



MASTER BUILDERS AUSTRALIA

NATIONAL SURVEY OF BUILDING & CONSTRUCTION

NON-RESIDENTIAL BUILDING PROSPECTS A DRAG ON OPTIMISM

Builders in the short to medium term remain positive about future prospects despite a drift down in their actual operating conditions. The mixed results would appear to be explained by differences in activity and profitability by building sub-sector and geographic location.

Residential building continues to power ahead, although it is now at the mature phase of the cycle and past its peak. The good news is that a record level of starts means a strong pipeline of work will keep activity strong in 2016.

But momentum in the non-residential building sector appears to have stalled. Conditions are certainly not depressed or deteriorating as they were post the GFC stimulus programmes. However, with little sign of any strong pick-up in demand, builders are currently only luke-warm about future prospects and see their operating conditions as 'satisfactory' to 'poor'.

Business confidence...

Essentially unchanged in the March quarter, close to the 60 mark where it has been for around two years. Expectations regarding own business conditions increased fractionally in the quarter offsetting a slight reversal in profits.

Growing confidence in overall future economic prospects appears to be underpinning strong industry sentiment.

Business conditions...

Dropped back in the March quarter although the index remains in positive territory (above the neutral 50 mark).

Both builders' own conditions and profits fell in the March quarter.

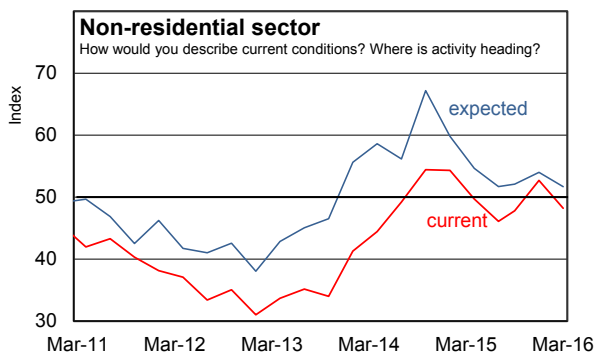
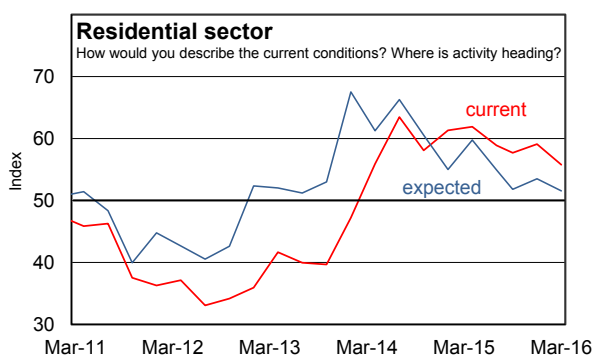
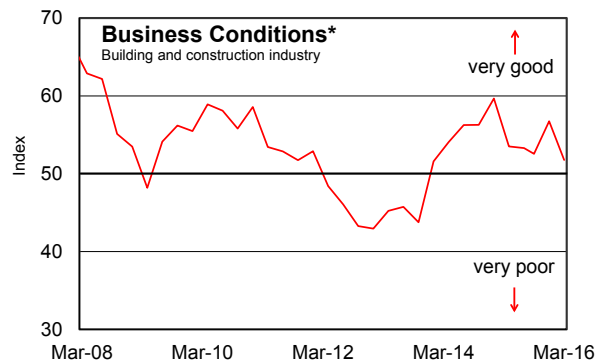
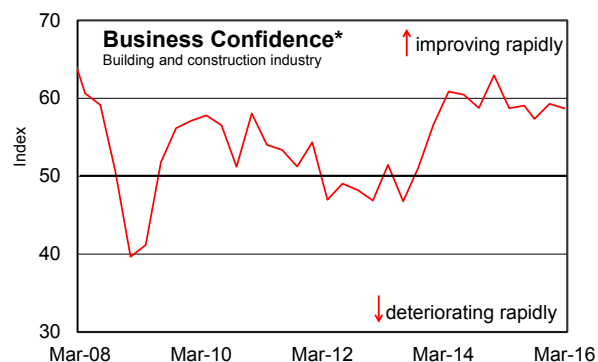
Residential...

Expectations fell in March quarter. Although builders expect activity to head higher, they have become less bullish on the outlook. Conditions remain strong.

Non-residential...

Expectations fell a little, but at 51.7 builders still expect non-residential activity to head higher over the next six months.

Disappointingly, conditions fell in the March quarter as the sector struggles to shift into a higher gear.



*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 for building industry stay positive ...

Expectations for building industry activity held firm in the March quarter, despite a small decline in the index to 51.7.

The reading remains above the neutral mark indicating that builders believe that industry activity will strengthen in the coming months.

Own business conditions still buoyant...

In the March quarter the index measuring builders' current level of own business activity fell back somewhat, from 62.8 to 57.4, but remains at a healthy level close to 60.

The index is close to the strong level attained a year ago as builders indicate that their own business conditions are in a healthy state.

...own business prospects remain strong...

The index measuring builders' views on their future business conditions lifted slightly again in the March quarter, with a recording of 61.7.

Despite plateauing over the past year, the index remains at a high level, well above the neutral 50 mark. This indicates that builders believe their business activity will improve solidly over the next six months.

...own profits dip although expectations are better

In the March quarter, the index measuring own business profitability fell to a level below the 50 mark.

The index still remains fairly close to the neutral 50 mark that indicates satisfactory profitability.

Differences by building sub-sector probably explain why the index has struggled to achieve a sustainable lift to higher levels.

In terms of builders' expectations regarding future profits, the index remained at a solid level in the March quarter.

At 55.7, continues to indicate that builders expect their business profits to improve over the next six months.

...sales fall back

The erratic performance of the index measuring sales continued. The index fell to 43.9 in the March quarter.

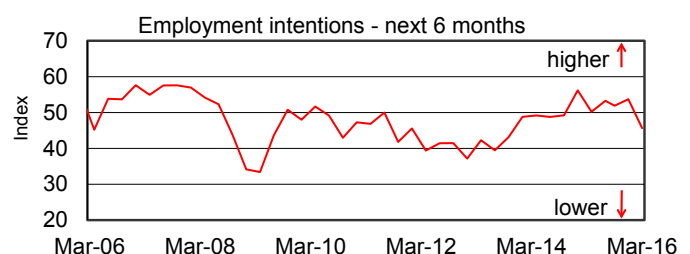
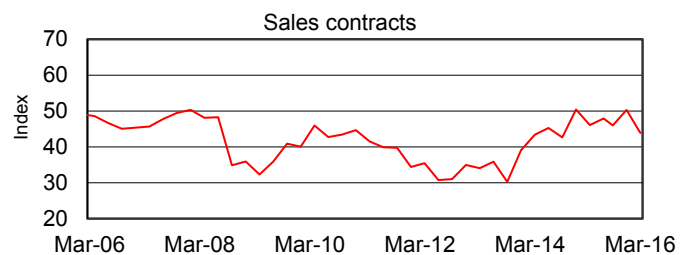
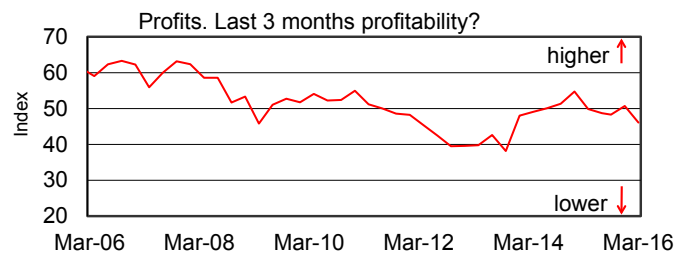
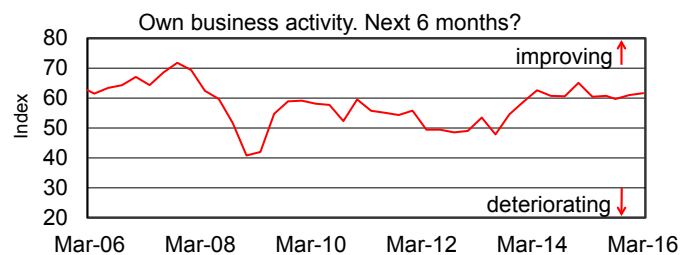
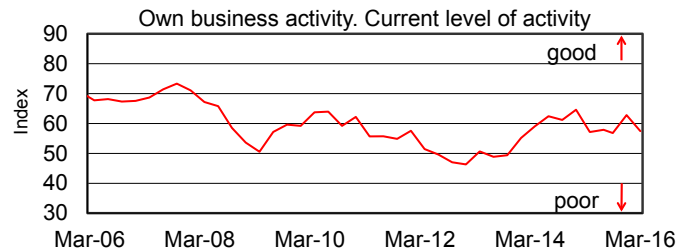
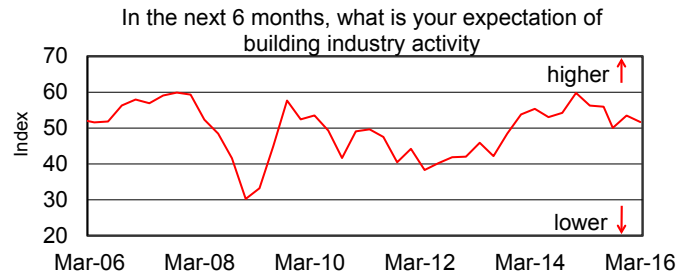
A close watch on this index will be warranted, as builders rely on higher sales to strengthen the backlog of work thereby underpinning recovery in their own business conditions.

...job index dips...

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 45.7 from 53.7 in the previous quarter, a less than promising result on the jobs front.

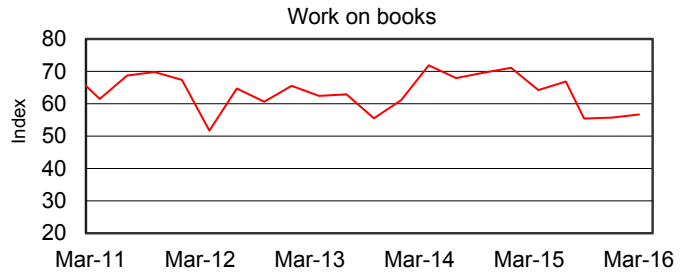
An index reading above 50 indicates that builders are likely to lift employment levels in the period ahead.



Backlog of work holds...

The index measuring builders' work-on-the books rose again in the March quarter, a promising sign and continuing to arrest the fall experienced last 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. The index was little changed in the March quarter.

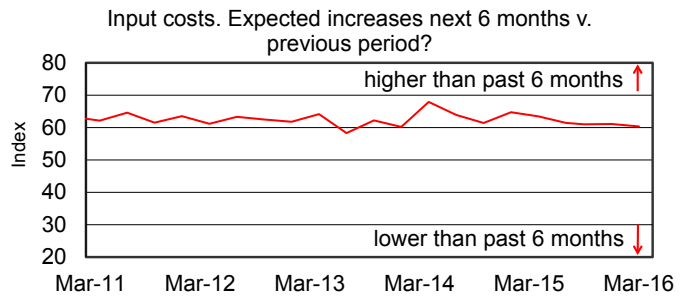


Input costs...

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 back slightly in the March 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.



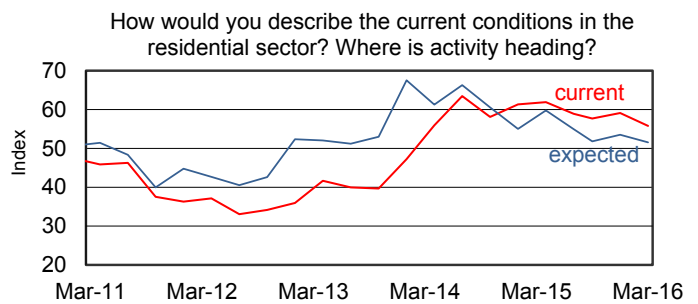
Builders' views on residential and non-residential sectors...

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 still positive for residential...

For the residential sector, the index for current conditions fell to 56.8 in the March quarter, still at a level firmly indicative of good conditions.

In terms of where the residential sector is headed, the index fell in the March quarter to 51.6, above 50 so signalling further strength despite the mature stage of cycle.

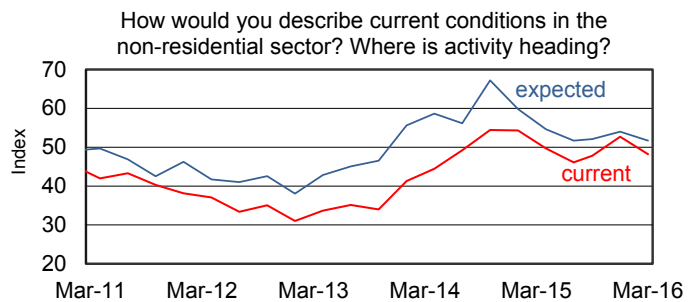


As the chart shows, expected conditions for residential building have drifted down over the past two years due to changing expectations for residential building as well as widely differing conditions by geographical region.

...non-residential outlook disappoints

In the non-residential sector, the index measuring current conditions fell in the March quarter, to 48.2 from 52.7 the previous quarter. The index has failed to strengthen in recent times although it remains significantly higher than depressed levels experienced 3 years ago.

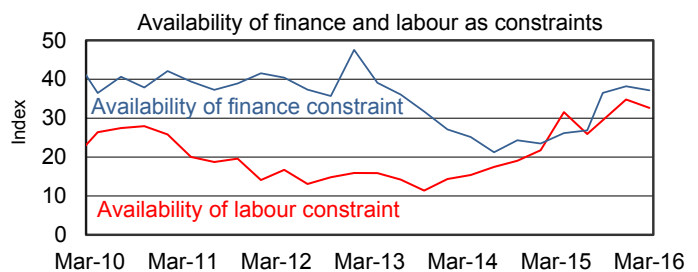
The index measuring expectations about future activity fell in the March quarter. At 51.7, the index is only just above the 50 mark, meaning builders expect non-residential activity to show little improvement over the next six months.

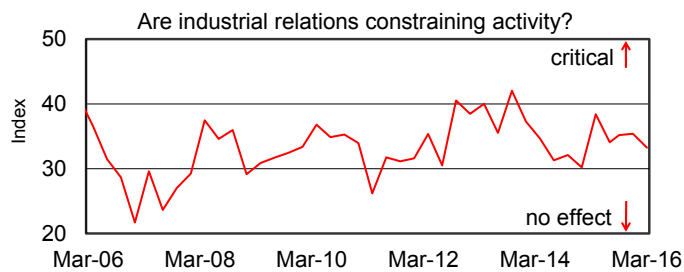
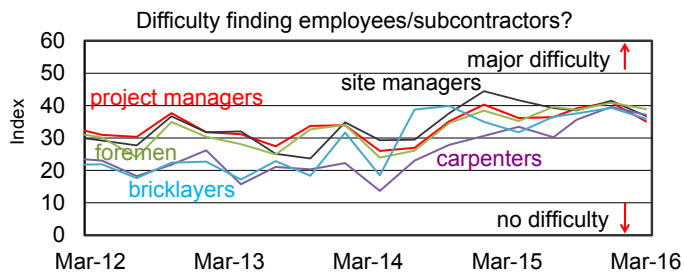


Finance/labour constraints...

After falling markedly over the past year or so (see chart), the index measuring finance constraints for builders stayed around this higher level in the March 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, although the index fell back in the March 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 March quarter fell significantly in 5 key categories: project manager, site manager, foreman/supervisor, carpenter, bricklayer. Almost all other categories were essentially unchanged in the March quarter from the preceding December quarter.

There may be a degree of statistical variation affecting the results, but it may also reflect the advanced state of a mature residential building cycle, past its peak in terms of demand for labour. An index to watch in the future.

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

	Mar 15	Dec 15	Mar 16
Foreman/Supervisor	35.2	40.9	38.9
Carpenters	33.5	39.6	37.1
Site Manager	41.7	41.5	36.7
Bricklayers	31.8	39.3	35.9
Office Staff	22.4	24.4	35.9
Project Manager	36.2	41	35.1
Concretors	31.1	31.2	31.1
Tilers - Wall and Floor	30.8	33.6	31.0
Plaster Fixers	27.1	25.9	25.6
Tilers - Roof	28.2	24.4	24.3
Steel Fixers	22.1	24.8	24.1
Painters	26.7	22.9	22.6
Labourers	19.5	24.0	22.4
Building Consultants	16.8	20.7	18.8
Electricians	24.7	17.8	18.2
Scaffolders	17.9	17.1	17.0

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.

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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 33.2 in the March quarter after recording 35.4 to the previous 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 March quarter 2016, 642 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:

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