



TRADE SHORTAGES EMERGE

Residential building work done is now at an historical high level. Low interest rates continue to release pent-up demand caused by a long period of underbuilding and there is a surge in new supply coming on stream. Although the cycle is in the mature phase the 230,000 dwellings approved during the past year will translate into a strong pipeline of work keeping residential builders busy this year and next. Not unexpectedly for this stage of the cycle, builders are facing delays in sourcing labour and materials leading to cost blow-outs.

Availability of labour...

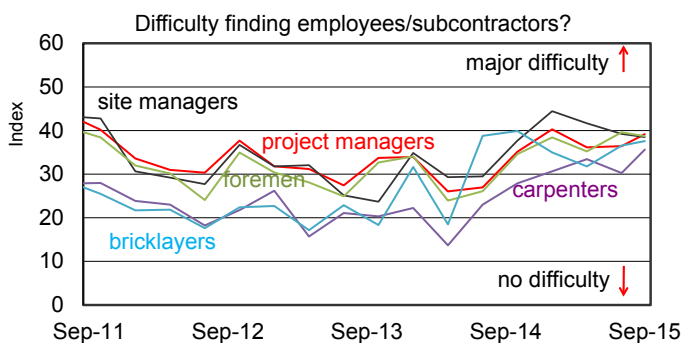
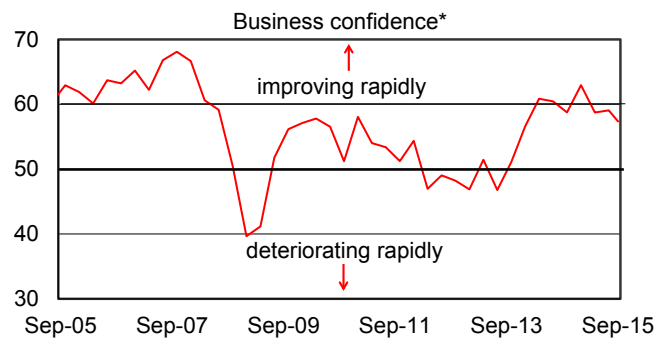
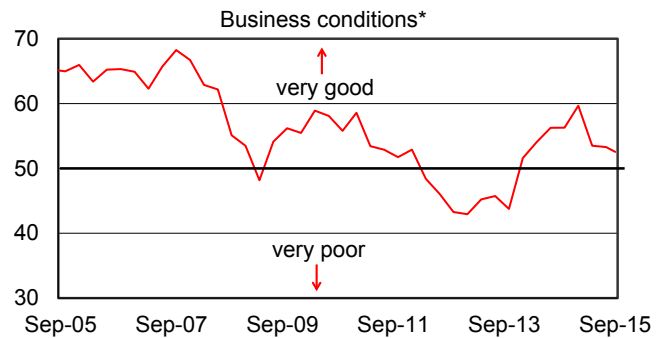
As builders look to complete the more than 200,000 dwellings started in the past year, they are now experiencing some difficulties in finding subcontractors/employees.

Carpenters, site managers, foremen and project managers have become much more difficult to find over the past 12 months.

The cost of bricklaying has escalated in some areas beyond \$1.50 a brick. In response, builders are looking to substitute alternative materials and employ temporary 457 visa workers.

	Sep-14	Jun-15	Sep-15
Project Manager	35.1	36.4	39.2
Foreman/Supervisor	34.6	39.6	38.7
Site Manager	37.7	39.2	38.5
Bricklayers	39.9	36.6	37.6
Carpenters	27.9	30.3	35.6
Tilers - Wall and Floor	21.0	25.6	29.3
Concretors	30.8	30.3	28.3
Plaster Fixers	23.6	23.7	27.1
Tilers - Roof	22.1	24.5	26.5
Steel Fixers	22.2	21.8	25.4
Office Staff	24.1	23.0	24.2
Labourers	18.5	17.5	23.4
Painters	16.8	19.7	21.3
Building Consultants	10.7	17.3	20.6
Scaffolders	19.6	16.7	18.9
Electricians	15.5	15.5	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.



*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.

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.

Expectations back to neutral for building industry...

Expectations for building industry activity dropped to the neutral mark in the September quarter. Confidence in the economy as well as political uncertainty ahead of the leadership change may have influenced the result. The reading fell back after being well above the neutral mark for two years during which time builders believed that industry activity would strengthen.

Own business conditions still strong...

In the September quarter the index measuring builders' current level of own business activity continued to track at a fairly healthy level just below 60.

The index fell back from plus 60 levels at the beginning of the year, but own business activity still remains at a level solidly above the 'satisfactory' 50 level.

...own business prospects remain solid...

The index measuring builders' views on their future business conditions remained virtually unchanged again in the September quarter, with a recording close to the 60 mark.

Despite plateauing over the past year, the index remains well above the neutral 50 mark, indicating that builders believe that their business activity will improve solidly over the next six months.

...profits 'satisfactory'

In the September quarter the index measuring own business profitability dipped fractionally to just below the 50 mark.

Despite the fall, the index remains close to the neutral 50 mark that indicates satisfactory profitability although the index has struggled to lift to higher levels achieved in the past.

In terms of builders' expectations regarding future profits, the index stayed high in the September quarter and at 55 continues to indicate that builders expect their business profits to improve over the next six months.

...sales have lifted

The index fell slightly to 46 in the September quarter. Nonetheless, sales have staged a strong recovery and continue to trend at a solid level. The index is now well above average levels experienced over the past 10 years and with a good proportion of respondents reporting sales moving higher, the prospects remain good.

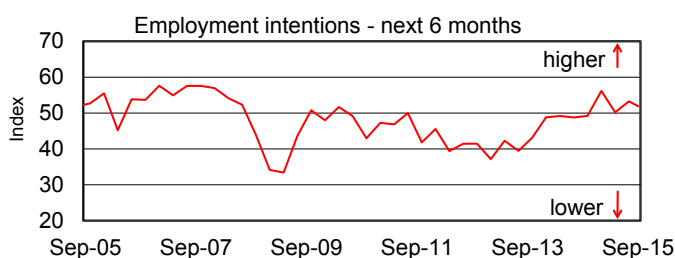
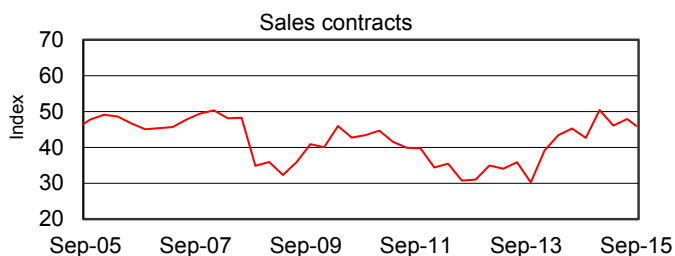
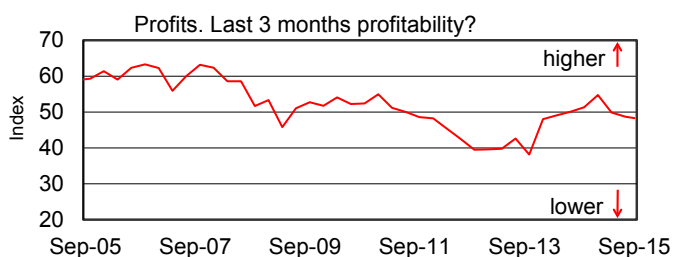
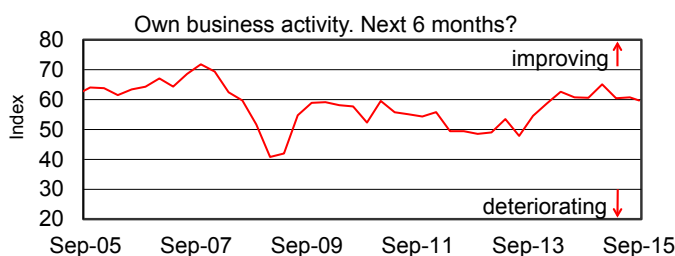
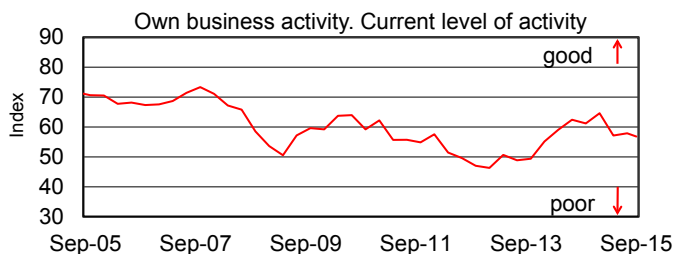
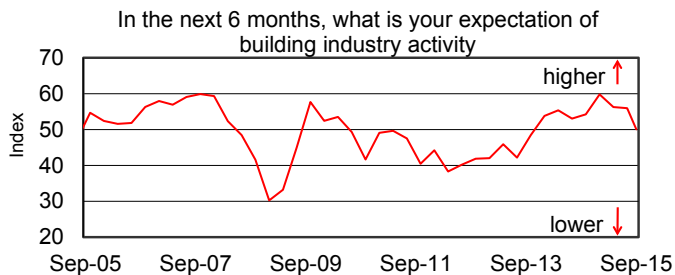
Builders rely on higher sales to strengthen the backlog of work thereby underpinning recovery in own business conditions.

...Sound job prospects...

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

The index fell to 51.9 from 53.3 in the previous quarter, but the result represents another solid result.

An index reading above 50 indicates that builders are likely to lift employment levels in the period ahead.



Backlog of work dips...

The index measuring builders' work-on-the books dipped in the September quarter, and has slipped back on a par with the lower level in September 2013.

Display centre traffic/commercial enquiries lead to sales, thereby creating a pipeline of work and, over time, profitable business conditions for builders operating in the industry.

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 drifted a little lower again in the September quarter and is now close to the 60 level.

The index peaked at 75 in June quarter 2008, before the G.F.C. and economic downturn saw the index fall away substantially. To date, it would appear that there has been little flow on effect to imported material prices from the depreciation of the Australian currency.

Builders' views on residential and non-residential sectors ...

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

Positive conditions for residential but expectations fall...

For the residential sector, the index for current conditions fell slightly to 57.7 in the September quarter, at a level still firmly indicative of good conditions.

In terms of where the residential sector is headed, the index fell in the September quarter to 51.8, possibly a reflection of the maturing cycle as well as APRA moves to curtail investor lending.

As the chart shows, expected conditions for residential building have drifted down over the past two years due to changing expectations for residential building as well as widely differing conditions by geographical region.

...non-residential stabilises

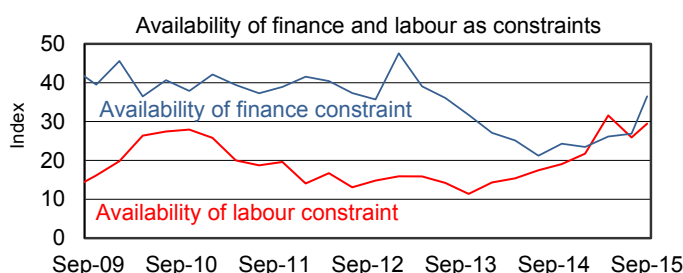
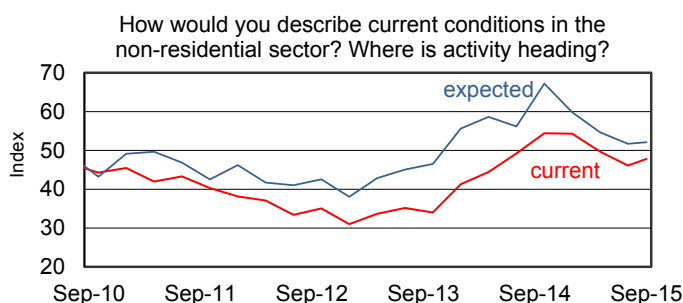
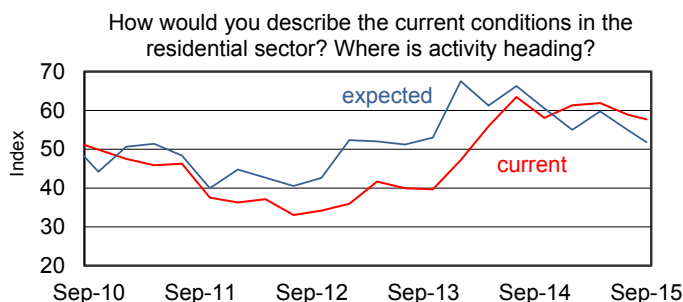
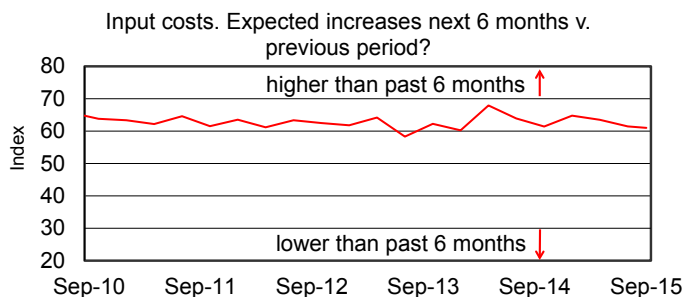
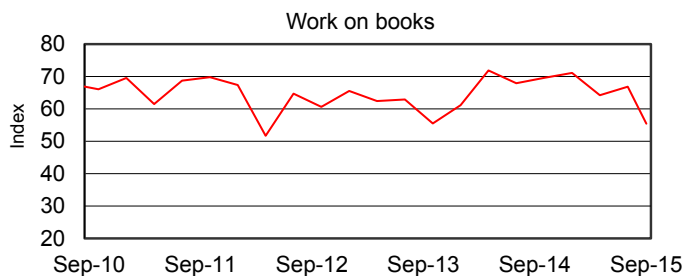
In the non-residential sector, the index measuring current conditions picked up in the September quarter, to 47.8 from 46.1 the previous quarter. This result is a welcome improvement following the recent deterioration.

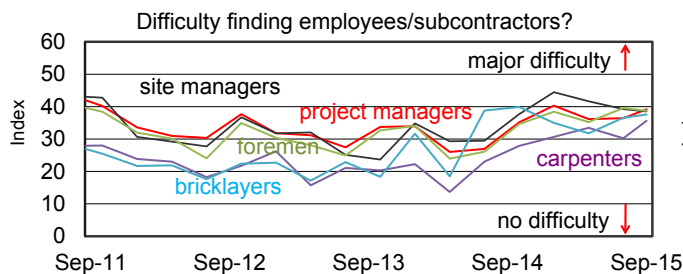
The index measuring expectations about future activity also stabilised in the September quarter. At 52.1, the index remains slightly above the 50 mark, meaning builders believe non-residential may head higher over the next six months.

Finance/labour constraints...

After falling markedly over the past year or so (see chart), the index measuring finance constraints for builders rose in the September quarter, probably a reaction to recent APRA moves to limit investor lending in the residential sector.

The availability of labour as a constraint has become more of an issue for builders. The constraint has steadily risen in intensity over the past two years (see chart).





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.

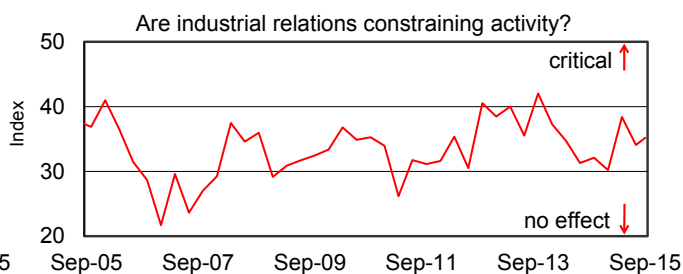
At the national level, the index measuring the degree of difficulty in finding employees/subcontractors in the September quarter rose in 13 categories and fell in 3 categories. Likewise, 13 categories are higher by comparison to a year ago, with 3 lower. Associated with the lift in demand for building and construction workers particularly in the residential sector, pockets of the labour market have tightened and there is now some difficulty finding certain employees or subcontractors.

As the residential building cycle continues to mature, builders are likely to experience further difficulty finding certain categories of subcontractors/employees. The industry suffers underlying structural problems and skill shortages have the potential to be endemic, albeit masked at times according to the stage of cycle.

National availability of labour

	Sep-14	Jun-15	Sep-15
Project Manager	35.1	36.4	39.2
Foreman/Supervisor	34.6	39.6	38.7
Site Manager	37.7	39.2	38.5
Bricklayers	39.9	36.6	37.6
Carpenters	27.9	30.3	35.6
Tilers - Wall and Floor	21.0	25.6	29.3
Concretors	30.8	30.3	28.3
Plaster Fixers	23.6	23.7	27.1
Tilers - Roof	22.1	24.5	26.5
Steel Fixers	22.2	21.8	25.4
Office Staff	24.1	23.0	24.2
Labourers	18.5	17.5	23.4
Painters	16.8	19.7	21.3
Building Consultants	10.7	17.3	20.6
Scaffolders	19.6	16.7	18.9
Electricians	15.5	15.5	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.



Industrial relations constraint...

Builders are asked to indicate the degree to which they perceive industrial relations is acting as a constraint on their business.

The index moved slightly higher to 35.2 in the September quarter. The spike in the March quarter was primarily due to major industrial relations difficulties experienced by builders in Queensland. Of 126 Fair Work Building and Construction (FWBC) ongoing investigations being conducted in the March quarter, 53 (42 per cent) were in Queensland, up on previous levels. FWBC's core business includes investigating right of entry, coercion, freedom of association, unlawful industrial action and strike pay.

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.

The index oscillated around 30 to 32 for three and a half years to the middle of 2012 before elevated readings in the following six quarters. 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.

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 2015, 882 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:

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