



September Quarter 2004

## ACTIVITY DECLINES BUT CONFIDENCE REMAINS

### SUMMARY

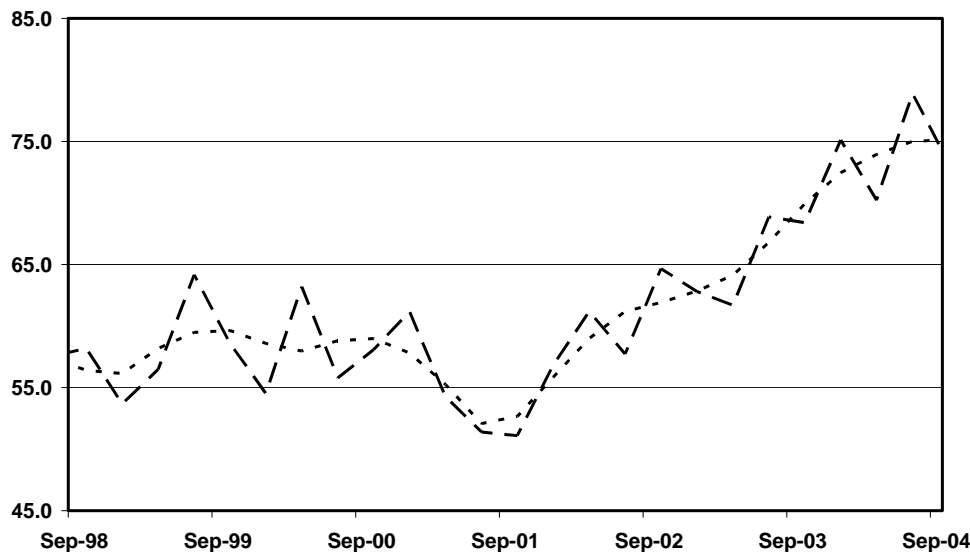
The survey results for the September quarter 2004 show that current industry conditions deteriorated in the past three months while expectations for the next six months improved a little. This is a mirror image of the June quarter when current conditions rose to a record level and expectations deteriorated.

Despite the fall, activity levels remained high in the September quarter and the trend is still rising.

Industry perceptions of own business conditions in the September quarter fell to 73.3 compared with 78.9 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 72.5 and the outcome for commercial slightly higher at 73.3.

### CURRENT OWN BUSINESS CONDITIONS



In contrast with the outcome for current conditions, expectations for the next six months rose to 65.3 compared with 56.8 in the June quarter. This rise more than reverses the large fall recorded last quarter.

Concern about available capacity also heightened, with the index falling to 48.1 compared with 54.1 three months ago, indicating less capacity available. While concerns over capacity have lessened considerably since the June quarter 2003 peak, this outcome suggests that availability of capacity remains a significant concern for the industry.

A supplementary question on the impact of higher interest rates on forward orders/inquiry rates/new contracts was also asked. The results clearly indicate that the negative impact of higher interest rates became less pronounced in the September quarter with 58.8 per cent of respondents indicating that new business was somewhat or much lower compared with 75.8 per cent in the June 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 deteriorated in the September quarter.

All but one state/territory recorded strong business conditions, headed by South Australia, Queensland and NT with index readings of 81.2, 74.6 and 73.4 respectively.

In contrast with current business conditions, expectations for the next six months rose appreciably in the September quarter (Chart 1). While the trend reading for expectations for the six months ahead are well below recent highs, the improvement in expectations is somewhat surprising given increased speculation of post election interest rate increases. It could be that the negative impact of the late 2003 interest rate increases has started to wear off and this combined with continuing high levels of activity has restored some confidence in the six monthly outlook.

CHART 1: OWN BUSINESS ACTIVITY (NEXT 6 MONTHS)

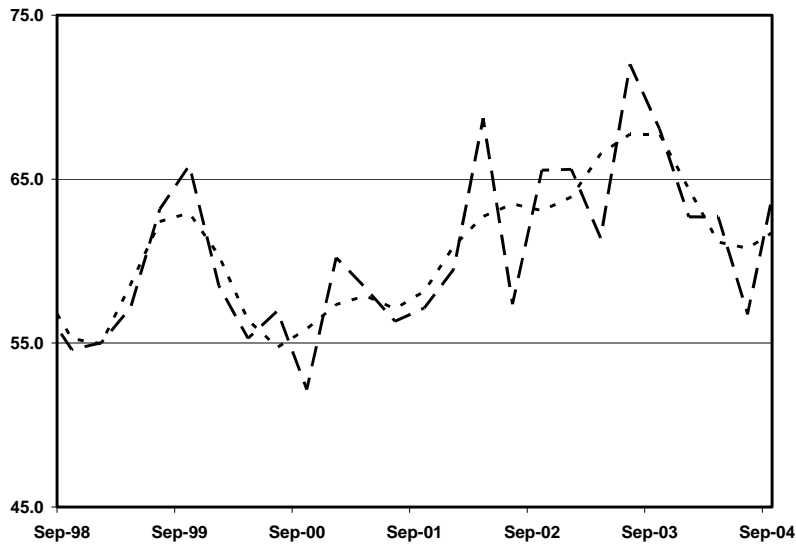
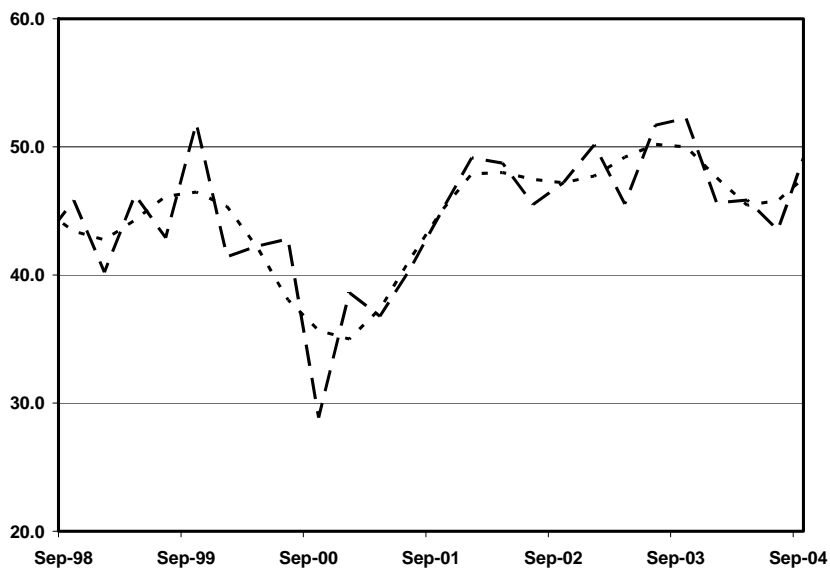


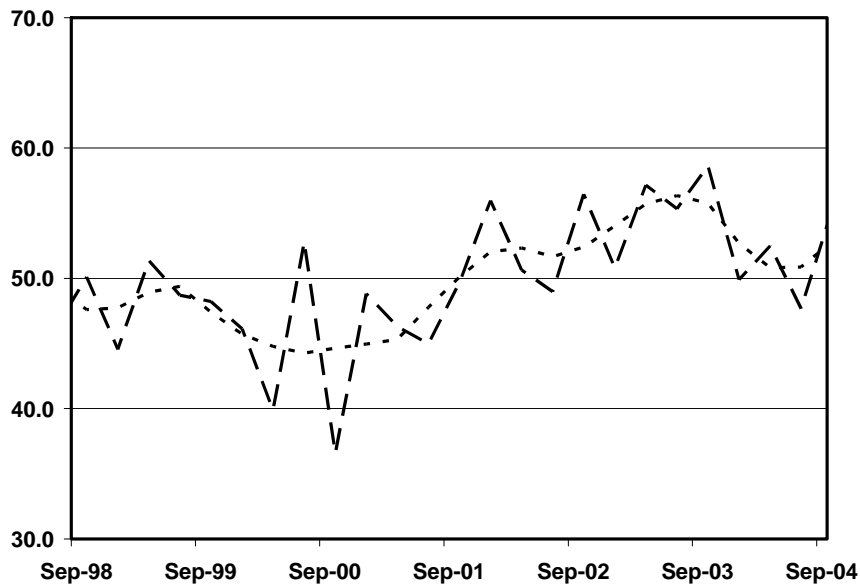
CHART 2: EXPECTED OWN BUSINESS INVESTMENT (NEXT 6 MONTHS)



In line with the improvement in expectations of activity over the next six months, expectations for own business investment also rose in the past quarter. The improvement in investment expectations over the past four years from a low of 28.9 in the September quarter 2000 mirrors the performance of the general industry. The rise in intentions takes the index to just below the record high of the September quarter 2003.

Employment intentions for the next 6 months (Chart 3) also improved significantly in the September quarter following a fall in the June quarter. Employment intentions have followed a similar pattern to those for investment, rising from the September quarter 2000 low before peaking in the second half of 2003 and then generally weakening before this quarter's rise.

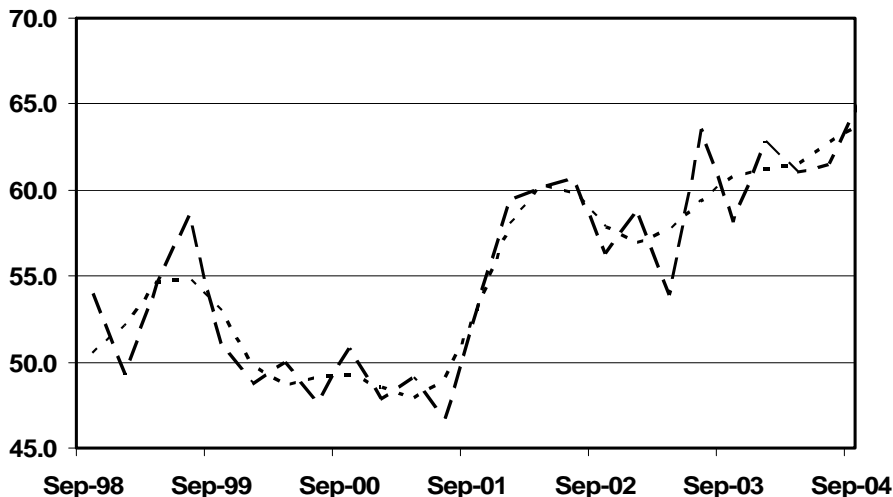
**CHART 3: EMPLOYMENT INTENTIONS (NEXT 6 MONTHS)**



Current business profits rose strongly in the September quarter to 62.7 compared with 60.0 in the June quarter. Once again, this series had recovered strongly from a most recent low of 46.2 in the March quarter 2001 to the current reading.

Perceptions of future profitability also rose strongly in the quarter to 65.3 compared with 61.5 in the June quarter. Expectations were higher in the commercial sector (61.2) than the residential sector (53.7).

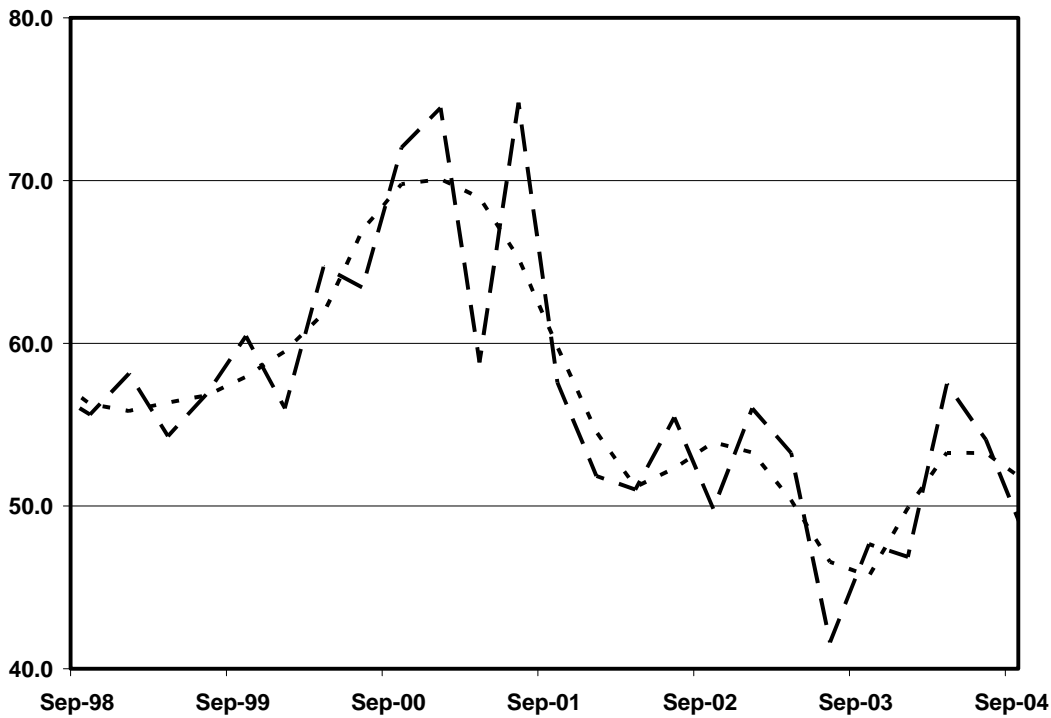
**CHART 4: EXPECTED OWN BUSINESS PROFITS (NEXT 6 MONTHS)**



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. Since this period, capacity had been becoming less of a problem. However, in the past two quarters capacity problems have worsened.

Capacity constraints were more of a concern in the residential sector with an index of 40.6 compared with 51.9 in the commercial sector.

CHART 5: AVAILABLE CAPACITY



Respondents were asked about available work on books.

Table 1: Work on Books

More than 6 months	2.8
3-6 months	15.5
1-3 months	31.2
Less than 1 month	50.6
INDEX	23.5

The overall index was 23.5, indicating that respondents considered they had, on average, around two months work on their books.

This compared with a reading of 25.8 in the June quarter suggesting that conditions had deteriorated in the September quarter.

The amount of work on the books was equal in the residential and commercial sectors although it is worth noting that the amount of work on the books in the commercial sector continues to fall while work on books in the residential sector is rising.

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

**Table 2: Display Centre Traffic**

Much Higher	0.4
Somewhat Higher	12.5
About the Same	57.1
Somewhat Lower	17.7
Much Lower	12.4
INDEX	42.7

The index for display centre traffic was largely unchanged in the September quarter at 42.7 compared with 42.5 in the June quarter. Display centre traffic is an important leading indicator of activity and this reading is consistent with a slight slowing in activity levels.

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

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

**Table 3: Impact of Industrial Relations**

Critical	13.5
Large	13.6
Moderate	36.6
Slight	20.0
No Effect	16.3
INDEX	47.0

As can be seen from Table 3, 62.9 per cent of respondents indicated that industrial relations were having a moderate or larger impact on business. The overall index of 47.0 was slightly lower than the 49.5 recorded last quarter indicating a slight decrease in industrial problems.

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

**Table 4: Employment of Apprentices (Next Six Months)**

Put on More	28.4
No Change	66.7
Release Some	4.9
INDEX	61.8

Whilst the overwhelming majority of respondents (66.7 per cent) were not expecting to change the number of apprentices they employ, 28.4 per cent said they were likely to put on more apprentices compared with 4.9 per cent of businesses who said they were likely to release apprentices.

This resulted in an overall index of 61.8 compared with 63.2 in the June quarter indicating a deteriorating outlook for apprentices.

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

**Table 5: Availability of Labour**

	June Quarter	Sept Quarter
Bricklayers	(62.1)	60.2
Foremen/ Supervisors	(61.0)	60.0
Site Managers	(63.8)	60.0
Project Managers	(61.2)	58.4
Carpenters	(56.0)	47.2
Steel Fixers	(45.0)	42.0
Concreters	(48.0)	39.0
Plaster Fixers	(52.8)	38.7
Scaffolders	(34.4)	36.4
Office Staff	(33.9)	31.9
Painters	(44.4)	29.7
Electricians	(38.2)	28.9
Labourers	(27.0)	23.9

In general, the responses indicated that workers had become easier to come by in the September quarter. Only, scaffolders appeared to be less readily available. However, shortages still exist for Project Managers, Site managers, foremen/ supervisors, and bricklayers. The availability of plaster fixers and concreters improved significantly over the quarter.

There were also significant regional differences, with Western Australia, Queensland, South Australia and NT in particular having significant shortages across most areas. Availability of resources has improved in Western Australia (from extreme levels) but have worsened noticeably in South Australia and Queensland.

### 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 deteriorated in the September quarter with the index falling to 62.6 compared with 63.6 in the June quarter (Chart 6). Nevertheless, the index has improved considerably since the December quarter 2003 indicating that the negative impact of the late 2003 interest rate increases has waned.

CHART 6: CURRENT GENERAL BUSINESS CONDITIONS

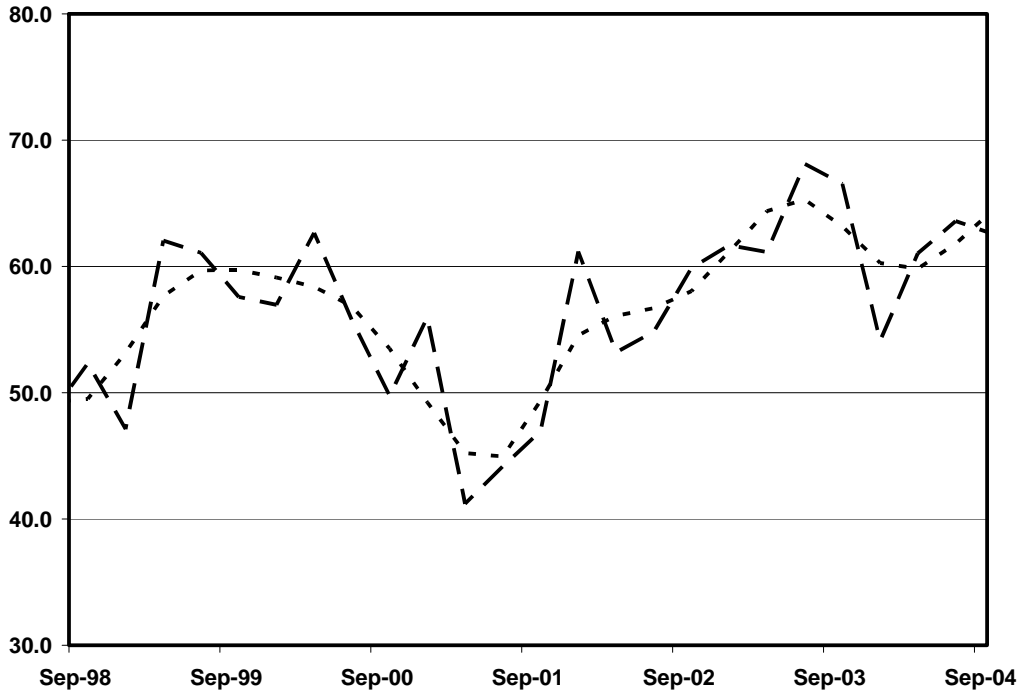
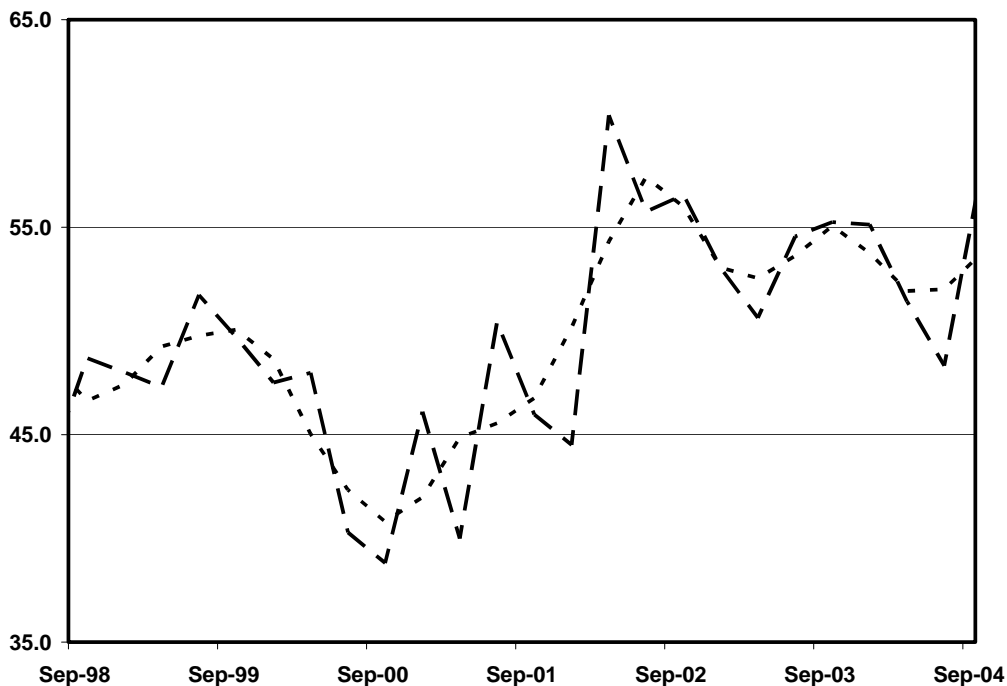


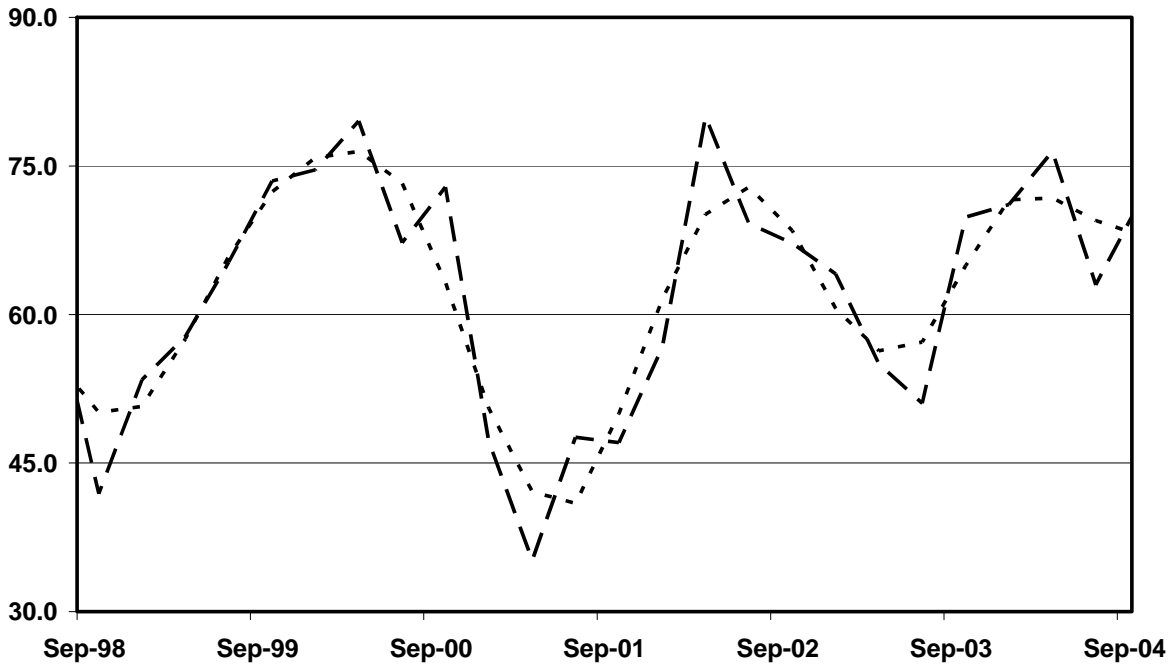
CHART 7: EXPECTED GENERAL BUSINESS CONDITIONS (NEXT 6 MONTHS)



While current general business conditions were perceived to have deteriorated, expectations for general business conditions in the next six months were significantly stronger (Chart 7). Expectations for national business conditions were lower in the residential sector at 61.0 compared with 46.3 for commercial where expectations improved considerably compared with the June quarter.

Expectations for interest rates recorded an index of 71.2 in the September quarter compared with 63.0 in the June quarter. This indicates more pronounced expectations of rising interest rates in the twelve months ahead. The higher index probably reflects heightened press speculation of post election interest rate increases.

CHART 8: INTEREST RATES EXPECTATIONS (NEXT 12 MONTHS)



## 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 6: Effect on Recent Interest Rate Increases**

Much Higher	3.5
Somewhat Higher	8.8
About the Same	28.9
Somewhat Lower	26.5
Much Lower	32.3
<b>INDEX</b>	<b>31.2</b>

An index of 31.2 was recorded for the impact of interest rates, with 58.8 per cent of respondents indicating that new business orders were somewhat or much lower as a result of the rises in interest rates. While an index outcome well below 50 indicates a significant impact on forward business, this impact is now assessed as being less than it was in the June quarter when the index was considerably lower at 24.9 and 75.8 per cent of respondents assessed the impact as somewhat or much 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.