

September 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

REBOUND IN BUILDER SENTIMENT AS STIMULUS KICKS IN

Confidence buoyed by government spending...

Master Builders latest quarterly survey reveals a continued rebound in builder sentiment in the September quarter after the dramatic fall experienced in the wake of the global financial crisis. The Government's policy strategy to leverage the building and construction industry as part of its efforts to cushion the economy from the global recession is bearing fruit and is underpinning current activity.

...enough to offset commercial slump?

Despite the unfolding of the credit crisis in the latter part of last year, a strong backlog of work and the stimulus package have prevented a collapse in construction activity.

Nonetheless, after annual average growth of 6.5 per cent in real terms over the past 7 years, construction growth has now turned negative (top chart). The slump in building approvals, both non-residential building and residential building (next 2 charts), is beginning to translate into declining work done despite the Government's very welcome stimulus measures.

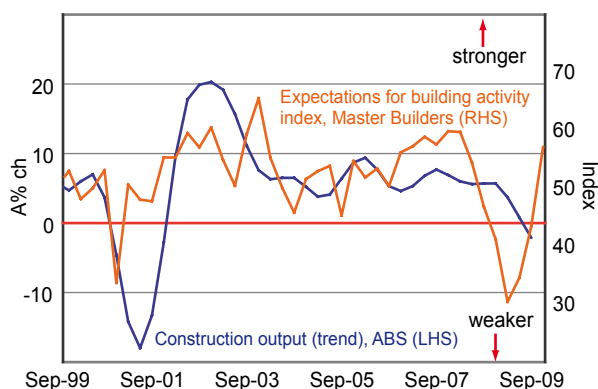
...credit squeeze, collapse in approvals...

Tighter bank risk criteria and problems raising and re-financing debt have led to a massive fall in non-residential building approvals. The setback to commercial building projects and softening market conditions are set to leave a significant hole in building activity once the pipeline of work falls away as projects are completed. The apartment and townhouse project pipeline has also been hit hard as funding remains a primary constraint on project development.

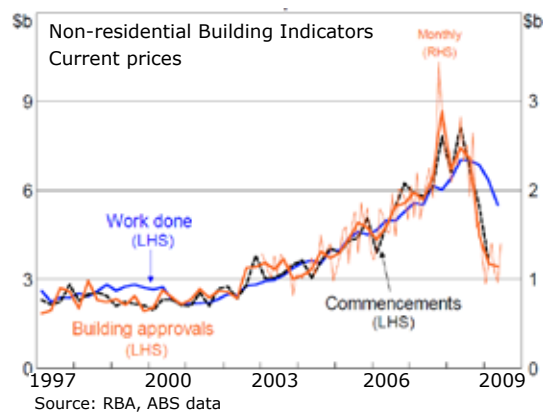
...builders in the eye of a storm?

Although the recent rebound in sentiment is very encouraging, builders still perceive non-residential conditions to be 'poor' and see current conditions in the residential sector as 'unchanged'.

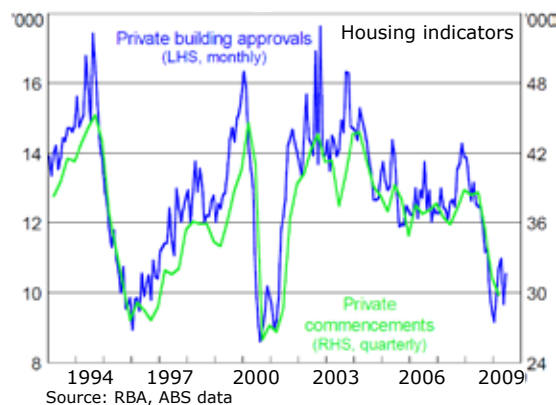
Builders are expecting slow improvement in the residential sector over the next 6 months, but a recovery will need to overcome sluggish investor activity, a fall back associated with the end of the 'boost' scheme and speculation about higher interest rates.



Source: ABS, Master Builders Australia National Survey



Source: RBA, ABS data



Source: RBA, ABS data

Expectations for building industry outlook improve dramatically...

Expectations for building industry activity rose again in the September quarter. As the chart shows, there have been wild gyrations in the index over the past 18 months. At 57.1, the index is now above the neutral 50 mark, indicating that builders believe industry activity will improve over the next six months.

...further pick up in own business conditions...

Builders' current level of own business activity improved further in the September quarter. The index rose to 60.0, up from 57.4 recorded in the previous quarter which was the lowest level seen since 2001. The index has recovered substantially, though it remains well below levels achieved in the first half of 2008 when building conditions were stronger.

There was some improvement in own business conditions in all states and territories bar Tasmania during the September quarter. Builders were most positive about own business conditions in South Australia, Victoria and Tasmania.

...consolidation in own business outlook...

Builders expect their own business activity to improve over the next six months. The index rose slightly in the September quarter after the rebound experienced in the June quarter from extremely low results in the December 2008 and March quarters. At 56.9, the index has moved from 9 points below the neutral 50 mark to 7 points above, reflecting extreme uncertainty in the wake of the global financial crisis.

...profits edge higher

The reading for own business profitability edged higher in the September quarter after the move back into positive territory in the June quarter. The index remains slightly above the 'satisfactory' level, though well down on 'good' levels of profitability achieved prior to the global financial crisis.

Builders see profits improving slightly over the next 6 months, a much more positive result than the previous 3 surveys, although well down by comparison with 2007.

Builders still plan to cut investment...

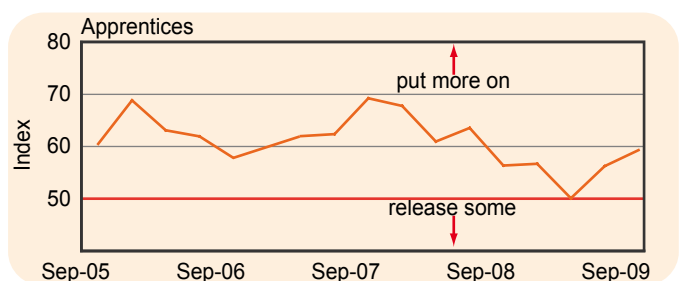
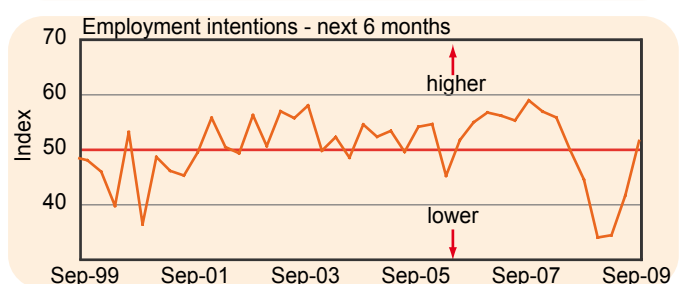
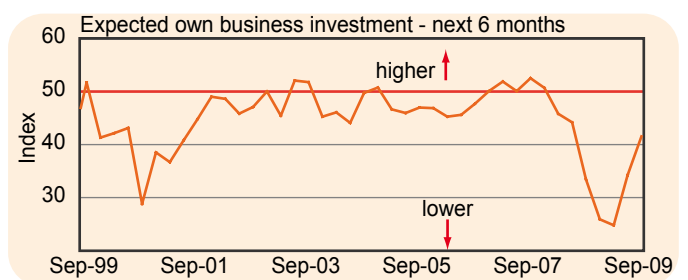
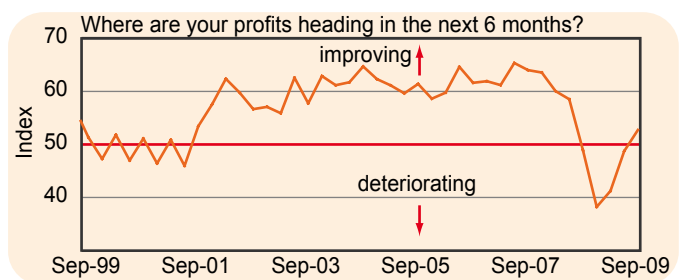
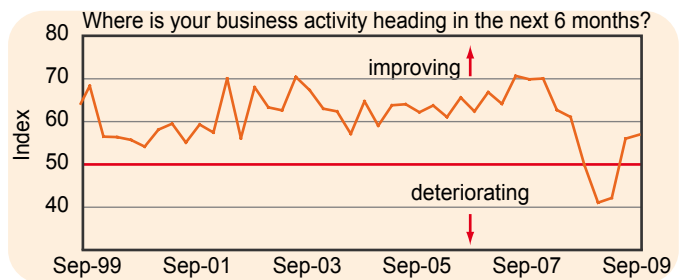
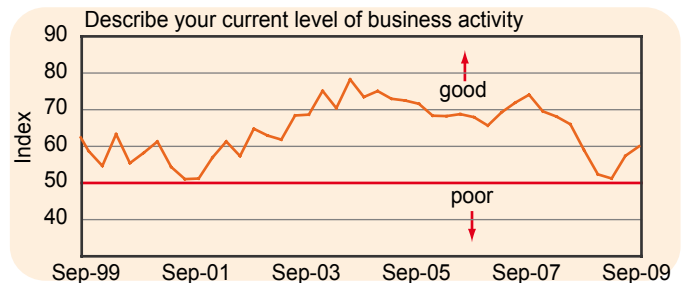
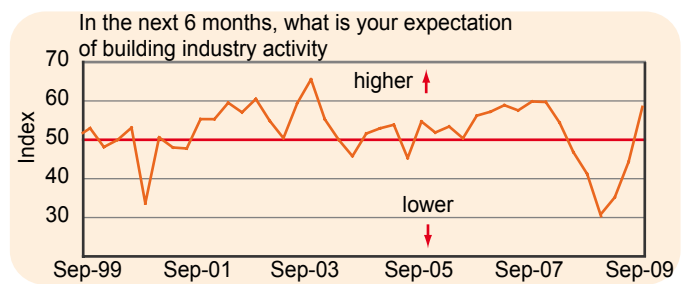
Builders' intentions regarding investment in plant and equipment in the next 6 months (compared with the previous 6 months), remained firmly in the 'lower' category in the September quarter. The index improved to 41.5 from 34.2 in the previous quarter but remains well below the neutral 50 mark.

...but may now hold on to their workforce...

Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months relative to now. In the September quarter, the index jumped to 51.6, well up on the previous quarter (41.7) and now slightly above the neutral 50 mark, indicating that builders think their workforce will remain stable, or perhaps move fractionally higher, in the period ahead.

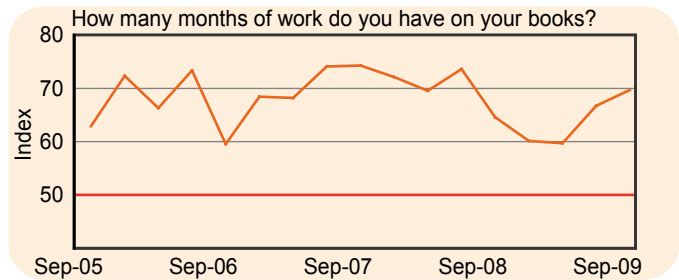
...which is better news for apprentices

Although 72 per cent of respondents are not looking to change their apprentice levels, the proportion of builders saying they will put on more has recovered since the beginning of the year, though not back to levels seen two years ago.



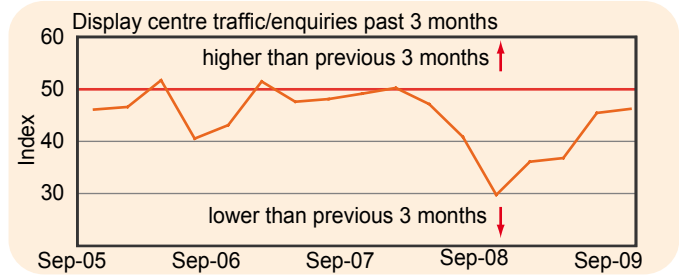
Backlog of work still holding...

Builders' backlog of work has strengthened over the past 2 quarters after falling back for 9 months prior to that. The index is now back to where it was a year ago. The percentage of respondents reporting more than six months of work on the books has recovered quite strongly over the past 6 months.



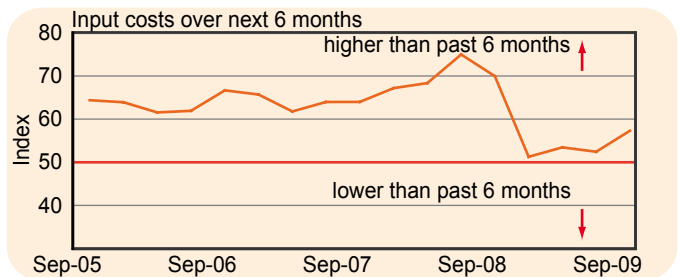
Display centre traffic/enquiries...

There was little change in the index for display centre traffic/enquiries in the September quarter. Indications are that the pace of decline in display centre traffic/enquiries may be abating. The index, at 46.2 is a little below the neutral, 'no change' 50 mark for the second quarter in a row, an improvement on the previous 9 months, but traffic/enquiries are still falling.



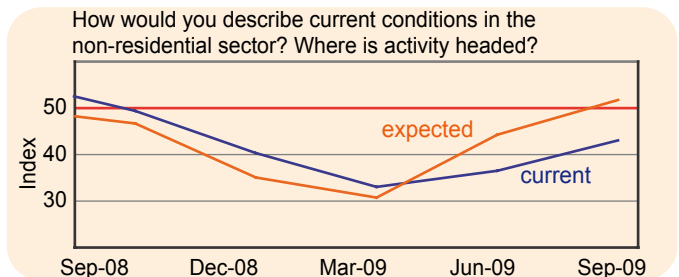
Cost pressures off the boil...

Cost pressures have eased over the past year (see chart), despite an increase in the index in the September quarter. 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 recently, cost increases had been a serious concern with the index in the 70 to 75 range. The index moved to 57.3 in the latest quarter after stabilising close to the neutral 50 mark in the previous 3 quarters.



Non-residential—poor conditions, to improve?

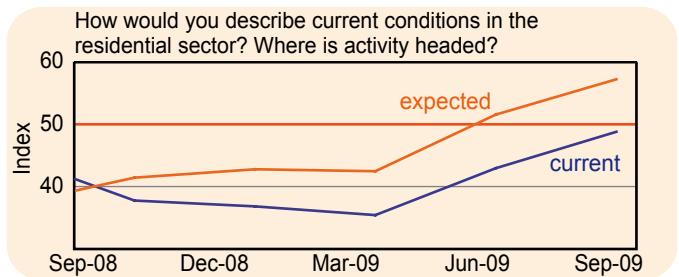
Builders with significant operations in both residential and non-residential sectors are asked a series of questions relating to the respective sectors—'how would you describe current conditions' and 'where do you believe activity is headed'.



In the non-residential sector builders continued to report current conditions as poor, although the index improved during the September quarter. The index measuring expectations about future activity picked up significantly and moved just above the neutral 50 mark, as non-residential builders become less pessimistic about future conditions.

...residential—builders expect pick up

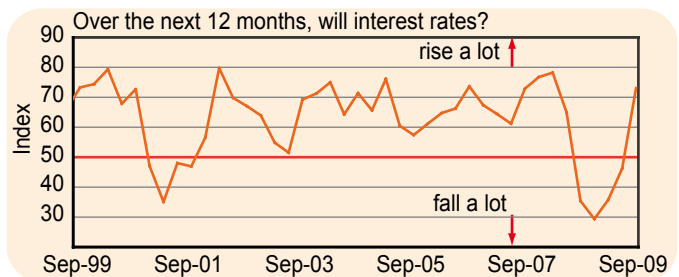
For the residential sector, the index for current conditions continued to pick up, and at 48.8 is close to the 'satisfactory' mark.



In terms of where builders believe the residential sector is headed, the sharp improvement recorded in the June quarter continued in the September quarter. The index moved from 51.6 to 57.2, some way above the neutral mark and indicating that builders expect some improvement in conditions over the next 6 months as low interest rates and the 'boost' scheme start to make a difference.

Concern over financial constraints...

Concerns about the credit squeeze and borrowing costs continue to be reflected in the survey, with the availability of finance remaining as a constraint on business. In the September survey, 32.4 per cent of respondents were concerned that availability of finance was having a large/major constraining effect on their businesses, virtually unchanged on the previous quarter and up significantly on survey results of 18 months-2 years ago.



Builders now expect interest rates to rise moderately over the next 12 months (see chart) following comments by the Reserve Bank that 'emergency' cuts will need to be reversed at some stage when economic conditions allow for it.

Overall economic conditions recover...

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. Perceptions about national business conditions improved again in the September quarter after they had fallen away dramatically in the second half of 2008 and the March quarter of 2009. There has been a turnaround in expectations about where national business conditions are heading in the next 6 months (see chart), with the index now slightly above the neutral 50 mark.

IR constraint—low but the trend is up...

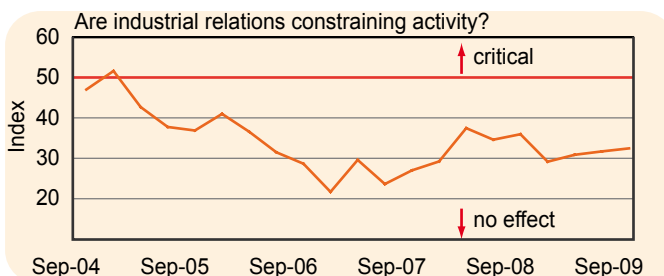
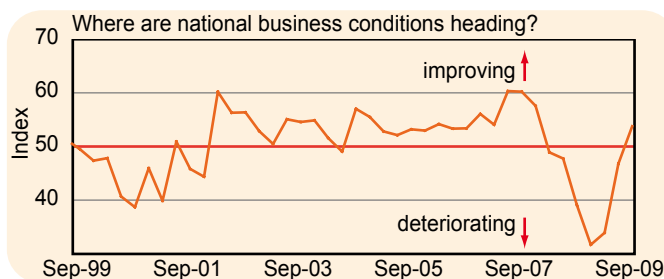
Respondents are also asked to indicate the degree to which they perceive industrial relations is acting as a constraint on their business. A dramatic fall in the index occurred in 2005 and 2006 associated with the introduction of the BCII Act and establishment of the ABCC. The index began to rise in 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 has been a discernible increase in the past 3 quarters (see chart).

Skill shortages have eased...

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 increased in the September quarter, but the index remains well down on a year ago across all categories surveyed. Builders had been experiencing extreme difficulty finding a range of subcontractors/employees, including project managers, site managers and foreman/supervisors.

Although the situation has eased considerably, some difficulties still exist in many of the smaller states e.g. South Australia, Tasmania and the ACT.



National availability of labour

	Sep 2008	Jun 2009	Sep 2009
Project Managers	53.5	31.4	39.6
Site Managers	53.4	30.5	39.0
Foremen/Supervisors	46.4	27.5	38.1
Carpenters	39.1	15.5	24.0
Bricklayers	36.1	16.8	27.0
Tilers - floor and wall	36.4	19.9	27.6
Plaster Fixers	33.1	15.8	22.2
Office Staff	33.0	13.1	21.4
Tilers - roof	32.0	13.8	23.0
Electricians	31.3	11.9	20.8
Steel Fixers	30.5	16.2	23.2
Concreters	29.9	16.2	22.5
Building Consultants	29.0	8.7	18.7
Painters	28.6	11.4	20.2
Labourers	26.1	8.1	14.8
Scaffolders	26.4	10.5	18.9

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 2009, 827 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:

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