

# NATIONAL SURVEY OF BUILDING AND CONSTRUCTION

June quarter 2014



## BUILDER CONFIDENCE STAYS STRONG DESPITE 'BAD NEWS' FEDERAL BUDGET

*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.*

### Confidence holds up...

Builder confidence eased back slightly in the June quarter. However, as the chart shows, the index remains at a high level. In the immediate wake of the Federal Budget, it appears that builders have to a large degree shrugged off concerns about the effects on the industry of the Federal Government's fiscal repair policies.

### ...as own business conditions improve...

The fundamentals of low interest rates and a solid pick up in demand have underpinned a recovery in business conditions over the past year (see chart). More than two thirds of builders are now reporting "good", "very good" or "excellent" own business conditions. By comparison, in the June quarter of 2013, the corresponding proportion was one third.

### ...and sales normalise

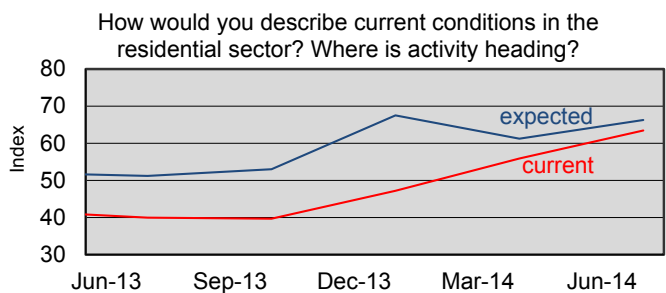
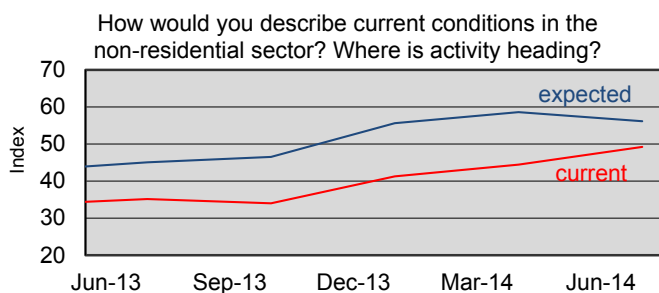
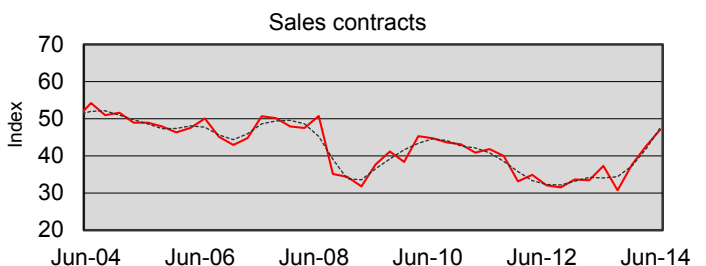
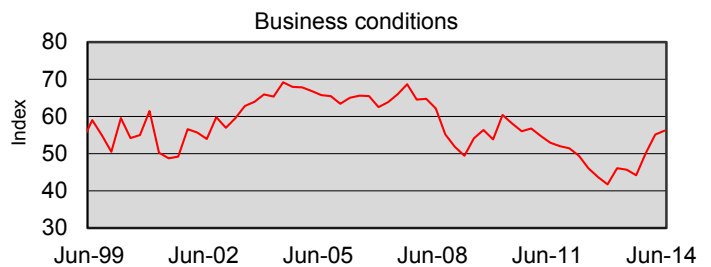
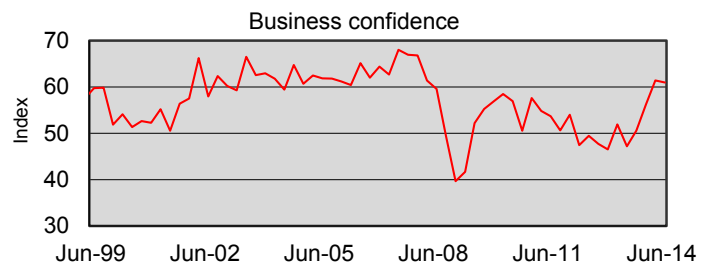
In the June quarter, builders reported further improvement in sales. As the chart shows, the index has shown steady improvement since the middle of last year, to reach a level just below the neutral 50 mark. Only 30 per cent of respondents reported that sales in the June quarter were "lower" than in the previous quarter.

### Residential building strong now, positive outlook

For the residential sector, the index for current conditions rose sharply again in the June quarter. Close to three quarters of respondents described conditions as good or very good. Less than 10 per cent of respondents believe residential activity will deteriorate over the next six months.

### ...lift in non-residential building expected

For non-residential, current conditions improved again in the June quarter to be now close to 'neutral'. Expectations about future activity remain in positive territory.



*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 June quarter the index measuring expectations for building industry activity recorded 52.0, down from the 56.7 recorded in the previous quarter, but the third consecutive quarter above the neutral mark – indicating that builders see industry activity moving higher in the next six months. Interest rates are finally working to impact positively on the outlook with the trend in the index showing steady improvement from a trough in mid-2012 caused by the global financial crisis.

**Own business conditions strengthen...**

The index measuring builders’ current level of own business activity rose to 62.5 in the June quarter from 59.5 recorded 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 has moved well above the ‘satisfactory’ 50 level. The June quarter reading is the best result since the boost of the BER and other stimulus spending.

**...own business prospects...**

The index measuring builders’ views on their future business conditions fell slightly in the June quarter, a not unexpected result after three consecutive quarterly increases. At 61.9, the index is well above the neutral 50 mark indicating that builders believe own business activity will improve over the next six months.

**...profits ‘satisfactory’**

In the June quarter the index measuring own business profitability fell back to 49.9 after recording 50.7 in the March quarter. The index is slightly below the neutral 50 mark but a strong trend improvement has developed over the past few quarters (see chart).

In terms of builders’ expectations regarding future profits, the index was flat in the June quarter after rising sharply to reach 60.0 in the March quarter. Builders expect own profits to improve over the next six months.

**...sales continue to recover**

Sales remain a little below the neutral level, despite further improvement in the June quarter that took the index to 45.3 alongside an improving trend. The proportion of builders reporting lower sales has halved over the past two years. Builders rely on higher sales to translate into business contracts thereby underpinning recovery in own business conditions ensuring that profitability strengthens.

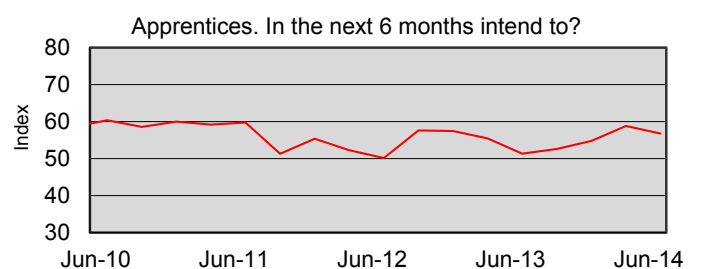
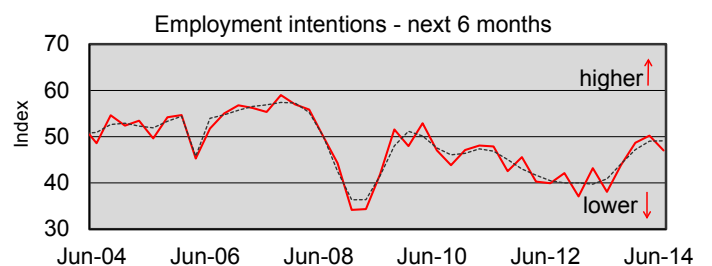
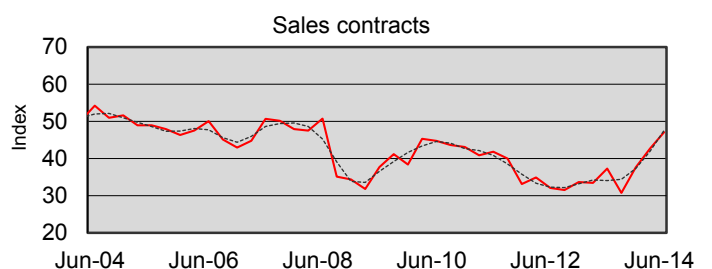
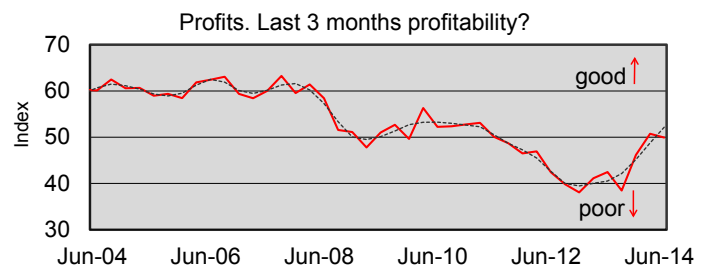
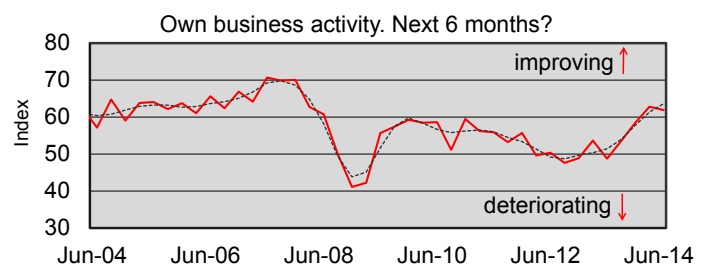
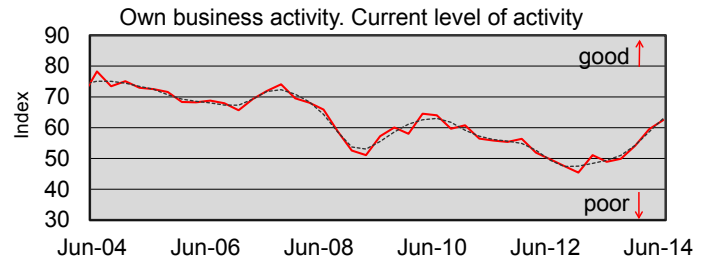
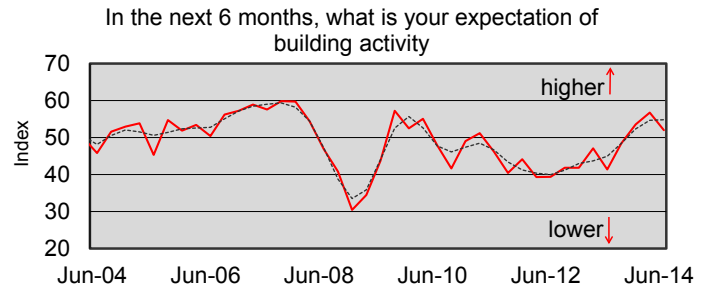
**...job prospects improve...**

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

After four consecutive increases, the index dropped back to 47 from 50.2 in the March quarter. Nonetheless, the index is close to the neutral level indicating that builders are now likely to keep employment levels relatively steady in the period ahead.

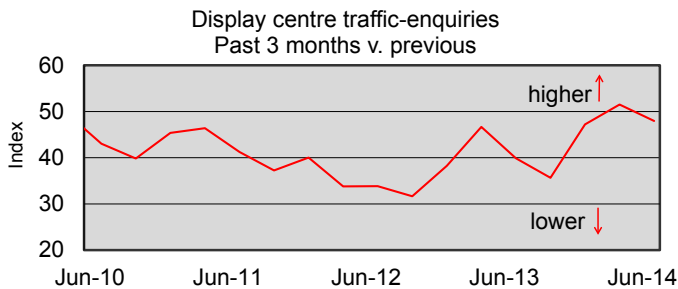
**...apprentices?**

The apprentice index dipped slightly in the June quarter. Close to 70 per cent of respondents say they will make ‘no change’ to apprentice levels, with 22.4 per cent saying they will put more on and 8.8 per cent indicating that they will release some apprentices.



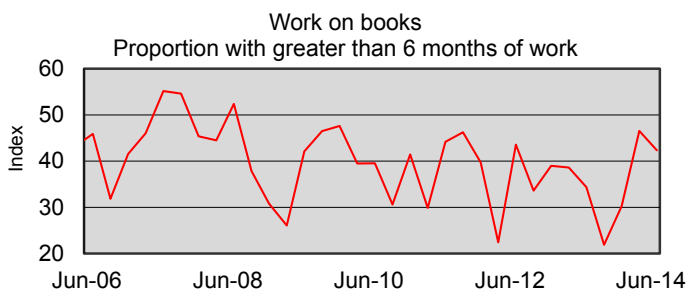
### Display centre traffic/commercial enquiries...

In the June quarter the index for display centre traffic/commercial enquiries fell back slightly, but for the third quarter in a row remained close to the neutral 50 mark. The rise in the index seen over the past 18 months is an encouraging trend indicating that low interest rates have had 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

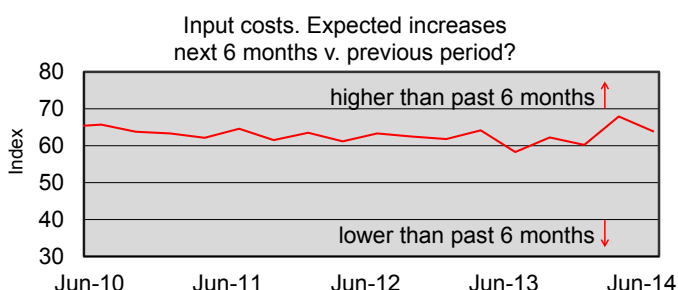
The index measuring builders' work-on-the books fell back in the June quarter but remained at a high level. The proportion of respondents reporting greater than six months of work stayed above 40 per cent.



Respondents reporting one to three months of work on the books rose, although only 7.7 per cent indicated they have less than one month. During the past few quarters, a healthier pipeline of work has emerged, meaning improved traffic and enquiries are finally translating into building contracts.

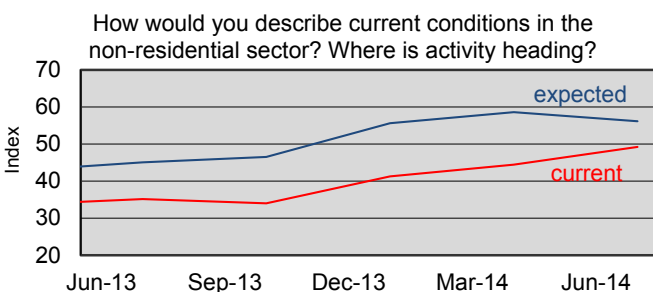
### Input costs...

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 fell to 63.9 in the June quarter after a rise in the previous quarter. 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 "satisfactory"...

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'.

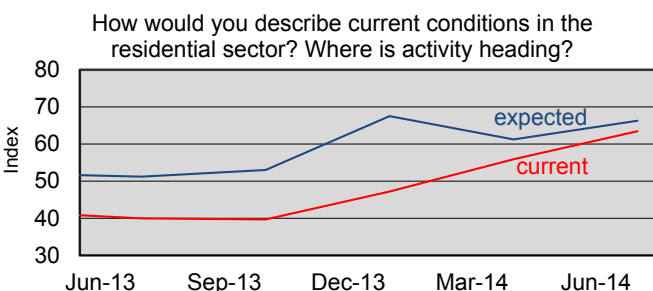


### ...improvement expected

In the non-residential sector, the index measuring current conditions rose again in the June quarter, to 49.2 and close to the 'neutral' level. There has been steady improvement in the past three quarters. The index measuring expectations about future activity stayed in positive ('improving') territory in the June quarter.

### Residential building — strong, positive outlook...

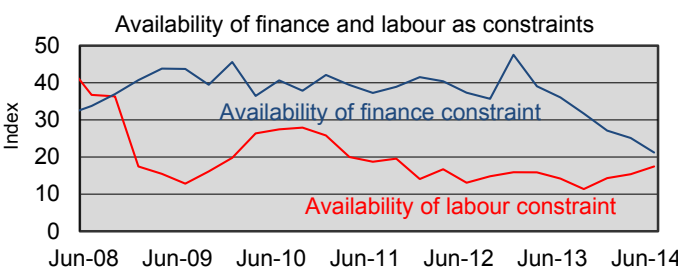
For the residential sector, the index for current conditions rose sharply again in the June quarter, to 63.5. Close to three quarters of respondents described conditions as good or very good.



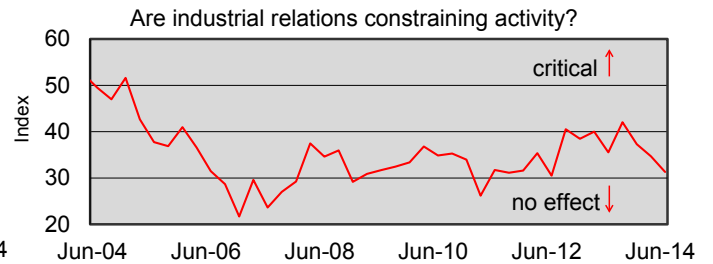
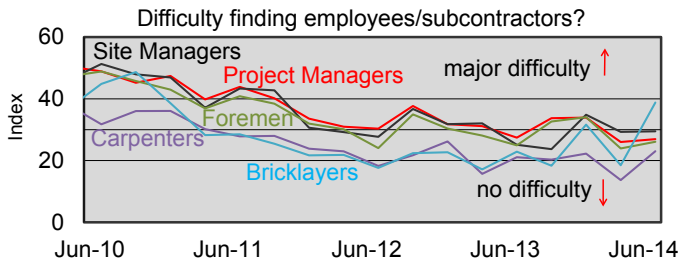
In terms of where the residential sector is headed, the index bounced back in the June quarter, to 66.3 from 61.3 in the previous quarter. Less than 10 per cent of respondents believe residential activity will deteriorate over the next six months.

### Financial constraints normalising...

Financial constraints for builders decreased in the March quarter and the index has fallen markedly over the past year (see chart). Only 7 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 40 per cent 18 months ago, and 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.



**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 degree of difficulty in finding employees/subcontractors increased in all categories during the June quarter. Fourteen of the sixteen categories recorded a lift in their respective indexes to levels higher than a year ago. Although we may be seeing the first signs of a lift in demand for building and construction workers, the labour market remains soft and currently there is little difficulty finding employees or subcontractors in the industry.

The past decline in industry conditions was accompanied by a dissipation of previous skills shortages as an extended slow-down in industry conditions masked underlying structural problems. 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

**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.

**National availability of labour**

	Jun-13	Mar-14	Jun-14
Bricklayers	22.9	18.5	38.8
Site Manager	25.1	29.3	29.5
Tilers - Wall and Floor	18.0	14.7	27.8
Project Manager	27.4	26.0	27.0
Foreman/Supervisor	24.9	23.9	26.1
Tilers - Roof	16.5	9.8	25.4
Plaster Fixers	14.5	13.8	24.7
Carpenters	21.1	13.7	23.0
Concretors	15.3	19.0	22.7
Steel Fixers	12.8	15.3	21.2
Office Staff	17.7	15.3	19.5
Scaffolders	13.0	11.3	17.2
Painters	13.3	8.2	17.1
Electricians	13.7	7.1	16.7
Building Consultants	13.1	9.2	14.2
Labourers	16.1	10.3	10.9

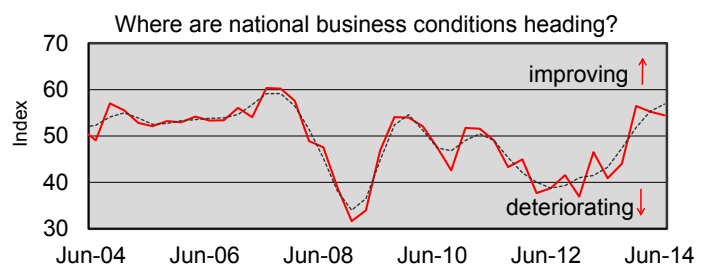
The index oscillated around 30 to 32 for three and a half years to the middle of 2012 before elevated readings in the next six quarters. The sharp rise in the index experienced in the second half of 2012 was primarily due to major industrial relations disputes including the Grocon blockade in Melbourne and the Children’s Hospital project in Brisbane. The index continued to fall back in the June quarter 2014 to an index reading of 31.8.

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.

**National economic conditions...**

With regard to the national economy, the index measuring perceptions about current business conditions is now close to the ‘satisfactory’ mark, following improvement over the past three quarters.

In the June quarter, the index measuring expectations for national conditions held close to much improved levels recorded during the previous two quarters.



**About the survey**

The survey of building and construction is a national survey of Master Builders’ members published on a quarterly basis. In the June quarter 2014, 413 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 =

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