

NATIONAL SURVEY OF BUILDING & CONSTRUCTION



BUSINESS CONDITIONS AND CONFIDENCE HIGHEST IN 12 MONTHS

MASTER BUILDERS AUSTRALIA

Business conditions improved during the December quarter 2016, with positive sentiments shared across residential and non-residential construction sectors. Sales contracts and profitability have each edged up, while employment intentions are the highest since December 2014.

Business confidence is the highest in over two years, particularly due to a turnaround in future expectations in the non-residential construction sector, where we are likely to reach the trough in the cycle in 2017, with more positive growth prospects ahead.

Residential builders continue to reap the rewards for a record residential building effort in 2016. But the index for future work in the residential building sector remains below the index for current activity, suggesting residential building activity may start to moderate towards the end of 2017.

Business confidence...has found its mojo

Business confidence continued to strengthen in the December quarter 2016 rising to 59.4 points, up slightly on the 57.6 index points recorded in the previous quarter.

A record high residential building cycle and better prospects for the non-residential building sector, has supported a general uplift in confidence across the building and construction industry.

Business conditions...highest in 12 months

Business conditions also saw a noticeable improvement in the December quarter 2016 (to 56.7 index points), up 6.7 per cent on the September quarter 2016 (53.2 index points). The latter was largely a result of an improvement in profitability, with the index for own business activity taking a step sideways during the quarter.

Residential sector...a record building effort in 2016

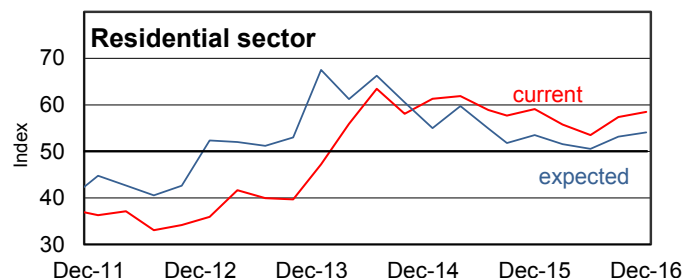
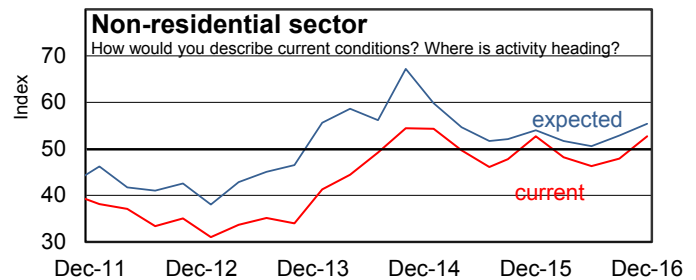
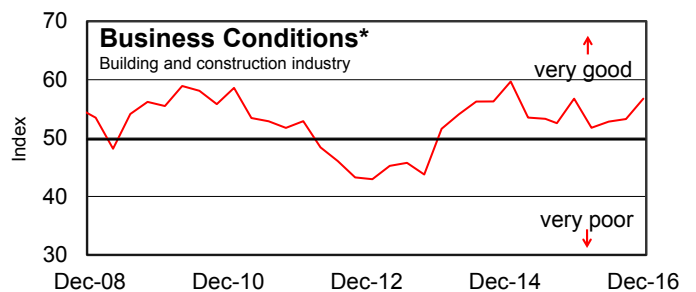
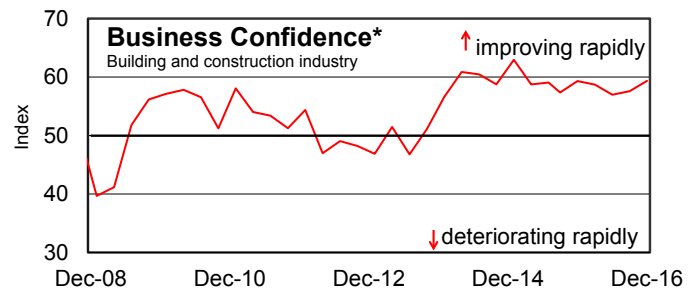
The residential building sector is on a high, driven by a record residential building effort in 2016, with over 200,000 dwelling completions recorded in the June quarter, with all indications suggesting the September quarter dwelling completions may also hit the coveted 200,000 mark.

With residential building activity at record levels, the December quarter 2016 index rose again to 58.5 index points, up slightly on the 57.4 index points recorded for the September quarter 2016.

Non-Residential sector...also firms

Sentiment in the non-residential sector has come full circle in 2016. After reaching a low point of 46.3 in the June quarter 2016, the December quarter 2016 marks a return to positive sentiments (reaching 52.7 index points), a rise of 4.8 index points (or nearly 10 per cent) on the September quarter 2016 result.

The gap between the residential and non-residential sectors appears to be closing and the index for future activity is now higher for non-residential (55.4 index points) than for the residential building sector (54.1 index points).



*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 for building industry...moves into positive territory

Expectations for the building industry over the coming six months continue to improve, with positive sentiments growing in the non-residential building sector adding to an already positive outlook for the residential building sector.

The expectations index for the December quarter 2016 stands at 53.3 index points, up 5.6 per cent (or 2.8 index points) on the September quarter 2016, and a sizeable 12.7 per cent increase on the low point recorded in the June quarter 2016.

Own business activity...continues to improve

The December quarter 2016 saw a further improvement in builders' assessments of the level of current activity in their own businesses, reaching past an index of 60 for the first time in 2016 - recording an index of 62.7, up 5.5 per cent on the previous quarter index.

With the index for own business prospects also showing an improvement, own business activity is expected to remain in positive sentiment territory over the coming months.

Own business prospects...taking a glass half full view

Builders' expectations for their own businesses over the coming six months also improved, albeit more modestly. The December quarter index was recorded at 61, up slightly on the 60.6 reported during the previous quarter.

Own profits...soft and edging softer

The profits index was one of the big movers during the December quarter 2016, moving out of negative territory for the first time since December 2015, to record an index of 50.8 (up by almost 8 per cent on the previous quarter).

By comparison, the index for profit expectations rose from 54.6 index points to 57.7 index points (up 5.7 per cent).

Sales contracts...consolidate

Sales contracts are another indicator to buck the negative trend during the December quarter 2016 and have been one of the 'most improved' in 2016. After reaching a low point of 44 index points in June 2016, the index currently stands at 51.6, the highest index value since the survey began in 2006, and an improvement of almost 17 on the June quarter results.

These latest result have been largely driven by activity in the residential building sector and suggest activity will remain elevated until at least mid-2017.

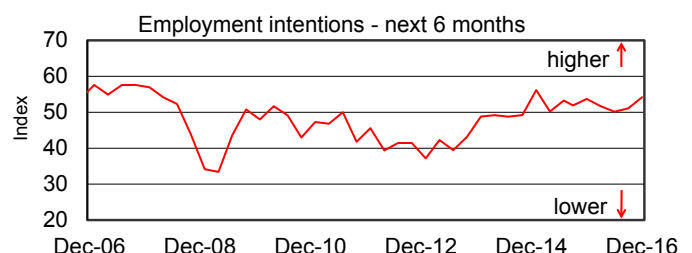
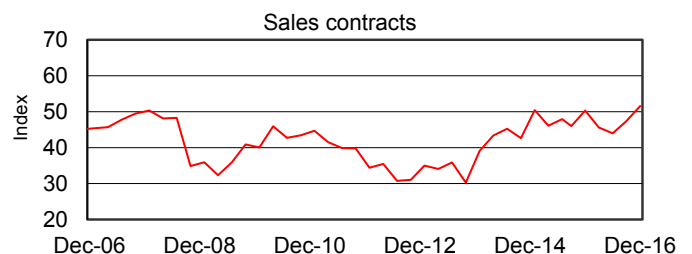
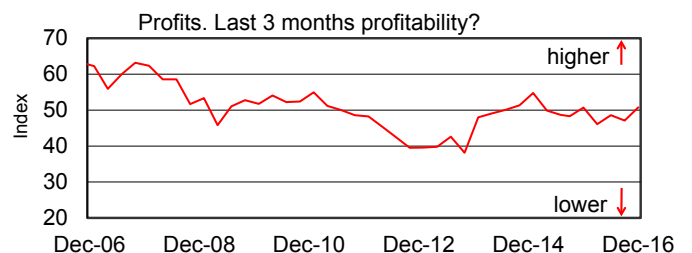
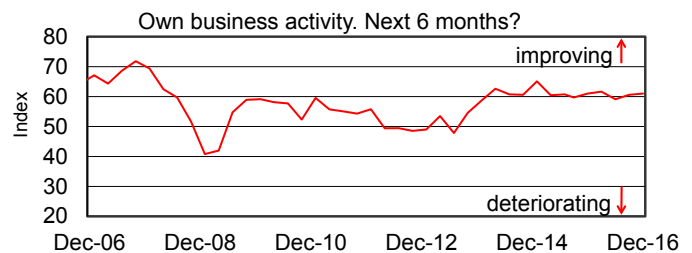
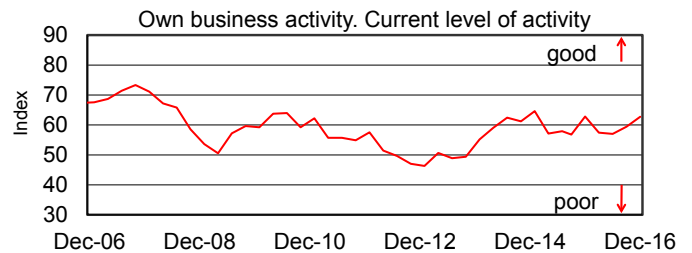
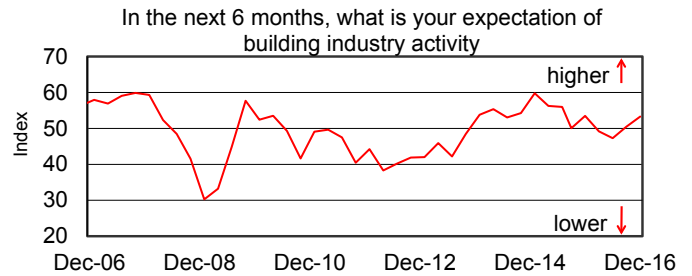
Jobs intentions...also consolidating

Builders' hiring intentions for both employees and for sub-contractors over the coming six months continued to firm in the December quarter 2016.

The jobs intention index rose from 51.1 index points recorded in the September quarter 2016 to 54.2 index points in the December Quarter 2015.

Work on books...loses some momentum

After easing slightly in the September quarter results, the work on the books index has edged over the past three months, reaching 55.1 index points in the December quarter 2016, compared to 54.0 index points in the previous quarter.



Over 40 per cent of survey respondents indicated they have more than six months of work on the books, however the index has been essentially been moving sideways for six straight quarters, recording an average change of 0.1 per cent since the June quarter 2015.

Input costs...no change

Builders' expectations of their input costs remained more or less unchanged in the December quarter 2016 (at 60.4 index points), consistent with the relatively modest change to Australian Bureau of Statistics housing industry Producer Price Indices (PPI) data that recorded no change in the September quarter 2016 and a modest change of 2.4 per cent over the year-to September 2016.

Future residential activity...turning up

Future expectations for the residential building sector edged up for the second quarter in a row, recording an index of 54.1 during the December quarter, up slightly on the 53.2 index points reported for the previous quarter.

However, the index for future activity remains firmly below the index for current activity and suggests residential building activity may reach a peak in 2017.

However a marked difference in prospects remains across State/Territory lines, with positive expectations in NSW and Victoria, but negative expectations for Western Australia, South Australia and the Northern Territory, and Queensland a mixed bag.

Non-Residential outlook... growing confidence

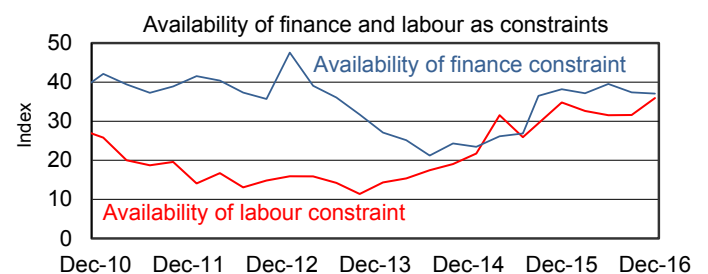
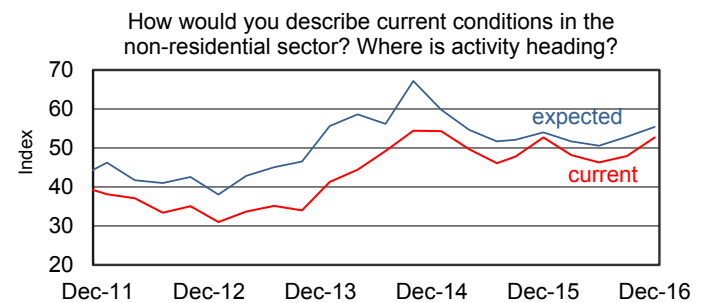
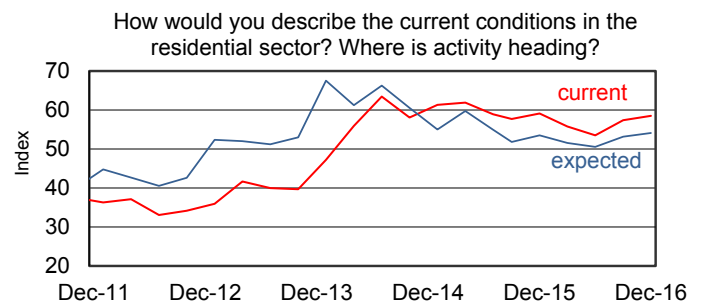
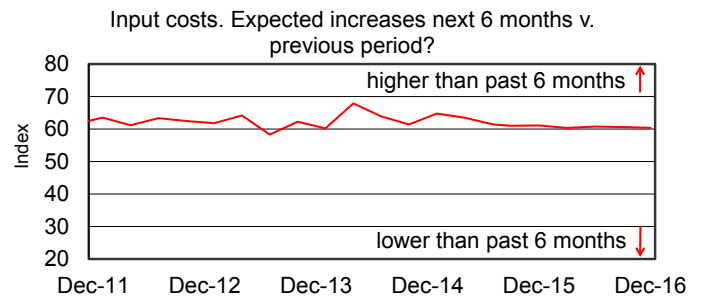
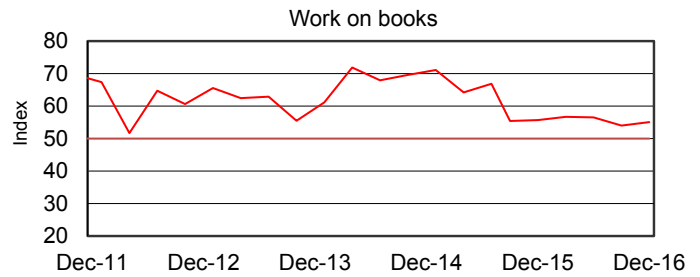
A sense of optimism is growing in the non-residential sector, with the index for future expectations surpassing that for the residential building sector. The future non-residential activity index rose to 55.4 index points in the December quarter 2016 (an increase of 4.8 per cent), and was above the level of a year earlier (December quarter 2015 = 54.0 index points).

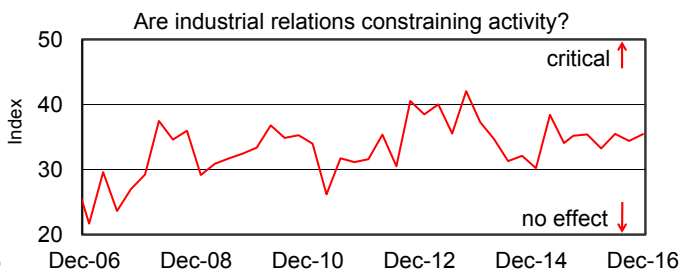
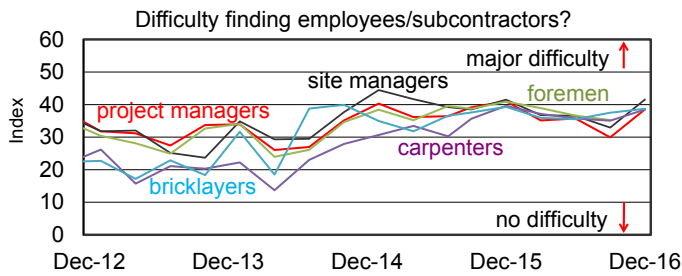
These latest results suggest non-residential building activity could be in for a better year in 2017, driven by a renewed commitment by the State and Federal governments to infrastructure spending and strong population growth in NSW and Victoria. However like the residential building sector, fortunes vary considerably by geography, with expectations positive in NSW and Victoria, but negative for Western Australia and the Northern Territory, and mixed bag for Queensland and South Australia.

Availability of finance and of labour...converge

Labour constraints tightened by 13 per cent in the December quarter 2016 to record an index of 35.9, the highest index value recorded since the survey began in 2006.

The availability of finance index remained largely unchanged in the December quarter 2016 (at 37.1 index points), compared to the September quarter 2016 (37.4 index points). However, there is a chance that financial markets may tighten next year, particularly for home builders, with house prices in Sydney and Melbourne showing signs of a more sustained moderation and the international credit ratings agencies citing a domestic housing downturn as the number one risk to credit market over the next 12 months.





Availability of labour... tightens to record levels

Respondents were asked about the degree of difficulty in finding a range of sub-contractors/ employees.

A high index reading indicates a large to critical degree of difficulty in finding sub-contractors/ employees. A low index number indicates builders are experiencing slight or no difficulty in finding sub-contractors/ employees.

While the indices for all skilled labour groups remained in the little or no difficulty category, several groups experienced a tightening in availability in the December quarter 2016.

The most noticeable of these were for project managers (the index for which was up nearly 29 per cent, to 38.6 index points) and where 7.8 per cent of survey respondents indicated a critical shortage, site managers (up just over 26 per cent, to 41.6 index points) and foremen/ supervisors (up 18 per cent, also to 41.6 index points).

Despite only a slight change in the overall index for bricklayers – from 37.5 in the September quarter to 38.5 in the December quarter – the number of respondents to indicate a critical shortage almost doubled, from 4.3 per cent to 8 per cent.

By contrast, the degree of difficulty in finding electricians, steel fixers, or roof tilers all eased during the December quarter 2016.

National availability of labour

	Dec 15	Sep 16	Dec 16
Foreman/Supervisor	40.9	35.2	41.6
Site Manager	41.5	32.9	41.6
Bricklayers	39.3	37.5	38.7
Project Manager	41	29.9	38.6
Carpenters	39.6	35.1	38.5
Tilers - Wall and Floor	33.6	32.4	32.5
Concretors	31.2	27.6	29.7
Plaster Fixers	25.9	26.3	25.4
Office Staff	24.4	20.6	23.6
Tilers - Roof	24.4	25.3	23.2
Steel Fixers	24.8	23.8	22.7
Painters	22.9	21.8	22.5
Labourers	24	21.0	22.5
Building Consultants	20.7	16.5	21.2
Scaffolders	17.1	17.6	20.0
Electricians	17.8	17.0	16.8

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... ABCC watchdog back on the beat

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

The industrial relations constraint increased to 35.4 index points in the December quarter 2016, compared to 34.4 index points in the September quarter 2016.

A number of respondents noted a rise in industrial disputes leading up to the passing of the ABCC Bill as the militant construction union made a last ditch effort to disrupt work-site before the tougher penalties were reintroduced.

The reintroduction of the ABCC Bill will give the 300,000 small businesses and over 1.1 million workers in the building and construction industry the confidence that the rule of law has returned to Australian building sites.

About the survey

The survey of building and construction is a national survey of Master Builders' members published on a quarterly basis. In the December quarter 2016, 345 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:

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

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