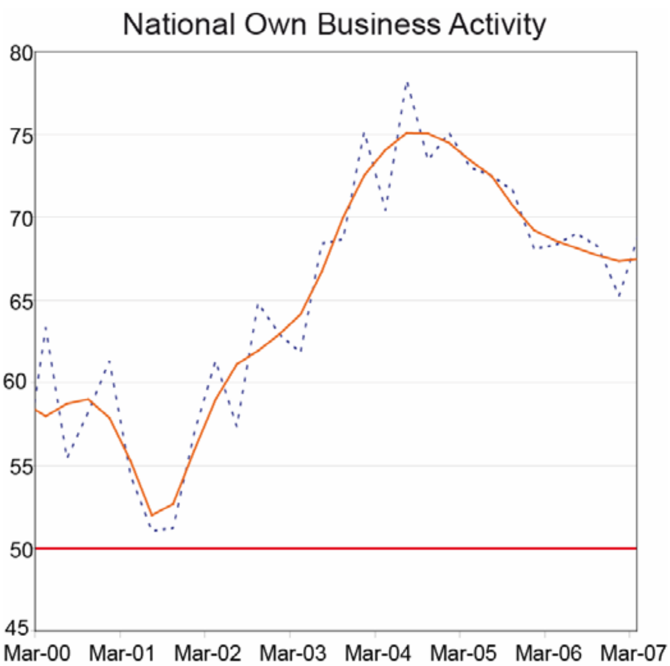
March Quarter 2007

BUILDER ACTIVITY FLATTENS OUT
CONDITIONS STILL HEALTHY
RESIDENTIAL SET TO IMPROVE?

SUMMARY

Builders' perceptions about own business activity rose in the March quarter 2007, with the trend in the index beginning to plateau after declining over the past three years following the peak level achieved in mid 2004.

Business activity remains 'good' and is expected to improve over the next six months. Own business profitability is currently very strong and builders expect profits to remain at a healthy level. Builders also remain positive about overall building and construction industry prospects.



The latest survey results continue to show marked differences between states and sectors. After a year or so of underperformance due to the severity of the downturn in residential building, the trend in New South Wales business activity appears to be at least stabilising, in line with the national trend.

In the non-residential sector conditions are strong and are expected to continue to improve. In contrast, current conditions in the residential sector are reported as poor. However, in a significant finding after negative results in previous surveys, builders now expect residential activity to improve over the next six months.

Table: Where do you believe activity is headed in the residential sector in the next 6 months?

	September Quarter 2006	December Quarter 2006	March Quarter 2007
Improving rapidly	1.3	1.0	0.4
Improving slowly	18.4	16.3	39.4
No change	35.0	43.3	46.6
Deteriorating slowly	42.3	38.4	13.1
Deteriorating rapidly	3.1	1.0	0.4
Index	**43.2**	**44.5**	**56.6**

It appears that builders are becoming more positive about the outlook for residential activity despite lingering concerns about housing affordability and constraints on their business. In the March Quarter 2007 Survey, respondents were asked a series of supplementary questions concerning these issues and the results show builders are indeed concerned about housing affordability, with 45 per cent of respondents expressing large or major concern and over 50 per cent believing that housing affordability will deteriorate over the next 12 months.

In terms of constraints, builders were most concerned about the development/planning approval process, with nearly 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Builders were also concerned about planning/development approval delays, with over 70 per cent indicating a moderate to major level of concern.

Ranking	Moderate, large or major effect on business
1. Development/planning approval process	58.6%
2. Availability of labour	51.1%
3. Infrastructure charges and levies	44.9%
4. Availability of land	34.4%
5. Availability of finance	21.5%

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 rose in the March quarter. Though well down from the peak in 2004, builders still perceive their current own business activity to be good.

Builders were most positive about their own business conditions in Queensland, South Australia, Western Australia, and the ACT, with index readings of 73.4, 72.4, 71.4 and 69.7 respectively.

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

CHART 2: EXPECTED OWN BUSINESS ACTIVITY NEXT 6 MONTHS

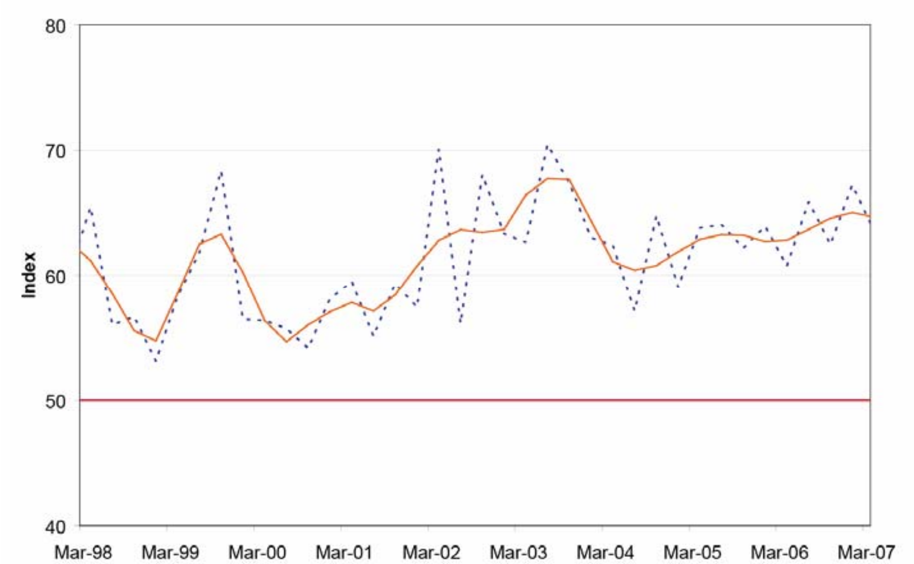


CHART 3: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)

Intentions regarding own business investment in plant and equipment rose in the March quarter and, in a positive sign, recorded an index reading above 50 for the first time in three years. 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.

The index measuring builders' intentions regarding the likely the level of employees and subcontractors over the next six months, was virtually unchanged in the March quarter, with the result well above 50 indicating builders expect higher employment levels in the period ahead.

CHART 4: EMPLOYMENT INTENTIONS NEXT 6 MONTHS

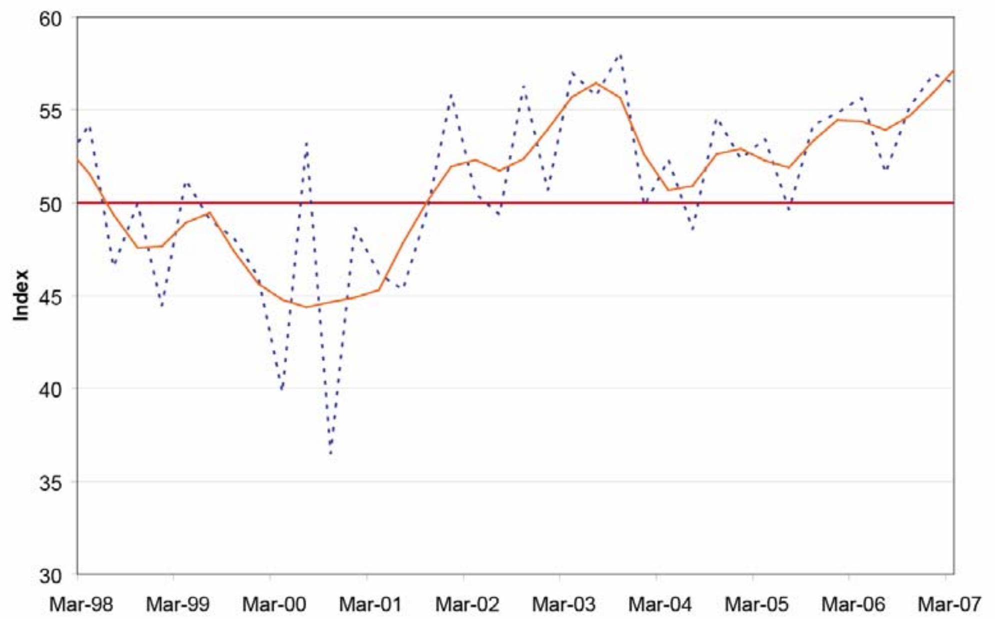
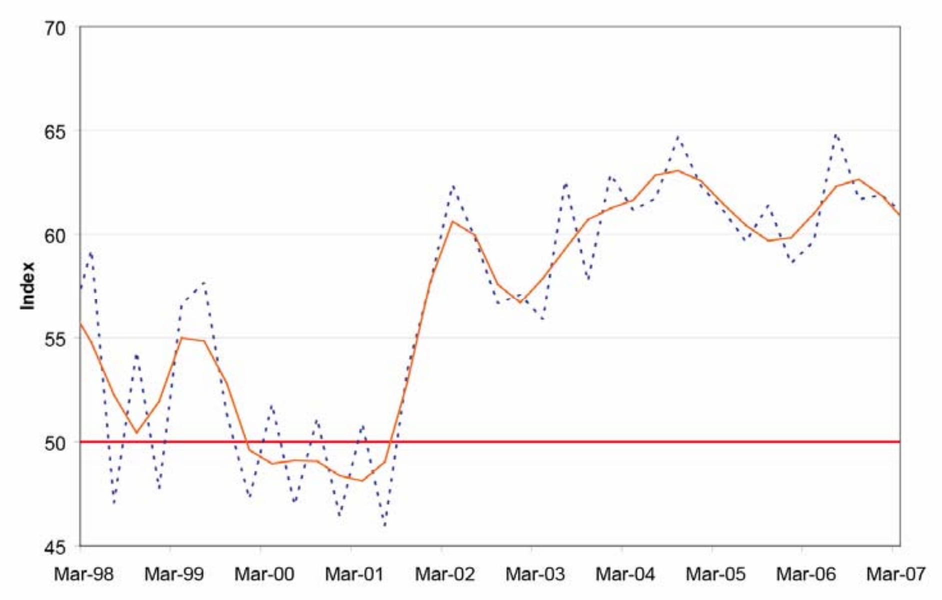


CHART 5: EXPECTED OWN BUSINESS PROFITS NEXT 6 MONTHS



The reading for current business profits remained at around the same level in the March quarter and the series remains strongly positive after recovering from a low of 46.2 in the 2000-01 construction downturn.

As Chart 5 shows, builders' perceptions about where their own profits are heading in the next six months fell marginally in the March quarter, to 61.9 compared with 61.7 in the previous quarter. Notwithstanding this, the index remains well above 50, indicating a good deal of optimism about business profits.

Expectations of building industry activity in the next six months, relative to the past six months, rose in the March quarter. The index has moved well above 50, indicating that builders believe industry activity will be expanding over the next six months.

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

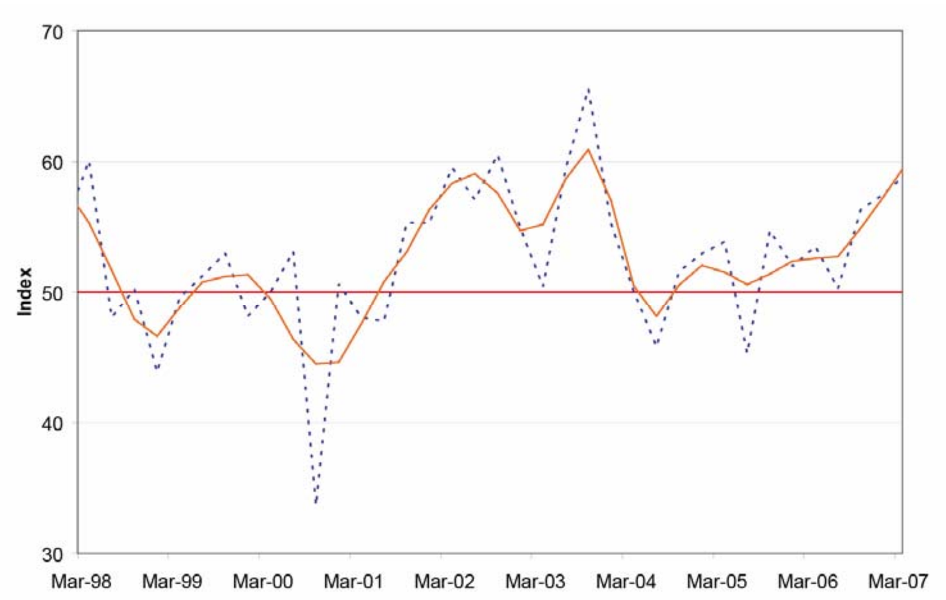
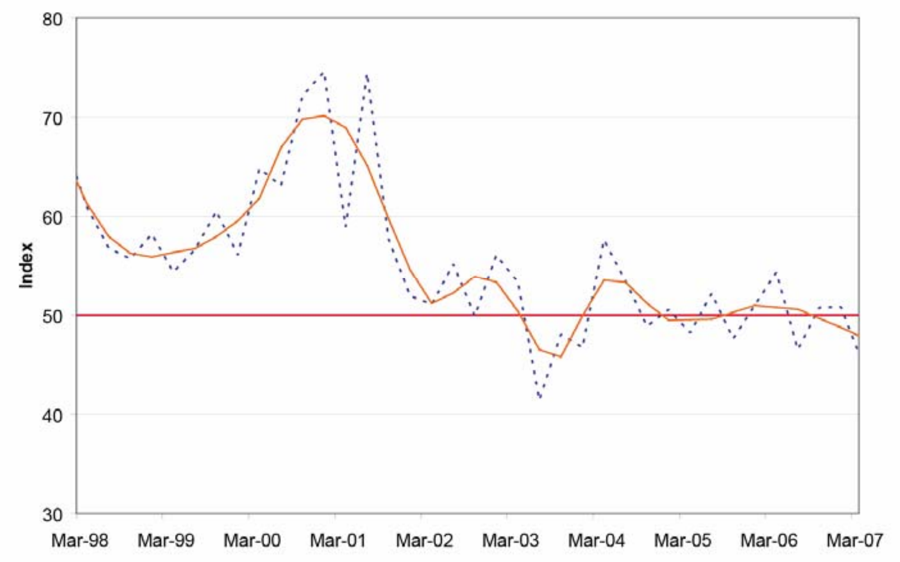


CHART 7: AVAILABLE CAPACITY



In the 2000-01 downturn spare capacity became available in the building and construction industry, but as activity began to grow strongly builders became increasingly concerned between June 2001 and June 2003 that capacity would be inadequate in relation to expected demand. Since this period, the trend in the index has generally tracked around 50, indicating that builders believe current capacity is reasonably adequate to meet expected demand.

Respondents were asked about available work on books.

Builders still have a healthy backlog of work, with the index for the March quarter remaining at 68.2 (Table 1) following the 68.4 recorded in the December quarter.

In the March quarter, the percentage of respondents reporting 3 to 6 months, or more than 6 months of work on the books, stayed high at 68.6 per cent compared with 70 per cent in the previous quarter. Thirty one per cent of respondents indicated that they had between 1 and 3 months, or less than 1 month of work on the books, compared with 30 per cent in the previous quarter.

Table 1: Work on Books

	Jun 06	Sep 06	Dec 06	Mar 07
More than 6 months	45.9	31.9	41.5	46.0
3-6 months	33.5	27.1	29.0	22.6
1-3 months	15.5	28.9	22.8	21.3
Less than 1 month	5.1	12.1	6.7	10.0
INDEX	**73.4**	**59.6**	**68.4**	**68.2**

Table 2: Display Centre Traffic/Enquiries

	Jun 06	Sep 06	Dec 06	Mar 07
Much Higher	0.5	1.5	9.3	1.8
Somewhat Higher	6.2	11.3	20.7	21.3
About the Same	53.4	53.7	40.1	48.5
Somewhat Lower	34.6	24.9	26.5	22.4
Much Lower	5.3	8.5	3.4	6.1
INDEX	**40.5**	**43.1**	**51.5**	**47.6**

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 another important leading indicator of activity.

In the March quarter, the index for display centre traffic/enquiries fell back after a pick up recorded in the December quarter following weak results in the previous two quarters.

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

Table 3: Impact of Industrial Relations

	Mar 04	Mar 05	Mar 06	Mar 07
Critical	16.4	9.2	5.2	3.1
Large	21.8	16.3	13.5	8.7
Moderate	29.7	31.9	21.8	21.1
Slight	19.6	21.4	41.2	38.0
No Effect	12.5	21.3	18.2	29.2
INDEX	**52.5**	**42.7**	**36.6**	**29.6**

As can be seen from Table 3, over two thirds of respondents believe industrial relations were having only a slight or no effect on business activity in the March quarter.

The overall index of 29.6 was up on the previous quarter but as the Table shows, builders believe that industrial relations as a constraint on activity, has fallen significantly in the last 12 months and over the past three years. This is in line with ABS statistics on working days lost in the construction industry and appears to provide further evidence of the beneficial effects associated with the introduction of the *Building and Construction Industry Improvement Act*.

Table 4: Availability of Labour, National

	Dec Quarter 2006	Mar Quarter 2007
Project Managers	67.2	59.8
Site Managers	63.2	59.0
Foremen/ Supervisors	63.4	53.9
Carpenters	43.2	39.7
Bricklayers	39.2	35.3
Electricians	38.2	26.1
Plaster Fixers	40.9	27.6
Tilers	45.2	32.9
Painters	33.8	23.9
Steel Fixers	38.7	30.0
Concretors	38.1	31.2
Scaffolders	30.6	25.4
Building Consult.	29.0	26.9
Office Staff	39.8	34.6
Labourers	28.7	27.2

At the national level, pressures related to finding skilled labour have moderated over the past 18 months, particularly on the eastern seaboard. However, it is apparent that acute skill shortages exist in several of the smaller states and difficulties remain in attracting certain categories of labour, for example, project managers, site managers, foremen/supervisors and carpenters.

As Table 6 shows, builders in Western Australia (in particular), the Northern Territory and the ACT continue to experience major difficulties in finding labour across most skilled categories.

A high index reading indicates critical or large difficulty in finding employees or sub-contractors. A low index reading indicates builders are experiencing slight or no difficulty in finding subcontractors/employees.

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

Respondents were asked about input cost increases

Table 5: Input Costs Over the Next Six Months

	Sep 06	Dec 06	Mar 06
Much Higher	4.7	2.8	0.7
Somewhat Higher	61.1	58.5	53.6
About the Same	30.8	37.4	38.0
Somewhat Lower	3.0	1.2	7.5
Much Lower	0.4	0.1	0.2
Index	**66.7**	**65.7**	**61.8**

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

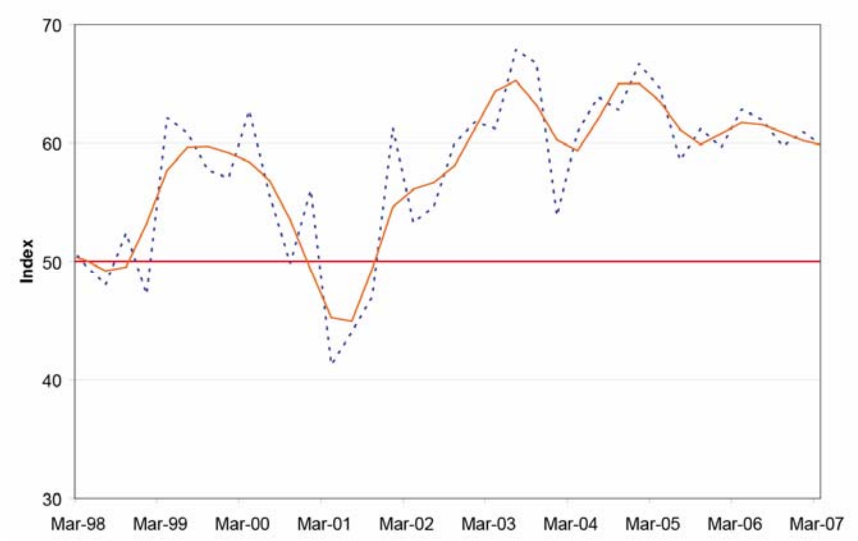
As Table 6 shows, 54.3 per cent of respondents expect input costs to accelerate over the next six months, 38 per cent believe input costs will be about the same, and 7.7 per cent of builders expect the rate of increase in input costs to slow.

The index reading of 61.8 in the March quarter is down on the 65.7 recorded in the previous quarter.

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.

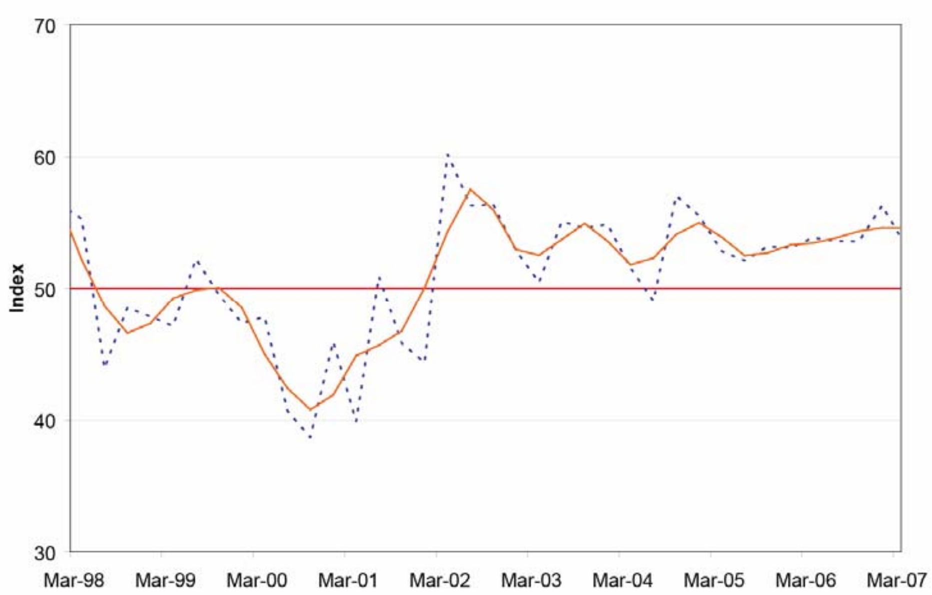
CHART 8: CURRENT GENERAL BUSINESS CONDITIONS



Perceptions of current general business conditions fell slightly in seasonally adjusted terms in the March quarter 2007, with the index at 59.6 compared with 60.9 in the December quarter (Chart 8). The index is at a high level, indicating that respondents remain reasonably confident about the performance of the overall economy despite negative impacts of higher interest rates.

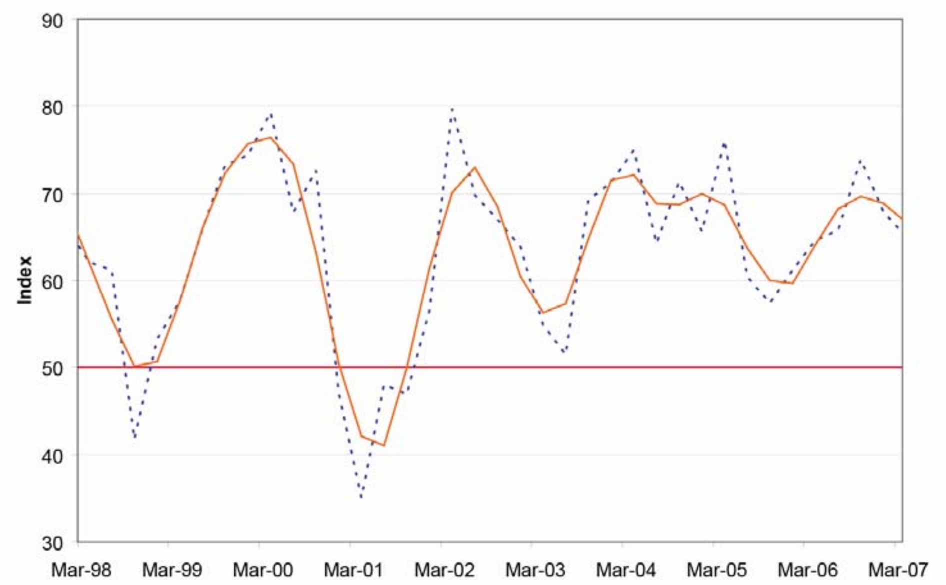
Expectations about where business conditions are headed fell in the March quarter 2007 (Chart 9). The index regarding the outlook for business conditions remains over 50 indicating that builders expect improvement in the national economy over the next six months.

CHART 9: EXPECTED GENERAL BUSINESS CONDITIONS NEXT 6 MONTHS



Expectations for interest rates fell back again in the March quarter, after a spike recorded 6 months ago. Builders still expect interest rates to rise moderately.

CHART 10: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



RESIDENTIAL/NON-RESIDENTIAL CONDITIONS

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

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?

From builders' responses, it is apparent that there are marked differences between the two major sectors of the building and construction industry. The index for current conditions in residential building is below the neutral 50 mark and indicates less than satisfactory performance. In contrast, current conditions in the non-residential sector are strong, as evidenced by the distance the index (61.5) is above the neutral 50 mark.

In previous surveys, builders' perceptions on where activity is headed in the next six months found deteriorating conditions expected for residential building contrasting with improving conditions in non-residential building. In the non-residential sector, the latest survey shows builders expect conditions to continue to improve. However, in a significant finding, builders now expect residential activity to improve over the next six months after negative results in previous surveys.

Table 6: Where do you believe activity is headed in the residential sector in the next 6 months?

	September Quarter 2006	**December Quarter 2006**	**March Quarter 2007**
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Index	**43.2**	**44.5**	**56.6**

SUPPLEMENTARY QUESTIONS

In the March Quarter 2007 Survey, respondents were asked the following:

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 having on your business?

What effect is availability of labour having on your business?

What effect is availability of finance having on your business?

What effect are infrastructure charges and levies having on your business?

What effect is the development/planning approval process having on your business?

How concerned are you about planning/development approval delays?

The results show builders are concerned about housing affordability, with 45 per cent of respondents expressing a large or major concern and over 50 per cent believing that housing affordability will deteriorate over the next 12 months.

Table 7: Ranking of Constraints

Ranking	Moderate, large or major effect on business
1. Development/planning approval process	58.6%
2. Availability of labour	51.1%
3. Infrastructure charges and levies	44.9%
4. Availability of land	34.4%
5. Availability of finance	21.5%

Builders were most concerned about the development/planning approval process, with nearly 60 per cent of respondents believing this issue was having a moderate, large or major effect on their business. Builders were also concerned about planning/development approval delays, with over 70 per cent indicating a moderate to major level of concern.

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 2007, 822 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 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:

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