

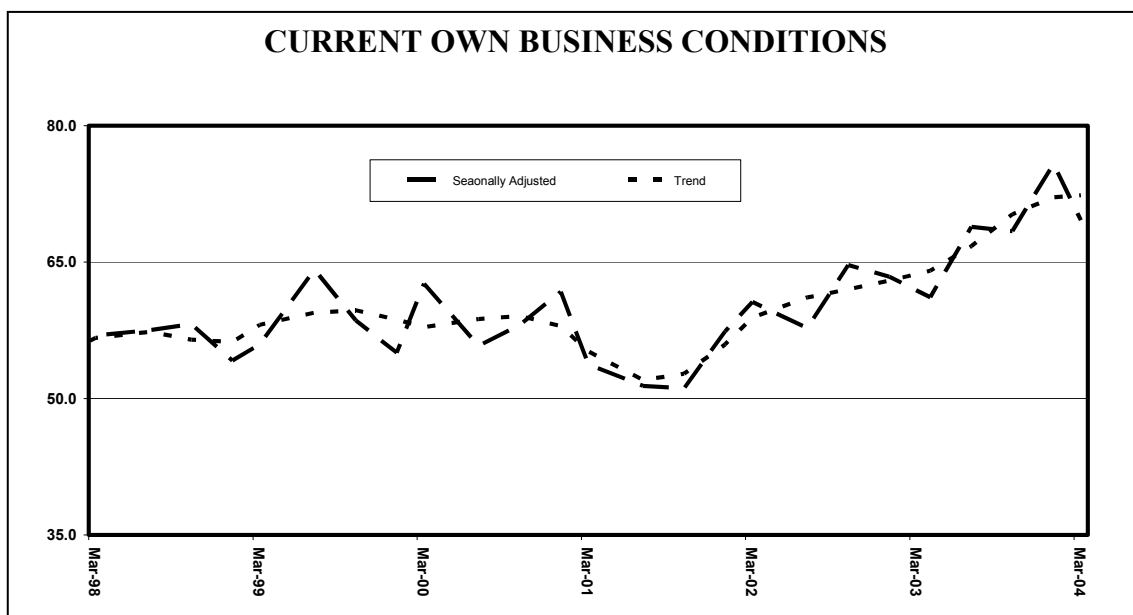
BUILDING INDUSTRY PEAKS AS HIGHER INTEREST RATES BITE

SUMMARY

The survey results for the March quarter 2004 show that industry conditions fell appreciably in the past three months suggesting that the industry peaked in late 2003.

Industry perceptions of own business conditions in the March quarter deteriorated with the index at 69.6 compared with 75.8 three months ago. This fall is in line with expectations recorded three months ago that predicted less buoyant conditions.

However within this result there was some variation between the residential and commercial sectors with the index for residential (not seasonally adjusted) above the overall result at 79.8 and the outcome for commercial lower at 66.6. This outcome was generally consistent across the survey with the residential sector generally more positive than the commercial sector and the commercial sector deteriorating to a greater extent between quarters.



In contrast with the outcome for current conditions, expectations for the next six months improved slightly to 63.2 compared with 61.0 in the December quarter but this followed a very large fall in the December quarter.

This deterioration in business conditions was also reflected in a fall in concern about available capacity with the index rising to 58.6 compared with 46.2 three months ago. Concerns over capacity have lessened considerably since the June quarter 2003 when the index was at a record low of 41.5, indicating very little excess capacity at that time.

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 two interest rate increases in late 2003 had an immediate impact with 56.5 per cent of respondents indicating that new business was either somewhat or much lower.

The impact was more pronounced in the residential sector with 83.4 per cent responding that new business was negatively affected.

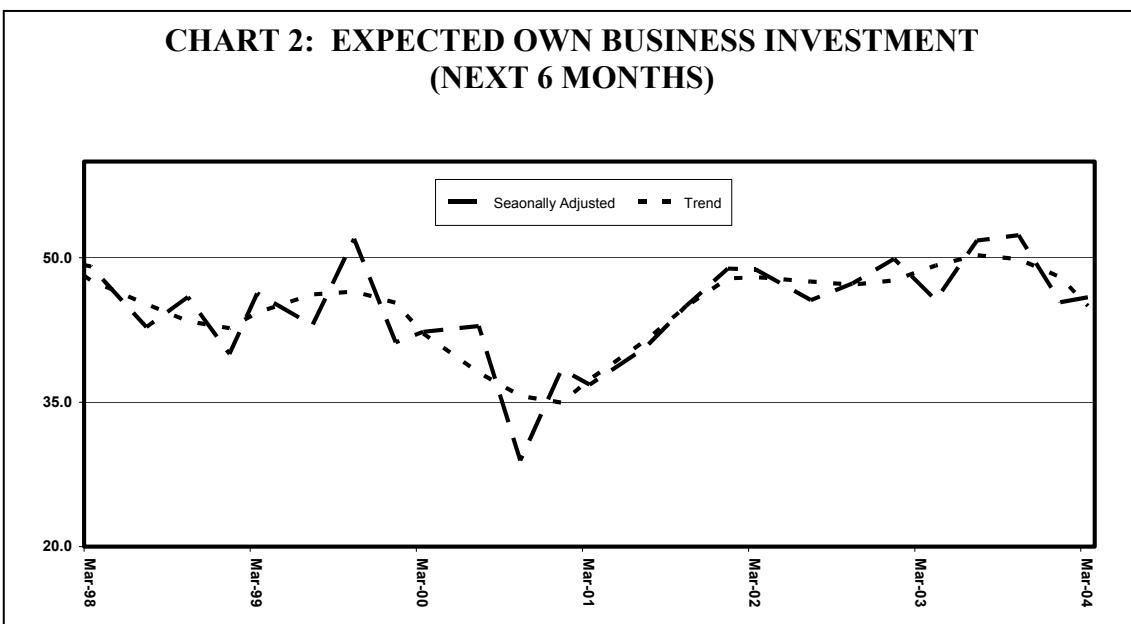
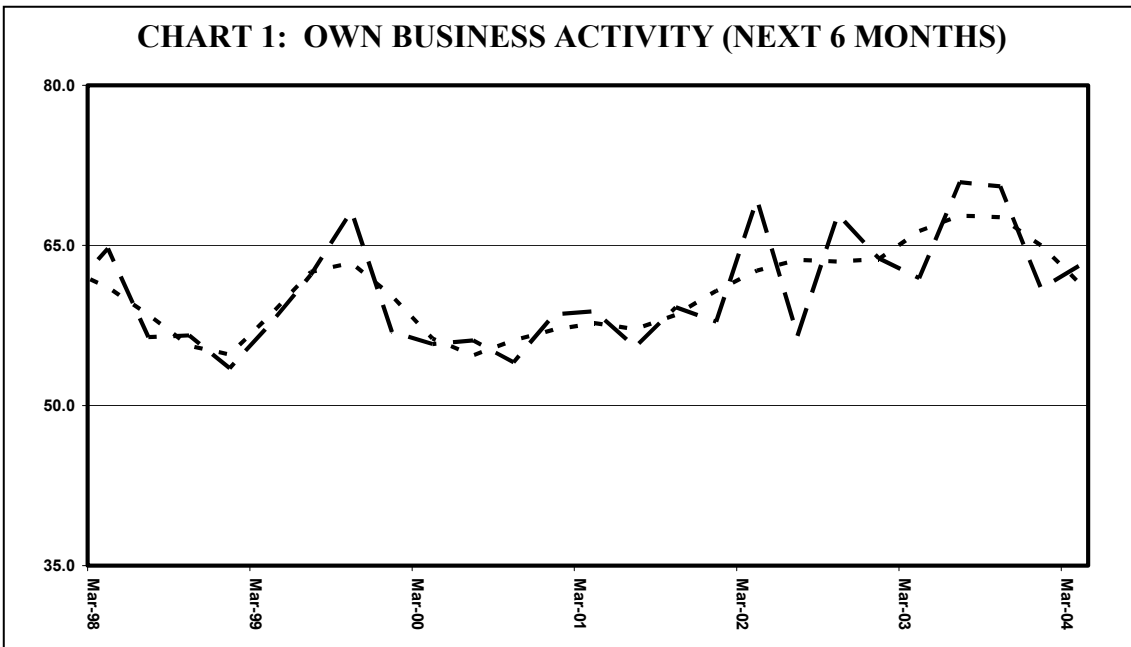
SURVEY RESULTS

OWN BUSINESS

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

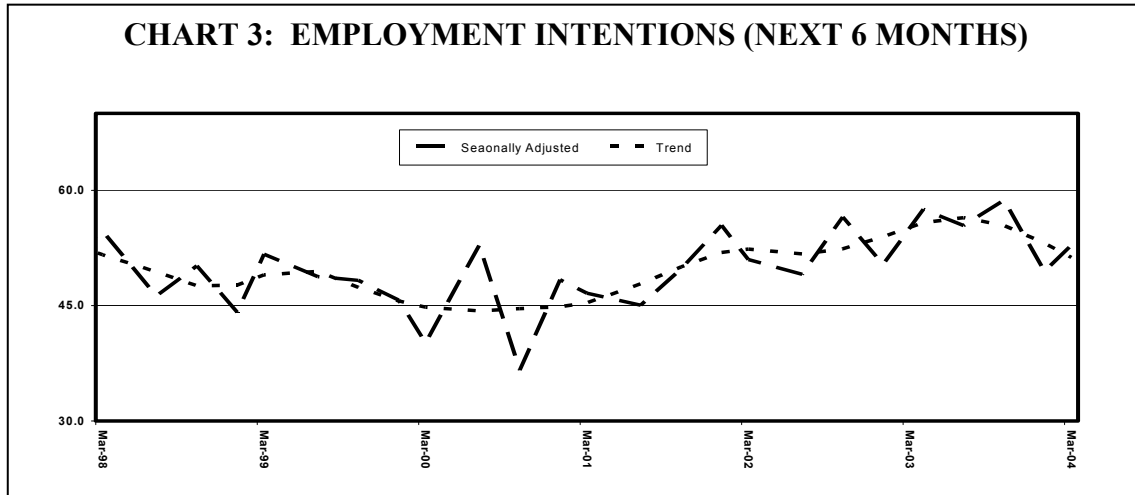
As indicated in the chart on page 1, own business conditions deteriorated significantly in the March quarter albeit from the record high of the December quarter. All but one state/territory recorded strong business conditions, headed by Tasmania and South Australia with index readings of 94.0 and 81.0 respectively. The weakest conditions were recorded in NSW where an index of 50.7 was recorded.

In contrast with current business conditions, expectations for the next six months rose slightly in the March quarter but this followed a large fall in the December quarter (Chart 1). The trend reading for expectations for the six months ahead are now at their lowest level since the December quarter 2002.



In contrast with the fall in expectations of activity, expectations for own business investment were stable in the past quarter. Investment expectations have improved considerably over the past three years from a low of 28.9 in the September quarter 2000 and remained well above this level at 45.9 in the March quarter.

Employment intentions (Chart 3) improved in the March quarter following a significant fall in the December quarter. Employment intentions have followed a similar pattern to those for investment, rising significantly over the past two years, before peaking in the second half of 2003.

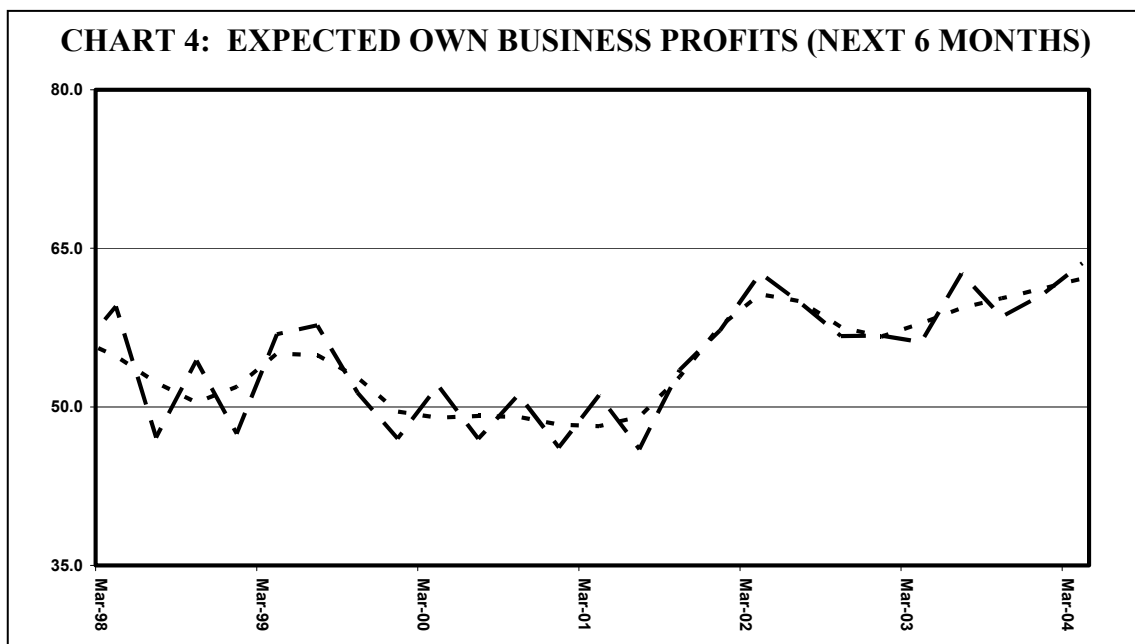


Current business profits rose somewhat in the March quarter to 60.5 in line with the strong activity levels of late 2003. Once again, this series had recovered strongly from a most recent low of 46.4 in the March quarter 2001 to the current reading.

Perceptions of profitability were somewhat higher in the residential sector (73.3) than the commercial sector (58.2).

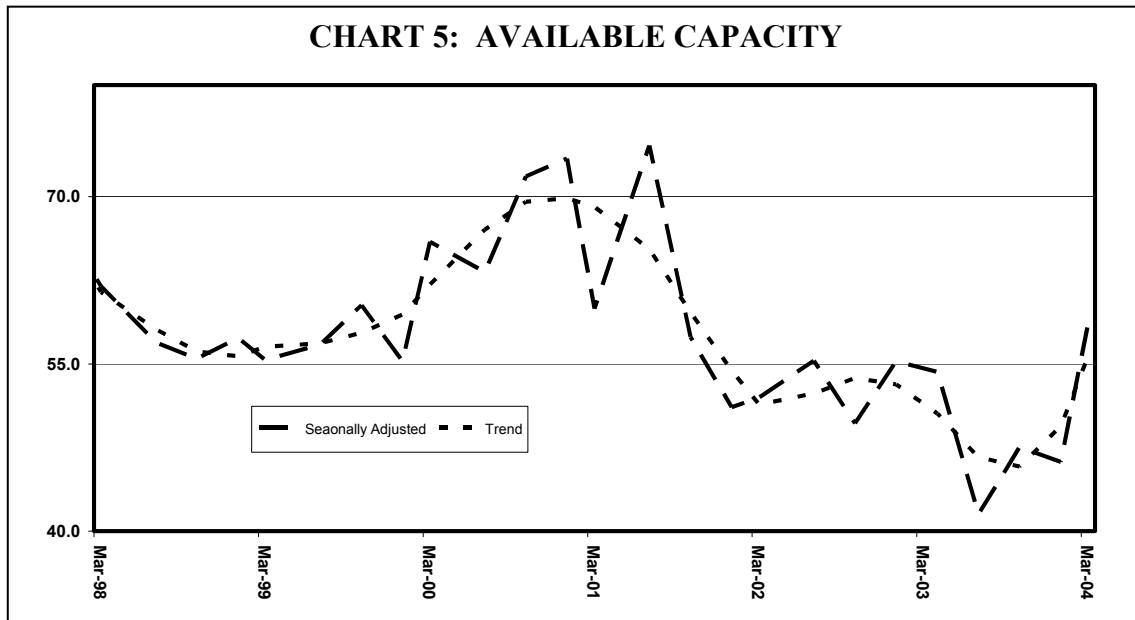
In line with the rise in current business profits, expectations for business profits also improved in the March quarter rising to 63.6 compared with 60.6 in the December quarter. Profit expectations remain significantly higher than they were this time last year.

Expectations for profits (Chart 4) were broadly similar in the commercial and residential sectors.



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. However, in line with signs that activity levels have slowed, available capacity has improved considerably over the past three quarters and is now at a two-and-a-half year high, although still well below the June quarter 2001 peak.

Capacity constraints were more of a concern in the residential sector with an index of 21.2 compared with 57.9 in the commercial sector.



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	3.0
3-6 months	26.9
1-3 months	23.5
Less than 1 month	46.5
INDEX	28.8

The overall index was 28.8, indicating that respondents considered they had, on average, around two-three months work on their books.

This compared with a reading of 32.6 in the December quarter suggesting that conditions had deteriorated in the March quarter.

The amount of work on the books was much lower in the residential sector than the commercial sector.

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

Table 2: Impact of Industrial Relations

Critical	16.4
Large	21.8
Moderate	29.7
Slight	19.6
No Effect	12.5
INDEX	52.5

As can be seen from table 2, 67.9 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business. The overall index of 52.5 was slightly higher than the 51.2 recorded last quarter indicating a slight increase in industrial problems. Results however varied widely from State to State with New South Wales and Victoria recording indexes of 74.1 and 58.0 respectively, indicating that industrial relations were a major problem in these States. It is worth noting that industrial relations appears to have improved considerably in Western Australia over the past quarter.

Industrial relations were perceived to be a greater problem in the residential sector with an index of 58.2 compared with 54.5 in non-residential. This is a turnaround from the December quarter.

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

Table 3: Employment of Apprentices (Next Six Months)

Put on More	25.4
No Change	73.4
Release Some	1.2
INDEX	62.1

Whilst the overwhelming majority of respondents (73.4 per cent) were not expecting to change the number of apprentices they employ, encouragingly 25.4 per cent said they were likely to put on more apprentices compared with only 1.2 per cent of businesses who said they were likely to release apprentices.

This resulted in an overall index of 62.1 compared with 58.9 in the December quarter indicating an improved outlook for apprentices.

The residential sector was much more optimistic about apprentices with an index of 79.5 compared with 59.7 in the non-residential sector. This is a turnaround from the December quarter when the opposite was the case.

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

Table 4: Availability of Labour

	MQ	DQ
Foremen/ Supervisors	59.7	(48.8)
Site Managers	58.9	(48.5)
Project Managers	57.4	(51.2)
Bricklayers	53.4	(47.1)
Plaster Fixers	51.8	(51.5)
Concreters	48.9	(44.6)
Steel Fixers	47.7	(44.6)
Scaffolders	45.4	(33.4)
Painters	44.8	(38.5)
Electricians	36.4	(45.1)
Labourers	29.2	(31.6)
Office Staff	28.8	(35.0)

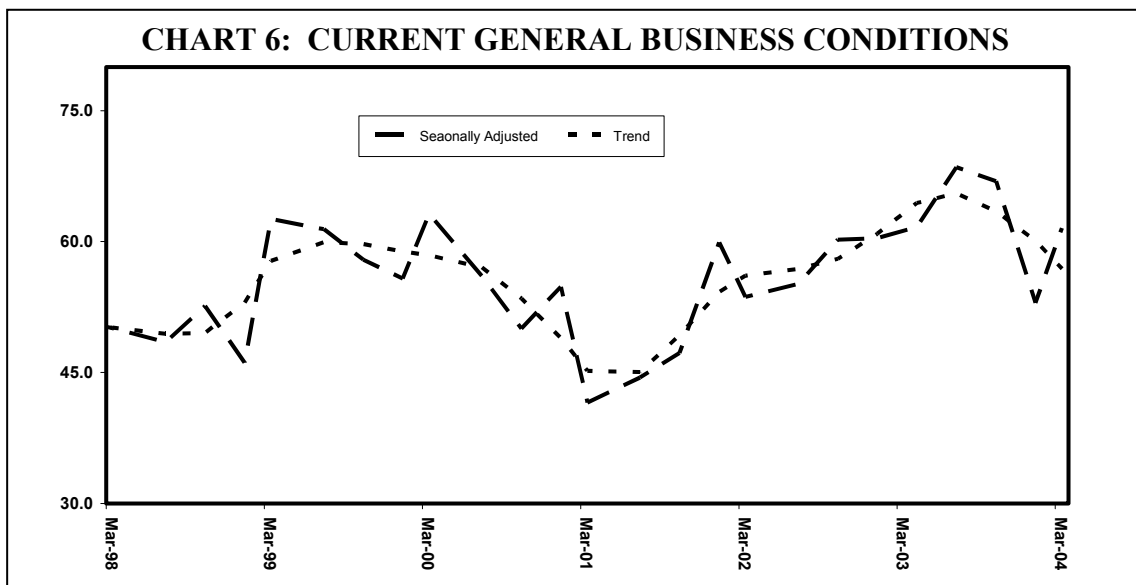
In general, the responses indicated that workers had become less easy to come by. There appeared to be an adequate supply of labourers, scaffolders, office staff, painters, electricians and steel fixers, however managers, bricklayers, plaster fixers and concreters were in short supply.

There were also significant regional differences, with Queensland and the Northern Territory in particular having significant shortages across all areas except office staff and extreme shortages apparent in bricklayers, steel fixers and plaster fixers. Availability of resources has improved considerably in New South Wales and Victoria with few difficulties apparent. Tasmania exhibited severe shortages in bricklayers and plaster fixers, Western Australia and South Australia in bricklayers.

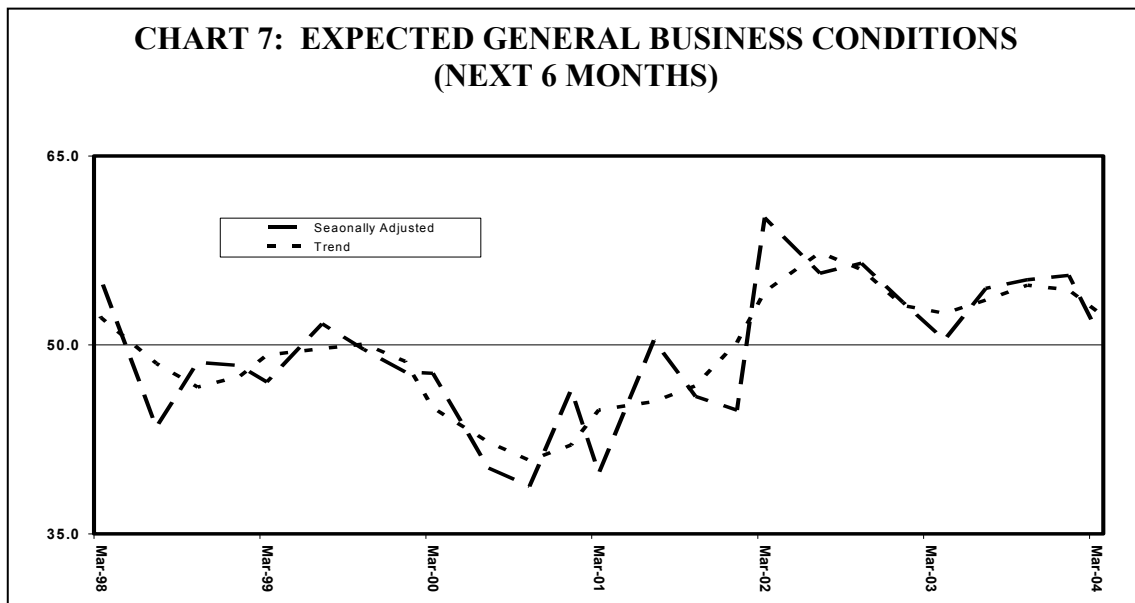
NATIONAL ECONOMY

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 markedly in the March quarter with the index rising to 61.6 compared with 53.0 in the December quarter (Chart 6). This result clearly reflects the general improvement in economic conditions since the mid-2003 lull.

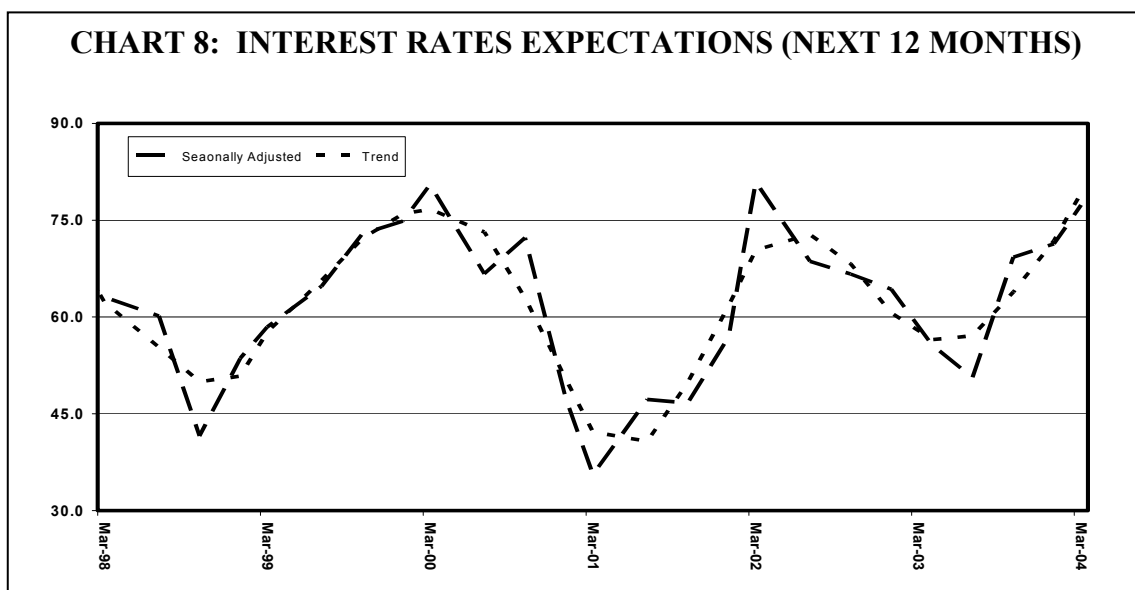


While current general business conditions were perceived to have improved, expectations for general business conditions in the next six months were weaker (Chart 7). However, as indicated above, and somewhat in contrast to other series, expectations for general business conditions peaked around two years ago.



Expectations for national business conditions were higher in the residential sector at 52.0 compared with 47.7 for commercial.

Expectations for interest rates recorded an index of 77.4 in the March quarter compared with 71.3 in the December quarter. This indicates even more pronounced expectations of rising interest rates in the twelve months ahead. 87.3 per cent of respondents expected a rise in interest rates with only a very small 0.3 per cent predicting a fall in rates over the next twelve months. The Reserve Bank announced rises in interest rates in November and December 2003.



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 5: Effect on Recent Interest Rate Increases

Much Higher	3.9
Somewhat Higher	17.9
About the Same	21.7
Somewhat Lower	37.0
Much Lower	19.5
INDEX	37.4

An index of 37.4 was recorded for the impact of interest rates, with 56.5 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 immediate impact on forward business. This impact was more pronounced in the residential sector where 83.4 per cent of respondents indicated new orders were 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.

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