MASTER BUILDERS
AUSTRALIA

NATIONAL SURVEY OF BUILDING & CONSTRUCTION

SURVEY REVEALS SWEET SPOT FOR BUILDING INDUSTRY IN 2016

The building industry is set for a positive year ahead indicated by strong results in the December quarter.

The national results show strong momentum in the final quarter of 2015 that will carry through to mid-2016 at the very least. There are of course regional variations, with builders currently enjoying strong activity in New South Wales by comparison with other jurisdictions like Western Australia and South Australia where conditions remain subdued.

Residential building nationally is at record levels as a surge in new supply comes on-stream. Whilst at a mature stage of cycle, the 230,000 dwellings approved last year means a strong pipeline of work will keep those builders busy during 2016.

For non-residential building, conditions nationally may begin to improve. A 'baton-change' between residential and non-residential building would augur well for industry fortunes to be sustained later in 2016 and beyond.

Business confidence...

- Rose in the December quarter to be back around the 60 mark where it has been for around two years. Expectations regarding profits increased solidly in the quarter.
- Confidence in the economy as well as the resolution of political uncertainty with the leadership change may have influenced the positive result.

Business conditions...

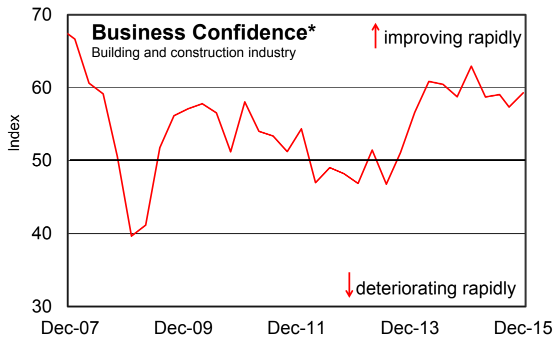
- Turned up in the December quarter and the index remains well into positive territory (above the neutral 50 mark).
- Both builders' own conditions and profits lifted in the December quarter.

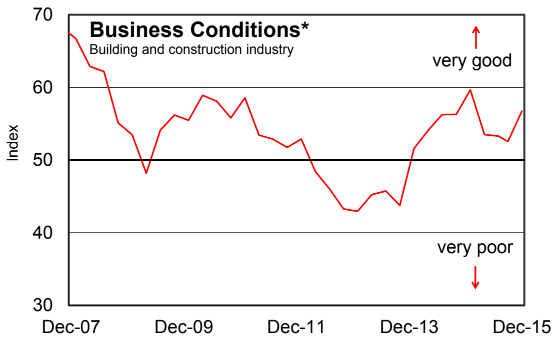
Residential...

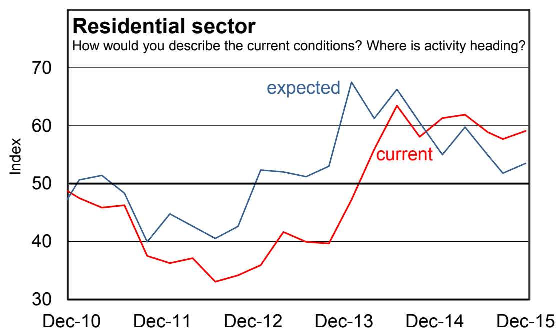
- Expectations rose in December quarter and builders expect activity to head higher even though they've become less bullish on the outlook in recent times. Conditions remain strong.

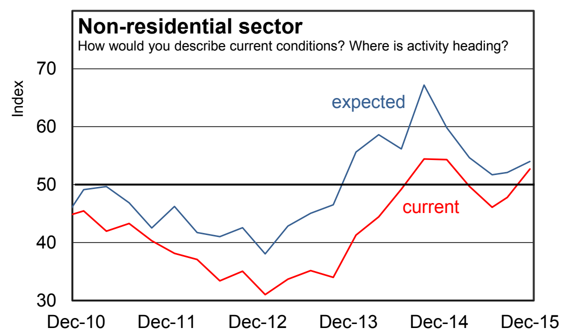
Non-residential...

- Expectations rose sharply to 54, meaning builders believe non-residential activity will head higher over the next six months.
- Conditions picked up in the December quarter.









**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.

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Expectations for building industry back ...

Expectations for building industry activity bounced back in the December quarter. Confidence in the economy as well as the resolution of political uncertainty with the leadership change may have influenced the positive result. The reading returned to being above above the neutral mark indicating that builders believe that industry activity will strengthen.

Own business conditions strengthens...

In the December quarter the index measuring builders' current level of own business activity rose to a healthy level well above 60.

The index is back close to the strong level attained a year ago as builders find their own business conditions to be in a healthy state.

...own business prospects remain solid...

The index measuring builders' views on their future business conditions remained lifted slightly in the December quarter, with a recording of 61.

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 lift

In the December quarter, the index measuring own business profitability lifted to a level just above the 50 mark.

The index remains close to the neutral 50 mark that indicates satisfactory profitability although it has struggled to achieve a sustainable lift to higher levels achieved last decade.

In terms of builders' expectations regarding future profits, the index rose in the December quarter and at 57.6 continues to indicate that builders expect their business profits to improve over the next six months.

...sales have lifted

The index rose to 50.3 in the December quarter as sales continue to stage a strong recovery trend. The index is now back to levels experienced prior to the G.F.C.

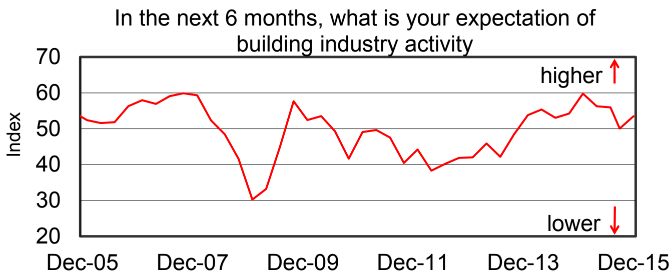
Builders rely on higher sales to strengthen the backlog of work thereby underpinning recovery in their own business conditions.

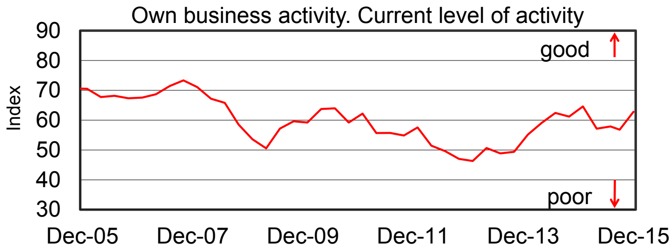
...Sound job prospects...

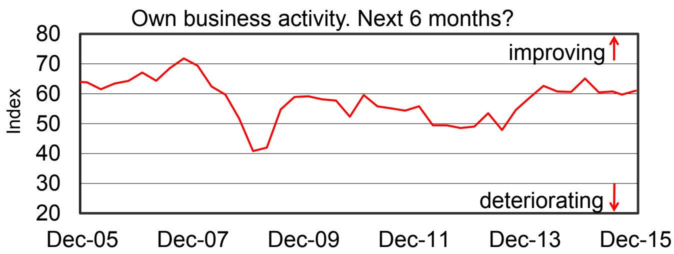
Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months relative to now.

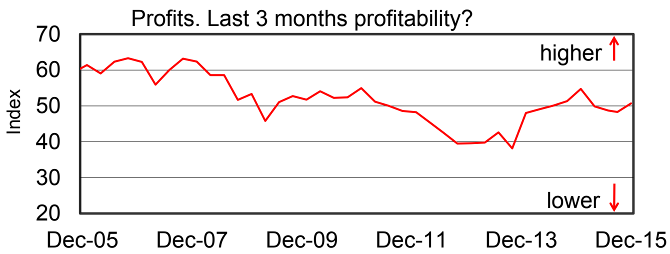
The index rose to 53.7 from 51.9 in the previous quarter, and the result is positive for the jobs front.

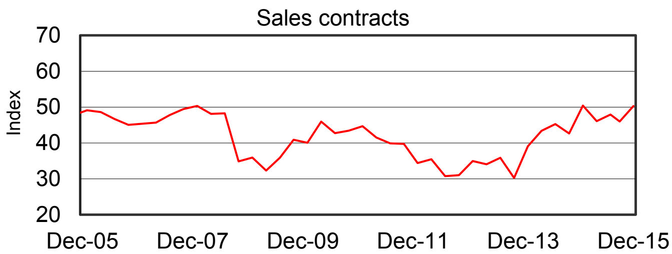
An index reading above 50 indicates that builders are likely to lift employment levels in the period ahead.

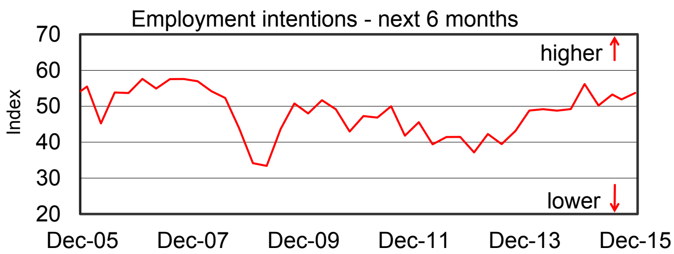








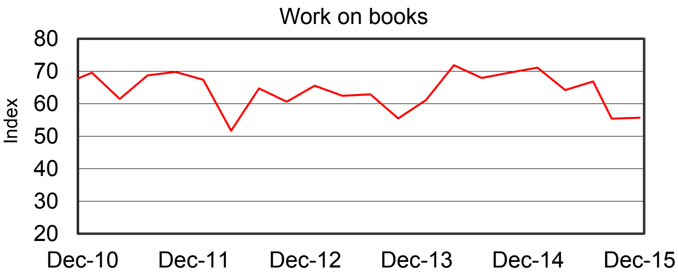




Backlog of work holds...

The index measuring builders' work-on-the books remained virtually unchanged in the December quarter, arresting the fall experienced in the previous year.

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.

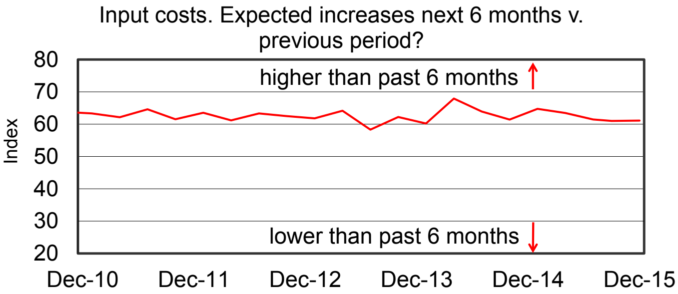


Input costs...

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 remained unchanged in the December quarter and remains 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...

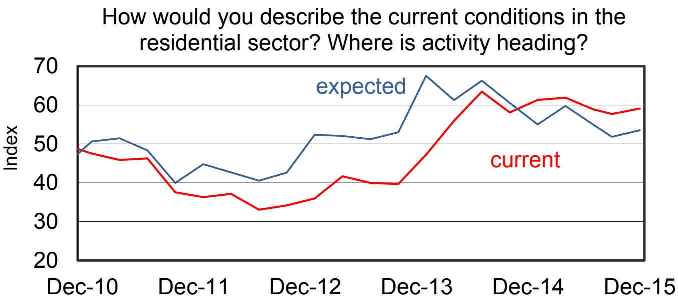
Builders are asked a series of questions relating to the residential and non-residential sectors —'how would you describe current conditions' and 'where do you believe activity is headed'.

Conditions stay positive for residential...

For the residential sector, the index for current conditions rose to 59.1 in the December quarter, at a level firmly indicative of good conditions.

In terms of where the residential sector is headed, the index rose in the December quarter to 53.5, good news in that it indicates the likelihood of further strength despite the maturing stage of the cycle.

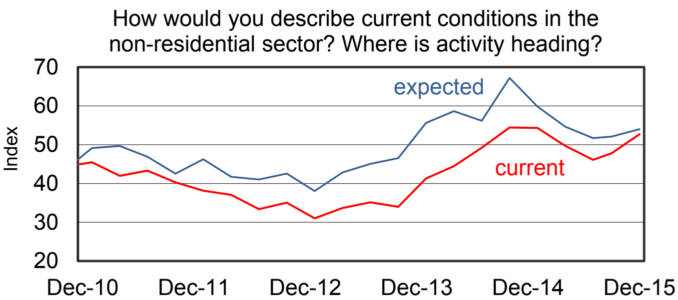
As the chart shows, expected conditions for residential building have stayed at a strong level, despite the drift down experienced over the past two years due to changing expectations for residential building as well as widely differing conditions by geographical region.



...non-residential outlook brightens

In the non-residential sector, the index measuring current conditions picked up in the December quarter, to 52.7 from 47.8 the previous quarter. This result is another quarter of improvement after recent deterioration experienced earlier in 2015.

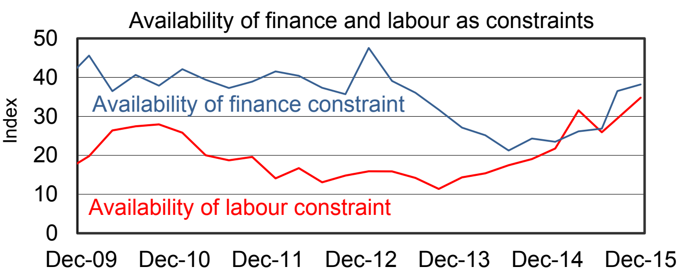
The index measuring expectations about future activity also rose in the December quarter. At 54, the index is now firmly above the 50 mark, meaning builders believe non-residential activity will head higher over the next six months.

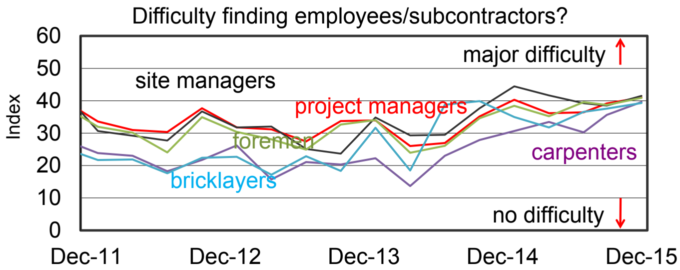


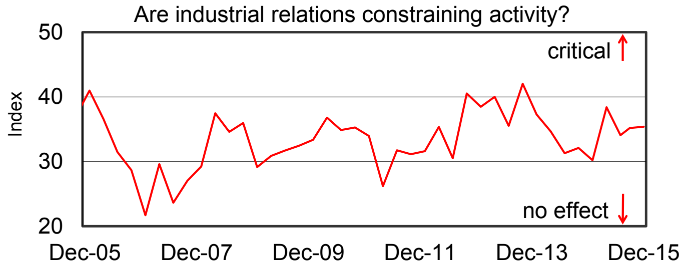
Finance/labour constraints...

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

The availability of labour as a constraint is becoming more of an issue for builders. The constraint continued its steady rise in intensity in the December quarter (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 December quarter rose in 11 categories and fell in 5 categories. By comparison to a year ago 10 categories are higher, with 6 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

	Dec-14	Sep-15	Dec 15
Site Manager	44.4	38.5	41.5
Project Manager	40.3	39.2	41
Foreman/Supervisor	38.4	38.7	40.9
Carpenters	30.6	35.6	39.6
Bricklayers	35.0	37.6	39.3
Tilers - Wall and Floor	30.9	29.3	33.6
Concretors	31.3	28.3	31.2
Plaster Fixers	25.9	27.1	25.9
Steel Fixers	27.0	25.4	24.8
Tilers - Roof	29.4	26.5	24.4
Office Staff	25.6	24.2	24.4
Labourers	22.6	23.4	24.0
Painters	20.3	21.3	22.9
Building Consultants	18.4	20.6	20.7
Electricians	15.7	18.9	17.8
Scaffolders	20.8	18.9	17.1

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 was essentially unchanged, at 35.4 in the December quarter. The spike in the March quarter of 2015 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 December quarter 2015, 725 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:

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

Page 1 image: winner of 2014 National Commercial/Industrial Construction Award – over $100m, Hindmarsh Construction, SA Health and Medical Research Institute.