

NATIONAL SURVEY OF BUILDING & CONSTRUCTION



MASTER BUILDERS AUSTRALIA

BUILDING CONDITIONS AND OUTLOOK CONTINUE TO EASE

Building industry conditions and expectations continued to ease in the June Quarter 2016 across both the residential and the non-residential sectors. Most of the indicators in Master Builders National Survey are sitting at or around the neutral point or flat-lining, adding pressure on policy makers at all tiers of government to 'get the policy settings right'.

Business confidence...

Business confidence continued to ease in the June Quarter 2016 (to 57 index points), compared to 58.7 index points in the March Quarter 2016.

The fall in the business confidence index in the June Quarter 2016 reflected both a decline in builders' expectations of their own-business activity over the next six months (down 4.1 per cent), and of their profitability (down 1.6 per cent) on the preceding March Quarter 2016.

Business conditions...

Business conditions edged up slightly, to 52.8 index points, in the June Quarter 2016, just above the 51.8 index points for the March Quarter 2016, but still well down on the 56.8 index points recorded for the December Quarter 2015.

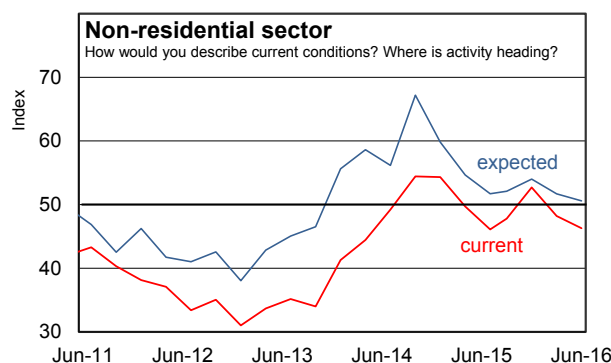
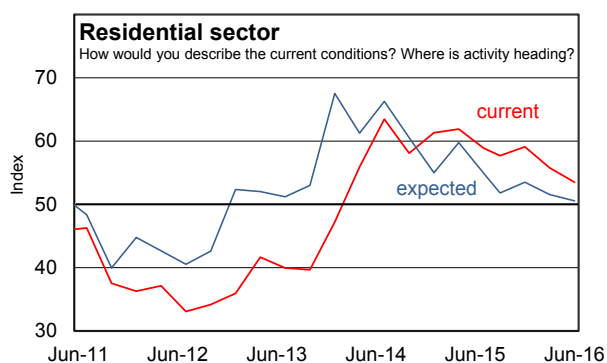
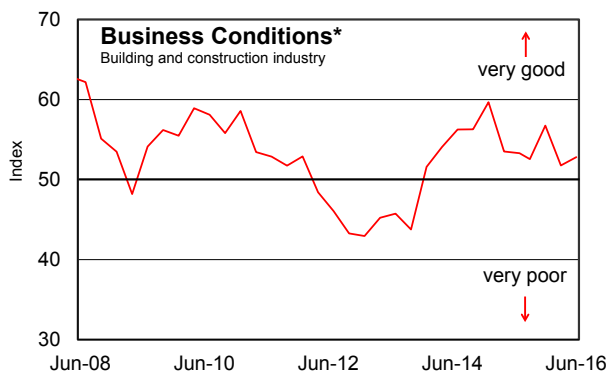
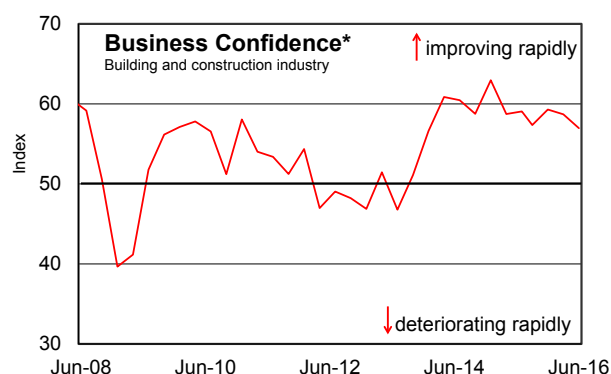
Despite the easing in the business conditions index, it remains in positive territory, above the neutral mark of 50 index points.

Residential

Current conditions in the residential building sector declined further in the June Quarter 2016, to 53.5 index points' (down from 55.8 index points in the March Quarter 2016), and are well down from the 59.1 index points recorded for the December Quarter 2015.

Non-Residential ...

Current conditions in the non-residential building sector also fell, to 46.3 index points, in the June Quarter (down nearly 2 index points, or 4 per cent, on the previous Quarter). This brings the fall in this index to 12 per cent over the past six months.



*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 ... continue to ease

Expectations for the building industry over coming year continue to ease, declining to 47.3 index points in the June Quarter 2016 – the second quarter in a row it has been below the neutral mark of 50 index points.

Own business conditions ... remain firm

Builders' assessments of conditions in their own businesses remained largely unchanged during the June Quarter 2016, at 57.0 index points. This is still well above the neutral mark (of 50 index points), indicating builders' continue to have a positive outlook for their own-business conditions.

Own business prospects ... easing

Builders' expectations for their own businesses over the next six months eased back to 59.1 index points in the June Quarter 2016, down 2.6 index points (or 4 per cent) on the March Quarter 2016 (when it stood at 61.7 index points)

Own profits ... looking up

The June Quarter 2016 saw an improvement in current own-business profitability, to 48.6 index points (compared to 46.1 index points in the March Quarter 2016).

However, expectations of own-business profitability over the coming six months eased slightly, to 54.8 index points; it was 55.7 index points in the March Quarter 2016.

This means builders still expect to see the profitability of their own businesses improving over the remainder of 2016.

Sales ... continue to ease

Sales' performances continue to ease, dropping to 44 index points in the June Quarter 2016 (down 1.6 index points on the previous March Quarter).

Jobs index ... also continuing to ease

Builders' likely demand for contractors and employees over the next six months has fallen back to around the neutral level (at 50.1 index points) in the June Quarter 2016.

This compares to 53.7 index points in the December Quarter 2015.

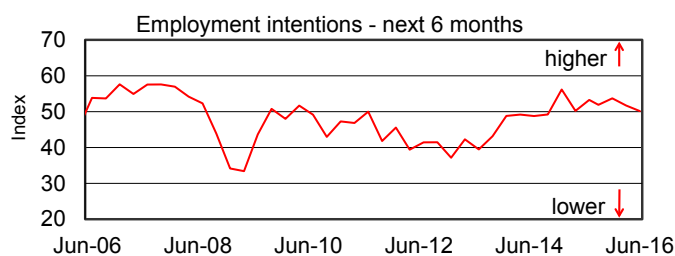
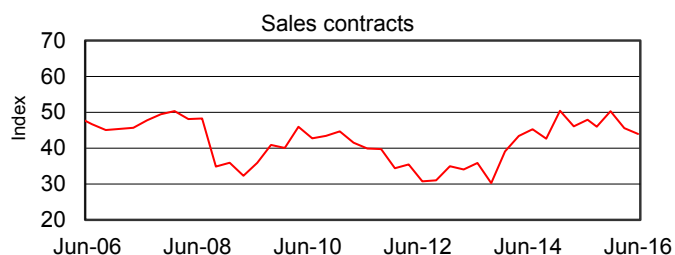
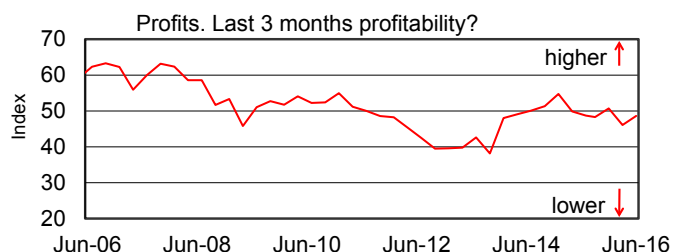
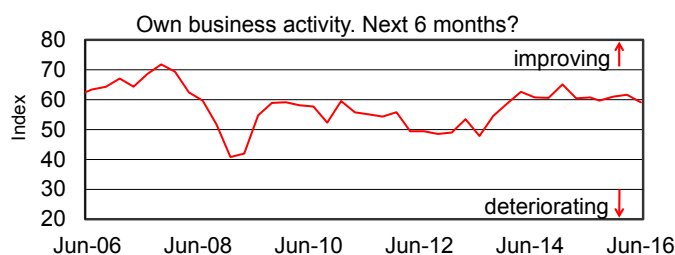
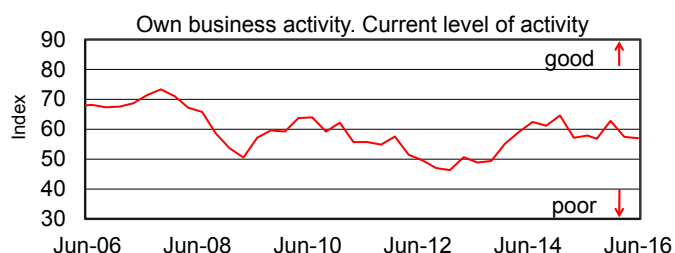
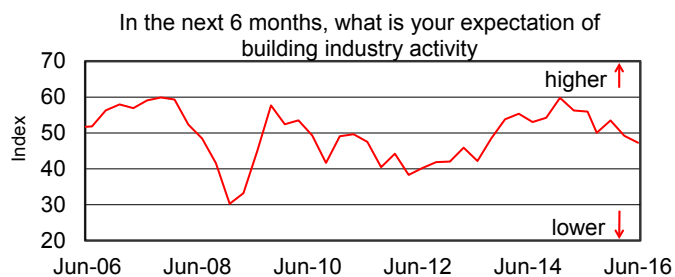
The overall message from Master Builders National Survey for the June Quarter 2016 is one of an easing in business conditions and expectations for the building and construction industry.

Builders in both the residential and the non-residential sectors continue to curtail their expectations for the future direction of activity in their respective sectors.

A number of key indicators essentially flat-lined in the June Quarter, continuing the trends of recent Quarters – including work-on-books; expectations of input costs; and, builders' outlook for their own-business activity.

However, a number of indicators are pointing downward – such as expectations of general industry activity; sales contracts; and, employment intentions.

At the same time, the availability of finance and of labour are becoming less of a constraint on builders' businesses, while industrial relations are becoming more so – adding to the need to reinstate the Australian Building and Construction Commission (ABCC).



Work-on-the-books ... remains healthy

The work-on-the-books index remained fairly much unchanged, at 56.5 index points in the June Quarter of 2016 (56.7 index points in the March Quarter 2016; and, 55.7 index points in the December Quarter 2015).

All up, this means builders continue to have healthy levels of forward work ahead.

Input costs ... little easing seen

Builders see little easing in business input costs (such as labour and materials) over the coming six months.

The input cost index remained little changed in the June Quarter 2016 (at 60.8 index points) on the March Quarter 2016 (60.4 index points).

Looking back over the past five years, the input cost index has remained fairly stable, in contrast to many other series in the survey.

Builder's views on the residential and non-residential sectors ...

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

Residential outlook ... tempering of optimism

Conditions in the residential building sector over the coming six months are expected to remain positive, although only just – at 50.6 index points in the June Quarter 2016.

This figure, however, is down noticeably (almost 6 per cent) on the 53.5 index points reported six months earlier. In short, residential builders are tempering their optimism.

Non-residential outlook ... also tempering

The outlook for the non-residential building sector broadly parallels that for the residential sector over the coming six months – remaining positive, but only just.

The non-residential outlook index stood at 50.6 index points in the June Quarter 2016, down a little on the 51.7 index points for the preceding March Quarter 2016.

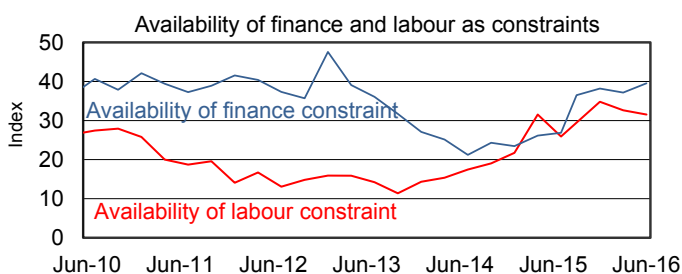
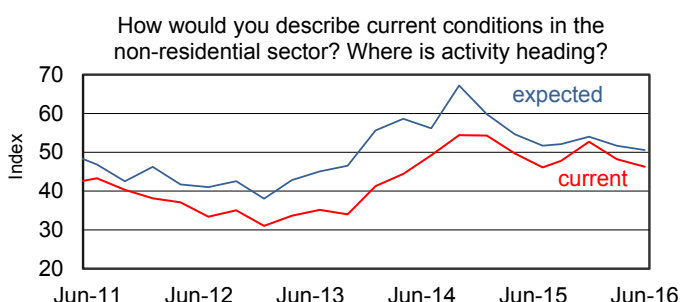
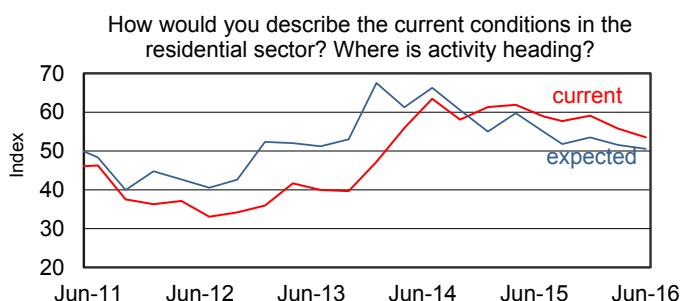
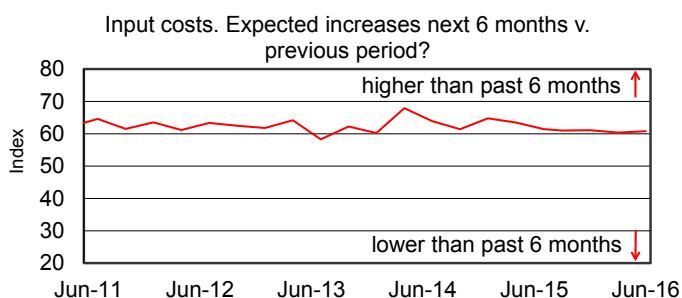
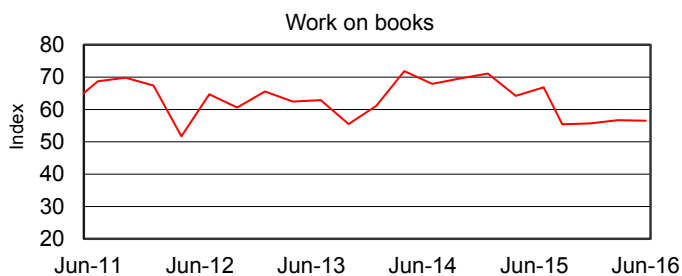
Like their residential counterparts, non-residential builders are tempering their optimism for the coming half-year.

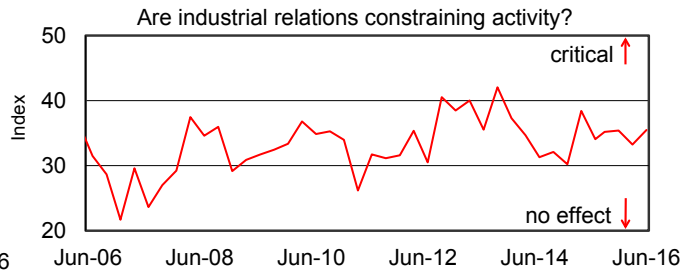
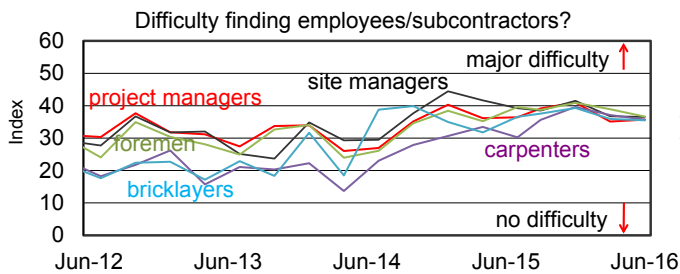
Finance and labour constraints ... still comfortable

Builders do not see the availability of finance and of labour as constraining their businesses, with both indices remaining well below the neutral mark.

The 'finance constraint' index firmed slightly, to 39.5 index points, in the June Quarter 2016 (37.1 index points for the March Quarter 2016). The movement comes against the background of continuing very low official interest rates.

The 'labour constraint' eased back from 32.6 index points in the March Quarter 2016 to 31.5 index points in the June Quarter 2016, suggesting builders are finding it a little easier to meet their labour needs.





Availability of labour

Respondents were asked about the degree of difficulty in finding a range of sub-contractors/ employees.

A high index reading indicates a large to critical degree of difficulty in finding sub-contractors/ employees. A low index reading indicates builders are experiencing slight or no difficulty in finding sub-contractors/ employees.

At the national level, the index measuring the degree of difficulty in finding sub-contractors/ employees either remained largely unchanged or declined in the June Quarter 2016 in most of the skill categories.

The falls in the availability of labour indices (pointing to an increase in labour supply) were most notable for steel fixers, concreters, electricians, tilers (both roof, and wall and floor) and foreman/supervisors.

This increasing availability of labour may reflect the maturing nature of the building and construction cycle, passing its peak in demand for labour. Nevertheless, the industry continues to suffer underlying structural problems, and skills shortages have the potential to become endemic albeit masked at different points in the building cycle.

National availability of labour

	Jun 15	Mar 16	Jun 16
Foreman/Supervisor	39.6	38.9	36.6
Site Manager	39.2	36.7	36.6
Carpenters	30.3	37.1	35.7
Project Manager	36.4	35.1	35.7
Bricklayers	36.6	35.9	35.5
Tilers - Wall and Floor	25.6	31.0	28.9
Concreters	30.3	31.1	28.4
Plaster Fixers	23.7	25.6	25.3
Painters	19.7	22.6	22.9
Office Staff	23.0	35.9	22.8
Tilers - Roof	24.5	24.3	22.5
Labourers	17.5	22.4	22.0
Steel Fixers	21.8	24.1	20.8
Building Consultants	17.3	18.8	19.0
Scaffolders	16.7	17.0	17.3
Electricians	15.5	18.2	17.0

Note: Respondents are asked about the degree of difficulty in finding a range of sub-contractors/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 sub-contractors/employees.

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Industrial relations constraint

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

The 'industrial relations' constraint index rose to 35.5 index points in the June Quarter 2016 (compared to 33.2 index points for the March Quarter 2016), and may reflect the high profile attached to the defeat in the Federal Parliament of the Australian Building and Construction Commission (ABCC) legislation.

The index fell dramatically in 2005 and 2006 with the introduction of the BCII Act and the establishment of the ABCC. The sharp rise in the index seen in the second half of 2012 occurred in response to a number of major industrial 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 2016, 644 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:

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

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 Master Builders Australia | Level 1, 16 Bentham Street
 (PO Box 7170) YARRALUMLA ACT 2600 | Tel: 61 2 6202 8888
 Fax: 61 2 6202 8877 | enquiries@masterbuilders.com.au,
 www.masterbuilders.com.au