MASTER BUILDERS AUSTRALIA

national survey of building and construction

**March 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*

# BUILDERS BRACING FOR DOWNTURN

## Builders still pessimistic...

Expectations for building industry activity remained poor in the March quarter, although sentiment recovered slightly after the major fall experienced during calendar 2008. The index, at 34.4, remains well below the neutral 50 mark, indicating that builders believe industry activity will deteriorate over the next six months (see chart). Master Builders latest quarterly survey also revealed a similar pattern in relation to own business conditions; profits; investment; and number of full-time employees. Builders intend to cut back employee and subcontractor numbers.

## ...impact of global financial crisis hitting hard...

Builders now expect a greater negative impact on activity and employment as a result of the global financial crisis than they did three months ago. More than half (56 per cent, previously 54) expect their own business activity to fall by more than 20 per cent as a result of the global financial crisis, with the remainder (44 per cent, previously 46) believing activity will fall by between 0 and 20 per cent.

## ...jobs will go...

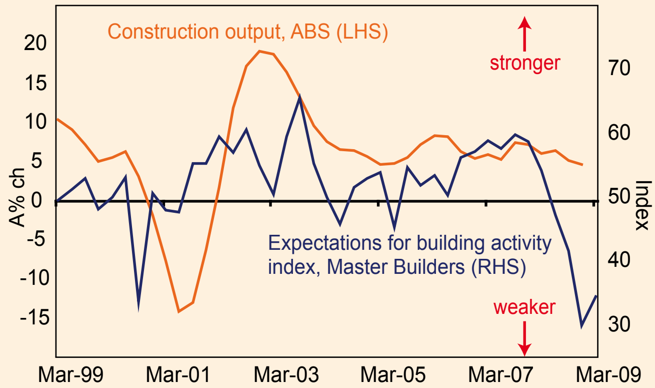
More than half (52 per cent, previously 46) expect their staffing/sub-contract numbers to fall by more than 10 per cent, with slightly less than half (48 per cent, previously 54) anticipating staffing/sub-contract numbers to fall by between 0 and 10 per cent.

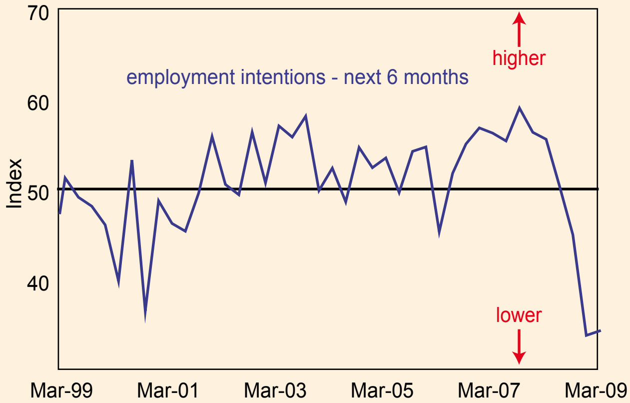
## ...despite positives from $42B stimulus package...

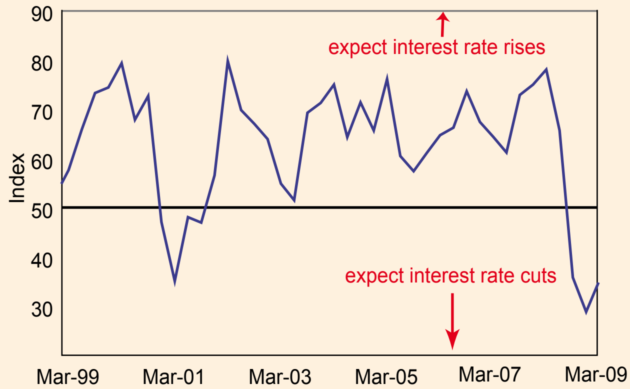
In the March quarter survey, builders were also asked to what extent they thought the Government's $42B economic stimulus package would impact on their business. More than half (57 per cent) believe the initiative will be positive for their business, a sizeable proportion (35 per cent) predict no impact, and 8 per cent believe the stimulus package will have a negative impact. Of those expecting a positive impact, most suggested it would only be 'slight' or 'moderate'.

## ...further interest rate relief expected

Key forward indicators in the residential sector are also providing some encouragement although activity will take considerable time to turn around. The backlog of work on builders' books is still holding up reasonably well, although the pipeline beyond six months is beginning to dry up. In the face of the looming downturn in building and construction output and employment, builders are looking for further interest rate relief.

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## Building industry outlook poor despite recent stabilization…

After five consecutive falls, expectations for building industry activity rose in the March quarter. At 34.4, the index was up on the 29.9 recorded in the previous quarter but remains well below the neutral 50 mark, indicating that builders believe industry activity will deteriorate over the next six months.

## …own business conditions weaker…

Builders' own business activity was slightly weaker in the March quarter. At 51.0, the index is at its lowest level since 2001. Despite this, the index is very close to 50 indicating that builders still perceive their current, own business activity to be satisfactory.

There were falls in own business conditions in all states and territories during the March quarter except the Northern Territory. Builders were most positive about own business conditions in Tasmania and South Australia in the March quarter.

## …pessimistic outlook for own business conditions, despite stabilization…

Expectations for own business activity over the next six months rose marginally in the March quarter after six consecutive falls. At 41.9, the index remains below the neutral 50 mark, indicating that builders expect own business activity to deteriorate over the next six months.

## …pressure on profits…

The reading for current own business profits fell below the 'satisfactory' 50 mark in the March quarter. After a sustained period of healthy profitability, the index began to decline from the June quarter of 2008.

In the March quarter builders became slightly less pessimistic about where their own profits are headed. The index rose to 41.2 (from 37.8) after six consecutive quarters of decline. Nonetheless, the index remains well below the 50 mark, indicating that builders expect business profits to deteriorate over the next six months.

## …builders plan to cut investment…

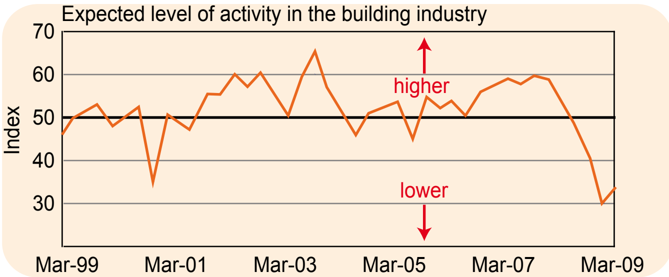
Intentions regarding own business investment in plant and equipment fell once again in the March quarter. The index is now at its weakest level since the 2000/01 downturn.

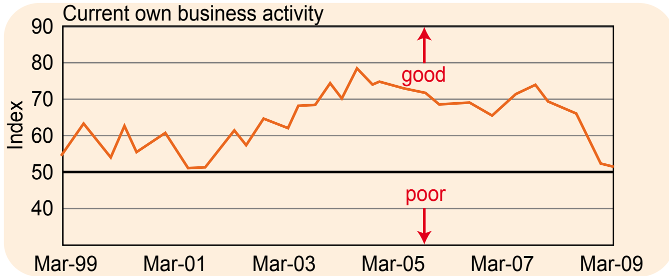
## …and employment…

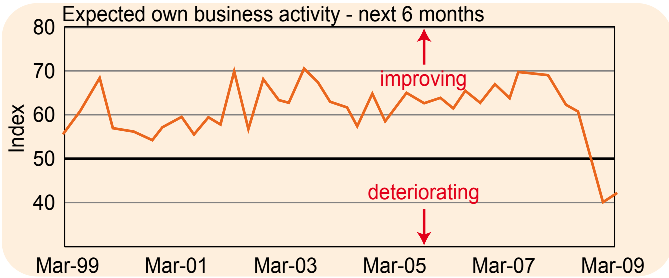
Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months. In the March quarter, the index rose slightly (34.3) from the previous quarter (33.8) but remains well below the neutral 50 mark, indicating that builders intend to reduce their workforce in the period ahead.

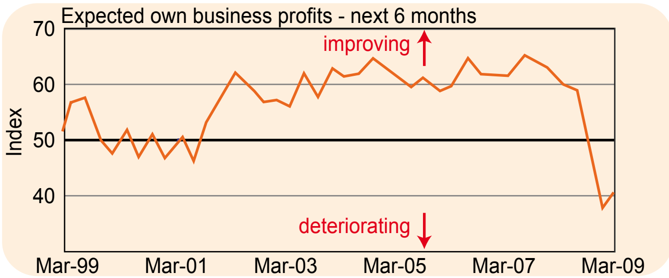
## …puts apprentices at risk

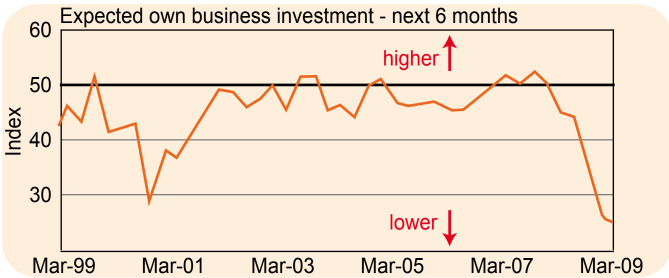
Although three quarters of respondents are not looking to change their apprentice levels, 11.7 per cent of builders now say they will release apprentices over the next six months, up sharply from the 1-4 per cent recorded in surveys during the 2007 calendar year.

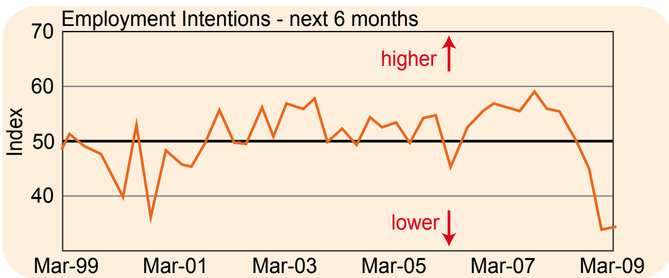


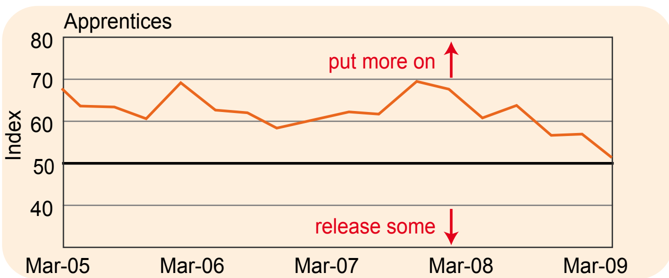



## Backlog of work begins to thin...

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 slipped back again in the March quarter (26.1 from 30.8 in December quarter 2008) and is way down on the 52.4 per cent recorded in the middle of 2008.

## Display centre traffic/enquiries stop falling...

An important leading indicator of activity is display centre traffic/enquiries. Builders are asked to report on display centre traffic/enquiries in the past three months compared with the previous three months. After falling below the neutral 50 mark during 2008, the index ticked higher in the March quarter following on from some signs of improvement in the previous quarter.

## Cost pressures ease...

The other 'silver lining' in what is otherwise a pretty grim picture, is that cost pressures have eased over the past two quarters (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 the end of 2008, cost increases had been a serious concern. Builders now expect input cost escalation to be essentially unchanged over the next six months compared to the past six months.

## Non-residential—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 in the December quarter, builders reported current conditions as falling back sharply again and the index has almost halved over the past four quarters. The index measuring expectations about future activity also fell, with non-residential builders becoming particularly pessimistic.

## ...residential—down but not out

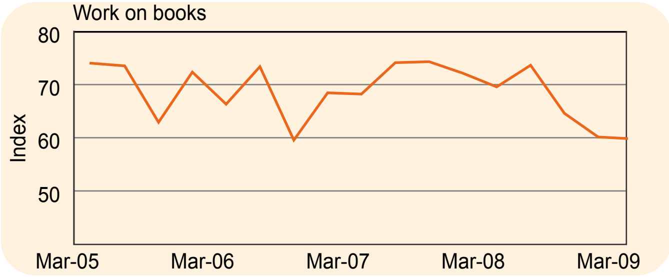
For the residential sector, the index for current conditions remained weak (35.4), but some comfort can be taken from the fact that after some improvement last year, the index has been around the same level for three quarters.

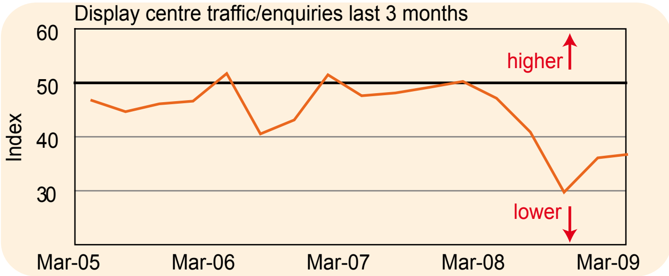
In terms of expected activity, although the overall index (42.5) indicates that builders believe residential activity will deteriorate over the next six months, there was a further pick up in the proportion of respondents expecting improved conditions, a sign that fiscal and monetary policy stimulus may be starting to impact.

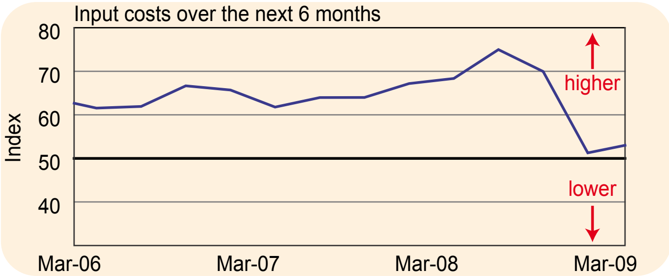
## ...financial constraints...

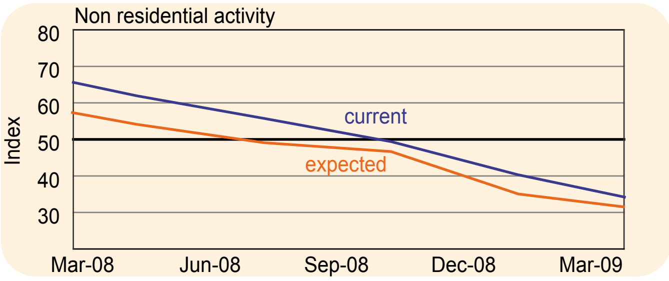
Builders expect interest rates to fall (see chart), although concerns about the credit squeeze and borrowing costs mean builders have become increasingly concerned about the availability of finance as a constraint on their business.

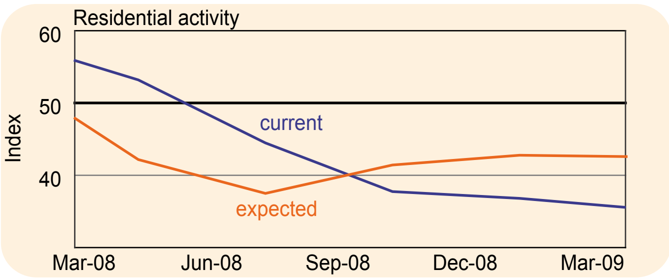
The latest survey reveals 32 per cent of respondents are concerned that availability of finance is having a large/major constraining effect on their businesses, up significantly on the corresponding figure a year ago (less than 10 per cent).

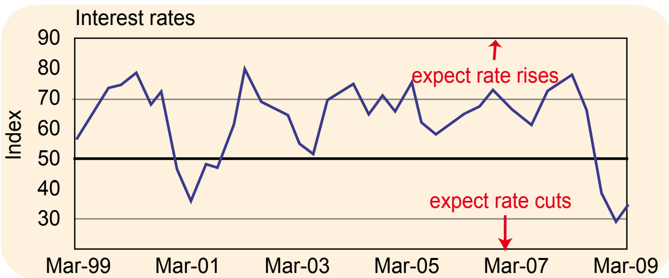


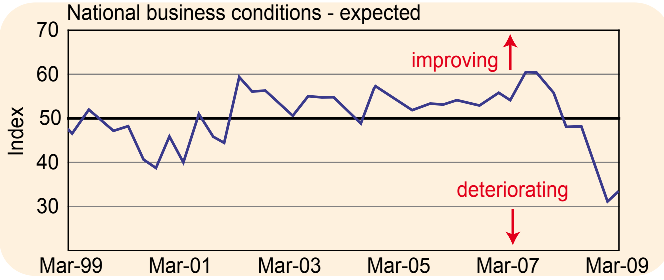



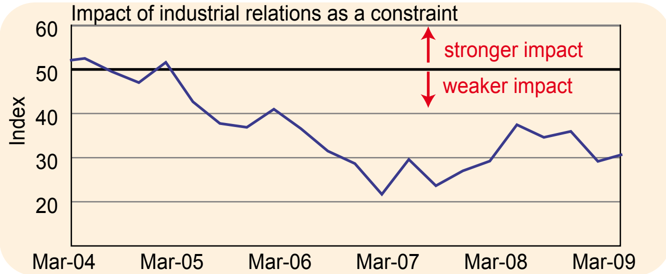
## Pessimism on the overall economy

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. The index stabilised at 42 in the March quarter after perceptions of national business conditions fell away dramatically over the course of 2008. There was a slight pickup in expectations about where national business conditions are heading in the next 6 months, but the index (33.7) is very close to the previous quarter which was the weakest since the series began in 1997.




## IR constraint...

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 was a slight uptick in the index in the March quarter (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 continued to fall away in the March quarter, in line with the deteriorating outlook. Difficulties finding labour have eased significantly for all categories surveyed. Only 9 months ago builders were experiencing extreme difficulty finding project managers, site managers and foreman/supervisors. The situation has eased considerably even though some difficulties exist in South Australia and Tasmania.

National availability of labour

| | Mar 2008 | Dec 2008 | Mar 2009 |
|---|---|---|---|
| Project Managers | 66.6 | 40.3 | 28.6 |
| Site Managers | 66.3 | 40.2 | 26.8 |
| Foremen/Supervisors | 62.4 | 36.1 | 26.4 |
| Carpenters | 51.2 | 26.8 | 17.3 |
| Bricklayers | 47.6 | 25.4 | 19.6 |
| Tilers - floor and wall | 46.8 | 28.2 | 19.7 |
| Plaster Fixers | 41.9 | 23.0 | 14.5 |
| Office Staff | 46.9 | 22.8 | 15.3 |
| Tilers - roof | 38.3 | 19.5 | 14.0 |
| Electricians | 36.3 | 18.8 | 12.7 |
| Steel Fixers | 41.6 | 23.3 | 16.0 |
| Concreters | 42.2 | 19.6 | 16.8 |
| Building Consultants | 40.5 | 18.2 | 12.1 |
| Painters | 33.2 | 17.7 | 12.0 |
| Labourers | 33.0 | 15.9 | 10.0 |
| Scaffolders | 33.6 | 16.4 | 14.6 |

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 March quarter 2009, 935 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:

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