



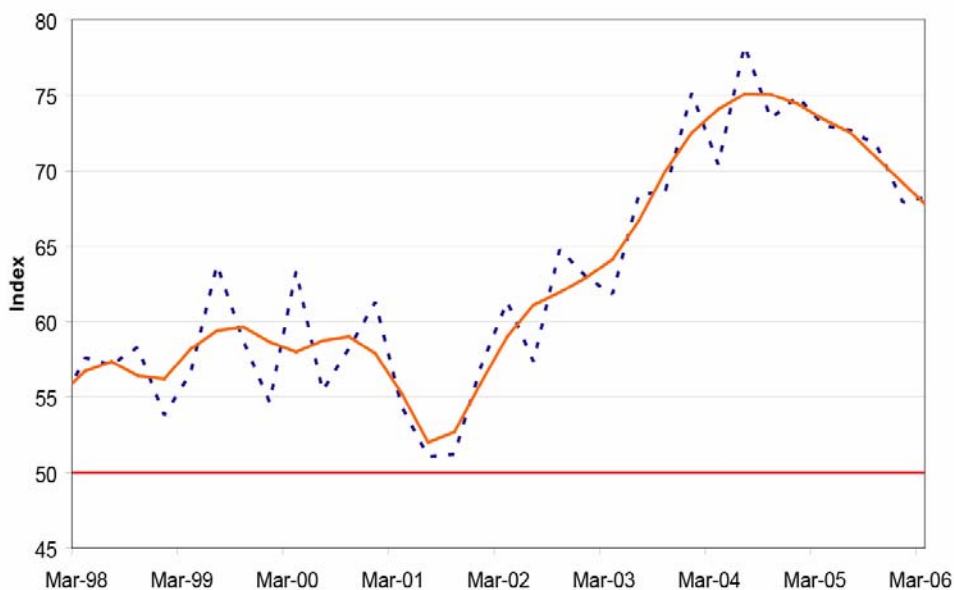
March Quarter 2006

INDUSTRY ACTIVITY HOLDS UP BUILDERS REMAIN OPTIMISTIC POISED FOR IMPROVED CONDITIONS

SUMMARY

Builders' perceptions about own business activity edged higher in the March quarter, arresting a decline that has seen the index fall by over 10 per cent from the peak in mid 2004. The latest survey results show that builders remain positive about their current business activity, despite the trend decline. Profits are also down from peak levels, but profitability remains strong, with current business profits and builders' perceptions about where profits are heading, both rising in the March quarter. And builders retain a healthy backlog of work, despite some reduction in the pipeline experienced during the quarter. Importantly, the index for display traffic/enquiries picked up in the March quarter, moving above 50 for the first time in over two years. Not surprisingly, builders remain optimistic about the outlook.

CURRENT OWN BUSINESS ACTIVITY



The survey index for current own business conditions rose to 68.3 in the March quarter compared with 67.9 in the previous quarter and as the chart shows, is still strongly positive. The index measuring builders' expectations for own business activity over the next six months fell back to 60.5 in the March quarter from 64.1 in the previous quarter. Although the trend in the index has dipped fractionally, it remains positive, after falling in late 2003 and during the first half of 2004. Any reading above 50 is positive, indicating an expectation of rising activity. As well as being confident about their own business prospects over the next six months, builders are reasonably confident about the likely level of overall building and construction industry activity.

There was some easing back of expectations regarding input costs increases, but the issue is of concern for builders with the index remaining at a high level. Over 50 per cent of respondents said that, compared with the past six months, they believed input cost increases would be higher in the next six months, whereas only 8 per cent said they expect them to be lower.

Although there was little variation in responses from residential and commercial builders in relation to questions relating to own business activity and profits, the non-residential sector was more positive in response to the question on sales in the past six months relative to what had been expected; current capacity to meet expected demand over the next six months; level of employees/sub-contractors in six months time; and enquiries/display traffic in the current quarter versus the previous quarter.

Employment growth in the building and construction industry has begun to plateau after several years of very strong growth in a labour market environment characterised by increasing skill shortages.

Notwithstanding this, the survey results show that builders expect their own business levels of employees and sub-contractors to be higher over the next six months compared to existing levels. The survey also reveals that builders intend to put on more apprentices over the next six months. Although over 70 per cent indicated they would not change apprentice levels, over 25 per cent of builders said they were likely to put more apprentices on, with only 1.5 per cent likely to release apprentices.

At the national level, pressures related to finding skilled labour eased in the March quarter. However, the overall index at the national level can mask some significant regional differences. It is apparent that acute skill shortages exist in several states and difficulties remain in attracting certain categories of labour, for example, site managers and foremen/supervisors.

Table 6: Availability of Labour, State Shortages*

	WA	NT	Tas	Other States
Site Managers	Large	Large	Major	Qld: Moderate, ACT: Major, NSW & Newcastle: Moderate
Project Managers	Large	Moderate	Moderate	ACT: Large, NSW & Newcastle: Moderate
Foreman/Supervisors	Large	Large	Major	Qld: Moderate, ACT: Major, SA: Moderate, Newcastle: Large
Carpenters	Major	Large	Large	Qld: Moderate
Bricklayers	Large	Large		
Tilers	Major	Large	Large	
Plaster Fixers	Major		Large	
Steel Fixers	Moderate	Large	Large	
Concreters		Moderate		
Electricians		Large		
Building Consultants/ Office Staff/Labourers				ACT: Moderate

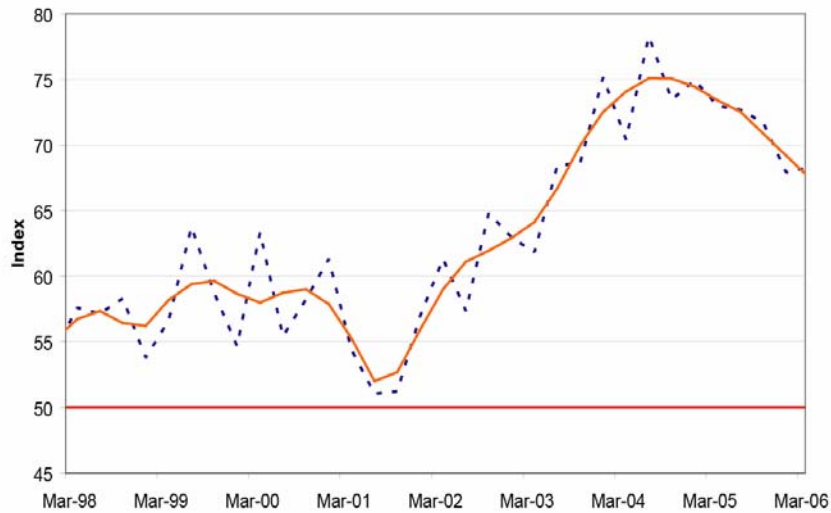
*Major, large or moderate difficulty in finding skilled workers

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 edged higher in the quarter. Though well down from the peak in 2004, current own business activity remains at a high level.

All state/territories recorded strong business conditions, headed by Western Australia, Queensland and the Northern Territory, with index readings of 79.4, 71.5 and 70.7 respectively.

Own business expectations for the next six months, fell back in the March quarter (Chart 2). However, the index remains significantly above the 50 level, indicating that builders expect own business activity levels to rise in the next six months.

CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS

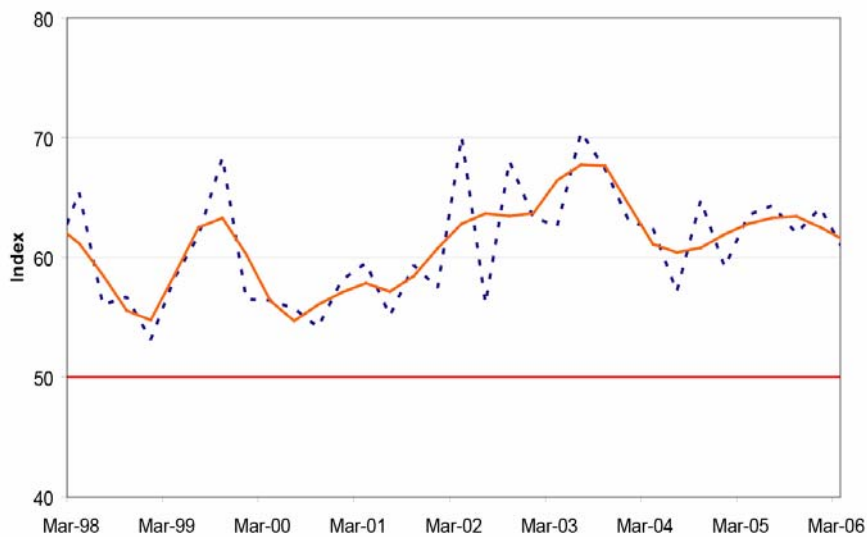


CHART 3: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



Intentions regarding own business investment in plant and equipment fell in the March quarter. Investment intentions have fluctuated between 44 and 52 over the past three years, following a sharp improvement from the trough of the 2000-01 downturn.

In the next six months, builders expect their level of employees and sub-contractors to rise relative to now (Chart 4). The index was 55 in the March quarter and the trend is positive.

CHART 4: EMPLOYMENT INTENTIONS NEXT 6 MONTHS

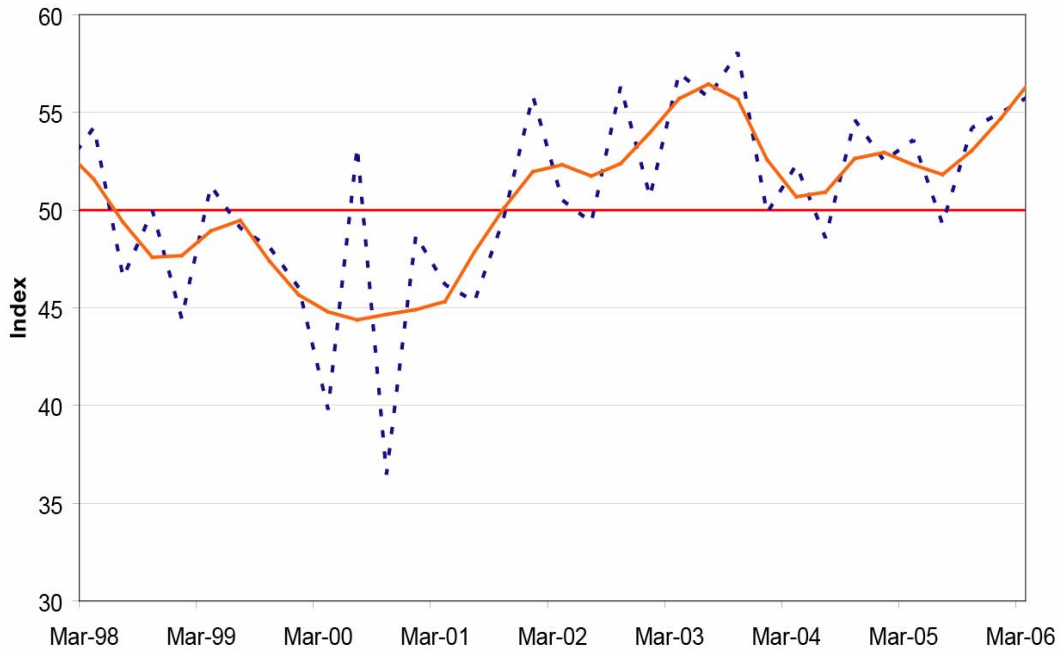
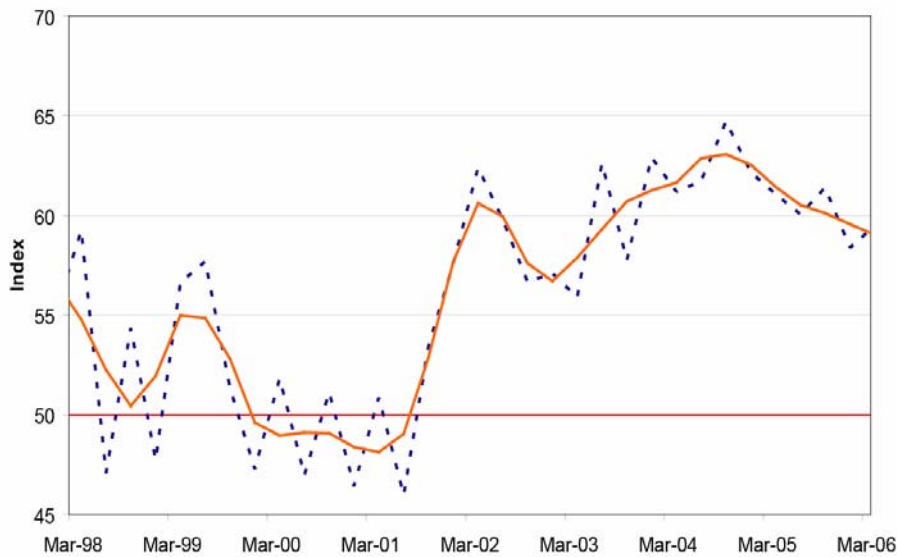


CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



The reading for current business profits rose in the March quarter to 61.8 compared with 58.1 in the previous quarter. The series remains solidly positive after recovering strongly from a low of 46.2 in the 2000-01 construction downturn.

Builders' perceptions about where their own profits are heading in the next six months also rose in the December quarter, to 59.5 compared with 58.4 in the previous quarter. Whilst the index is down from the peak of 64.9 in September quarter 2004, the current reading of well above 50 indicates a good deal of optimism about the outlook for profits.

Expectations of building industry activity in the next six months, relative to the past six months, rose in the March quarter after a rebound in the September quarter. The index now stands at 53.7 with the trend line above 50 and rising.

CHART 6: EXPECTED LEVEL OF ACTIVITY IN THE BUILDING INDUSTRY NEXT SIX MONTHS

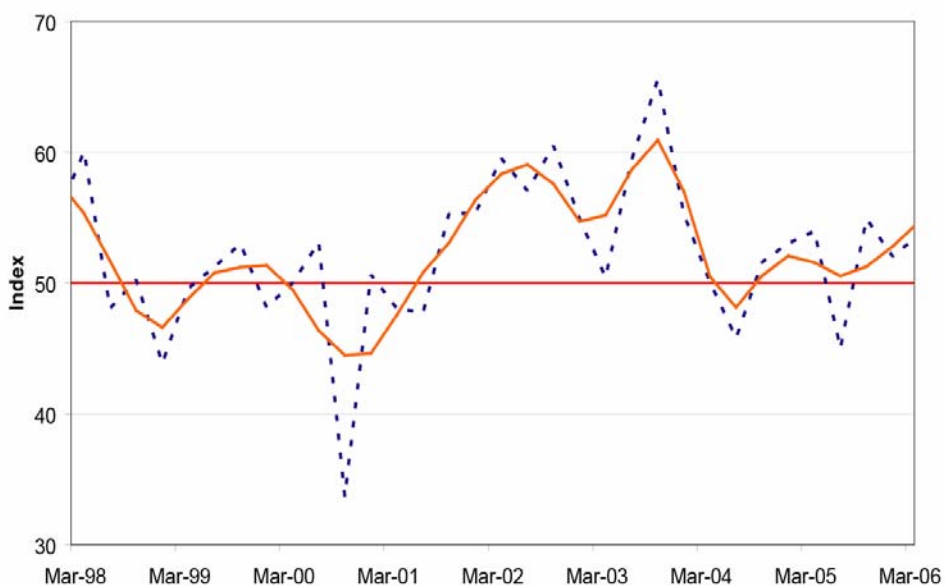
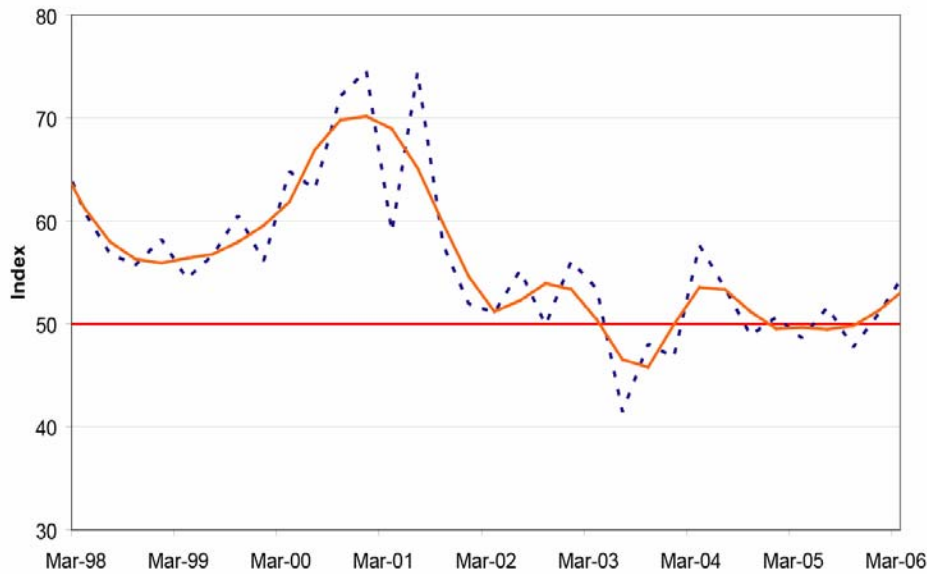


CHART 7: AVAILABLE CAPACITY



Capacity constraints became an increasingly important concern for the building and construction industry between the June quarter 2001 and the June quarter 2003 as activity grew strongly and available capacity was at the lowest level recorded. Since this period, capacity has generally become less of a problem and builders believe current capacity is adequate to meet expected demand over the next 6 months.

Respondents were asked about available work on books.

The overall index fell back in the March quarter after a spike back up in the previous quarter (Table 1).

Nonetheless, builders still have a very good backlog of work, with nearly two thirds of respondents reporting 3-6 months or more than 6 months on the books. One fifth of respondents indicated that they had between 3 and 6 months of work on the books (one quarter in the previous quarter with 43 per cent saying they had more than 6 months (nearly 50 per cent in the previous quarter).

However, over the past year the backlog has fallen back somewhat. In the March quarter, 36 per cent of respondents indicated they had less than 1 month or between 1 and 3 months of work on the books. In the March quarter 2005, the corresponding figure was 22 per cent.

Table 1: Work on Books

	Mar 05	Jun 05	Sep 05	Dec 05	Mar 06
More than 6 months	49.1	49.9	33.8	48.9	43.2
3-6 months	28.5	26.3	30.3	25.6	20.8
1-3 months	17.7	18.3	26.6	19.3	27.6
Less than 1 month	4.7	5.5	9.2	6.3	8.4
INDEX	74.0	73.5	62.9	72.3	66.3

Table 2: Display Centre Traffic/Enquiries

	Mar 05	Jun 05	Sep 05	Dec 05	Mar 06
Much Higher	0.5	1.0	2.3	4.0	1.0
Somewhat Higher	14.5	11.5	16.6	15.1	26.0
About the Same	64.2	56.4	52.7	48.0	55.8
Somewhat Lower	13.0	27.4	19.7	29.2	13.4
Much Lower	7.8	3.7	8.6	3.7	3.8
INDEX	46.7	44.7	46.1	46.6	51.7

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 an important leading indicator of activity.

The index for display centre traffic/enquiries picked up in the March quarter, rising to 51.7 from 46.6 recorded in the previous quarter.

The index for display centre traffic/enquiries reached a low in the middle of 2004 and the March quarter result represents the first time in over two years that the index has been above 50.

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

Table 3: Impact of Industrial Relations

Critical	5.2
Large	13.5
Moderate	21.8
Slight	41.2
No Effect	18.2
INDEX	36.6

As can be seen from Table 3, nearly 60 per cent of respondents indicated that industrial relations were having a slight or no effect on business activity.

The overall index of 36.6 was down on the 41.0 recorded last in the previous quarter, and with the index well below the 50 mark there appears to be relatively little concern about the impact of industrial relations on activity.

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

Table 4: Employment of Apprentices (Next Six Months)

Put on More	27.4
No Change	71.3
Release Some	1.2
INDEX	63.1

The overall index remains strongly positive despite falling to 63.1 in the March quarter from 68.8 in the previous quarter.

Over 70 per cent of respondents were not expecting to change the number of apprentices they employ, with over a quarter saying they were likely to put on more apprentices. Only 1.2 per cent of respondents said they were likely to release apprentices.

Respondents were asked about the degree of difficulty in finding a range of subcontractors/employees.

Table 5: Availability of Labour, National

	Dec Quarter 2005	Mar Quarter 2006
Bricklayers	40.1	35.0
Foremen/ Supervisors	58.6	52.5
Carpenters	46.2	40.7
Site Managers	61.4	53.7
Plaster Fixers	41.0	33.5
Project Managers	59.6	49.9
Concreters	35.7	31.3
Electricians	31.8	29.7
Steel Fixers	33.9	31.2
Painters	29.0	29.4
Scaffolders	29.0	23.9
Office Staff	34.8	30.8
Labourers	26.8	18.9
Tilers	41.6	40.5
Building Consultants	28.1	25.0

At the national level there was an easing of pressures related to finding skilled labour in the March quarter 2006.

However, builders continue to have a large degree of difficulty in attracting certain categories of workers, for example, site managers, foremen/ supervisors and project managers.

In addition, as Table 6 shows, builders in Western Australia (in particular), the Northern Territory and Tasmania continue to experience major difficulties in finding labour across a number of skilled categories.

An index reading above 50 indicates large or major difficulty in finding employees or sub-contractors and a level around 50 indicates moderate difficulty. A low index reading indicates builders are experiencing slight or no difficulty in finding subcontractors/employees.

Table 6: Availability of Labour, State Shortages*

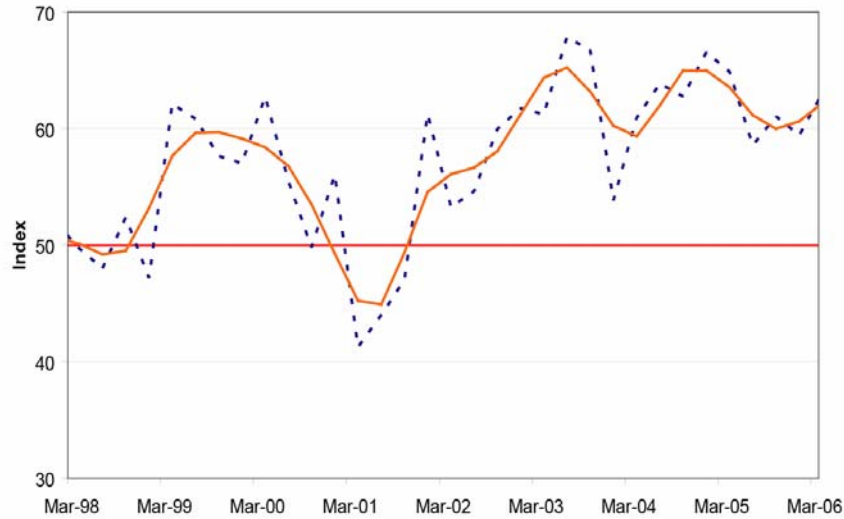
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Project Managers	Large	Moderate	Moderate	ACT: Large, NSW & Newcastle: Moderate
Foreman/Supervisors	Large	Large	Major	Qld: Moderate, ACT: Major, SA: Moderate, Newcastle: Large
Carpenters	Major	Large	Large	Qld: Moderate
Bricklayers	Large	Large		
Tilers	Major	Large	Large	
Plaster Fixers	Major		Large	
Steel Fixers	Moderate	Large	Large	
Concreters		Moderate		
Electricians		Large		
Building Consultants/ Office Staff/Labourers				ACT: Moderate

*Major, large or moderate difficulty in finding skilled workers

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



Perceptions of current general business conditions rose in seasonally adjusted terms in the March quarter 2006, with the index increasing to 63.1 compared with 59.4 in the December quarter 2005 (Chart 8). The index is at a high level, indicating that builders remain reasonably confident about the performance of the overall economy and some lessening of negative impacts associated with high petrol prices and interest rate speculation.

Expectations about where business conditions are headed rose to 53.9 in the March quarter 2006, up slightly on the previous quarter. Perceptions regarding the outlook for business conditions are beginning to increase after a gradual weakening experienced during 2004-05. The index is over 50 (Chart 9) indicating that builders expect some improvement in the national economy over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS

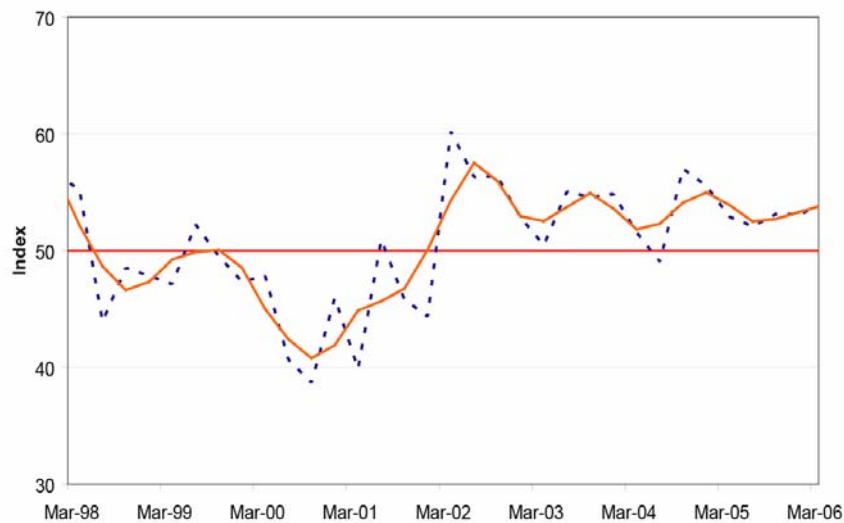
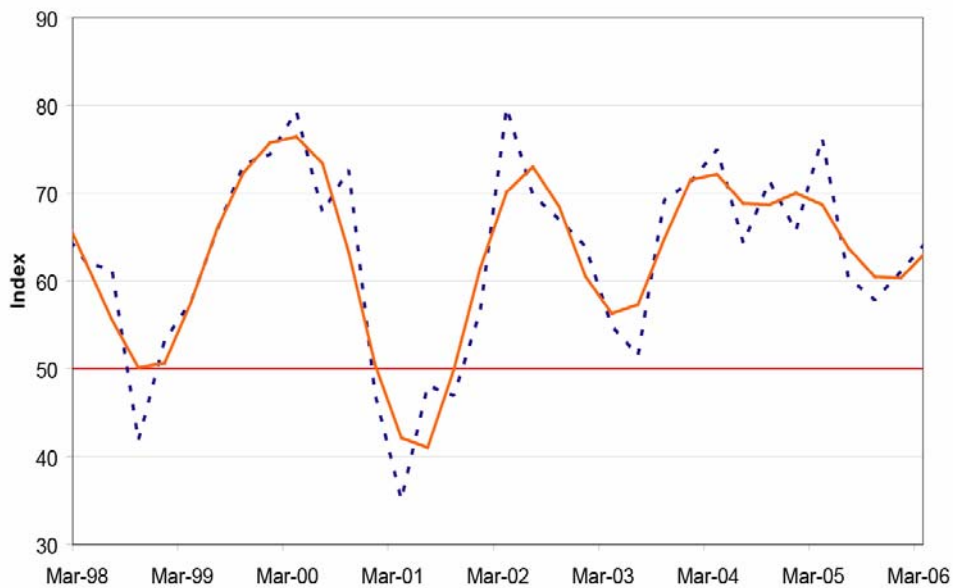


CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



Expectations for interest rates recorded an index reading of 64.6 in the March quarter 2006, up on the previous three quarters but still well short of the 76.5 recorded in the March quarter 2005 when the Reserve Bank raised interest rates by one quarter of a percentage point.

The Reserve Bank has recently reiterated its belief that the next move in interest rates is more likely to be up than down and it is therefore not surprising that over half of respondents expect interest rates to rise moderately over the next 12 months.

SUPPLEMENTARY QUESTION

Table 6: Input Costs Over the Next Six Months

Much Higher	1.4
Somewhat Higher	51.0
About the Same	40.0
Somewhat Lower	7.5
Much Lower	0.1
Index	61.5

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

As Table 6 shows, 52.4 per cent of respondents expect input costs to be higher over the next six months, 40 per cent believe input costs will be about the same, and only 7.6 per cent of builders expect input costs to be lower.

Nonetheless, there has been some easing back of expectations regarding higher input costs. The index reading of 61.5 in the March quarter 2006 is down on the 63.9 recorded in the previous quarter and the 64.6 recorded in the middle of 2005.

ABOUT THE SURVEY

The survey of building and construction is a national survey of Master Builders' members published on a quarterly basis.

In the March quarter, 707 responses were received from builders involved in residential work, 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:

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