



BUILDING ACTIVITY DIPS, PUTS PRESSURE ON BUDGET OUTCOMES

Builders are looking to the 2015 Budget to reboot confidence as conditions elsewhere in the economy have the potential to drag down building and construction. Poor sentiment acts as a lid on investment which particularly affects commercial construction.

Solid building conditions despite dip...

Builders' business conditions fell back in the March quarter after posting solid gains last year. Conditions have consolidated at a solid level above the neutral 50 mark. However, as the chart shows the recovery needs to strengthen further for builders to enjoy similar conditions to those experienced between 2003 and 2007.

Although close to 45 per cent of respondents described their own business activity as 'good' or 'very good' and business profitability remains in the 'satisfactory' range, builders will be looking for further pick-up after the decline in the index in the March quarter.

...builder confidence holding up...

Builder confidence also dipped in the March quarter but as the chart shows remains at a fairly strong level. The index measuring confidence has recovered to levels not seen since before the G.F.C. Builders expect own business activity and profits to improve over the next six months.

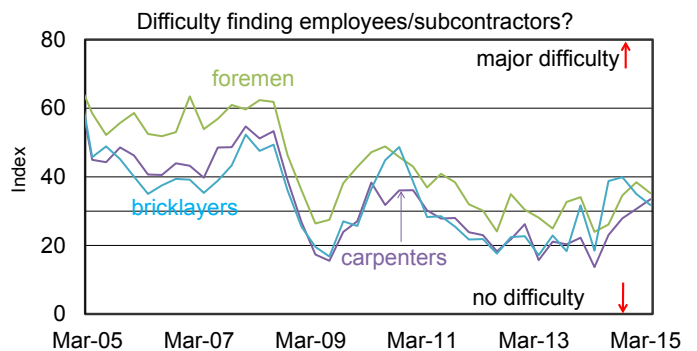
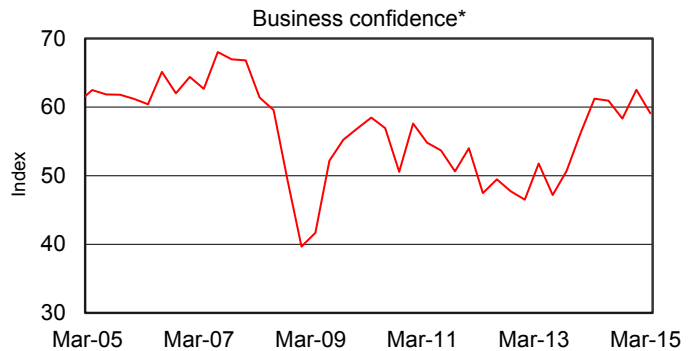
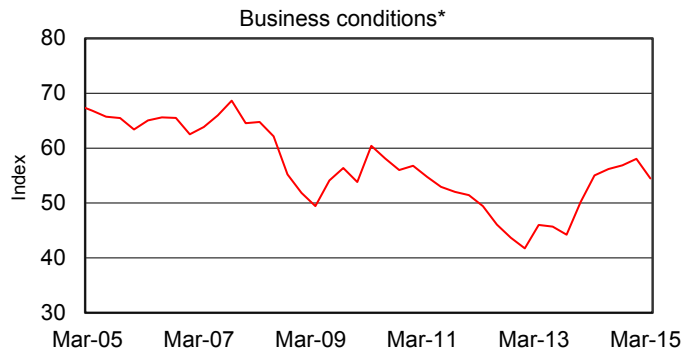
...soft labour market masks some difficulties...

The industry is beginning to experience a lift in demand for building and construction workers. Nationally the labour market remains fairly soft but there is a degree of difficulty in finding some skills in some States.

...industry looking for lift from Federal Budget

The 2015 Budget and policy agenda must be about rebooting confidence as conditions elsewhere in the economy have the potential to drag down building and construction.

Business remains extremely reluctant to invest. Despite signs of recovery, commercial building continues to suffer the effects of weak non-mining business investment despite low interest rates. Poor sentiment is affecting 'animal spirits', keeping a lid on investment needed to drive economic growth and generate jobs.



*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...

Despite falling to 57.4 in the March quarter from the 59.5 recorded in the previous quarter the index measuring expectations for building industry activity remains at a high level.

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 solid despite dip...

The index measuring builders' current level of own business activity fell to 57.6 in the March quarter from 63.4 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.

Over 40 per cent builders surveyed describe their business conditions as 'good' to 'very good'.

...own business prospects...

The index measuring builders' views on their future business conditions fell back in the March quarter, recording 60.5 after the strong 64.9 recorded in the previous quarter. 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 March quarter the index measuring own business profitability fell to 51.4 after recording 52.7 in the previous quarter. Despite the fall, the index remains above the neutral 50 mark and the balance of responses indicate satisfactory profitability.

In terms of builders' expectations regarding future profits, the index fell in the March quarter but at 57.7 the index indicates that builders expect their business profits to improve over the next six months.

...sales recovery

Sales staged a strong recovery in 2014 and the index is now well above average levels experienced over the past 10 years. The index fell to 45.2 in the March quarter as the trend improvement begins to flatten out. However, close to 25 per cent of respondents said sales were moving higher, up strongly on results of a year or so ago.

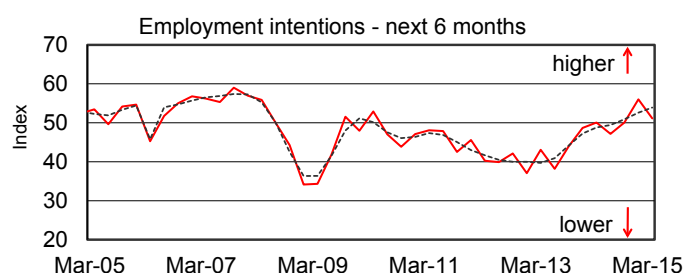
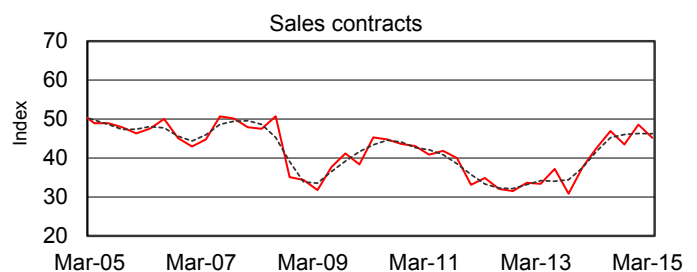
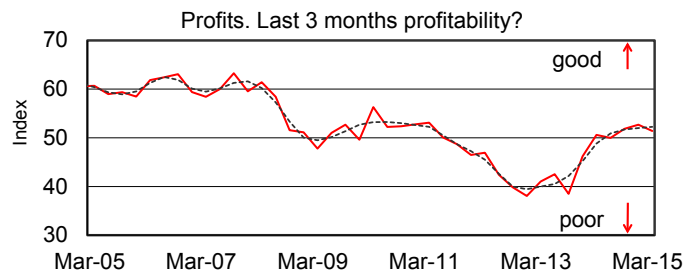
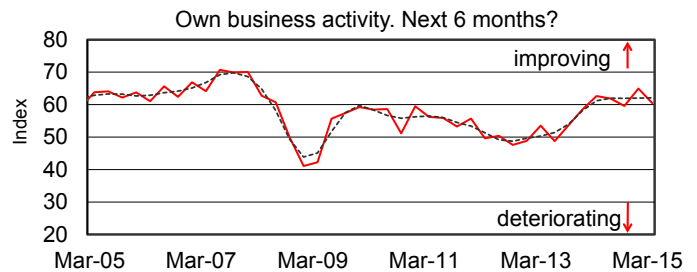
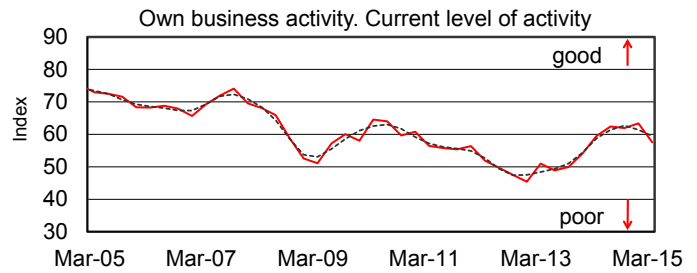
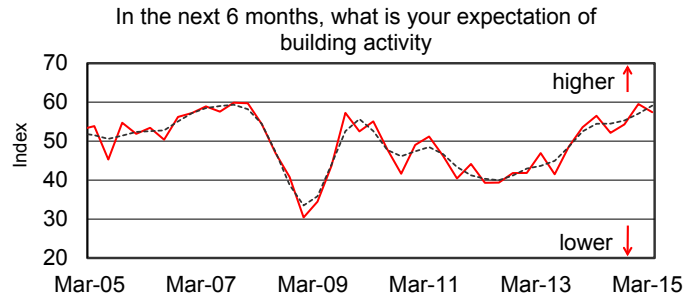
Builders rely on higher sales to strengthen the backlog of work thereby underpinning recovery in own business conditions.

...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 fell to 51.1 from 56 in the previous quarter but the trend remains positive.

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



Display centre traffic/commercial enquiries...

In the March quarter the index for display centre traffic/commercial enquiries fell back to 49.4 after the sharp rise recorded in the previous quarter. Despite the volatility inherent in the index readings, the trend improvement seen over the past 2 years is encouraging.

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 dips

The index measuring builders' work-on-the books fell in the March quarter, falling back from previously high levels. 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.

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 63.5 in the March quarter after rising 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'.

Outlook positive for residential ...

For the residential sector, the index for current conditions rose to 69.0 in the March quarter, with half of the respondents describing conditions as good or very good.

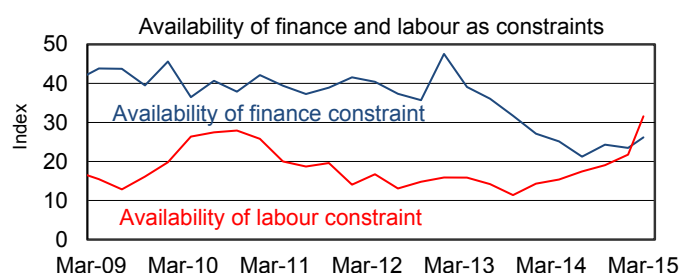
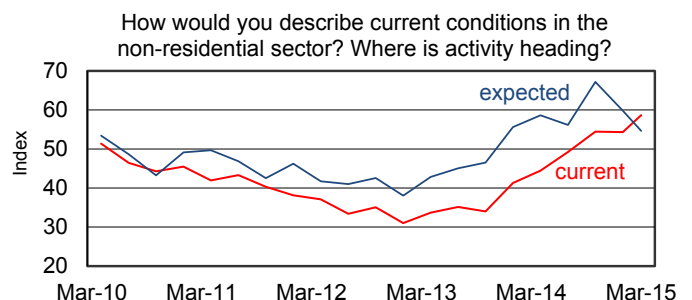
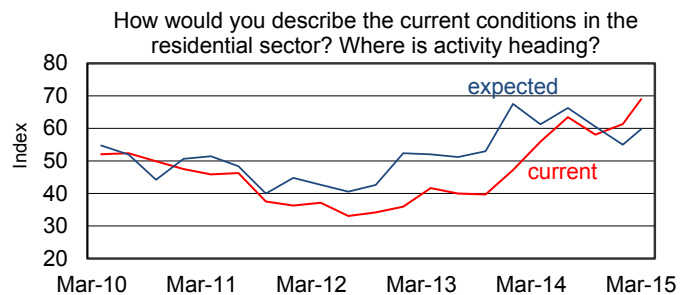
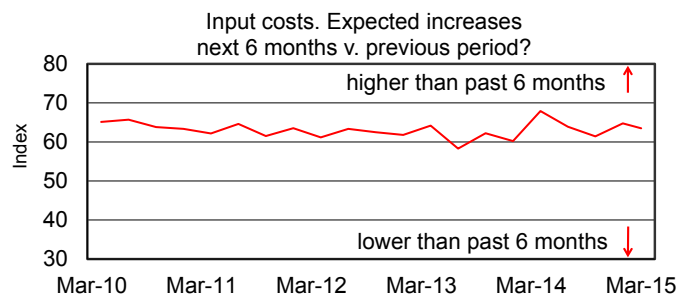
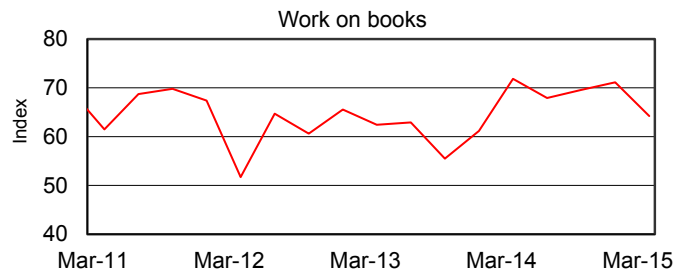
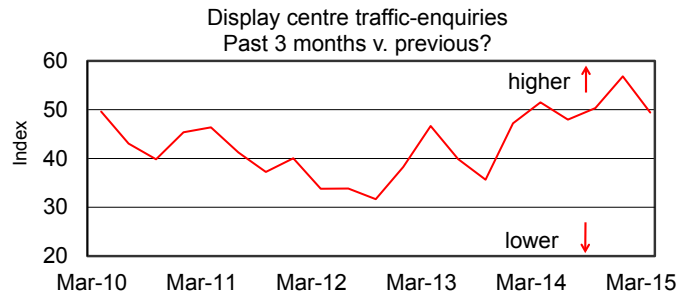
In terms of where the residential sector is headed, the index rose in the March quarter, to 59.8. As the chart shows, although remaining solidly positive, expected conditions for residential building have drifted down over the past year. This is likely to indicate changing expectations for residential building by geographical region.

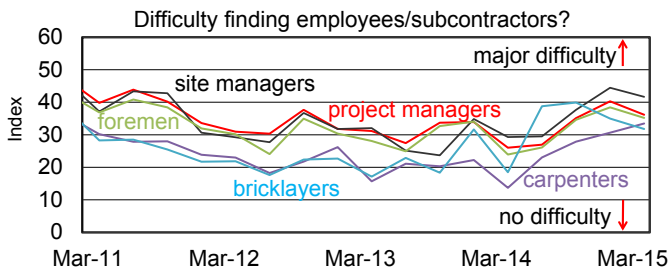
... improvement in non-residential expected despite dip

In the non-residential sector, the index measuring current conditions rose to 58.6 in the March quarter, well above the 'neutral' level after steady improvement shown over the past 18 months. The index measuring expectations about future activity dropped back again in the March quarter, but at 54.6 the index remains positive territory.

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. Builders see interest rates as relatively neutral in terms of impacting on forward orders/enquiry rates/new contracts. 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.





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.

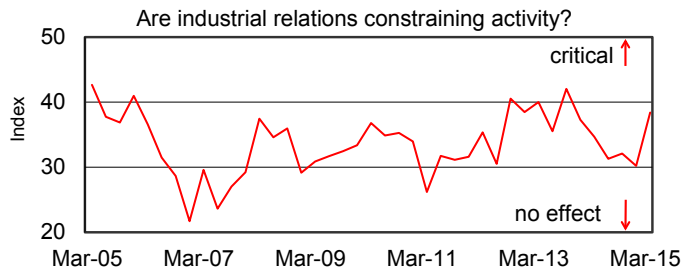
National availability of labour

	Mar-14	Dec-14	Mar-15
Site Manager	29.3	44.4	41.7
Project Manager	26.0	40.3	36.2
Foreman/Supervisor	23.9	38.4	35.2
Carpenters	13.7	30.6	33.5
Bricklayers	18.5	35.0	31.8
Concretors	19.0	31.3	31.1
Tilers - Wall and Floor	14.7	30.9	30.8
Tilers - Roof	9.8	29.4	28.2
Plaster Fixers	13.8	25.9	27.1
Painters	8.2	20.3	26.7
Electricians	7.1	15.7	24.7
Office Staff	15.3	25.6	22.4
Steel Fixers	15.3	27.0	22.1
Labourers	10.3	22.6	19.5
Scaffolders	11.3	20.8	17.9
Building Consultants	9.2	18.4	16.8

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.

At the national level, the index measuring the degree of difficulty in finding employees/subcontractors in the March quarter fell back somewhat in 8 categories, although 4 categories rose and 4 were almost unchanged. All categories are higher 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.

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 rose to 38.4 in the March quarter, the highest reading since September quarter 2013. The rise 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 March quarter 2015, 886 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:

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