

NATIONAL SURVEY OF BUILDING AND CONSTRUCTION

December quarter 2014



BUILDING ACTIVITY TO STRENGTHEN ON THE BACK OF BUILDERS' CONFIDENCE

Builders are more confident that a recovery is becoming entrenched resulting in increased optimism about future prospects. Conditions need to broaden however before the building industry can play a key role to underpin GDP and jobs growth after the resources boom.

Building conditions strengthen...

Builders' business conditions continued to improve in the December quarter. The majority of respondents described their business activity as 'good' or 'very good' although as the chart shows the recovery needs to strengthen further for builders to enjoy similar conditions to those experienced between 2003 and 2007.

Business profitability rose again, recording the best result in nearly four years and the index is now back in the 'satisfactory' to 'good' range.

...optimism about activity and profits...

Builder confidence bounced back in the December quarter after a dip in the previous quarter. This is the best result for seven years. The chart shows confidence has recovered to levels not seen since before the G.F.C. Builders revealed improved expectations regarding their own business conditions and future profits. Both elements of the index contributed to the lift in business confidence during the December quarter.

...should see a pick up in investment...

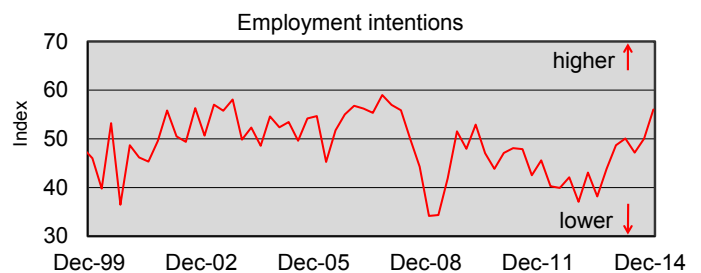
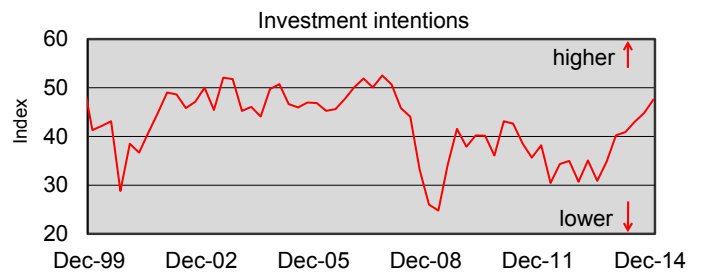
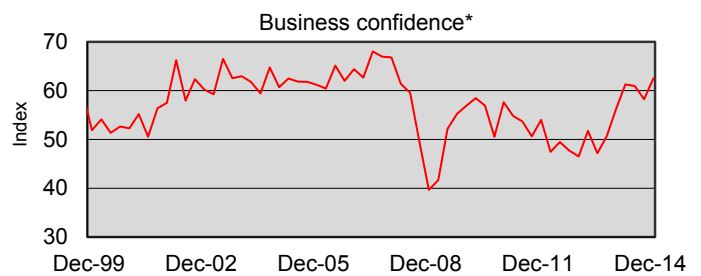
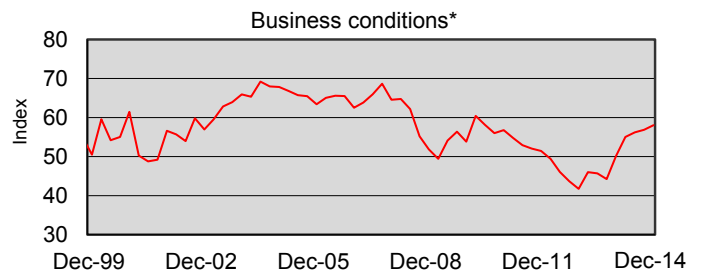
Intentions regarding investment in plant and equipment have improved markedly in recent quarters as the chart shows. The December quarter reading is well above average for the 17 year survey and has regained pre-G.F.C. levels. Investment plans are being upgraded in line with improved profitability and healthier work on builders' books that is in turn linked to an upturn in display centre traffic and commercial enquiries flowing through to sales.

...and employment

Builder intentions regarding employees and sub-contractors have also turned positive. The index rose above the neutral 50 mark in the December quarter to a level not seen since before the G.F.C. There is also good news in the latest survey on apprentice numbers. The index measuring builder intentions for apprentices lifted in the December quarter, with the proportion of builders saying they will put more apprentices on in the next six months (one third) at a seven year high.

**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.



Positive expectations for building industry...

In the December quarter the index measuring expectations for building industry activity recorded 59.5, up sharply on the 54.3 recorded in the previous quarter.

After steady improvement from a trough in mid-2012, the reading is now well above the neutral mark indicating that builders see significantly higher industry activity over the next six months.

Own business conditions strengthen...

The index measuring builders' current level of own business activity rose to 63.4 in the December quarter from 61.9 recorded in the September quarter.

After dropping to levels below that recorded during the global financial crisis, the index has trended higher over the past two years to levels well above the 'satisfactory' 50 level. Half the builders surveyed are describing their business conditions as 'good' to 'very good'.

...own business prospects...

The index measuring builders' views on their future business conditions bounced back in the December quarter, recording 65.0, the best reading in six years. The index is now 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 December quarter the index measuring own business profitability rose to 52.7 after recording 51.8 in the September quarter. This is the best result in nearly four years and with the index above the neutral 50 mark, the balance of responses indicate satisfactory to good profitability.

In terms of builders' expectations regarding future profits, the index was up in the December quarter and at 60.1 builders expect their business profits to improve over the next six months.

...sales continue to recover

Sales have staged a strong recovery over the past year and although the index is a little below neutral it is now well above average levels. The index rose to 48.6 in the December quarter and the trend continues to improve. In the December quarter, close to 30 per cent of respondents indicated that sales were moving higher, up strongly on the result for the December quarter 2013 (11.5 per cent).

Builders rely on higher sales to strengthen their backlog of work and underpin recovery in own business conditions.

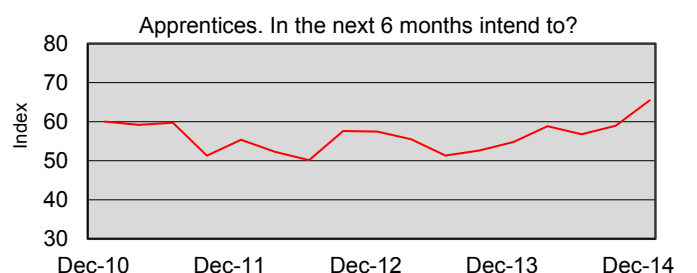
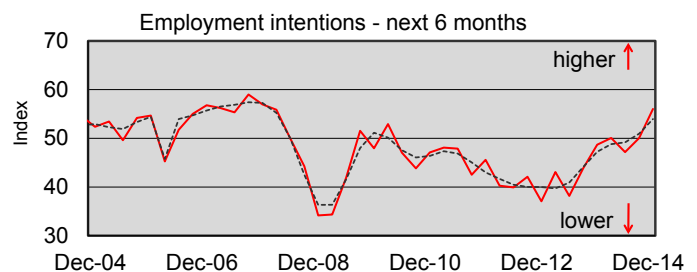
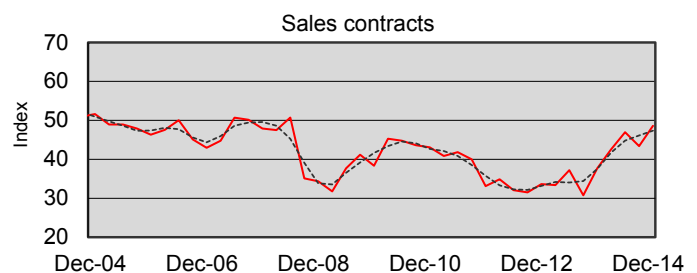
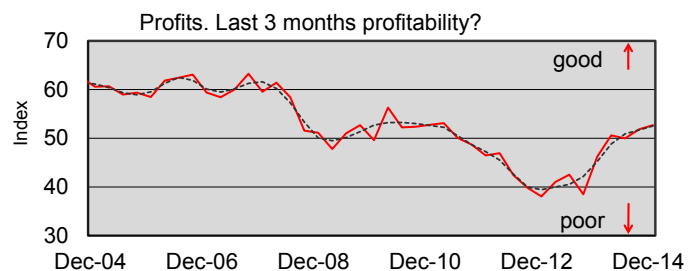
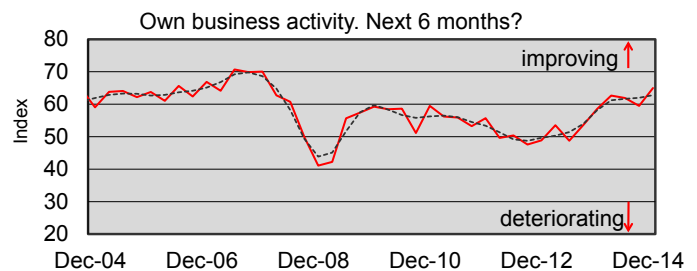
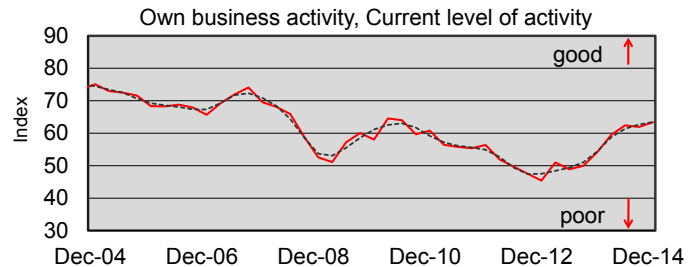
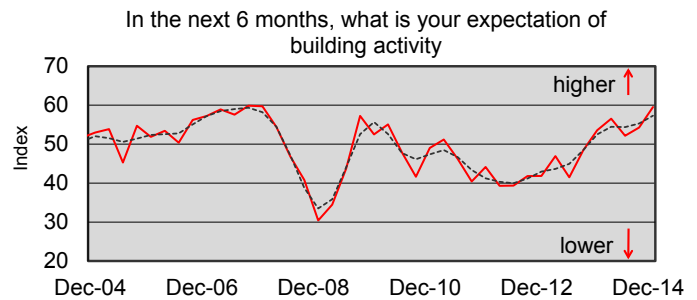
...job prospects improve...

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

The index rose to 56.0 from 50.0 in the previous quarter. The result is the best in seven years prior to the global financial crisis and indicates that builders are now likely to lift employment levels in the period ahead.

...apprentices?

The apprentice index rose in the December quarter with the index reading of 65.5 the best in seven years. Nearly two thirds of respondents say they will make 'no change' to apprentice levels, with one third saying they will put more on, and with only 2 per cent indicating that they will release apprentices.



Display centre traffic/commercial enquiries...

In the December quarter the index for display centre traffic/commercial enquiries rose to 56.8, up sharply on recent levels and the highest reading in the 10 years the survey has asked this question.

The rise in the index is very encouraging as 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 strengthens

The index measuring builders' work-on-the books rose in the December quarter and remains at a high level. The proportion of respondents reporting greater than six months of work averaged 45 per cent throughout 2014, with only 6.4 per cent indicating they had less than one month.

A healthier pipeline of work has emerged during the past year as improved traffic and enquiries translate into building projects and work-on-the-books.

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 64.8 in the December quarter after falling back in the previous two quarters. 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 conditions hold...

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

...some improvement expected

In the non-residential sector, the index measuring current conditions remained virtually unchanged at 54.3 in the December quarter, remaining above the 'neutral' level after the steady improvement shown over the previous period. The index measuring expectations about future activity dropped back in the December quarter, but at 59.8 the index remains in the 'improving' category.

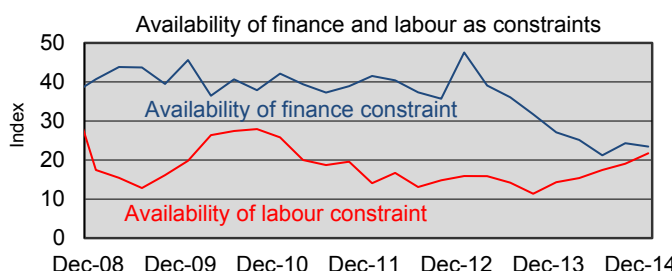
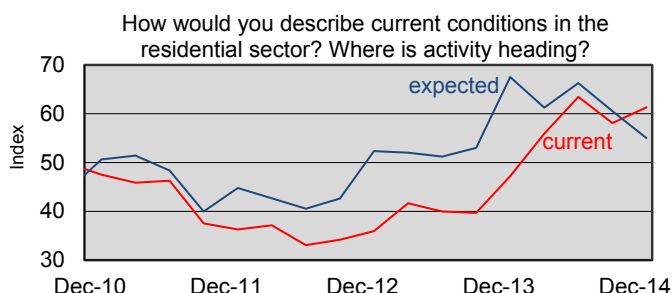
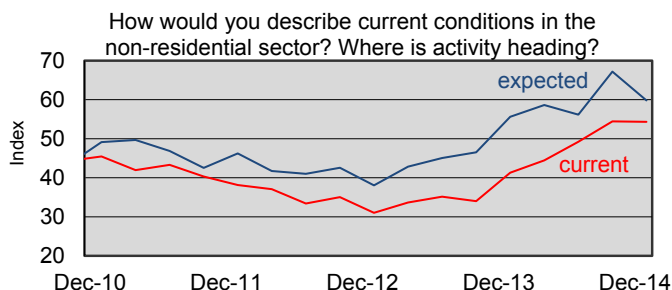
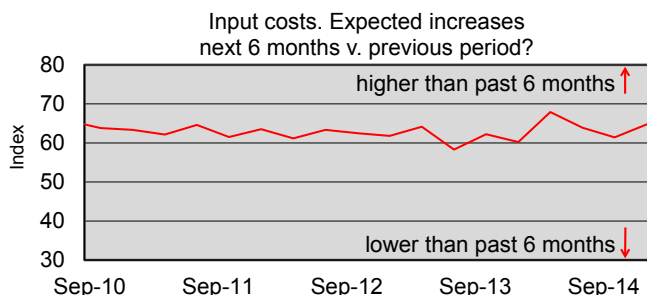
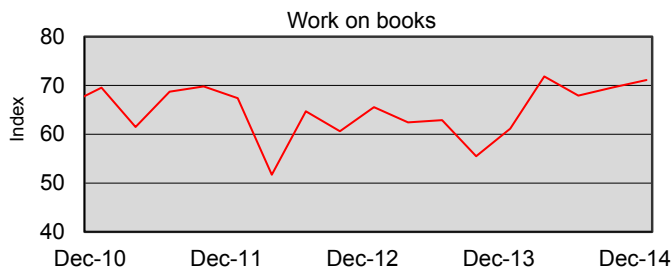
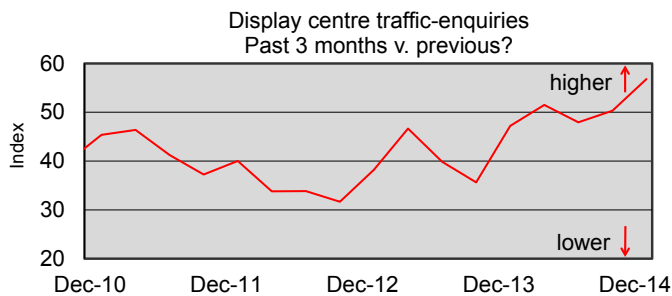
Residential building — outlook still positive...

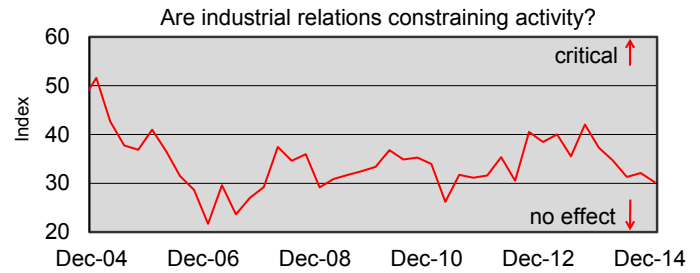
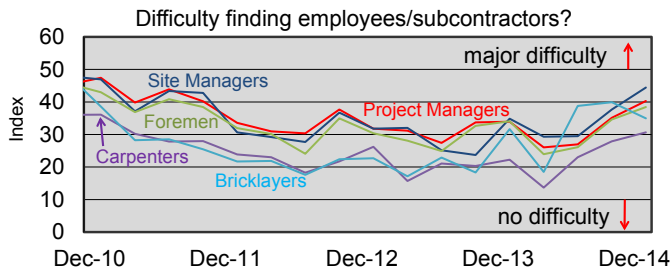
For the residential sector, the index for current conditions rose to 61.3 in the December quarter with half of the respondents describing conditions as good, very good or excellent.

In terms of where the residential sector is headed, the index fell back again in the December quarter, to 55.0. As the chart shows, although remaining positive, expected conditions for residential building have declined significantly over the past year. This is likely to indicate changing expectations for residential building by geographical area.

Finance/labour constraints...

Finance constraints for builders have fallen markedly over the past year or so (see chart), back around levels recorded prior to the G.F.C. Builders see interest rates as neutral in terms of impacting on forward orders/enquiry rates/new contracts. Whilst availability of labour as a constraint is slight, and certainly not severe, its effect is rising and will bear watching over the next 18 months.





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 December quarter increased in 15 of the 16 categories from the previous quarter, and is higher in all categories by comparison to a year ago. Although the industry is beginning to experience a lift in demand for building and construction workers, the labour market remains fairly soft and currently there is no significant difficulty finding employees or subcontractors.

National availability of labour

	Dec-13	Sep-14	Dec-14
Site Manager	34.8	37.7	44.4
Project Manager	33.9	35.1	40.3
Foreman/Supervisor	34.1	34.6	38.4
Bricklayers	31.6	39.9	35.0
Concretors	22.9	30.8	31.3
Tilers - Wall and Floor	26.6	21.0	30.9
Carpenters	22.2	27.9	30.6
Tilers - Roof	14.1	22.1	29.4
Steel Fixers	26.8	22.2	27.0
Plaster Fixers	17.1	23.6	25.9
Office Staff	25.6	24.1	25.6
Labourers	21.0	18.5	22.6
Scaffolders	15.9	19.6	20.8
Painters	17.1	16.8	20.3
Building Consultants	16.5	10.7	18.4
Electricians	15.3	15.5	15.7

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 December quarter 2014, 558 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:

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

As the business cycle continues to turn and conditions improve builders are likely to once again experience some difficulty finding certain categories of subcontractors/employees. The previous weak phase in industry conditions masked underlying structural problems and skill shortages are likely to emerge later in the cycle.

Industrial relations constraint...

Respondents are asked to indicate the degree to which they perceive industrial relations is acting as a constraint on their business. The index continues to trend down, recording a reading of 30.2 in the December quarter.

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 next 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.

National economic conditions...

With regard to the national economy, the index measuring perceptions about current business conditions is now above the 'satisfactory' mark, following improvement over the past year.

In the December quarter, the index measuring expectations for national conditions continued to hold at the much improved level recorded in recent times.

