

# NATIONAL SURVEY OF BUILDING AND CONSTRUCTION



March quarter 2014

## BUILDER CONFIDENCE GROWS AS UPSWING GAINS TRACTION

*Building activity in 2014 is set to rebound on the back of improved confidence. This should allow the building and construction industry to play a key role in the rebalancing of the economy in the wake of the resources boom.*

### Business confidence lifts...

Builder confidence rose again in the March quarter. The index is now well above the neutral 50 mark as the low interest rate environment works to lift sentiment. Builders believe their own business activity and profits will improve solidly over the next six months.

### ...as conditions improve

Business conditions also improved. After breaching the 'satisfactory' 50 mark in the previous quarter, the index continued to rise in the March quarter. So after an extended downturn business conditions have improved although they remain well down on levels achieved during building and construction's strong growth phase from 2003 to 2008.

### Pick up in enquiries...

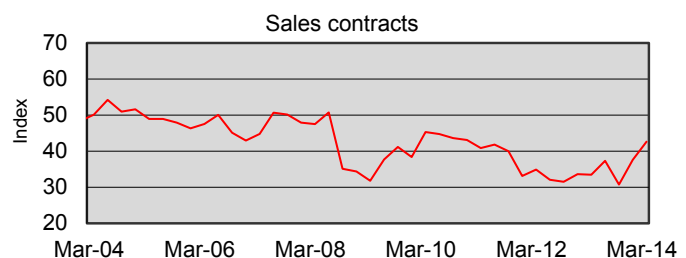
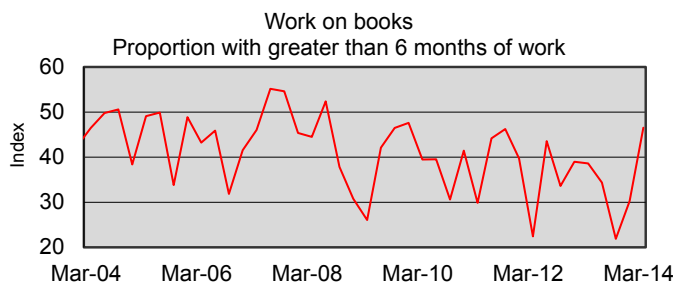
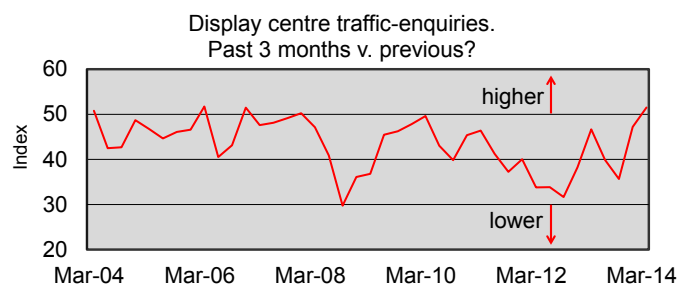
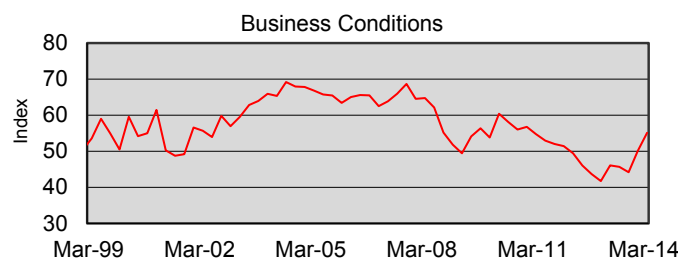
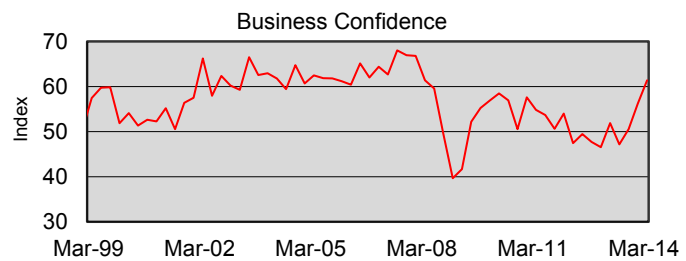
In the March quarter the index for display centre traffic/commercial enquiries rose above the neutral 50 mark. This is further evidence that low interest rates are encouraging a resurgence in consumer demand.

### ...sales turnaround

Despite further improvement in the March quarter that took the index to 42.6 alongside an improving trend, sales remain in the 'lower' category. In a promising sign though, the proportion of builders reporting higher sales jumped above 20 per cent for the first time in nearly three years.

### ...backlog of work improves

The index measuring builders' work-on-the books rose sharply in the March quarter along with the proportion of respondents reporting greater than six months of work. A healthier pipeline of work should eventually lead to improved margins and profitability, thereby allowing builders to consider higher levels of employees and sub contractors.



*Each quarter Master Builders in states and territories are asked to complete an online survey canvassing their views on the national economy and conditions within their own enterprises. Indices are calculated by taking the difference between the percentage of respondents nominating good or very good (or a rise) and those nominating poor or very poor (or a fall). An index reading of 50 is the neutral or no change mark. Business conditions index is a simple average of builders' own business conditions and profits reported by respondents. Business confidence is a simple average of where builders believe their own business activity and profits are heading in the next six months.*

**Positive expectations for building industry...**

In the March quarter the index measuring expectations for building industry activity recorded 56.7, the second consecutive quarter above the neutral mark indicating builders see industry activity moving higher in the next six months. Interest rates are finally working to impact positively on the outlook. The trend in the index has shown steady improvement from a trough in mid-2012 to reach its highest level since the global financial crisis.

**Upswing in own business conditions...**

The index measuring builders' current level of own business activity rose to 59.5 in the March quarter. Following a general decline in the index over the past two years to levels below that recorded during the global financial crisis, the index is now well above the 'satisfactory' 50 level. The March quarter result is the best result since the cushioning effects of the BER and other stimulus spending.

**... rise in own business prospects...**

The index measuring builders' views on their future business conditions rose again in the March quarter, a third consecutive quarterly rise that has bucked the saw tooth pattern exhibited prior to that.

The rising trend is encouraging with the sharp pick up in the past few quarters reflecting the impact of low interest rates. At 62.8, the index is now well above the neutral 50 mark indicating that builders believe own business activity will improve over the next six months.

**...recovery in profits**

In the March quarter the index measuring own business profitability rose to 50.7, slightly above the neutral 50 mark as profitability begins to recover (see chart).

In terms of builders' expectations regarding future profits, the index continued to rise sharply, reaching 60.0 in the March quarter. The index is now well above the 50 mark indicating that builders expect own profits to improve over the next six months.

**...sales head towards recovery**

Sales remain in the 'lower' category, despite further improvement in the March quarter that took the index to 42.6 alongside an improving trend. For the first time in nearly three years, the proportion of builders reporting higher sales jumped above 20 per cent. Builders need higher sales and business contracts to ensure a recovery in business conditions and profitability becomes entrenched.

**...job prospects improve...**

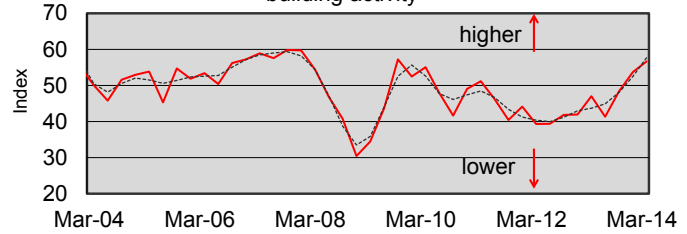
Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months relative to now.

In the March quarter, the index rose to 50.2, around the neutral level and indicating that builders are now likely to keep employment levels steady in the period ahead.

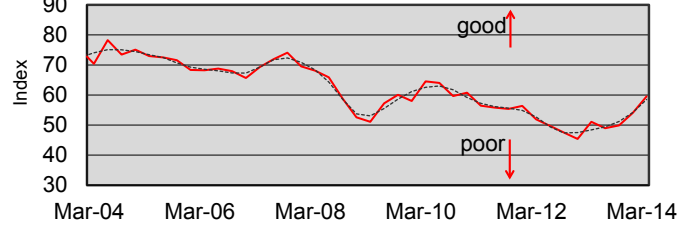
**...apprentices?**

The apprentice index rose in the March quarter. Close to three quarters of respondents say they will make 'no change' to apprentice levels, with 22.2 per cent saying they will put more on and 4.6 per cent indicating that they will release some apprentices.

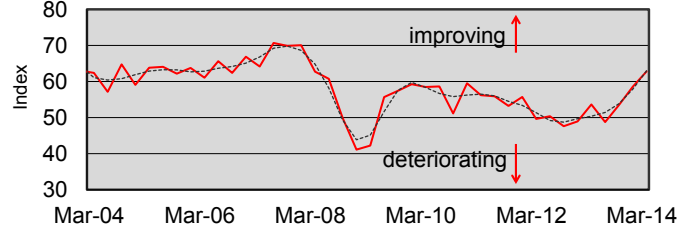
In the next 6 months, what is your expectation of building activity



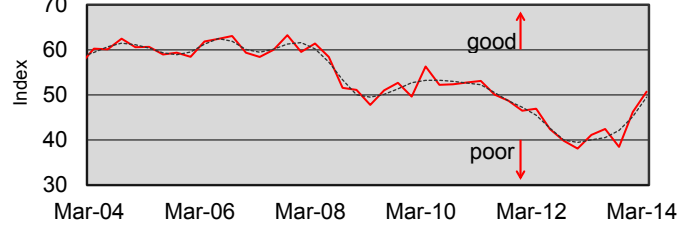
Own business activity. Current level of activity



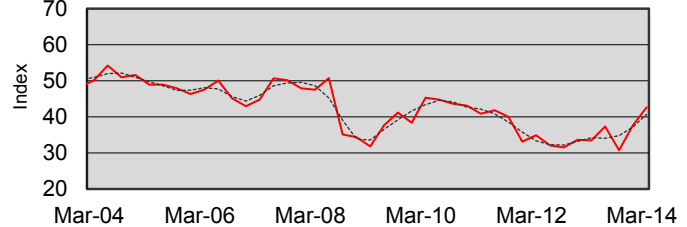
Own business activity. Next 6 months?



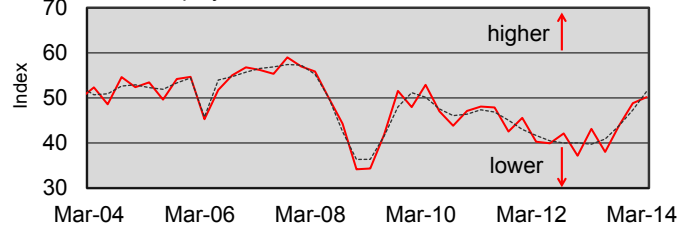
Profits. Last 3 months profitability?



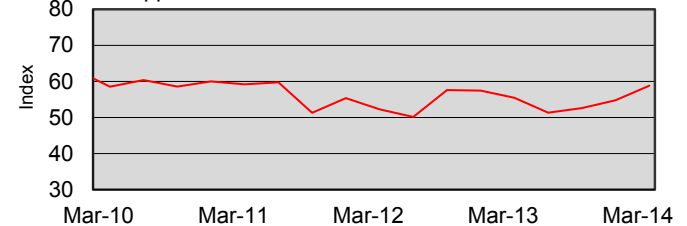
Sales contracts



Employment intentions - next 6 months



Apprentices. In the next 6 months intend to?



**Display centre traffic/commercial enquiries...**

In the March quarter the index for display centre traffic/commercial enquiries rose above average the neutral 50 mark. This encouraging result indicates that low interest rates are having an effect. A pick-up in display centre traffic/commercial enquiries leads to improved sales, thereby adding to the pipeline of work and, over time, stronger profitability.

**...backlog of work improves**

The index measuring builders' work-on-the books rose sharply in the March quarter. The proportion of respondents reporting greater than six months of work rose to 46.5 per cent from 30.2 per cent in the previous quarter.

Eighteen per cent of respondents are reporting one to three months of work on the books with 6.4 per cent less than one month. The healthier pipeline of work means improved traffic and enquiries are finally translating into activity.

**Input costs...**

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. The index rose to 67.9 in the March quarter. The increase probably reflects an improving operating environment as well as the pass through of exchange rate effects on imported materials. The index peaked at 75 in June quarter 2008, before the G.F.C. and economic downturn saw the index fall away substantially.

**Non-residential building – below par...**

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'.

**...but improvement expected**

In the non-residential sector, the index measuring current conditions rose to 44.4, still in the 'poor' category but the highest reading in three years. The index measuring expectations about future activity continued to rise in the March quarter (to 58.6 from 55.6) as builders see an improvement in non-residential prospects.

**...residential building – positive outlook**

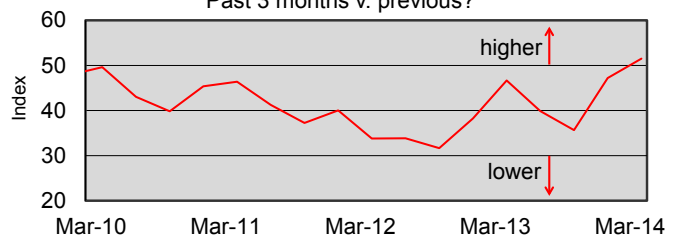
For the residential sector, the index for current conditions rose sharply to 55.9 in the March quarter, above the neutral 50 mark. More than two thirds of respondents described conditions as satisfactory or good. In terms of where the residential sector is headed, the index remained firmly in the 'improving' category in the March quarter, despite a slight fall to 61.3 from 67.5 in the previous quarter.

**Credit conditions ease**

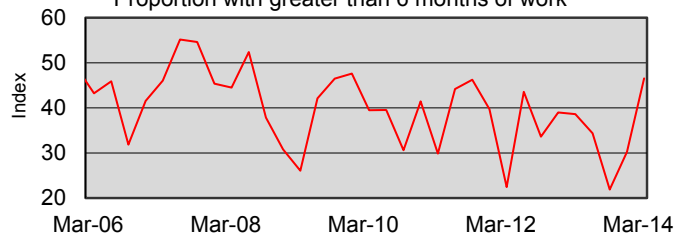
Financial constraints for builders decreased in the March quarter and the index has fallen markedly over the past year (see chart). Only 8 per cent of respondents were concerned that as a constraint, availability of finance was having a major/large effect on their business. This is down from 30 per cent a year ago, and back around levels recorded prior to the G.F.C.

Builders see interest rates as largely neutral in terms of impacting on forward orders/enquiry rates/new contracts.

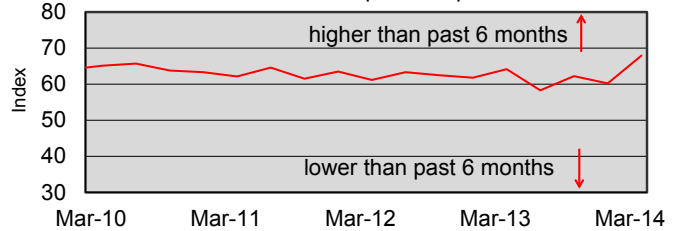
Display centre traffic-enquiries. Past 3 months v. previous?



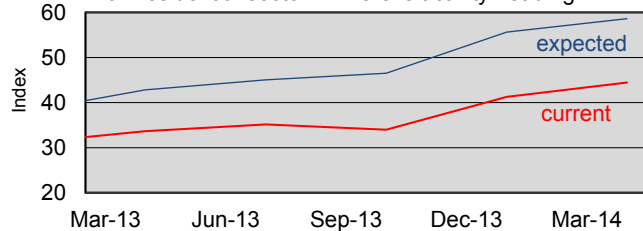
Work on books Proportion with greater than 6 months of work



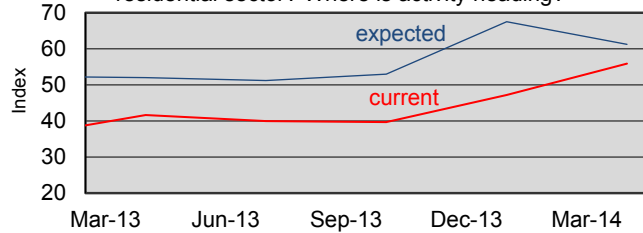
Input costs.Expected increases next 6 months v. previous period?



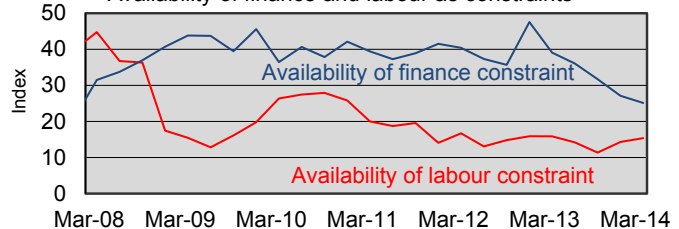
How would you describe current conditions in the non-residential sector? Where is activity heading?

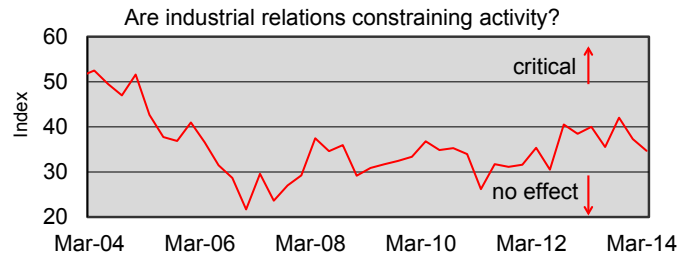
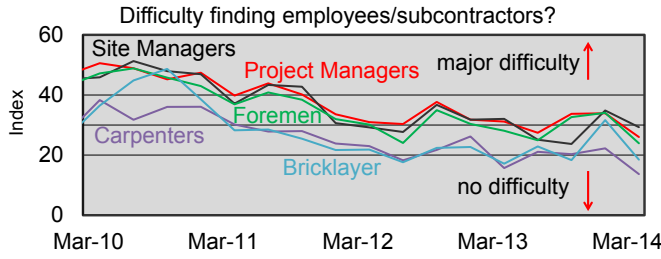


How would you describe current conditions in the residential sector? Where is activity heading?



Availability of finance and labour as constraints





**Availability of labour...**

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 in the March quarter, the degree of difficulty in finding employees/subcontractors decreased. All categories are close to record lows with little difficulty finding employees or subcontractors in the building industry.

The decline in industry conditions was accompanied by a dissipation of previous skills shortages as the extended slow-down in industry conditions masked the underlying structural problem. As the business cycle continues to turn and condi-

tions improve builders are likely to once again experience some difficulty finding certain categories of subcontractors/employees

**Industrial relations constraint...**

Respondents are 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 rose in the first three quarters of 2008 as industrial relations increased as an issue for builders then eased back in the wake of the G.F.C.

Despite quarterly volatility, there has been a steady rise in the index over the past three years although the index has fallen back in the past two quarters, after elevated readings in the previous six quarters.

**National availability of labour**

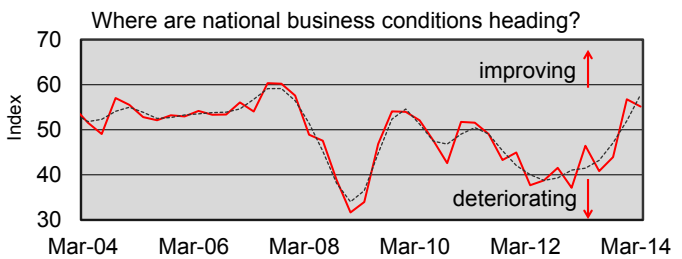
	Sep-13	Dec-13	Mar-14
Site Manager	23.7	34.8	29.3
Project Manager	33.7	33.9	26.0
Foreman/Supervisor	32.7	34.1	23.9
Concretors	16.3	22.9	19.0
Bricklayers	18.3	31.6	18.5
Steel Fixers	17.4	26.8	15.3
Office Staff	16.3	18.4	15.3
Tilers - Wall and Floor	15.6	26.6	14.7
Plaster Fixers	14.8	17.1	13.8
Carpenters	20.3	22.2	13.7
Scaffolders	11.1	15.9	11.3
Labourers	12.5	21.0	10.3
Tilers - Roof	12.3	14.1	9.8
Building Consultants	14.3	16.5	9.2
Painters	9.6	17.1	8.2
Electricians	15.1	15.3	7.1

The sharp rise in the index experienced in the second half of 2012 was primarily due to major industrial relations disputes including the Grocon blockade in Melbourne and the Children's Hospital project in Brisbane.

**National economic conditions...**

With regard to the national economy, the index measuring perceptions about current business conditions remains below the 'satisfactory' mark, despite improvement over the past two quarters.

In the March quarter, the index measuring expectations for national conditions held close to the much improved level recorded in the previous quarter. Since the middle of 2011 this is only the second (consecutive) quarter that the index has been above 50.



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 2014, 386 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. Since March 2010, Queensland results have been unavailable. 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:

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