

September Quarter 2008

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

## SLIDE IN BUILDER SENTIMENT

### Outlook deteriorates...

Master Builders' latest quarterly survey reveals expectations for building industry activity continued to fall sharply in the September quarter. The index has now fallen well below 50, indicating that builders believe industry activity will decline over the next six months (see chart).

The September quarter survey predates moves by the Reserve Bank to bring interest rates down and the Government's \$10.4 billion economic stimulus package which includes a \$1.5 billion boost to housing via the first home owner's grant scheme.

The survey shows builders have become increasingly concerned about the outlook for the economy, the building industry and their own businesses, almost certainly a result of tight financial conditions and the credit squeeze as uncertainty escalates in the wake of the global financial crisis.

### ...building activity set to weaken...

Builders reported softer activity and a sharp fall in expectations regarding future activity. Profitability is weakening and there is a fall in employment and investment intentions. Key forward indicators are beginning to fall away including a sharp decline in sales and display centre traffic/enquiries. Although work on builders' books is still reasonable, the pipeline beyond six months is beginning to dry up.

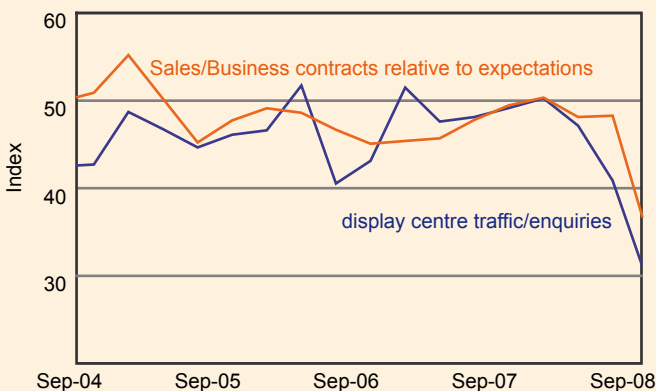
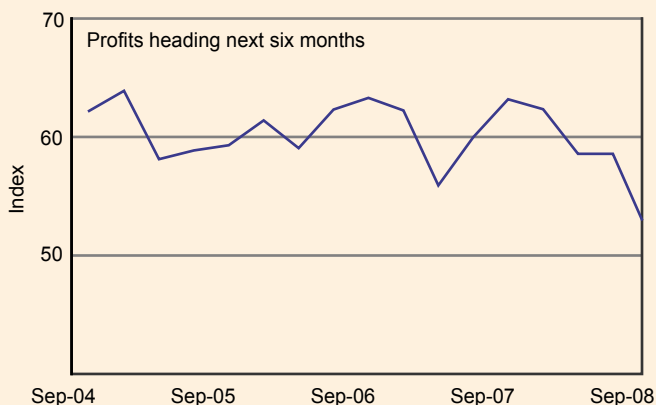
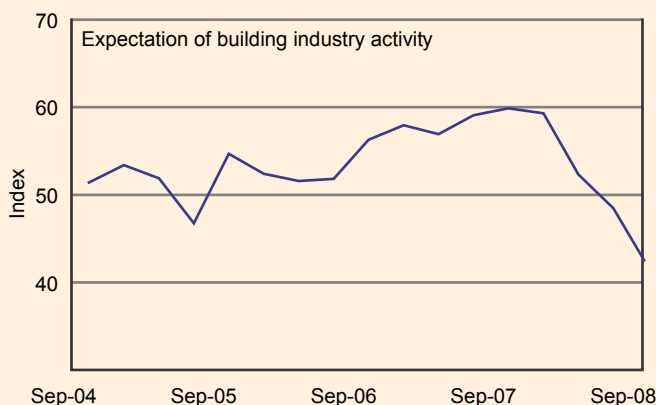
### ...across all sectors...

Builders confirmed poor conditions in the residential sector and, worryingly for the health of the overall construction industry, the survey revealed a further distinct softening in non-residential, a sector that has been driving activity over the past few years.

### ...in wake of tight financial conditions

Builders are suffering a much greater (negative) impact of interest rates on forward orders/enquiry rates/new contracts and they are becoming increasingly concerned about availability of finance as a constraint on business.

From virtually no effect in mid 2007, the latest survey reveals almost 25 per cent of respondents concerned that the availability of finance was having a large/major effect on their business costs due to the credit squeeze and higher borrowing costs.



**Industry outlook deteriorates...**

Expectations for building industry activity fell sharply again in the September quarter. The index has now fallen well below 50 (41.6), indicating that builders believe industry activity will decline over the next six months.

**...with softer business conditions...**

Builders' own business activity fell again in the September quarter and the index is at its lowest level since 2002. Despite this, the index (for the time being anyway) remains above 50, indicating that builders still perceive their current own business activity to be in the satisfactory/good range.

Own business conditions fell in all states and territories except South Australia in the September quarter. Builders were most positive about their own business conditions in South Australia and Tasmania.

**...and falling sentiment...**

Expectations for the next six months fell sharply in the September quarter and a strong down trend has developed. Builders are becoming much less positive about the outlook, and with the index now at the neutral 50 mark, no change in business activity is expected over the next six months.

**...profit warning...**

The reading for current own business profits fell to almost 50 in the September quarter. Although this indicates 'satisfactory' profits, it also represents a significant downgrade from levels achieved over the past few years.

Builders' perceptions about where their own profits are heading in the next six months fell back markedly in the September quarter. The index has now fallen below 50, with builders therefore expecting some deterioration in business profits over the next six months.

**...investment/employment plans marked down...**

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

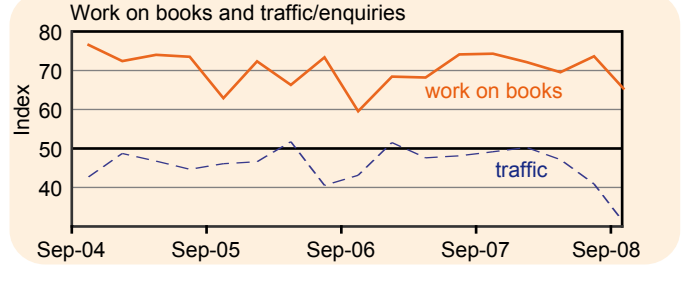
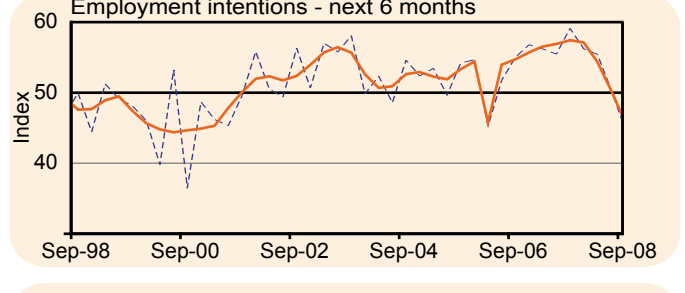
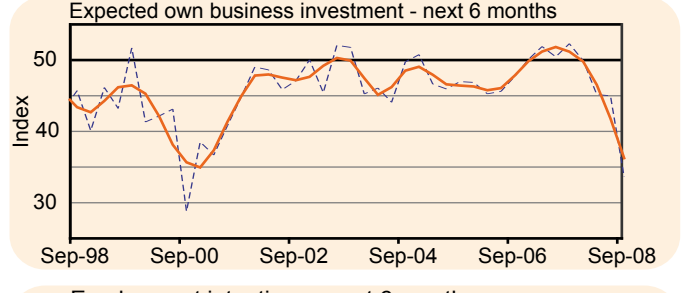
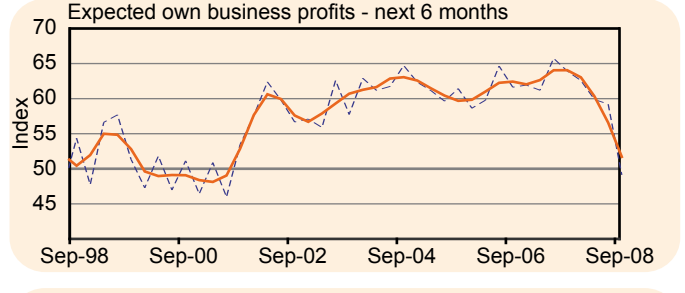
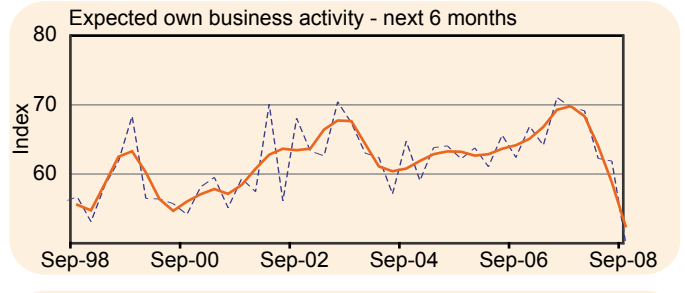
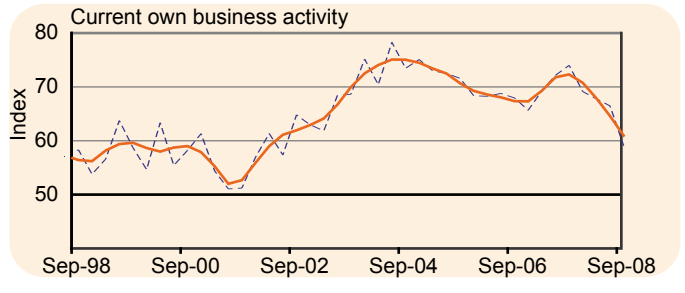
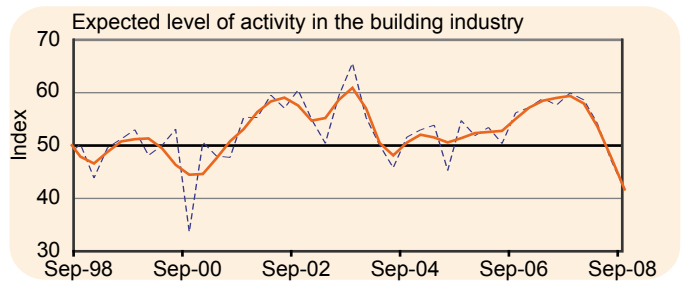
The index measuring intentions regarding the likely level of employees and subcontractors over the next six months has fallen below the 50 level, indicating that builders expect to reduce the full time workforce in the period ahead.

**...backlog of work begins to thin...**

Builders continue to have a reasonable backlog of work, with the index remaining around the level experienced a year ago. However, the percentage of respondents reporting more than 6 months of work on the books was 37.8 in the September quarter compared with 52.3 in the previous quarter and 54.6 in the September quarter of last year.

**...traffic/enquiries fall away**

Display centre traffic/enquiries are an important leading indicator of activity. In the September quarter, the index fell sharply to 29.7 from 40.9 recorded in the previous quarter and from levels close to 50 a year ago.



**All sectors weakening...**

Builders with significant operations in both residential and non-residential sectors are asked a series of supplementary questions relating to current conditions and the outlook for activity in the respective sectors.

In the non-residential sector, builders reported current conditions as falling back again in the September quarter with the index measuring expectations about future activity also falling below the benchmark 50 level. In the residential sector, current conditions fell sharply in the September quarter, with nearly half of all builders surveyed describing conditions as poor. Residential activity is expected to deteriorate over the next six months.

**...as financial constraints begin to bite...**

During the course of 2008, there has been a sharp increase in the index measuring the impact of interest rates on forward orders/enquiry rates/new contracts.

Not surprisingly, builders are becoming increasingly concerned about availability of finance as a constraint on business. From virtually no effect in the middle of last year, the latest survey reveals that almost 25 per cent of respondents were concerned that availability of finance was having a large/major effect on their business — almost certainly related to the credit squeeze and higher borrowing costs.

**...and pessimism on the economy grows**

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. Perceptions of national business conditions have fallen away dramatically over the past year, with the index at 46.2 in the September quarter compared to 67.3 a year ago. Expectations about where national business conditions are heading in the next six months have also plummeted, with the index at 39.3, the weakest level recorded since the 2000/01 downturn.

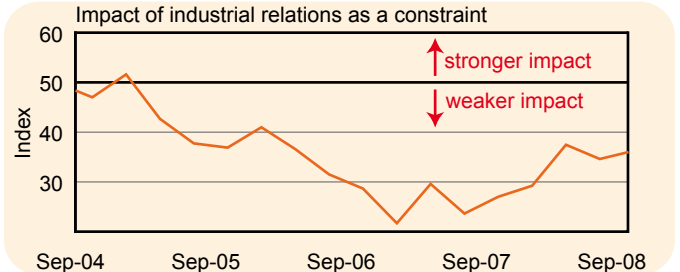
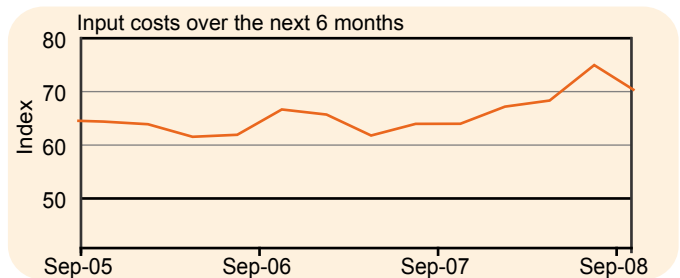
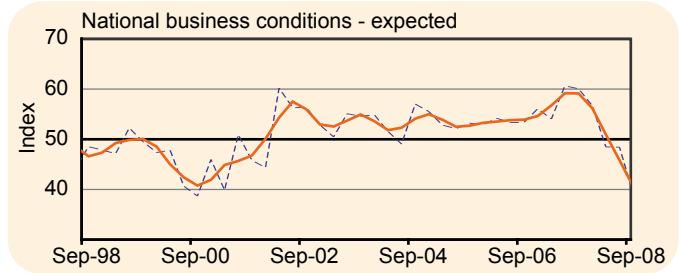
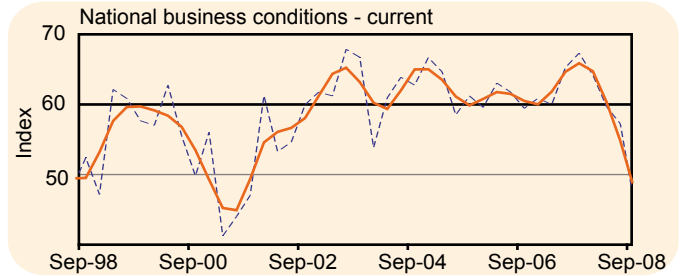
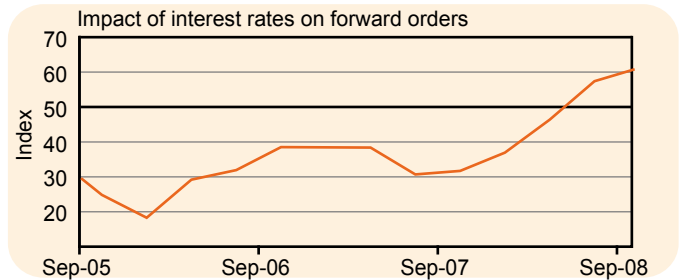
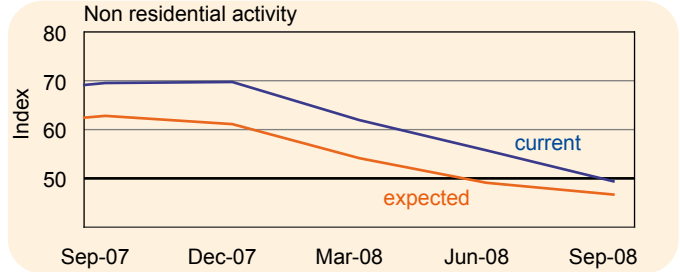
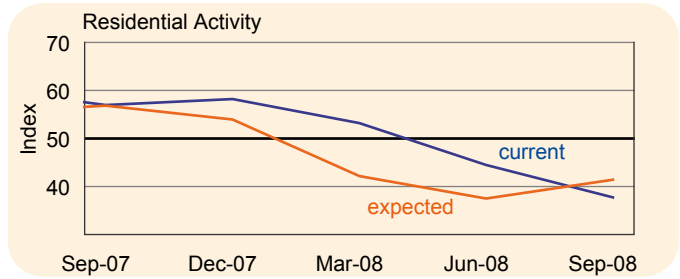
Expectations for interest rates turned around in the September quarter. Builders now expect interest rates to fall considerably over the next 12 months. Events that have unfolded since the survey was undertaken already bear this out, with the Reserve Bank announcing official cuts in interest rates totalling 1¼ percentage points in September and October.

**...cost pressures to ease...**

After escalating over the past year, the input cost index fell back in the September quarter, albeit from a high level, as builders see the impact of weaker activity beginning to flow through. Respondents are asked whether they expect input cost increases (labour, materials) to be higher or lower over the next six months, compared to the past six months.

**...IR constraint — down but not out**

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. As the chart shows, however, in the past year or so it appears that industrial relations may be becoming more of an issue. The index was virtually unchanged in the September quarter.



### Some easing of skill shortages...

At the national level, pressures related to finding skilled labour appear to be easing in line with the weakening in building activity. Over the past year, difficulties finding labour lessened for all categories surveyed.

Nonetheless, difficulties remain in attracting certain categories of labour, for example, project managers and site managers and acute skill shortages exist in several of the smaller states.

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.

#### National availability of labour

	Sep 2007	Jun 2008	Sep 2008
Project Managers	63.9	67.7	53.5
Site Managers	62.8	67.3	53.4
Foremen/Supervisors	60.9	61.9	46.4
Carpenters	48.6	53.3	39.1
Bricklayers	43.3	49.4	36.1
Tilers - floor and wall		44.8	36.4
Plaster Fixers	39.6	39.8	33.1
Office Staff	41.2	44.4	33.0
Tilers - roof		38.2	32.0
Electricians	35.6	34.1	31.3
Steel Fixers	39.3	41.7	30.5
Concreters	40.6	42.6	29.9
Building Consultants	29.7	38.8	29.0
Painters	33.8	32.7	28.6
Labourers	31.7	33.7	26.1
Scaffolders	35.2	32.4	26.4

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 September quarter 2008, 859 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:

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