5.1	10.0	6.2
INDEX	73.4	68.2	74.1

Table 2: Display Centre Traffic/Enquiries

	Jun 06	Mar 07	Jun 07
Much Higher	0.5	1.8	3.1
Somewhat Higher	6.2	21.3	16.1
About the Same	53.4	48.5	55.6
Somewhat Lower	34.6	22.4	20.8
Much Lower	5.3	6.1	4.5
INDEX	40.5	47.6	48.1

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 June quarter, the index for display centre traffic/enquiries rose to 48.1, a pick up over the year from the 40.5 recorded in the June quarter of 2006.

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

Table 3: Impact of Industrial Relations

	Jun 04	Jun 05	Jun 06	Jun 07
Critical	12.5	6.9	1.3	1.3
Large	20.4	17.3	9.8	7.1
Moderate	32.3	23.0	28.7	19.3
Slight	22.1	25.6	33.8	29.4
No Effect	12.7	27.2	26.3	42.8
INDEX	49.5	37.7	31.5	23.6

As can be seen from Table 3, nearly three quarters of respondents to the June quarter survey believe industrial relations are having only a slight or nil effect on business activity.

The overall index of 23.6 was down on the previous quarter and as Table 3 shows, builders believe that industrial relations as a constraint on activity has fallen significantly over the past two years. This is in line with ABS statistics on working days lost in the construction industry and appears to provide further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

Table 4: Availability of Labour, National

	June Quarter 2007	March Quarter 2007	June Quarter 2007
Project Managers	61.2	59.8	59.8
Site Managers	63.8	59.0	58.1
Foremen/Supervisors	61.0	53.9	56.9
Carpenters	56.0	39.7	48.6
Bricklayers	62.1	35.3	38.9
Electricians	38.2	26.1	30.8
Plaster Fixers	52.8	27.6	34.4
Tilers	n.a.	32.9	38.6
Painters	44.4	23.9	30.2
Steel Fixers	45.0	30.0	36.0
Concretors	48.0	31.2	37.1
Scaffolders	34.4	25.4	29.5
Building Consultants	n.a.	26.9	29.7
Office Staff	33.9	34.6	39.0
Labourers	27.9	27.2	28.1

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 have moderated over the past three years, particularly on the eastern seaboard in line with the housing downturn.

However, it is apparent that acute skill shortages exist in several of the smaller states and difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and, increasingly, carpenters.

Respondents were asked about input cost increases

Table 5: Input Costs Over the Next Six Months

	June 05	June 06	Mar 07	Jun 07
Much Higher	1.9	1.9	0.7	3.4
Somewhat Higher	60.0	51.7	53.6	53.0
About the Same	32.8	38.8	38.0	41.3
Somewhat Lower	5.1	7.3	7.5	0.5
Much Lower	0.1	0.3	0.2	1.8
Index	64.6	61.9	61.8	64.0

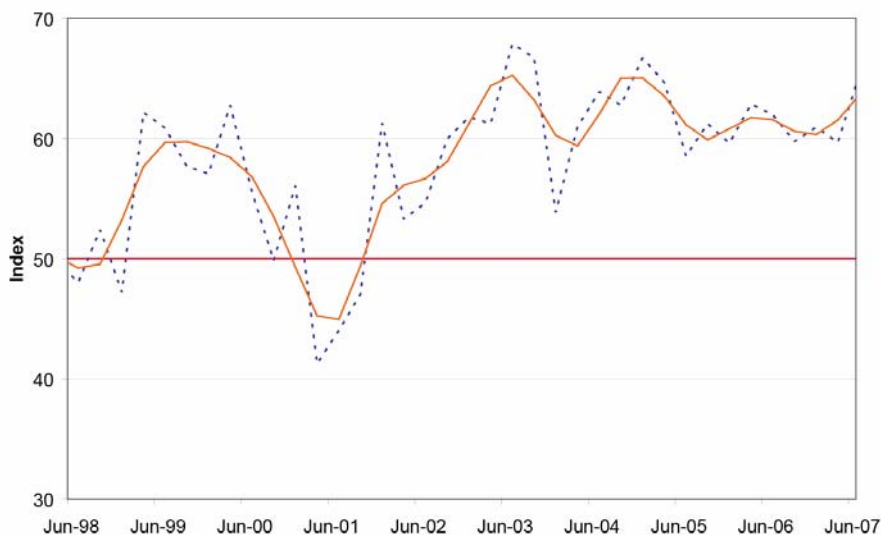
In order to gather information on input costs, respondents were asked whether they expected input cost increases (labour, materials) to be higher or lower over the next six months, compared to the past six months.

As Table 6 shows, the index picked up in the June quarter, with more builders expecting input cost increases to move higher. The index is now close to the level of two years ago after moderating somewhat since.

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.

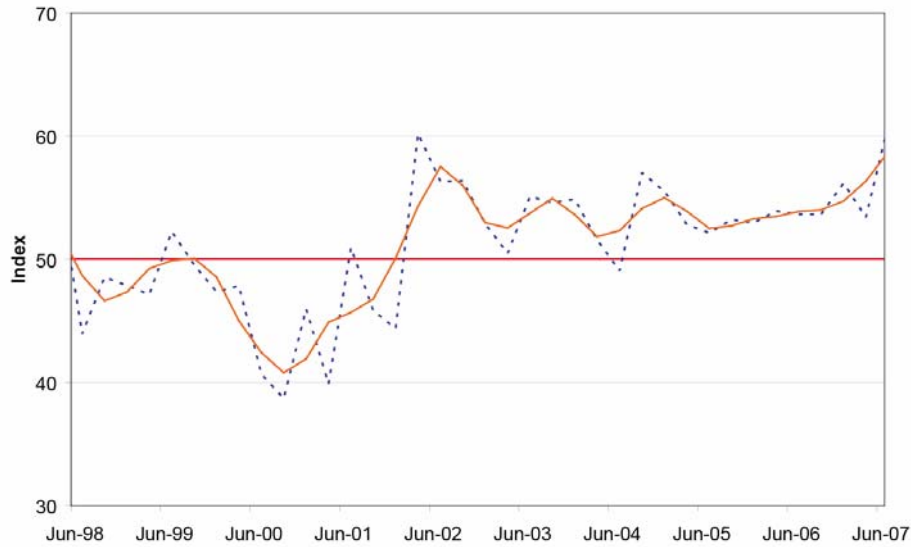
CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



The index is at a high level, indicating that respondents remain confident about the performance of the overall economy despite negative impacts of higher interest rates. Perceptions of current general business conditions rose strongly in seasonally adjusted terms in June quarter 2007, with the index at 65.3 compared with 59.7 in the March quarter (Chart 8).

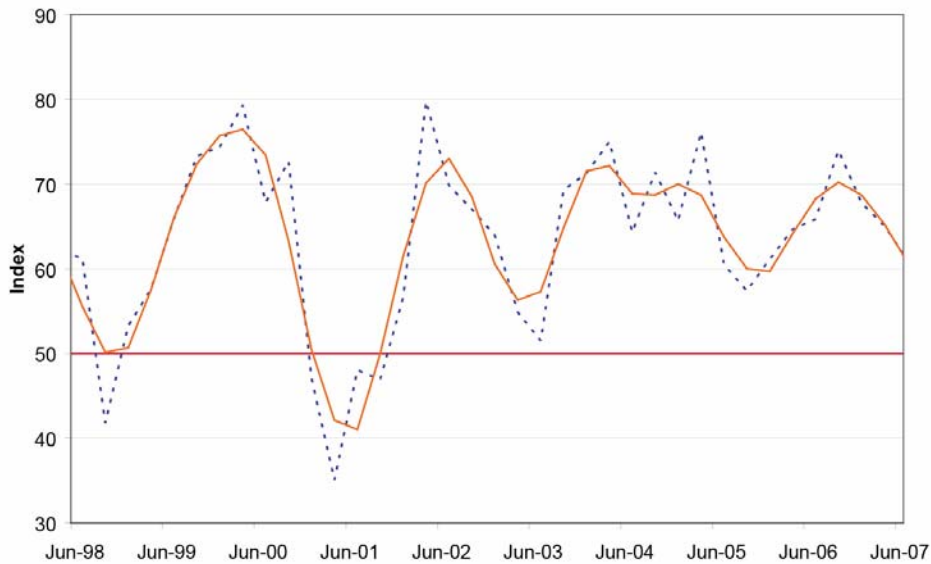
Expectations about where business conditions are headed also rose sharply in the June quarter 2007 (Chart 9) and with the index well above 50 builders are indicating that they expect even more improvement in the national economy over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS



Expectations for interest rates fell back again in the June quarter, following a spike in the index recorded a year ago in line with actual rate hikes by the Reserve Bank. Builders still expect interest rates to rise moderately.

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 conditions are strong and are expected to continue to improve. Current conditions in the residential sector appear to be turning around, with only 16.2 per cent of respondents describing them as poor or very poor, down from 30.6 per cent in the previous quarter. And confirming results of the survey, builders now expect residential activity to improve over the next six months.

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

	December Quarter 2006	March Quarter 2007	June Quarter 2007
Improving rapidly	1.0	0.4	1.2
Improving slowly	16.3	39.4	39.8
No change	43.3	46.6	43.5
Deteriorating slowly	38.4	13.1	13.2
Deteriorating rapidly	1.0	0.4	2.3
Index	44.5	56.6	56.1

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 37 per cent of respondents expressing a large or major concern and over 50 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	
	March 07	June 07
6. Development/planning approval process	58.6	59.8
7. Availability of labour	51.1	44.9
8. Infrastructure charges and levies	44.9	40.1
9. Availability of land	34.4	36.9
10. Availability of finance	21.5	19.1

Builders were most concerned about the development/planning approval process, with nearly 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Builders were also concerned about planning/development approval delays, with over 70 per cent 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 June quarter 2007, over one thousand (1,023) 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:

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