

June 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

BUILDER CONFIDENCE RECOVERS BUT RISK OF DOWNTURN REMAINS

Builder sentiment improves...

Master Builders latest quarterly survey reveals expectations for building industry activity recovered somewhat in the June quarter after the massive fall in sentiment experienced over the past 6 to 12 months.

However, the index, at 43.6, remains below the neutral 50 mark (see chart), indicating that builders still expect industry activity to deteriorate over the next six months. A similar pattern emerged in relation to survey results for own business conditions, profits, investment and number of full-time employees.

...but industry outlook still weak...

The proportion of builders expecting a reduction in business activity as a result of the global financial crisis fell from 80 per cent to 60 per cent in the June quarter. Nonetheless, of those expecting an impact, more than half expect their own business activity to fall by more than 20 per cent over the next 12 months.

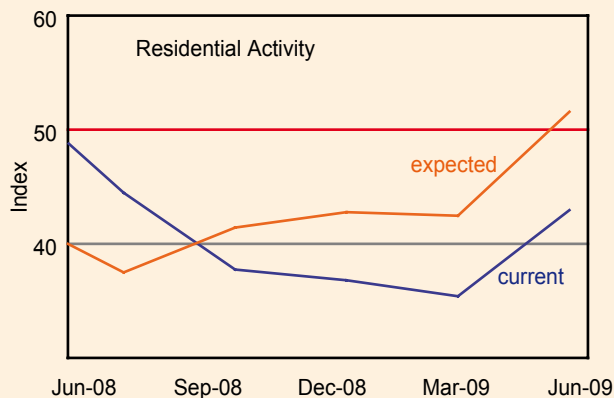
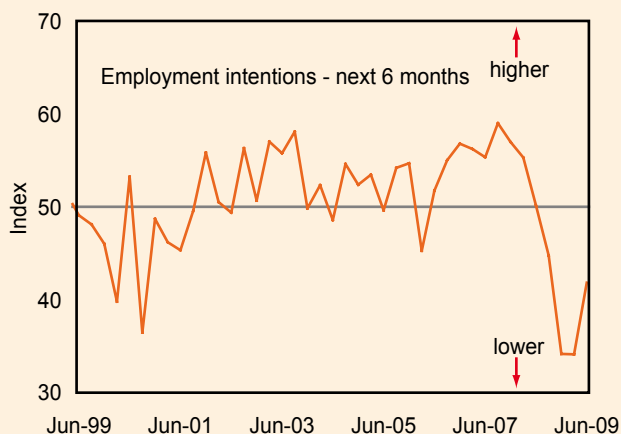
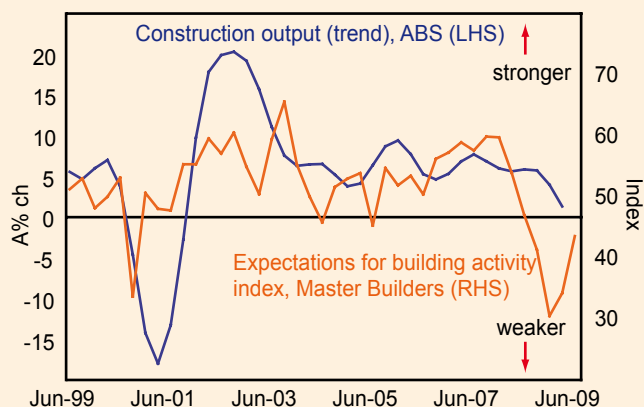
Similarly, in the face of the looming downturn, 60 per cent expect staffing/sub-contract numbers to fall by up to 5 per cent, with 40 per cent anticipating employment numbers to fall by more than 5 per cent. Despite the 'less negative' result for the June quarter (see chart), builders intend to cut back employee and subcontractor numbers in the period ahead.

...fiscal stimulus kicks in...

With government economic stimulus measures such as the schools (BER) and social housing initiatives beginning to kick in, builders were also asked to what extent they thought the Federal Budget would impact on their business. Sixty-two per cent of those surveyed believe the Budget will be positive for their business, although most of those expect the impact will be 'slight' or 'moderate'.

...residential building to the rescue?

Key forward indicators in the residential sector are providing some encouragement, although activity can be expected to take considerable time to turn around. In the June quarter, there were indications that the pace of decline in display centre traffic/enquiries might be abating, with nearly a third of respondents reporting higher levels of traffic compared to the previous quarter, up sharply on levels reported over the past 12 months.



Building industry outlook poor despite improvement in sentiment...

Expectations for building industry activity rose sharply in the June quarter after a slight improvement in the previous quarter that came following five consecutive quarterly falls. At 43.6 the index remains below the neutral 50 mark, indicating that builders believe industry activity will deteriorate over the next six months.

...pick up in own business conditions...

Builders' own business activity picked up in the June quarter. The index rose to 57.5, up from the 51.0 recorded in the previous quarter, the lowest level seen since 2001. Despite this, the index is well below levels achieved a year ago when building conditions were stronger.

There was some improvement in own business conditions in all states and territories during the June quarter except New South Wales and Western Australia. Builders were most positive about own business conditions in Tasmania and Victoria in the latest quarter.

...rebound in outlook for own business conditions...

Expectations for own business activity over the next six months rose substantially in the June quarter after plumbing the depths in the previous two quarters. At 56.2, the index has moved from more than 8 points below the neutral 50 mark to more than 6 points above, indicating that builders expect a turnaround in own business activity over the next six months.

...and profit fall stabilises

The reading for current own business profits recovered in the June quarter after falling below the 'satisfactory' 50 mark in the previous quarter. Nonetheless, the index remains well below healthy levels recorded up until the June quarter of 2008.

Builders became much less pessimistic about where their own profits are headed in the June quarter. The index rose to 48.8 (from 41.0) close to the 50 mark, indicating that builders now expect little change in business profits over the next six months.

Builders plan to cut investment...

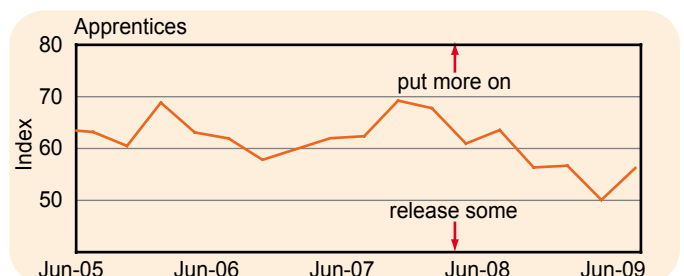
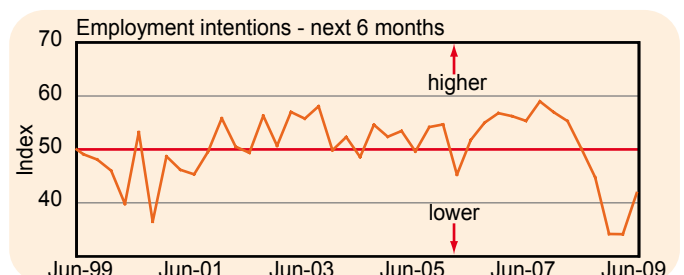
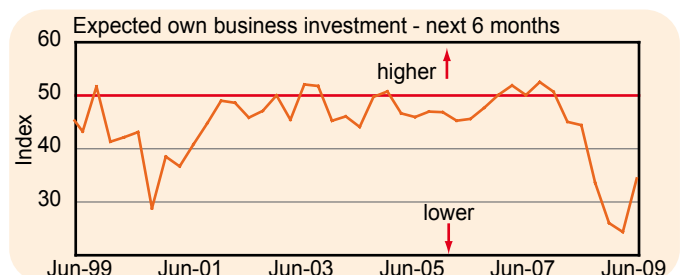
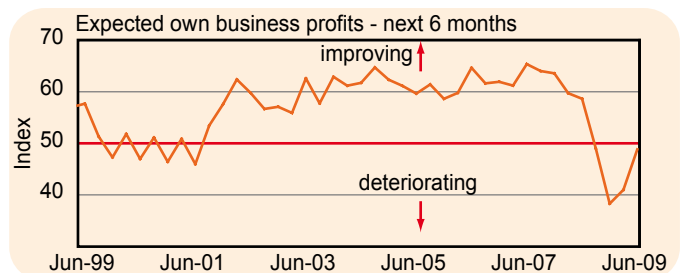
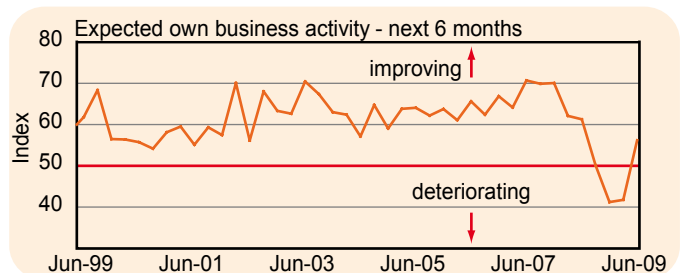
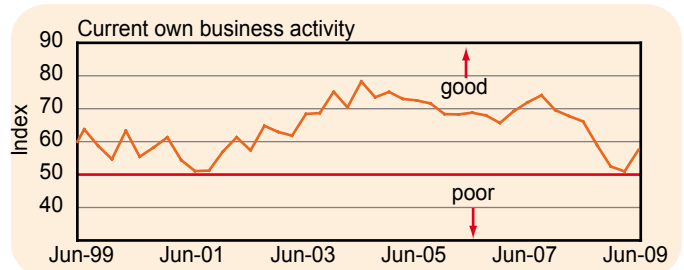
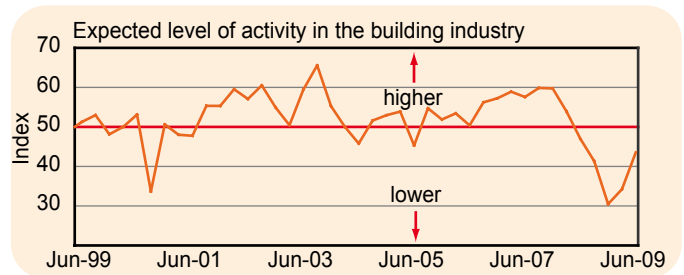
Intentions regarding own business investment in plant and equipment remained firmly in the 'lower' category in the June quarter. The index improved but at 34.4 remains well below the neutral 50 mark.

...and reduce employment...

Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months. In the June quarter, the index rose to 41.8, up on the previous quarter (34.1) but remaining well below the neutral 50 mark, indicating that builders intend to reduce their workforce in the period ahead.

...putting apprentices at risk

Although three quarters of respondents are not looking to change their apprentice levels, the proportion of builders saying they will put on more has fallen sharply since this time last year, notwithstanding some improvement over the latest quarter.



Backlog of work still holding...

Builders continue to have a reasonably solid backlog of work. Although the index is down on a year ago the percentage of respondents reporting more than six months of work on the books actually improved in the June quarter.

Display centre traffic/enquiries stop falling...

Indications are that the pace of decline in display centre traffic/enquiries may be abating. In the June quarter, nearly a third of respondents reported higher levels of traffic compared to the previous quarter, up sharply on levels reported in 2008 and the March quarter of 2009.

Cost pressures ease...

Cost pressures have eased over the past year (see chart). 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. For a number of years until recently, cost increases had been a serious concern with the index in the 70 to 75 range. The index has stabilised around the neutral 50 mark in the past 3 quarters.

Non-residential—some recovery but conditions still deteriorating...

Builders with significant operations in both residential and non-residential sectors are asked a series of questions relating to the respective sectors.

In the non-residential sector builders continued to report current conditions as deteriorating in the June quarter, although the index improved slightly over the quarter. The index measuring expectations about future activity, whilst remaining in negative territory, picked up significantly as non-residential builders become less pessimistic about future conditions.

...residential—improvement expected

For the residential sector, the index for current conditions picked up, but at 43.0 the index indicates less than satisfactory conditions still exist.

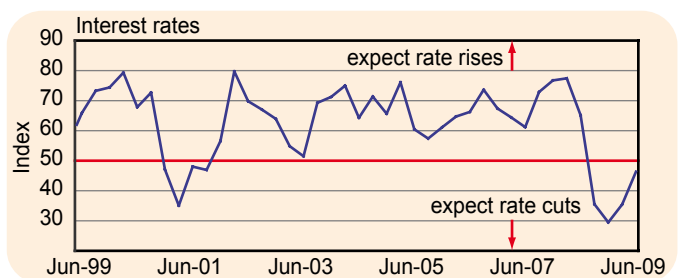
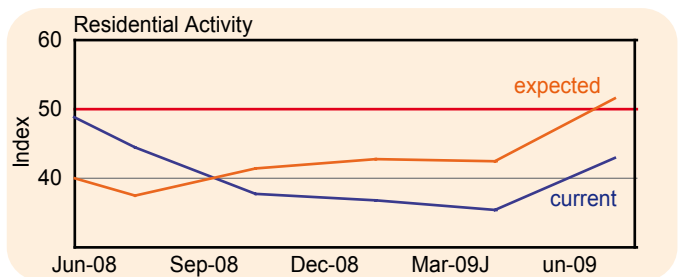
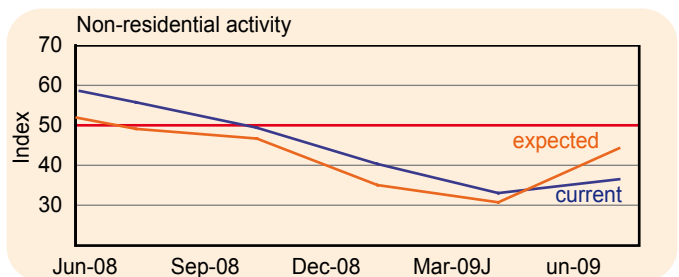
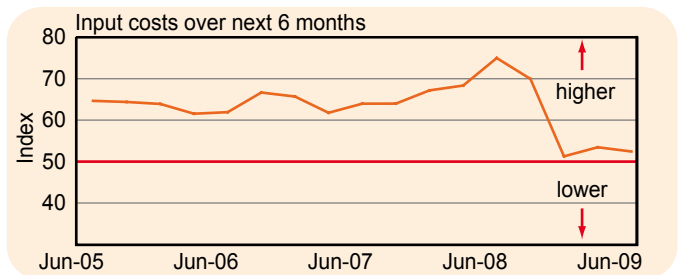
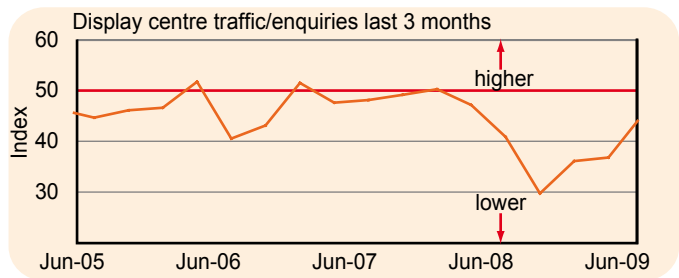
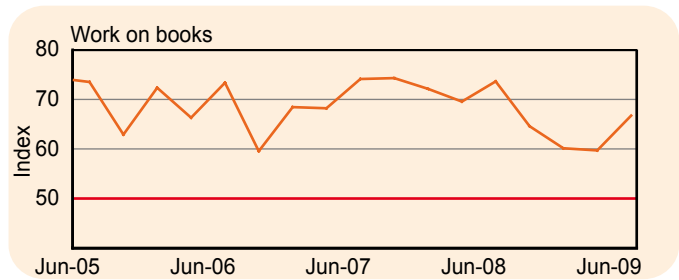
In terms of expected activity, a major turnaround occurred in the June quarter. The index jumped from close to 40 (around the level experienced over the past year and a half) to 51.6, above the neutral mark and indicating builders expect some improvement in conditions.

There was a further pick up in the proportion of respondents expecting improved conditions, a sign that fiscal and monetary policy stimulus is starting to make a difference.

Financial constraints still a concern...

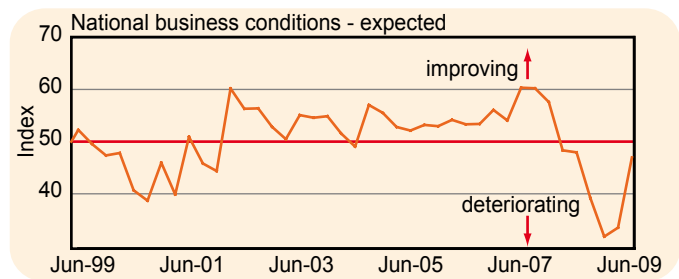
Concerns about the credit squeeze and borrowing costs continue to be reflected in the survey, with the availability of finance remaining as a constraint on business. In the June survey, 33 per cent of respondents were concerned that availability of finance was having a large/major constraining effect on their businesses, up significantly on survey results for the first half of 2008.

Although slightly more than 50 per cent of builders see further rate cuts ahead, the June quarter result is in line with the view that we may be at or close to the end of the easing cycle (see chart).



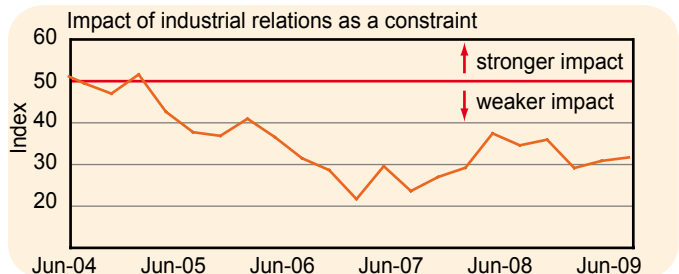
Confidence improves in the overall economy...

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 improved over the June quarter after they had fallen away dramatically over the course of 2008. There was a big pickup in expectations about where national business conditions are heading in the next 6 months (see chart), with the index close to where it was a year ago in mid 2008.



IR constraint—low but trending 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 December quarter, there has been a continuation of the trend increase in the March and June quarters (see chart).



Easing of skill shortages...

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 stayed low in the June quarter, in line with weaker industry conditions. Difficulties finding labour have eased significantly for all categories surveyed over the past 12 months, a reversal of the situation which saw builders experiencing extreme difficulty finding a range of subcontractors/employees, including project managers, site managers and foreman/supervisors. The situation has eased considerably even though some difficulties exist in smaller states e.g. Tasmania and South Australia.

National availability of labour

	Dec 2008	Mar 2009	Jun 2009
Project Managers	40.3	28.6	31.4
Site Managers	40.2	26.8	30.5
Foremen/Supervisors	36.1	26.4	27.5
Carpenters	26.8	17.3	15.5
Bricklayers	25.4	19.6	16.8
Tilers - floor and wall	28.2	19.7	19.9
Plaster Fixers	23.0	14.5	15.8
Office Staff	22.8	15.3	13.1
Tilers - roof	19.5	14.0	13.8
Electricians	18.8	12.7	11.9
Steel Fixers	23.3	16.0	16.2
Concreters	19.6	16.8	16.2
Building Consultants	18.2	12.1	8.7
Painters	17.7	12.0	11.4
Labourers	15.9	10.0	8.1
Scaffolders	16.4	14.6	10.5

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 June quarter 2009, 908 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:

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