

NATIONAL SURVEY OF BUILDING AND CONSTRUCTION

September quarter 2014



COMMERCIAL BUILDING RECOVERS TO HIGHEST LEVEL SINCE G.F.C.

Building activity is rebounding on the back of improved confidence. The building recovery however needs to broaden across states and sectors before the building industry can play a sustainable role in underpinning GDP and jobs growth after the resources boom.

Healthier profits...

Business conditions edged higher in the September quarter although the rate of recovery slowed (see chart). The result was driven by stronger profits, offset by a slight fall in builders' own business activity.

It appears the 'pulse' of building and construction at the national level is being affected by different conditions at state and sector levels.

... but confidence dips

Talk of measures to curb investor lending and house price growth may be dampening confidence.

The authorities must be careful not to jeopardise the residential building revival. Increasing the supply of dwellings is the most effective way to limit house price growth and safeguard affordability.

Builder confidence fell back in the September quarter. The index has paused, albeit at a solid level after rising strongly from below the neutral 50 mark in 2012.

Non-residential building on the rise...

As the recovery phase of the residential building cycle evolves, prospects for non-residential building have begun to turn up.

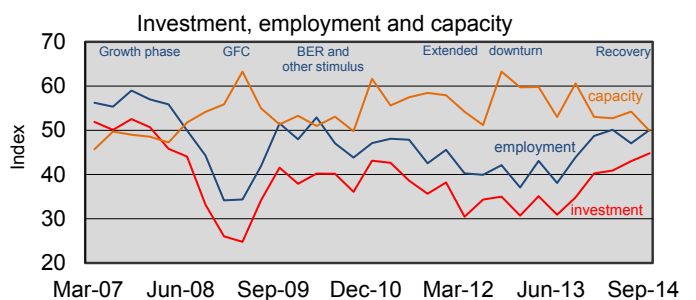
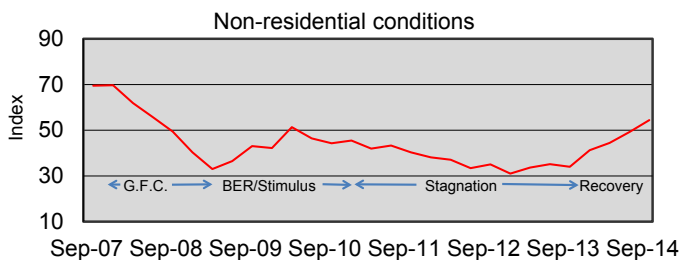
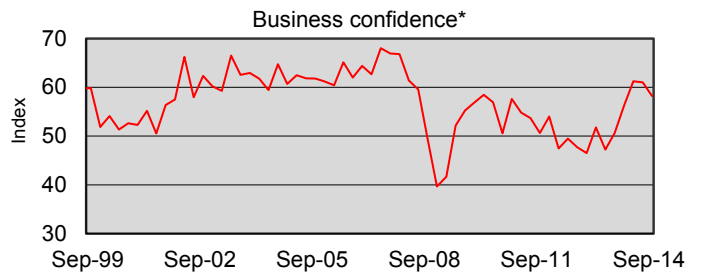
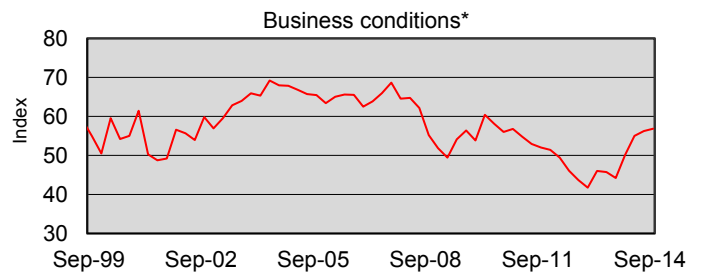
In what may be a sign of the much anticipated 'transition' towards non-mining business investment in the wake of the mining boom, the index for non-residential ticked above the 'satisfactory' (50) mark in the September quarter — the first time in nearly five years (since the BER and stimulus programs in the wake of the G.F.C.).

... as capacity utilisation improves

As capacity constraints begin to re-surface, builders will need to invest in plant and equipment and put on more employees and sub-contractors. Indexes are normalising alongside recovery in building activity.

Capacity was close to 'adequate' in September quarter after years of overcapacity stemming from the collapse of demand in the wake of the G.F.C.

**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 September quarter the index measuring expectations for building industry activity recorded 54.3, up on the 52.1 recorded in the previous quarter.

This is the fourth consecutive quarter above the neutral mark indicating that builders see industry activity moving higher in the next six months. Nonetheless, the trend in the index has plateaued after steady improvement from a trough in mid-2012.

Own business conditions strengthen...

The index measuring builders' current level of own business activity fell to 61.9 in the September quarter from 62.5 recorded in the June 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. Builders are describing their business conditions as good to very good.

...own business prospects...

The index measuring builders' views on their future business conditions fell slightly once again in the September quarter, although at 59.5, the index is well above the neutral 50 mark indicating that builders believe that their business activity will improve over the next six months.

...profits 'satisfactory'

In the September quarter the index measuring own business profitability rose to 51.8 after recording 50.0 in the September quarter. The index is slightly above the neutral 50 mark and the trend is positive (see chart).

In terms of builders' expectations regarding future profits, the index was down in the September quarter but at 56.9 builders still expect own profits to improve over the next six months.

...sales continue to recover

Sales have staged a strong recovery over the past year but still remain a little below the neutral level. The index fell back to 43.3 in the September quarter but the trend continues to improve.

The proportion of builders reporting lower sales has fallen sharply over the past two years. Builders rely on higher sales to strengthen their backlog of work and underpin recovery in own business conditions.

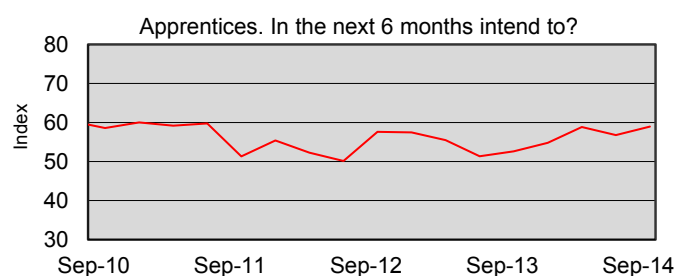
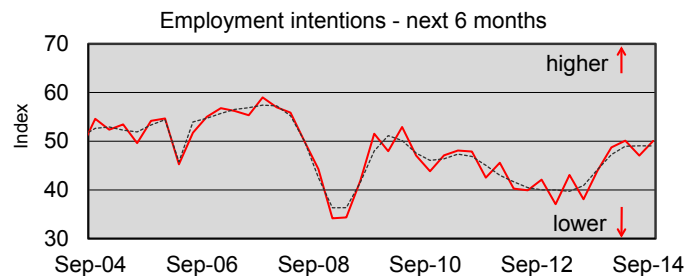
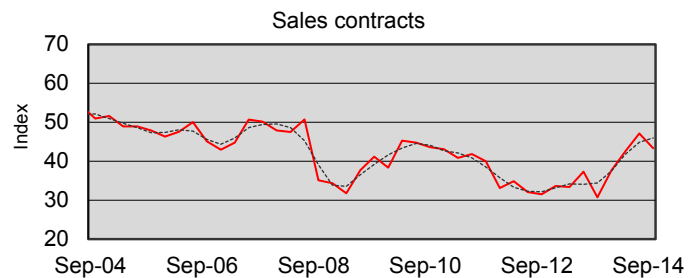
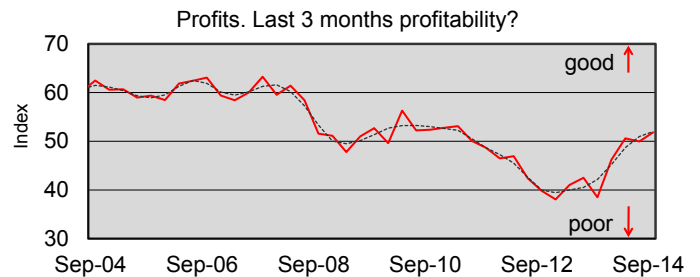
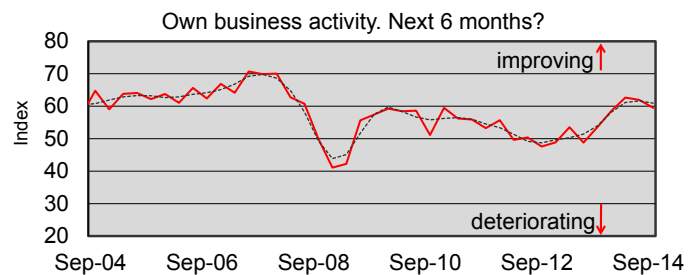
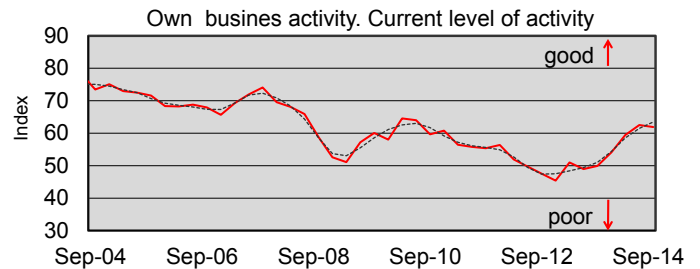
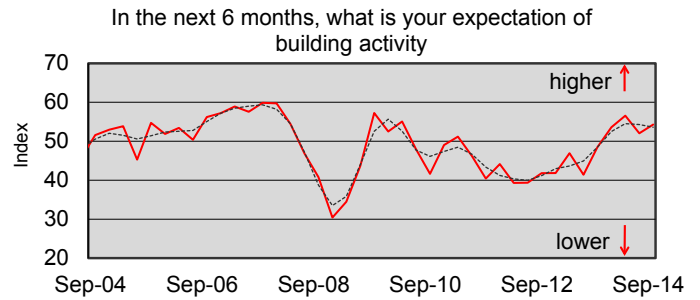
...job prospects improve...

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 50.1 from 47.1 in the previous quarter. The index has been close to the neutral level for four consecutive quarters, indicating that builders are now likely to keep employment levels relatively steady in the period ahead.

...apprentices?

The apprentice index rose in the September quarter. Nearly three quarters of respondents say they will make 'no change' to apprentice levels, with 22.9 per cent saying they will put more on and 5 per cent indicating that they will release some apprentices.



Display centre traffic/commercial enquiries...

In the September quarter the index for display centre traffic/commercial enquiries rose to 50.3, the third quarter in a row that it has 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 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 in the September quarter and remains at a high level. The proportion of respondents reporting greater than six months of work stayed above 40 per cent. Only 6.4 per cent indicated they have less than one month. During the past year, a healthier pipeline of work has emerged, as improved traffic and enquiries translate into building projects.

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 once again to 61.4 in the September quarter after a jump in the March 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 strengthen...

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'.

...further improvement expected

In the non-residential sector, the index measuring current conditions rose again in the September quarter, to 54.4, now above the 'neutral' level after steady improvement over the past year. The index measuring expectations about future activity moved sharply higher into the 'improving' category in the September quarter.

Residential building – outlook remains positive...

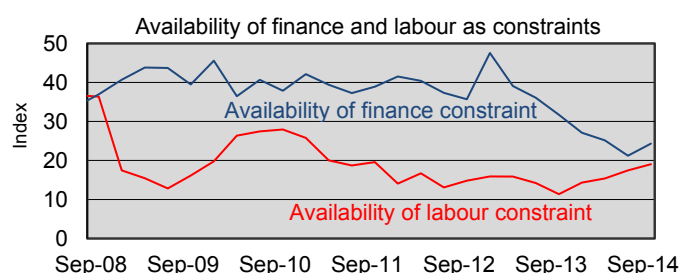
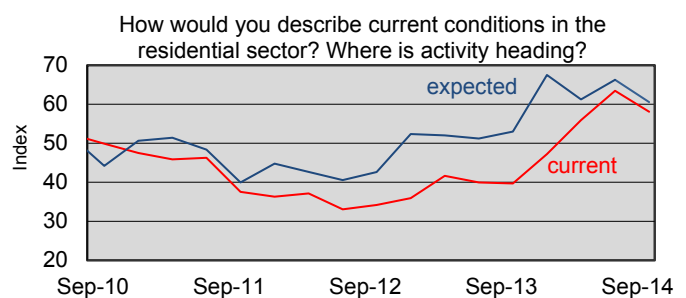
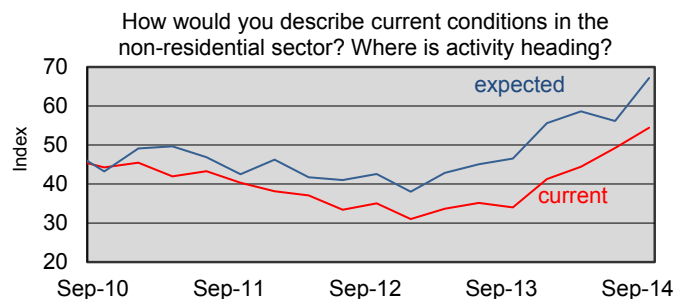
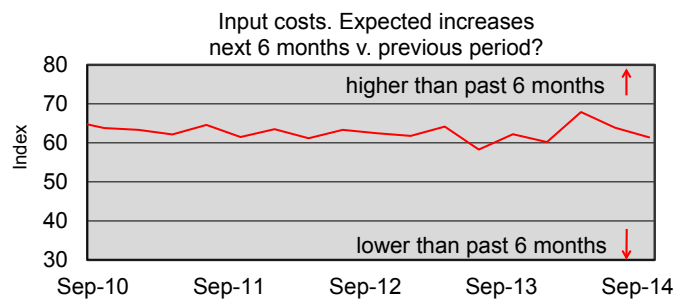
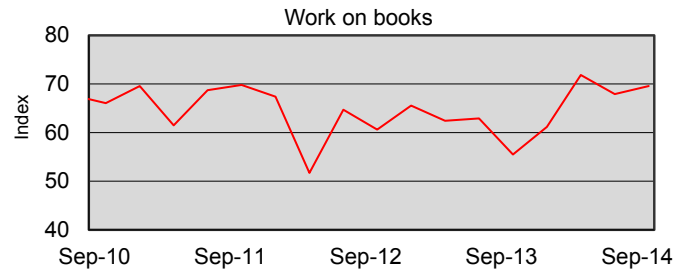
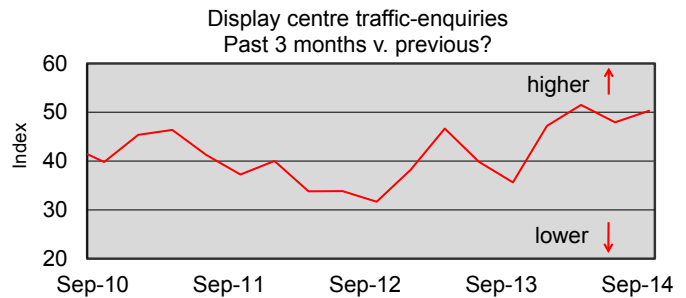
For the residential sector, the index for current conditions fell back in the September quarter, to 58.1 but close to half of respondents described conditions as good, very good or excellent.

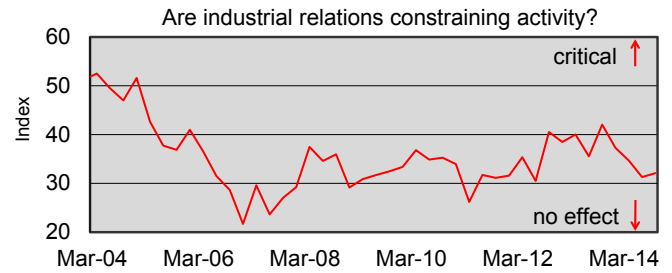
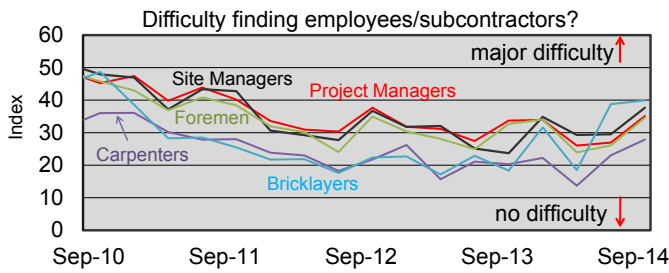
In terms of where the residential sector is headed, the index likewise fell back in the September quarter, to 60.5 from 66.3 in the previous quarter. Although the proportion of respondents expecting improvement increased, the proportion expecting 'no change' fell and the proportion expecting 'deterioration' rose (from less than 10 per cent to nearly 20 per cent). This is likely to indicate changing expectations for residential building by geographical area.

Financial constraints normalising...

Financial constraints for builders increased marginally in the September quarter but the index has fallen markedly over the past year or so (see chart). Only 12 per cent of respondents were concerned that as a constraint, availability of finance was having a major/large effect on their business. This is well down on levels of 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 in the September quarter increased in 10 of the categories and fell in the other six. All but one (building consultants) of the sixteen categories recorded a lift in their respective indexes to levels higher than a year ago as the industry sees the first signs of a lift in demand for building and construction workers. Nonetheless, the labour market remains soft and currently there is little difficulty finding employees or subcontractors in the industry.

National availability of labour

	Mar-14	Jun-14	Sep-14
Bricklayers	18.5	38.8	39.9
Site Manager	29.3	29.5	37.7
Project Manager	26.0	27.0	35.1
Foreman/Supervisor	23.9	26.1	34.6
Concretors	19.0	22.7	30.8
Carpenters	13.7	23.0	27.9
Office Staff	15.3	19.5	24.1
Plaster Fixers	13.8	24.7	23.6
Steel Fixers	15.3	21.2	22.2
Tilers - Roof	9.8	25.4	22.1
Tilers - Wall and Floor	14.7	27.8	21.0
Scaffolders	11.3	17.2	19.6
Labourers	10.3	10.9	18.5
Painters	8.2	17.1	16.8
Electricians	7.1	16.7	15.5
Building Consultants	9.2	14.2	10.7

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 September quarter 2014, 455 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. An extended slowdown in industry conditions masked underlying structural problems so 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.

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. The index ticked up fractionally in the September quarter 2014 to an index reading of 32.1.

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

