



March Quarter 2005

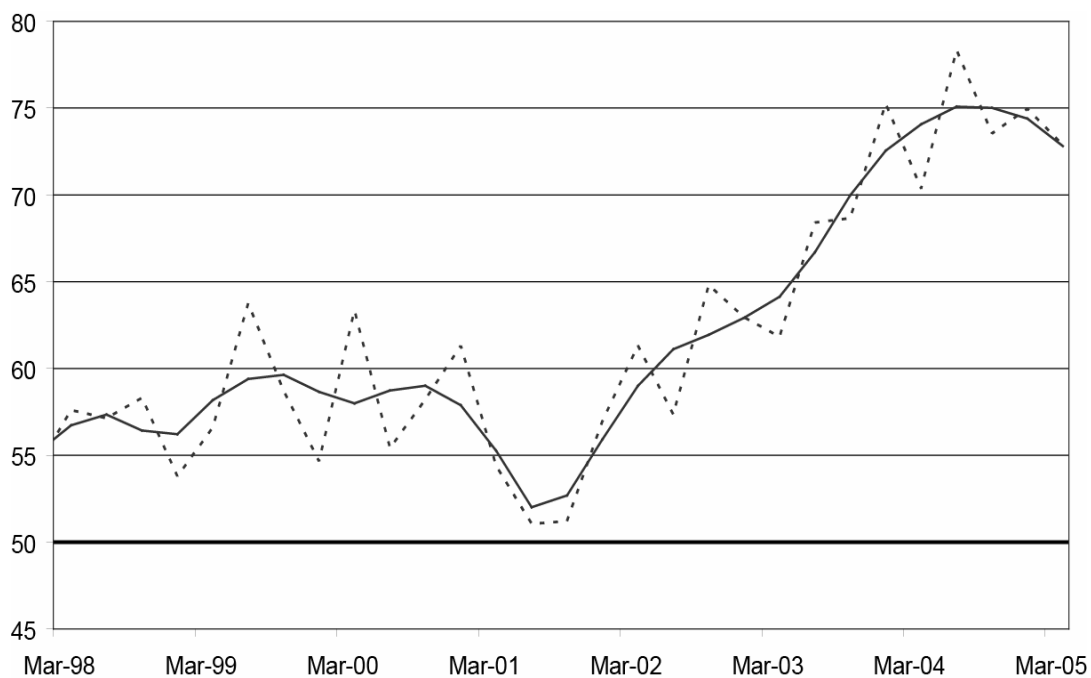
BUILDER ACTIVITY BEGINNING TO SLOW CONFIDENCE HOLDING UP FOR NOW

SUMMARY

The survey results for the March quarter 2005 show that current industry conditions fell slightly in the past three months. Although the index remains at a high level, business activity has peaked and is trending down.

Industry perceptions of own business conditions in the March quarter dipped slightly to 72.9 compared with 75.0 three months ago. Within this result there was little variation between the residential and commercial sectors with the index for residential (not seasonally adjusted) at 73.3 and the outcome for commercial slightly lower at 70.5.

CURRENT OWN BUSINESS CONDITIONS



In contrast to the outcome for current conditions, expectations for the next six months rose, with builders optimistic about improved conditions. The index has moved in a saw tooth pattern over the past four quarters around a flat to weakly positive trend. This solid outcome reflects the amount of work currently in the pipeline in the residential and non-residential sectors.

Expectations for the next six months rose to 63.8 compared with 56.8 in the September quarter. Any reading above 50 indicates an expectation of rising activity, suggesting that optimism in the industry is still high.

Consistent with the slowing market, the March quarter survey indicates that skilled labour shortages experienced last year have eased somewhat, although difficulties remain in certain states (e.g. the Northern Territory, Queensland and Western Australia) and in attracting certain categories of workers (e.g. project managers, site managers and foremen/supervisors).

Despite some signs of relief in the March quarter, builders are reporting that supply constraints will remain an issue over the next six months, with the index worsening in trend terms in each of the past four quarters. Although concern over capacity is not at the levels seen in mid 2003, the index fell to 49.6 compared with 50.8 three months ago.

A supplementary question on the impact of speculation about higher interest rates on forward orders/inquiry rates/new contracts was also asked. It should be noted, however, that the survey was conducted just prior to the RBA announcement of a quarter percentage point increase in interest rates which can be expected to impact over coming quarters. The 37.5 result indicates a moderate to slight impact as a result of what had, up until then, been Reserve Bank 'jawboning'. In the March quarter, the number of respondents indicating that the effect on new business was moderate, large, or critical, large or moderate, jumped to 45.8 per cent from 23.5 per cent in the December quarter.

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 fell slightly in the March quarter, but remain at a high level.

All state/territories recorded strong business conditions, headed by Tasmania, Newcastle and Queensland, with index readings of 77.8, 76.7 and 75.2 respectively.

In contrast with current business conditions, expectations for the next six months rose appreciably in the December quarter (Chart 1). The index is significantly above the 50 level, indicating that builders expect activity levels to rise in the next 6 months.

CHART 1: OWN BUSINESS ACTIVITY (NEXT 6 MONTHS)

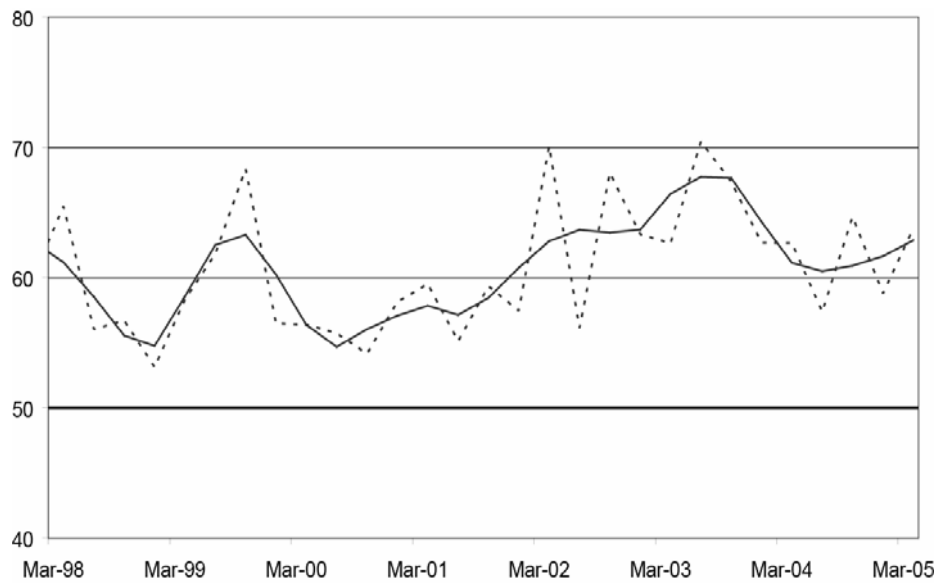
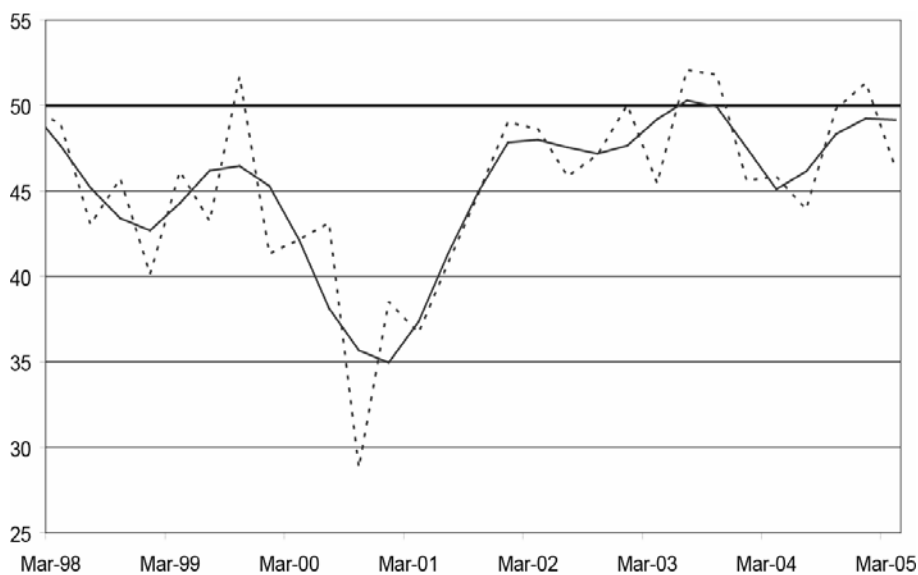
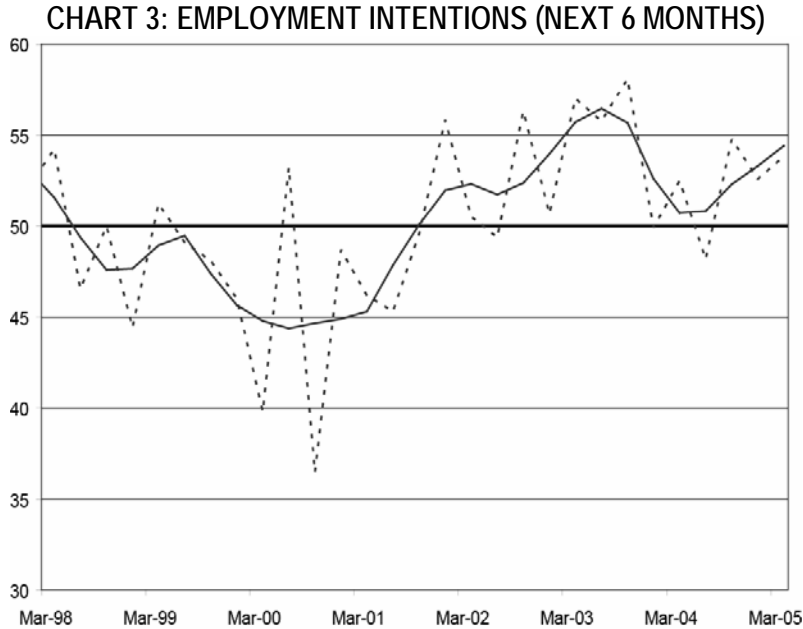


CHART 2: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



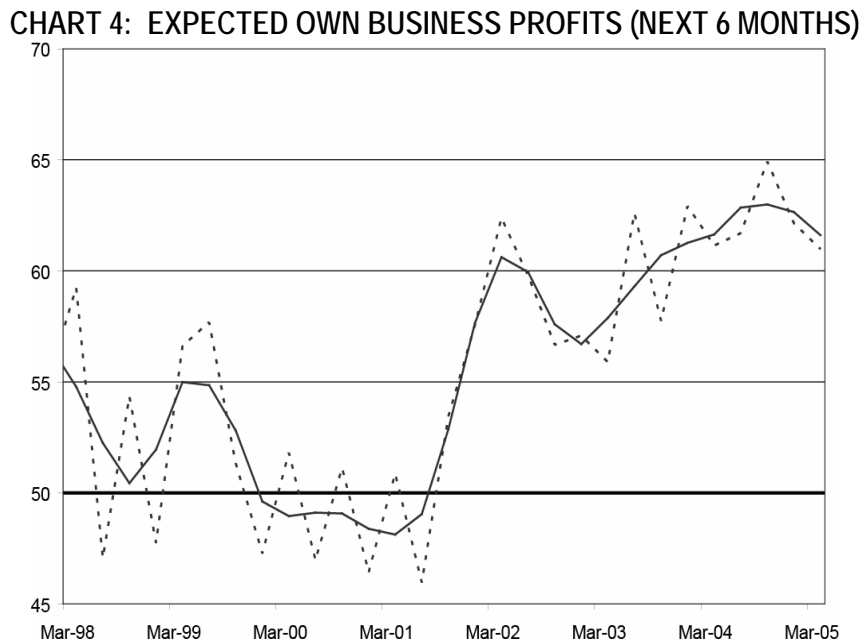
Despite expectations of rising activity over the next six months, expectations for own business investment fell in the March quarter. Investment intentions have fluctuated between 45 and 50 over the past three years, following a sharp improvement from a low of 28.9 in the September quarter 2000. In trend terms, the index remains unchanged at 49.2 after rising in the previous three quarters.

Employment intentions for the next 6 months (Chart 3) improved in the March quarter 2005. Employment intentions have followed a similar pattern to those for investment, although the rising trend of the past four quarters continued in the March quarter.



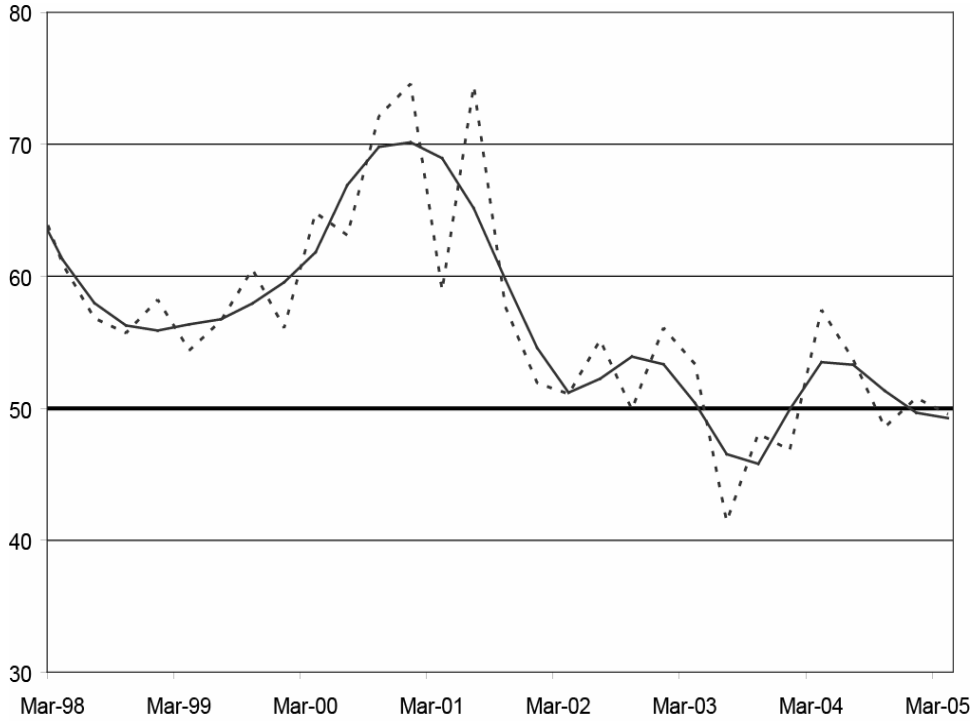
The reading for current business profits showed little change in the March quarter at 60.9 compared with 60.4 in the December quarter 2004. Once again, this series has recovered strongly from a most recent low of 46.2 in the March quarter 2001 to the current very robust reading.

Perceptions of future profitability weakened slightly in the March quarter to 61.0 compared with 62.1 in the previous quarter and the record level of 64.9 in the September quarter 2004. Nevertheless this reading of well above 50 indicates a good deal of optimism about the outlook for profits



Capacity constraints became 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. Since this period, capacity has generally become less of a problem. However, in the past four quarters capacity in trend terms has worsened again.

CHART 5: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

| | |
|--------------------|------|
| More than 6 months | 4.7 |
| 3-6 months | 17.7 |
| 1-3 months | 28.5 |
| Less than 1 month | 49.1 |
| INDEX | 26.0 |

The overall index was 26.0 in the March quarter, little changed although down from the 27.6 recorded in the previous quarter.

In the March quarter, 22.4 per cent of respondents indicated that they had more than 3 months of work on their books.

The non-residential sector had more work on their books than the residential sector.

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

Table 2: Display Centre Traffic

| | |
|-----------------|------|
| Much Higher | 0.5 |
| Somewhat Higher | 14.5 |
| About the Same | 64.2 |
| Somewhat Lower | 13.0 |
| Much Lower | 7.8 |
| INDEX | 46.7 |

Display centre traffic is an important leading indicator of activity.

The index for display centre traffic fell back in the March quarter to 46.7 compared with 48.7 in the December quarter 2004. However, display centre traffic is up on the trough experienced in the middle of 2004.

Traffic levels in the non-residential sector were slightly higher than the residential sector.

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

Table 3: Impact of Industrial Relations

| | |
|-----------|------|
| Critical | 9.2 |
| Large | 16.3 |
| Moderate | 31.9 |
| Slight | 21.4 |
| No Effect | 21.3 |
| INDEX | 42.7 |

As can be seen from Table 3, 57.4 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business.

The overall index of 42.7 was lower than the 51.6 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 | 28.1 |
| No Change | 70.5 |
| Release Some | 1.4 |
| INDEX | 63.4 |

Whilst the vast majority of respondents (70.5 per cent) were not expecting to change the number of apprentices they employ, 28.1 per cent said they were likely to put on more apprentices compared with only 1.4 per cent of respondents who said they were likely to release apprentices.

The overall index fell to 63.4 compared with 70.9 in the December quarter, still strongly positive, but indicating some change in industry intentions regarding employment of apprentices.

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

Table 5: Availability of Labour

| | Dec Quarter | Mar Quarter |
|----------------------|-------------|-------------|
| Bricklayers | 69.1 | 45.7 |
| Foremen/ Supervisors | 68.1 | 58.5 |
| Carpenters | 67.1 | 45.0 |
| Site Managers | 62.1 | 60.9 |
| Plaster Fixers | 58.9 | 46.3 |
| Project Managers | 58.0 | 60.5 |
| Concreters | 56.2 | 36.9 |
| Electricians | 51.7 | 31.0 |
| Steel Fixers | 50.6 | 34.9 |
| Painters | 46.8 | 31.8 |
| Scaffolders | 44.2 | 31.7 |
| Office Staff | 32.7 | 34.5 |
| Labourers | 32.6 | 25.5 |

It should be noted that the data are volatile between quarters and are not seasonally adjusted or trended. Nonetheless, the responses appear to indicate that workers were less difficult/easier to come by in the March quarter, suggestive of some relaxation of the tight labour market conditions that exist in the building and construction industry.

Bricklayers, carpenters, concreters, steel fixers, scaffolders, plaster fixers, painters, and electricians, in particular, were reported be easier to find in the March quarter.

Indexes relating to project managers, site managers, and foremen/supervisors remain significantly above 50, indicating that builders are still having difficulty finding these categories of workers, particularly in South Australia, the Northern Territory, Newcastle and Queensland. On the other hand, builders report little difficulty in finding labourers, electricians, painters, scaffolders and office staff.

Whilst the index suggests some easing in labour market conditions overall, responses from the Northern Territory, Queensland and Western Australia suggest that they are experiencing large to major difficulties in finding labour across a range of areas in the building and construction industry.

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 slightly in seasonally adjusted terms in the March quarter 2005, with the index falling to 65.1 compared with 66.9 in the December quarter (Chart 6). Nonetheless, the index remains at a very high level and in trend terms the index was at a record high indicating that builders remain very confident about the performance of the overall economy despite negative impacts flowing from speculation about higher interest rates.

CHART 6: CURRENT GENERAL BUSINESS CONDITIONS

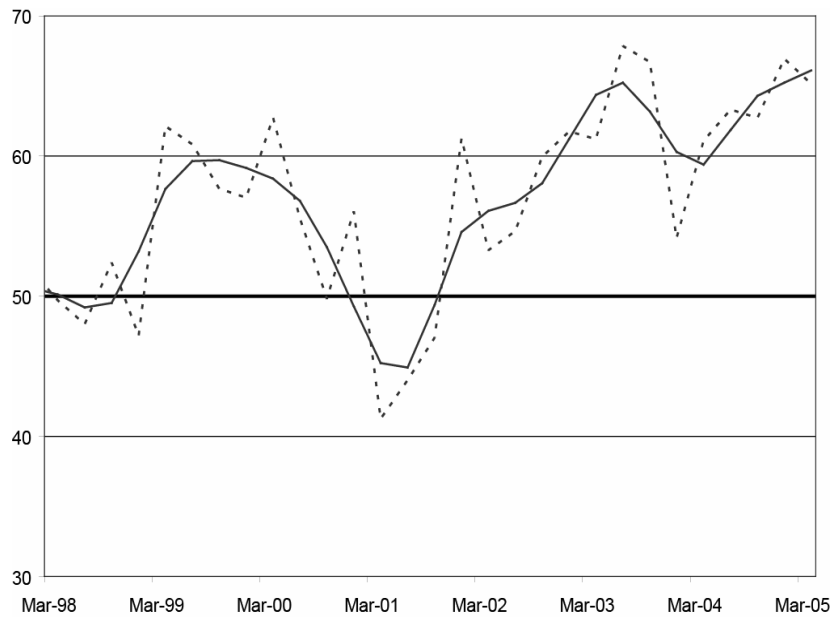
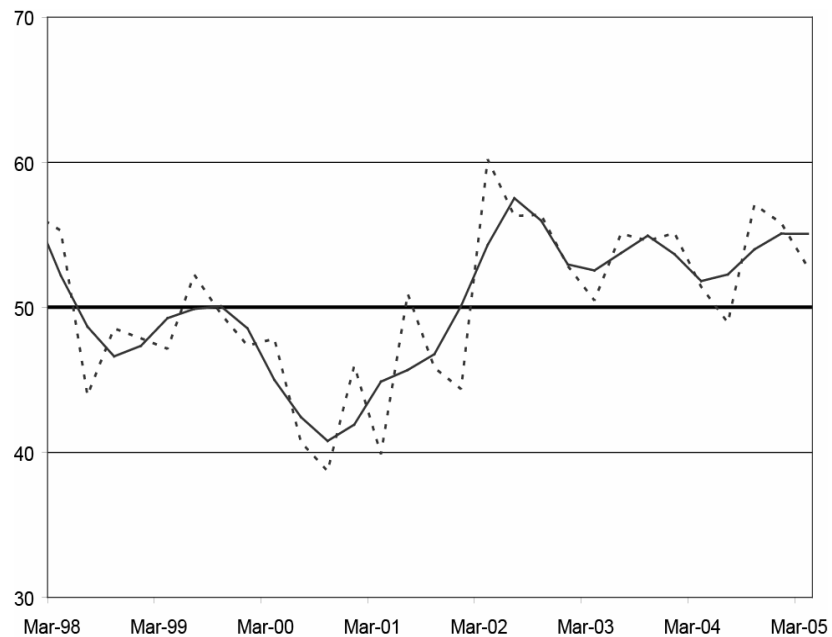


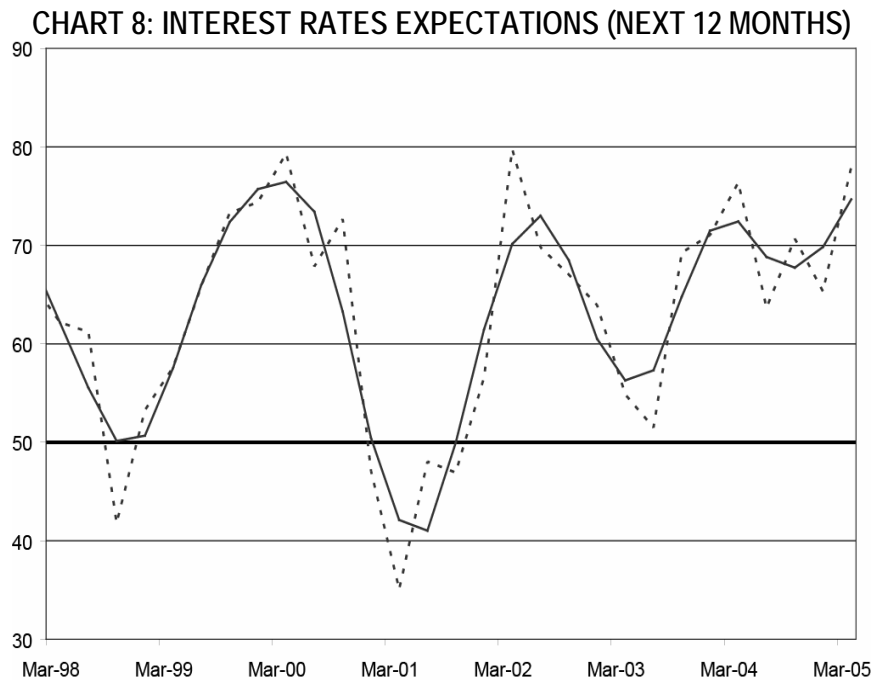
CHART 7: EXPECTED GENERAL BUSINESS CONDITIONS (NEXT 6 MONTHS)



Similarly, expectations about where business conditions were headed eased fractionally. Whilst perceptions that the outlook for business conditions over the next six months were a little weaker, the index is still well above the 50 mark indicating that builders expect the national economy to strengthen even further over the next 6 months. It should be noted, however, that the March quarter survey was

conducted prior to the Reserve Bank’s decision to lift interest rates by 25 basis points and the release of ABS figures showing the economy recorded weak GDP growth in the December quarter. (Chart 7)

Expectations for interest rates recorded an index of 77.9 in the March quarter compared with 65.3 in December quarter 2004. More pronounced expectations of rising interest rates over the next twelve months come in the wake of heightened speculation about interest rate rises. Over 90 per cent of respondents expect interest rates to rise moderately this year.



SUPPLEMENTARY QUESTION

In order to gather information on the effect on the building and construction industry of interest rate rises, including speculation about rate rises, respondents were asked about the impact on forward orders/inquiry rates/new contracts.

Table 6: Effect on New Work of the likelihood Interest Rate Increases

| | |
|--------------|-------------|
| Critical | 1.9 |
| Large | 10.4 |
| Moderate | 31.5 |
| Slight | 34.2 |
| No Effect | 21.9 |
| INDEX | 34.1 |

An index of 34.1 was recorded for the impact of interest rates, indicating that the impact on new business orders was slight to moderate as a result of the likelihood of interest rates rising.

In the March quarter, the number of respondents indicating that the effect on new business was moderate, large or critical was 43.8 per cent.

Previous surveys asking respondents about the impact of higher interest rates had indicated that the impact of tighter monetary policy (in late 2003) had waned over the course of 2004. For example, in the December 2004 quarter survey only 23.5 per cent of respondents indicated that the effect on new business was moderate, large or critical.

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 and selected supplementary questions, in this case, the impact of speculation about rising interest rates.

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 usually suggest a more positive result and those below 50 a more negative outcome.