

# NATIONAL SURVEY OF BUILDING & CONSTRUCTION



MASTER BUILDERS AUSTRALIA

## BUILDING CONDITIONS AND OUTLOOK DO THE SIDE-STEP

Industry sentiment is showing signs of improvement. Sales contracts have edged up, and employment conditions are firming.

On the other hand, profitability is showing signs of weakness and work-on-the-books is once again moving in the wrong direction. Typically, the latter are leading indicators for more challenging times ahead and suggest building activity may be heading toward a slower period.

While the index shows industrial relations constraints may have eased slightly, this view is coming from a period of elevated levels of industrial action seen since the abolition of the ABCC. Data from the ABS shows days lost to industrial disputes in the construction sector jumped by over 70% in the year-to June 2016 (accounting for more than half of all days lost to industrial disputes across all industries).

### Business confidence...finds some solid ground

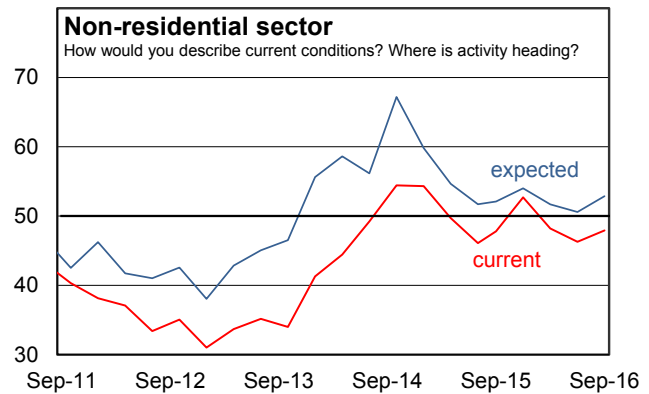
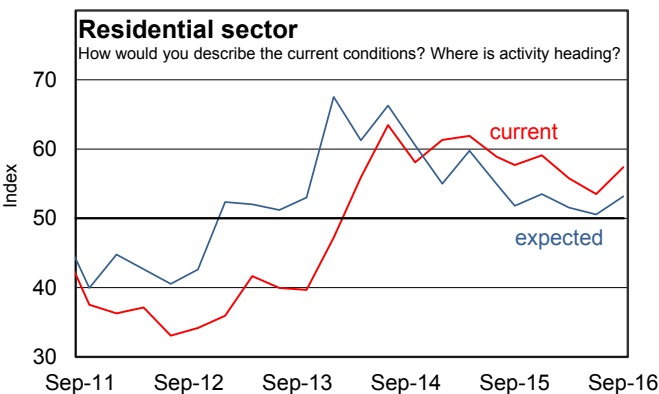
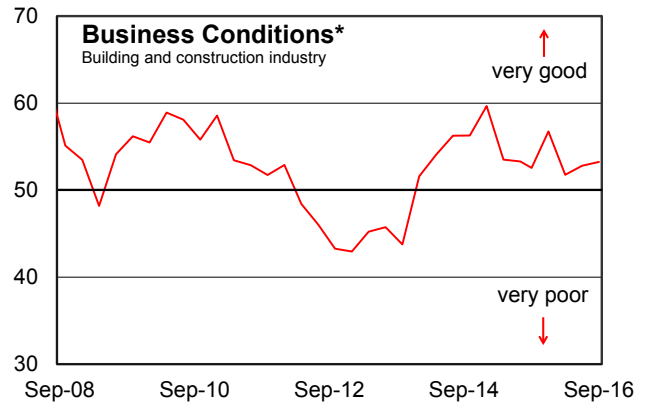
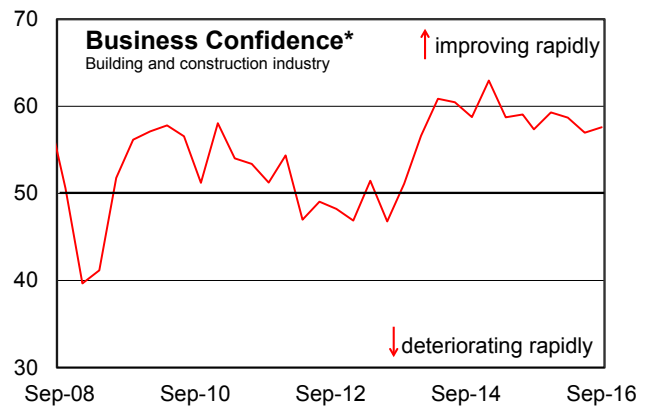
Business confidence firmed slightly during the September quarter 2016, with the index rising to 57.6, a small increase on the previous quarter (index 57.0).

Year-on-year the result is little changed from the 57.4 recorded during the September quarter 2015, despite reaching a peak over the last 12 months of 59.3 during the December quarter 2015.

### Business conditions...firming

Business conditions also firmed slightly during the September quarter to 53.2, with survey respondents reporting a small improvement in both metrics of current business activity and profitability.

Despite recent improvements profitability remains soft, recording an index score of below 50 for the 3rd consecutive quarter, and with little improvement in overall business conditions over the year. Despite a bounce in the index recorded during the December quarter 2015 (56.8 index points), business conditions remain little changed over the year, from the 52.6 index points recorded during the September quarter 2015.



\*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.

### Residential sector...strengthens

The residential sector index firmed to 57.4 during the September quarter 2016, up from 53.5 in the June quarter – an increase of almost 7.3 per cent.

The current quarter results add to a better year for the residential sector index recording an improvement in each quarter in 2016, although still slightly below the peak of the last 12 months of 59.1 in the December quarter 2015.

### Non-Residential sector...also firms

Despite a small improvement, the index for non-residential building conditions and activity remains depressed, rising to 47.9, from 46.3 recorded in the previous June quarter.

The survey result here are supported by recent data release by the Australia Bureau of Statistics (ABS) that shows the value of non-residential building work done fell by 2.2 per cent over the year-to March 2016.

### Expectations for building industry...moves into positive territory

Building industry expectations are back in positive territory moving up to 50.5 index points during the September quarter 2016. This is a marked improvement on the June quarter 2016 index of 47.3 – an improvement of 6.8 percent.

Time will tell whether the current quarter result marks a more permanent turning point for the industry, or whether the longer run trend in deterring expectations witnessed in recent years continues.

### Own business activity...continues to improve

Builders' assessments of the level of current activity in their own business remains firmly in positive territory, with the index rising further to 59.4 from 57.0 in the June quarter 2016 - a 4.2 per cent increase.

With own business prospects also showing improvement, own business activity is expected to remain in positive sentiment territory over the coming months.

### Own business prospects...taking a glass half full view

Builders' expectations for their own businesses over the coming six months edged up slightly in the September quarter 2016.

At 60.6, the index in the September quarter was some 2.5 per cent (or 1.5 index points) higher than the 59.1 index recorded in the preceding June quarter.

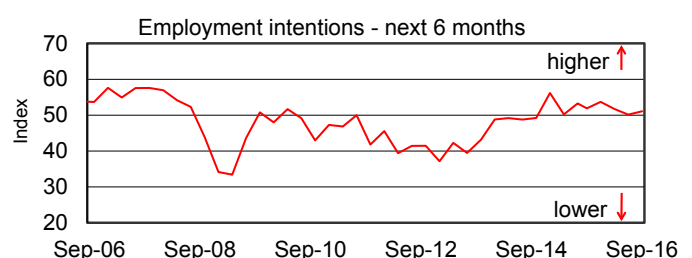
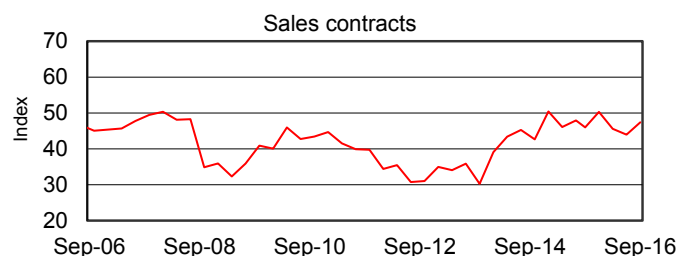
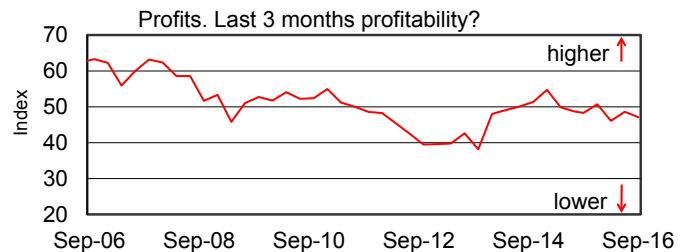
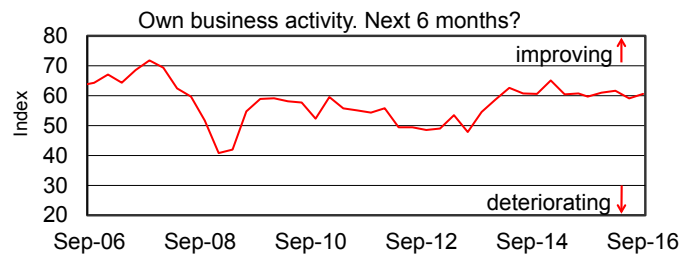
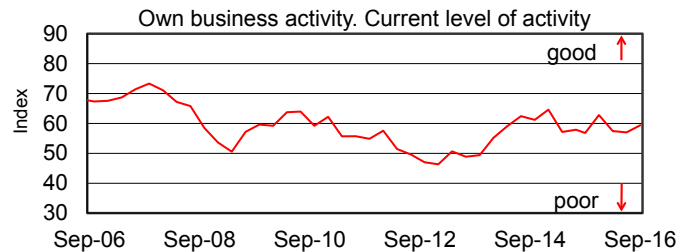
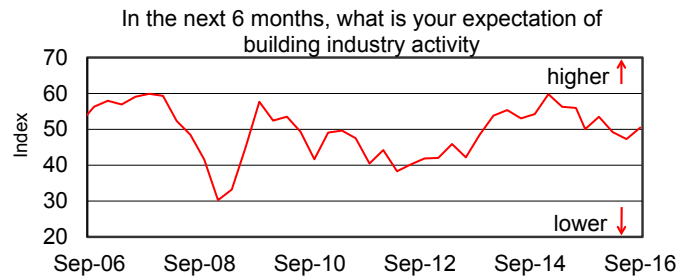
### Own profits...soft and edging softer

Current levels of profitability in builders' own businesses eased slightly over the quarter, recording an index value of 47.1 – down from 48.6 recorded in the previous June quarter, and adding to a run of three consecutive quarters of negative expectations for builders own profits.

By comparison, builders' expectations of profitability for their own business remained largely unchanged – recording an index score of 54.6 during the September quarter 2016, compared to 54.8 in the June quarter.

### Sales contracts...consolidate

The sales contracts index has turned, recording growth of 7.7% on the June quarter. The results here are support by an ongoing improvement in the housing finance statistics,



with the value of housing purchases growing by 1.6% over the June quarter 2016 – driven by a 5.7% jump in the value of new dwelling purchases.

Although improving, sentiment remains in negative territory, recording an index of 47.4, adding to a disappointing previous 12 months. The index results suggest future prospects may soften, unless sales contracts pick up in the short term.

### Jobs intentions...also consolidating

Builders' hiring intentions for both employees and sub-contractors over the coming six months firmed slightly.

The job intentions index rose from 50.1 in the June quarter to 51.1 in the September quarter 2016.

### Work on books...loses some momentum

The index eased back slightly during the September quarter 2016 to 54.0, suggesting work in the pipeline has softened slightly over the past few months.

On the other hand, the index remains firmly in positive territory and paints a positive picture for activity for the coming months.

### Input costs...no change

Builders' expect input costs for labour and materials to remain largely unchanged over the coming three to six months.

The input costs index remained steady at 60.6 in the September quarter 2016, largely unchanged from the June quarter index of 60.8.

### Future residential activity...turning up

A sense of optimism may be returning to the residential building sector, with a growing share of respondents seeing a positive outlook for the next six months.

The residential activity index rose by 5.3 per cent, from 50.6 in the June quarter 2016 to 53.2 in the current September quarter.

### Non-Residential outlook... growing confidence

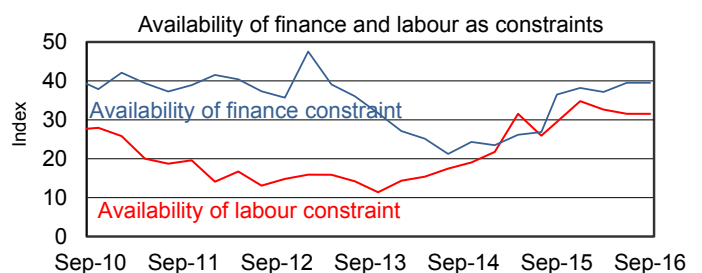
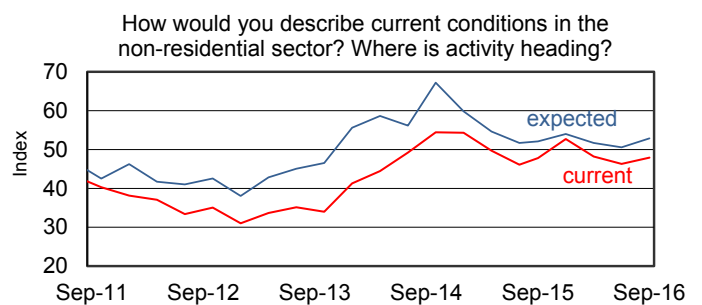
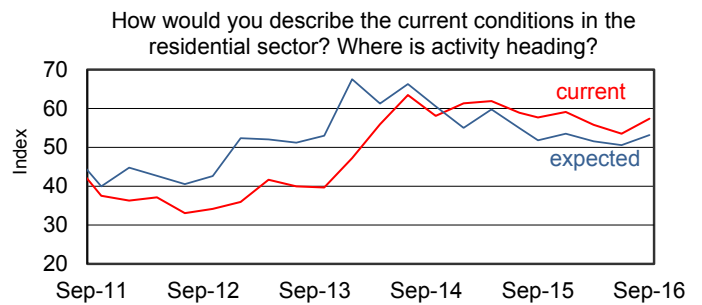
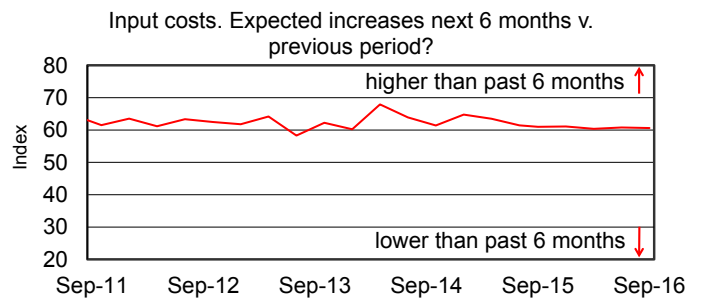
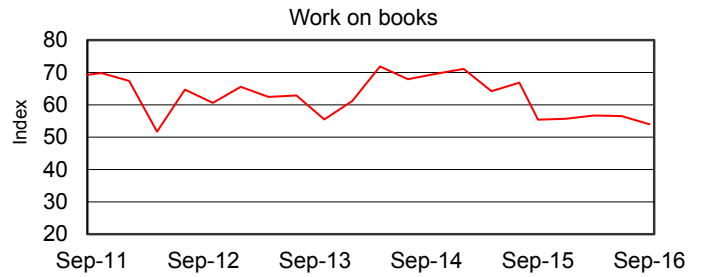
Despite a tough run over the past few months a sense of confidence is growing in the non-residential building sector – at least in NSW and Victoria.

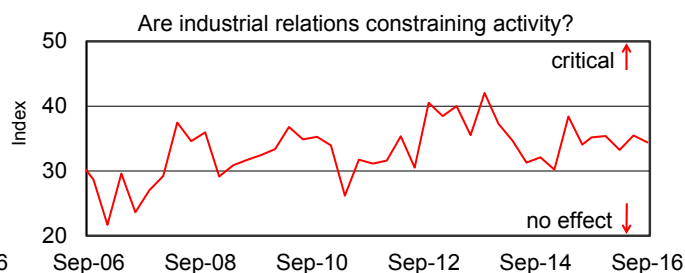
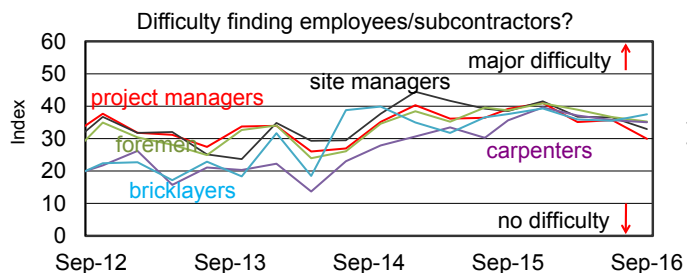
The non-residential outlook index strengthened from 50.6 to 52.9 over the September quarter 2016 – a rise of 4.5 per cent – and a good indication that better prospect lie ahead. But there remains a notable gap in the outlook between the States, with WA and Queensland still suffering from the wind down of resources related activity, while good population growth and better news for retailers is supporting a turnaround in NSW and Victoria.

### Availability of finance and of labour...no worse, no better

Builders appear to be facing the same constraints in terms of the availability of financial capital and labour.

The availability of labour index remained largely unchanged recording a value of 31.6 in the September quarter 2016 – from a value of 31.5 in the previous June quarter. Meanwhile, the availability of finance index eased slightly from 39.5 to 37.4 in the September quarter 2016.





### 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 number indicates builders are experiencing slight or no difficulty in finding sub-contractors/employees.

The indexes measuring the degree of difficulty in finding sub-contractors/employees, at the national level, remained either largely unchanged or eased slightly in the September quarter 2016 across most of the skills categories.

The survey results suggest labour availability is less of a constraining factor for builders at present. However, skill shortages persist in some jurisdictions. For example, the change in the availability of bricklayers observed during the current September quarter was largely a result of acute shortages experienced by contractors in Sydney. As a result, the availability of bricklayers tightened slightly to an index of 37.5.

All other observed occupations in the survey remain below an index value of 50 – indicating a relatively low difficulty in finding the right skilled workers. Notably, the availability of project managers improved to record an index of 35.2, well below the index of 38.7 recorded a year earlier.

### National availability of labour

	Sep 15	Jun 16	Sep 16
Bricklayers	37.6	35.5	37.5
Foreman/Supervisor	38.7	36.6	35.2
Carpenters	35.6	35.7	35.1
Site Manager	38.5	36.6	32.9
Tilers - Wall and Floor	29.3	28.9	32.4
Project Manager	39.2	35.7	29.9
Concretors	28.3	28.4	27.6
Plaster Fixers	27.1	25.3	26.3
Tilers - Roof	26.5	22.5	25.3
Steel Fixers	25.4	20.8	23.8
Painters	21.3	22.9	21.8
Labourers	23.4	22.0	21.0
Office Staff	24.2	22.8	20.6
Scaffolders	18.9	17.3	17.6
Electricians	18.9	17.0	17.0
Building Consultants	20.6	19.0	16.5

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... bring back the watchdog

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

The industrial relations constraint eased back slightly in the September quarter 2016, to an index of 34.4, down from an index of 35.5 recorded in the previous June quarter.

However, while the industry wide view is that industrial relations activity is becoming less constraining, this view is coming from a period of elevated levels of industrial action seen since the abolition of the ABCC.

Recent data from the ABS shows days lost to industrial disputes in the construction sector jumped by over 70% in the year-to June 2016, and accounted for just over 50.4% of total days lost to industrial disputes across all industries.

### About the survey

The survey of building and construction is a national survey of Master Builders' members published on a quarterly basis. In the September quarter 2016, 562 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:

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

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