



## NON-RESIDENTIAL BACK IN NEGATIVE TERRITORY

*Despite early optimism, the anticipated recovery in commercial construction has failed to materialise. Residential building remains strong. Weighed down by a lack of non-mining investment, however, sluggish conditions elsewhere in the economy are dragging down non-residential building.*

### Improvement in building conditions stalls...

Builders' business conditions remained unchanged in the June quarter after the dip experienced in the preceding quarter. After posting solid gains last year conditions have eased, albeit remaining at a solid level above the neutral 50 mark.

However, as the chart shows, conditions need to strengthen further for builders to enjoy conditions similar to those experienced between 2003 and 2007.

Although respondents are on average describing their own business activity as 'good' or 'very good' and business profitability remains close to the 'satisfactory' range, builders will be looking for a further strengthening after the softening experienced in the March and June quarters.

### ...although builders remain confident...

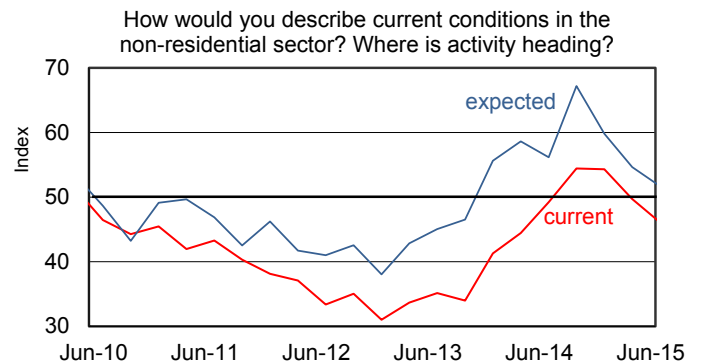
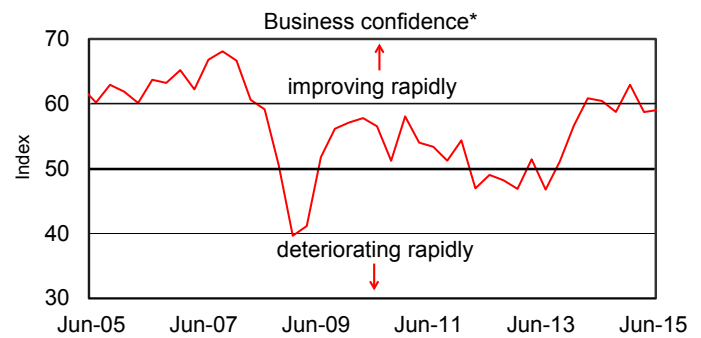
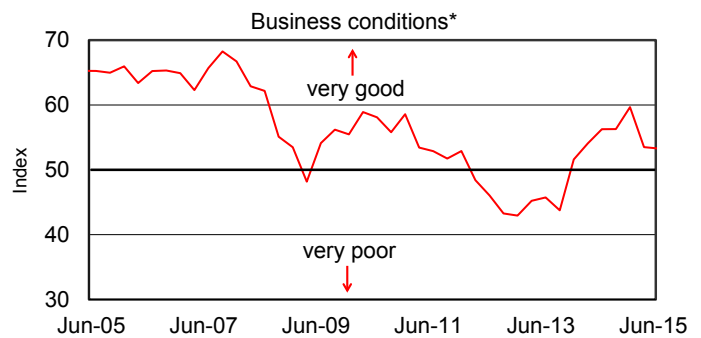
Builder confidence flatlined in the June quarter but as the chart shows, remains at a fairly strong level. After recovering to levels not seen since before the G.F.C. the index measuring confidence has plateaued. The bottom line though, is builders still expect own business activity and profits to improve over the next six months.

### ...non-residential building fails to lift

Businesses in Australia remain extremely reluctant to invest across most industries and builders are concerned about sluggish non-residential building conditions.

Despite a brief sign of recovery in mid-2014, non-residential building continues to suffer the effects of weak non-mining investment despite low interest rates. Caution is keeping a lid on investment needed to drive economic growth and generate jobs, with flow on effects for non-residential building.

The policy agenda must reinforce recent Budget initiatives to reboot confidence as conditions elsewhere in the economy have the potential to drag down building and construction.



\*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 remain positive for building industry...

Expectations for building industry activity remain at a high level. The index was essentially unchanged at 56 in the June quarter.

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

## Own business conditions solid despite dip...

The index measuring builders' current level of own business activity rose marginally to 57.9 in the June quarter from 57.1 recorded in the March quarter.

The index has come back a little in the past two quarters, but own business activity remains at a level above the 'satisfactory' 50 level.

## ...own business prospects remain strong...

The index measuring builders' views on their future business conditions remained virtually unchanged in the June quarter, recording 60.7 after the 60.5 recorded in the previous quarter.

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 'satisfactory'

In the June quarter the index measuring own business profitability dipped fractionally to 48.7 after recording 49.9 in the previous quarter.

Despite the fall, the index remains close to the neutral 50 mark that indicates satisfactory profitability although the index has struggled to lift to levels achieved in the past.

In terms of builders' expectations regarding future profits, the index rose in the June quarter and at 57.7 is indicating that builders expect their business profits to improve over the next six months.

## ...sales lifting

Sales staged a strong recovery in 2014 and continues to trend higher. The index is now well above average levels experienced over the past 10 years.

The index rose to 47.9 in the June quarter and close to 25 per cent of respondents said sales were moving higher, up strongly on results of a year or so ago.

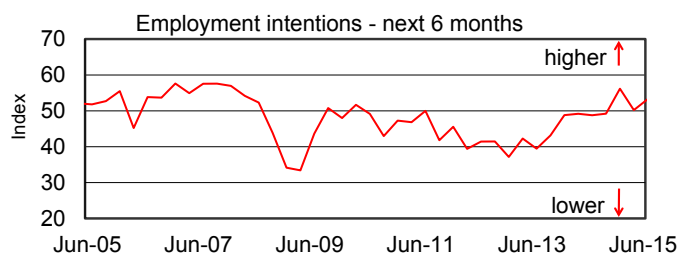
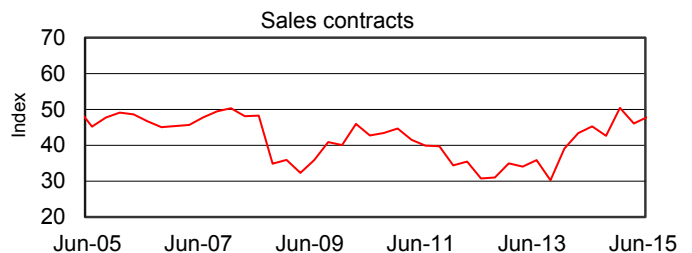
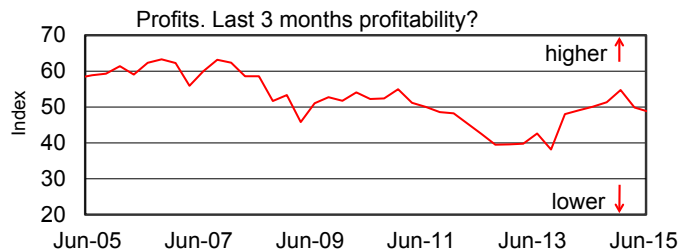
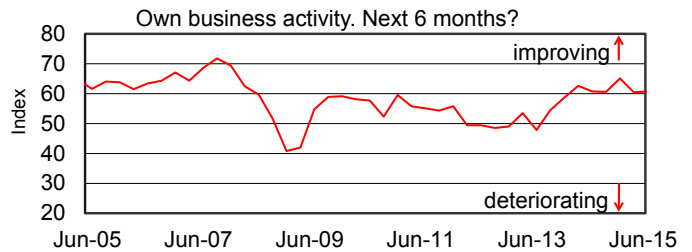
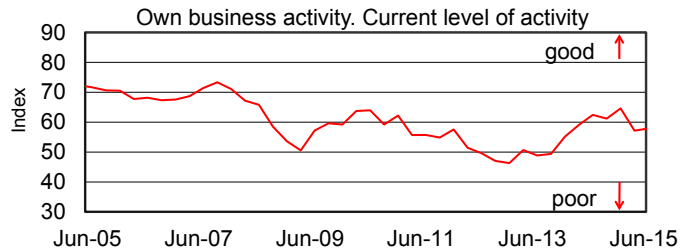
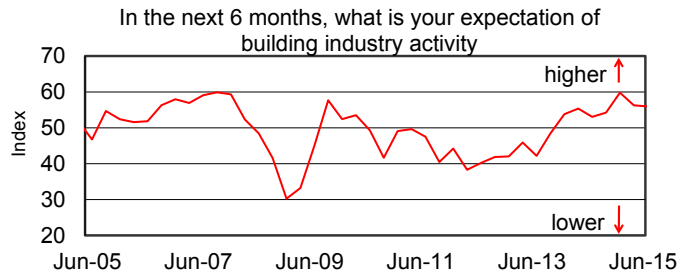
Builders rely on higher sales to strengthen the backlog of work thereby underpinning recovery in own business conditions.

## ...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 53.3 from 50.2 in the previous quarter and the trend remains positive.

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



### Backlog of work dips...

The index measuring builders' work-on-the books rose in the June quarter, but remains lower than higher levels achieved in 2014.

Nonetheless, the proportion of respondents reporting greater than six months of work was still above 40 per cent, in line with the solid lift experienced over the past year.

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.

Improved traffic and enquiries are translating into building projects, work-on-the-books and therefore a healthier pipeline of work.

### 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 61.5 in the June quarter after falling 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.

### Builders operating in both residential and non-residential sectors ...

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'.

#### Positive for residential ...

For the residential sector, the index for current conditions fell a little to 58.9 in the June quarter, still firmly indicating good conditions.

In terms of where the residential sector is headed, the index fell in the June quarter to 54.9.

As the chart shows, although remaining solidly positive, expected conditions for residential building have drifted down over the past year and a half. This is likely to indicate changing expectations for residential building by geographical region.

#### ...non-residential back in negative territory

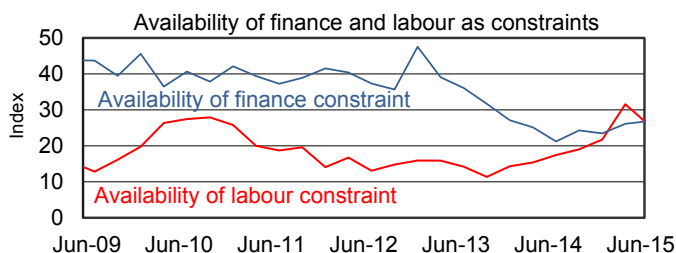
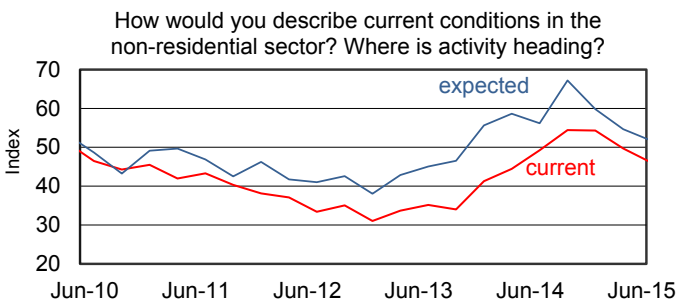
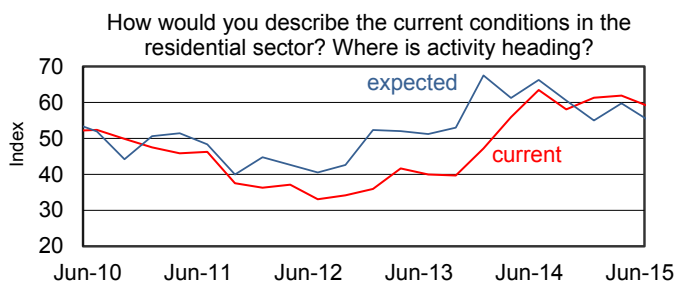
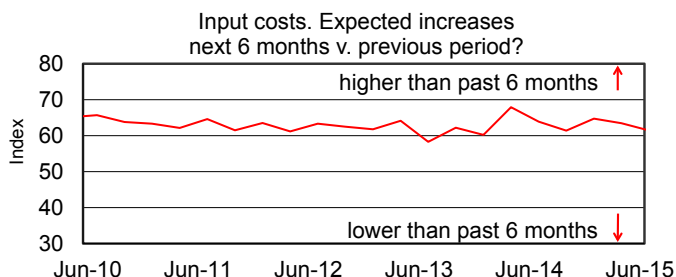
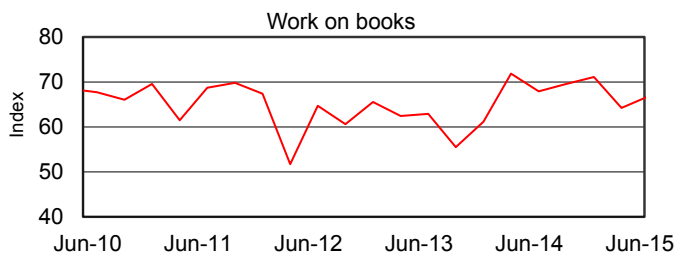
In the non-residential sector, the index measuring current conditions fell to 46.1 in the June quarter, now below the 'neutral' level and reversing improvement shown prior to this.

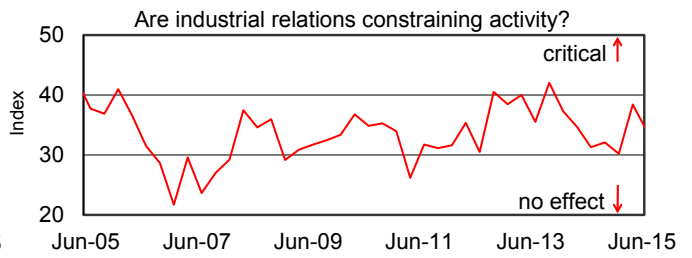
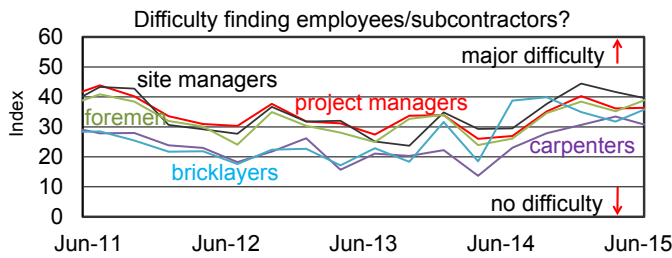
The index measuring expectations about future activity dropped back again in the June quarter, and at 51.7 the index remains close to the "no change" 50 mark.

### Finance/labour constraints...

Finance constraints for builders have fallen markedly over the past year or so (see chart) and the index is back around levels recorded prior to the G.F.C.

The availability of labour as a constraint is becoming more of an issue for builders although at this stage the constraint remains in the moderate category.





### National availability of labour

	Jun-14	Mar-15	Jun-15
Foreman/Supervisor	26.1	35.2	39.6
Site Manager	29.5	41.7	39.2
Bricklayers	38.8	31.8	36.6
Project Manager	27.0	36.2	36.4
Carpenters	23.0	33.5	30.3
Concretors	22.7	31.1	30.3
Tilers - Wall and Floor	27.8	30.8	25.6
Tilers - Roof	25.4	28.2	24.5
Plaster Fixers	24.7	27.1	23.7
Office Staff	19.5	22.4	23.0
Steel Fixers	21.2	22.1	21.8
Painters	17.1	26.7	19.7
Labourers	10.9	19.5	17.5
Building Consultants	14.2	16.8	17.3
Scaffolders	17.2	17.9	16.7
Electricians	16.7	24.7	15.5

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.

### 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 June quarter rose in 5 categories and fell in 11 categories. Ten categories are higher by comparison to a year ago, with 5 lower. 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.

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..

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

The index fell to 34.1 in the June quarter, after a jump in the preceding quarter. The spike in the March quarter 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 June quarter 2015, 891 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:

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