national survey of building and construction

June 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

BUILDER SENTIMENT TAKES A TURN FOR THE WORSE

Construction outlook deteriorates...

Master Builders' latest quarterly survey reveals expectations for building industry activity fell sharply in the June quarter. The index has now fallen below 50, indicating that builders believe industry activity will decline over the next six months. Changes in this Master Builders' index tend to mirror movements in actual construction output as reported by the ABS (see chart).

Builders are becoming increasingly concerned about the outlook for the economy, the building industry and their own businesses. A fourth consecutive quarterly fall in builder sentiment in the June quarter comes in the wake of tighter financial conditions and higher petrol prices.

...activity set to weaken...

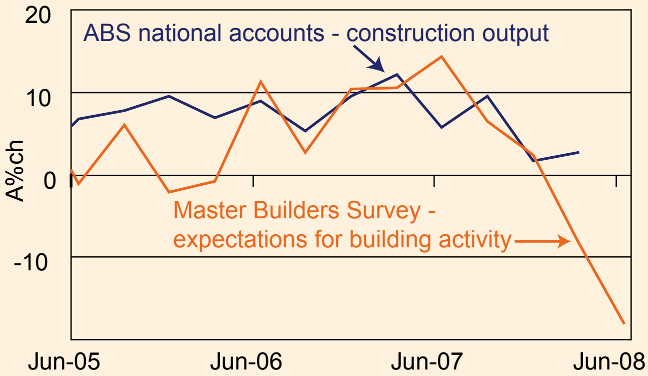
Builders report a softening in their own current actiivty and a sharp fall in expectations regarding activity over the next six months. Though remaining healthy, the gloss is beginning to come off profitability and the survey reported a fall in employment and investment intentions. Although work on builders' books remains solid, there was a sharp decline in display centre traffic/enquiries in the June quarter.

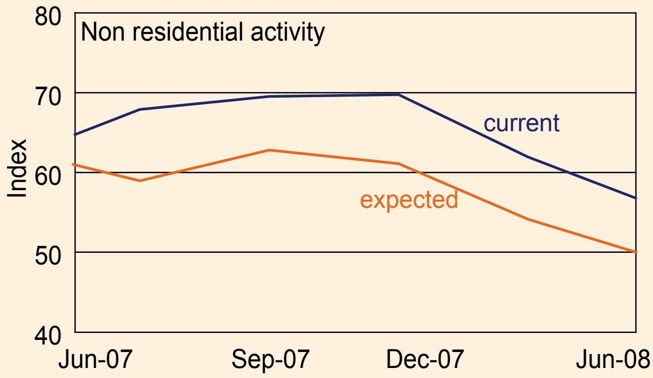
...as non-residential prospects fall...

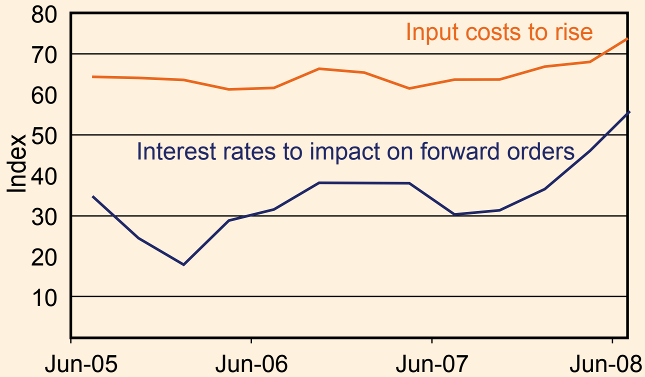
Worryingly for the health of the overall construction industry, the survey revealed further signs of deterioration in the non-residential sector. Non-residential construction activity has been a driving force over the past few years, but builders are reporting weaker conditions, as well as declining expectations about future activity (see chart).

...in the wake of high interest rates, rising costs

The fall in builder sentiment comes as respondents report a sharp increase in the index measuring the negative impact of interest rates on forward orders/enquiry rates/new contracts. The index measuring cost increases significantly worsened in the June quarter, continuing the trend of the past five quarters (see chart).







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SURVEY RESULTS

Industry outlook deteriorates…

Expectations for building industry activity fell sharply in the June quarter and the index has now fallen below 50, indicating that builders believe industry activity will be declining over the next six months.

…softer business conditions…

Builders' own business activity declined again in the June quarter and the index has given back all of the gains achieved in 2007. Nonetheless, with the index above 50, builders still perceive their current own business activity to be good.

Own business conditions fell in all states and territories except Victoria in the June quarter. Builders were most positive about their own business conditions in Tasmania and Western Australia, with index readings of 77.1 and 70.8 respectively.

…and falling sentiment…

Expectations for the next six months also fell in the June quarter and a strong down trend has developed. Although becoming less positive about the outlook, the index still remains above the 50 level, indicating that builders expect their business activity to improve over the next six months.

Profits begin to dip…

The reading for current own business profits fell in the June quarter although the series remains strongly positive following recovery from the 2000-01 construction downturn. Builders' perceptions about where their own profits are heading in the next six months fell back again in the June quarter in line with the deterioration that has occurred over the past year. Nonetheless, with the index well above 50, builders remain optimistic about future business profits.

…investment intentions trend down…

Intentions regarding own business investment in plant and equipment fell fractionally in the June quarter. The index is on a clear down trend although not yet out of line with fluctuations experienced over the past 5 or 6 years, following a sharp improvement from the 2000-01 downturn.

…employment to weaken

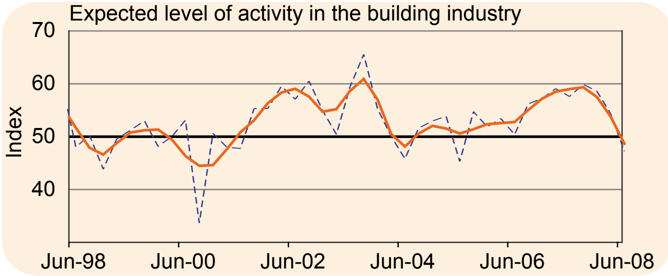
The index measuring builders' intentions regarding the likely level of employees and subcontractors over the next six months fell sharply in the June quarter. The index is close to the 50 level, indicating that builders expect no change in full time employees in the period ahead.

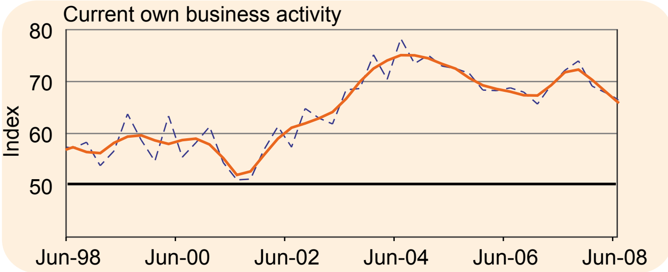
Backlog of work still healthy…

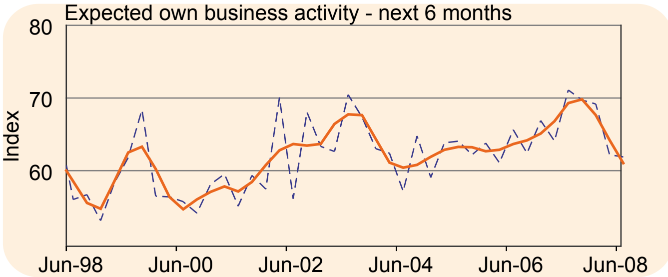
Builders continue to have a healthy backlog of work, with the index remaining around the level experienced a year ago. In the June quarter, the percentage of respondents reporting 3 to 6 months or more than 6 months of work on the books was 75.4 per cent compared with 73.4 per cent in the June quarter of last year.

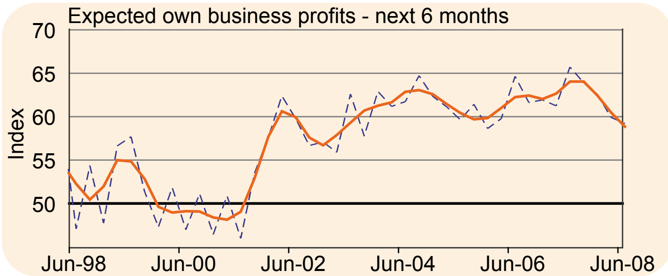
… but traffic/enquiries decline sharply

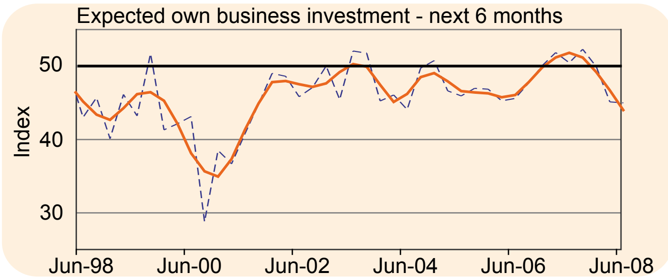
In the June quarter, the index fell sharply to 40.9 from 47.1 recorded in the previous quarter. Display centre traffic/enquiries is an important leading indicator of activity, with respondents asked about the level of display centre traffic/enquiries in the past three months compared with the previous three months.

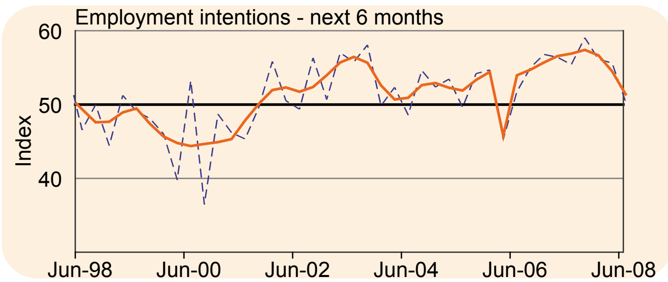


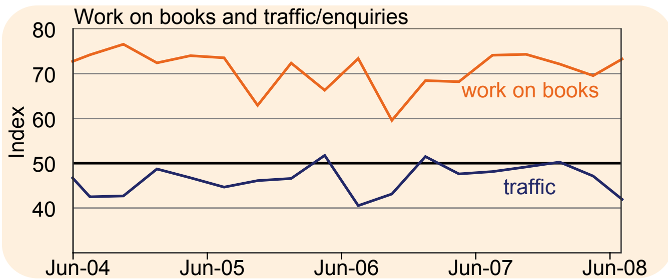






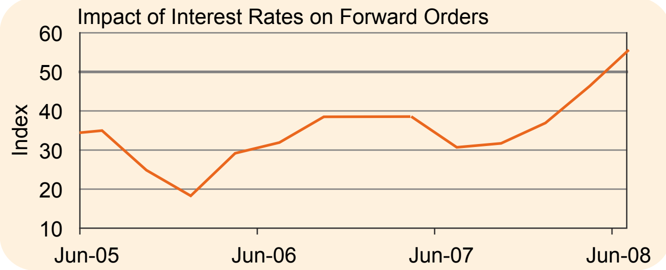






Interest rates biting...

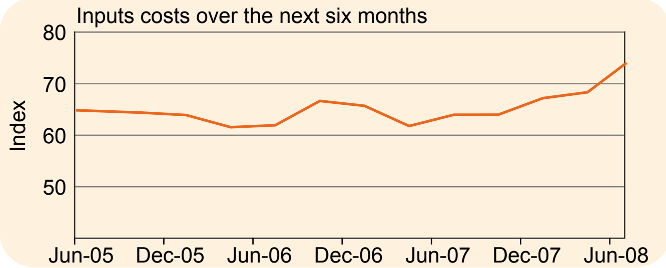
In the past two quarters, there has been a sharp increase in the index measuring the impact interest rates were having on forward orders/enquiry rates/ new contracts.



...costs continue to rise...

After worsening over the past five quarters, the index once again rose sharply in the June quarter, i.e. builders expect input cost increases to move significantly higher over the next six months.

Respondents are asked whether they expect input cost increases (labour, materials) to be higher or lower over the next six months, compared to the past six months.



...difficulties finding labour...

Large difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and, increasingly, carpenters and bricklayers. Difficulties finding labour have worsened over the past year for all categories surveyed. Acute skill shortages exist in several of the smaller states.

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 appear to be building again after moderating somewhat in 2005 and 2006 in line with the housing downturn, particularly on the eastern seaboard.

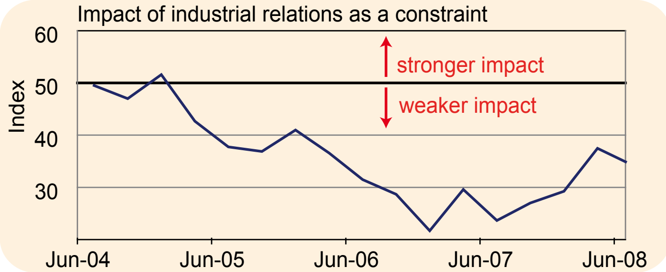
National availability of labour

	Jun 2007	Mar 2008	Jun 2008
Project Managers	59.8	66.6	67.7
Site Managers	58.1	66.3	67.3
Foremen/Supervisors	56.9	62.4	61.9
Carpenters	48.6	51.2	53.3
Bricklayers	38.9	47.6	49.4
Tilers	38.6	46.8	44.8
Office Staff	39.0	46.9	44.4
Steel Fixers	36.0	41.6	41.7
Concreters	37.1	42.2	42.6
Plaster Fixers	34.4	41.9	39.8
Building Consultants	29.7	40.5	38.8
Electricians	30.8	36.3	34.1
Painters	30.2	33.2	32.7
Labourers	28.1	33.0	33.7
Scaffolders	29.5	33.6	32.4

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.

...IR constraint?

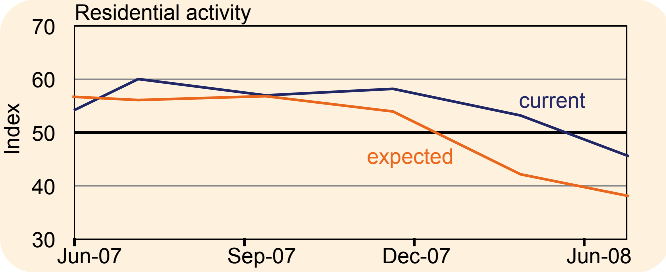
Industrial relations as a constraint on activity moderated in the June quarter after three consecutive quarterly increases. Notwithstanding this, it appears that it may be becoming an issue again, following the dramatic fall that occurred in 2005 and 2006 associated with the introduction of the *Building and Construction Industry Improvement Act* and establishment of the Australian Building and Construction Commission.



After a strong phase...

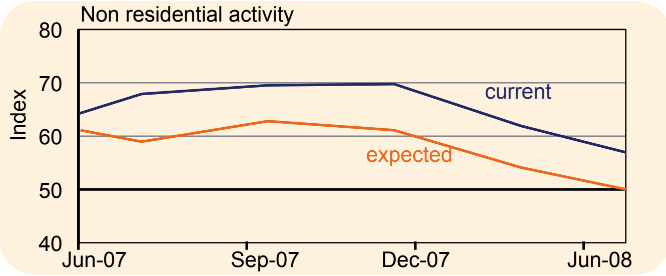
Builders with significant operations in both residential and non-residential sectors were asked a series of supplementary questions.

- 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?



...non-residential conditions softening

In the non-residential sector current conditions fell back again in the June quarter and expectations about future activity have also weakened considerably. Current conditions in the residential sector fell in the June quarter after some improvement and builders now see a deterioration residential activity over the next six months, a reversal of views expressed in 2007.



Housing constraints...

The survey shows builders have concerns about housing affordability. More than 50 per cent of respondents expressed a large or major concern and over 70 per cent believe that housing affordability will deteriorate over the next 12 months.

Builders were most concerned about the development/planning approval process, with over 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Constraints have worsened over the past 12 months, particularly in relation to the availability of labour. Although not as significant in terms of other constraints, availability of finance has become much more of a constraint on builders' businesses, almost certainly related to higher borrowing costs associated with rising interest rates.

Builders were also concerned about delays in the planning/development approval process, with over two thirds of respondents indicating a moderate to major level of concern.

Builders were asked the following questions:

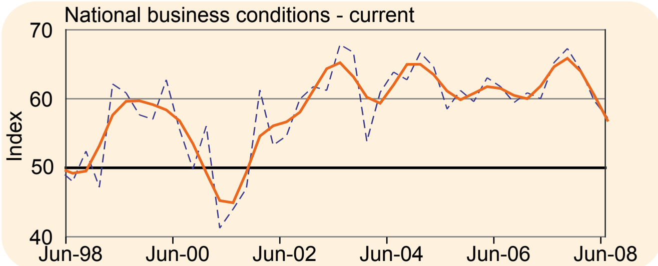
- How concerned are you about housing affordability?
- Over the next 12 months, do you expect housing affordability to improve or worsen?
- What effect is availability of land/labour/finance/infrastructure charges/d.a. planning process having on your business?
- How concerned are you about planning/development approval delays?

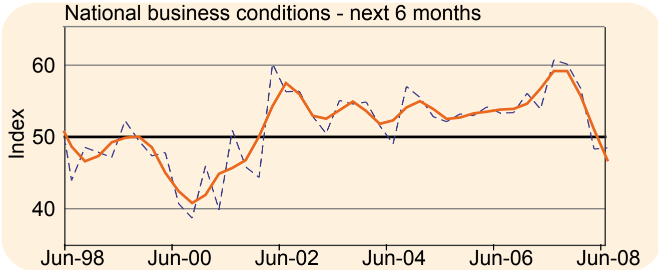
...views on national economy turn gloomy

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 national business conditions have fallen sharply over the past year, with the index at 54.2 compared with 65.2 a year ago. Expectations about where national business conditions are heading have fallen markedly, with the index slipping below 50 for the first time in several years.

Expectations for further large interest rate rises have fallen back in the wake of rate hikes by the Reserve Bank and, independently, the banks. Nevertheless, builders still expect interest rates to rise considerably over the next 12 months.





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 2008, 848 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:

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