



**MASTER BUILDERS
AUSTRALIA**

National Survey of Building and Construction

JUNE QUARTER 2018

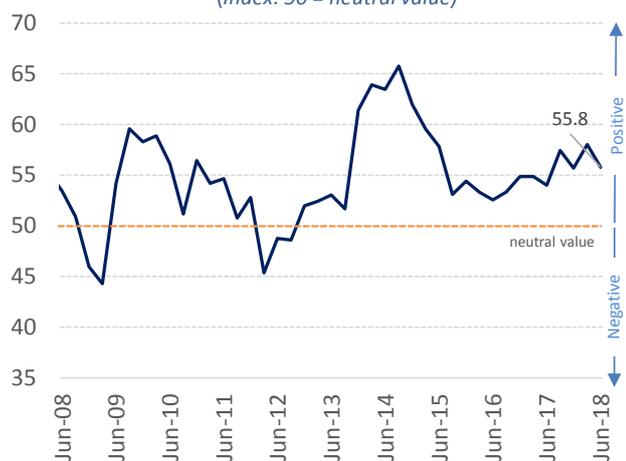
Business confidence...remains high despite the transition underway

The index for business confidence recorded a score of 55.8, and is a good sign that despite the transition underway in the residential construction sector businesses are still reasonably comfortable with the current state of the industry.

The sub-index for work-on-the-books dipped slightly and accounts for the small fall in the combined index for confidence which was recorded at 58.0 in the March quarter 2018. The latter does support an outlook for a strong pipeline for residential work over the medium to longer term, despite coming off a peak.

Business confidence is particularly high in Victoria and Tasmania where the residential construction boom is expected to last longer. Business confidence is also high in NSW and improved over the June quarter 2018 survey.

Chart 1: Business Confidence
(Index: 50 = neutral value)



*Business confidence is a simple average of where builders believe their own business activity and profits are heading in the next six months.

Business conditions...positive in all sectors

The index for business conditions in the building and construction industry improved for the third quarter in a row in June 2018, recording a score of 59.5 – the highest index score for business conditions since the index began in September 2009.

The combined index includes metrics for current conditions for residential and non-residential business, and measures performance against a range of business indicators, including profits, turnover levels and work-in-progress.

Importantly, survey respondents across both the residential and non-residential sectors expressed a positive view on current conditions in the building and construction industry. We are in a unique position where the business environment for residential and non-residential builders are both very supportive. We are also seeing early signs that better activity in places like WA and SA are beginning to add to rather than take away from the index.

Chart 2: Business Conditions
(Index: 50 = neutral value)



*Business conditions index is a simple average of builders' own business conditions and profits reported by respondents.



Residential sector...booming on the back of strong approvals

The index for current activity in the residential sector dipped slightly, but at an index score of 59.8 still shows businesses are very positive about the current level of work. New dwelling commencements topped 200,000 in 2017-18, and renovations work topped \$8 billion. With the level of work to do so high it should come as no surprise that most residential businesses consider current business conditions are supportive.

With new dwelling commencements expected to top 200,000 for another two years, expectations for future activity also remain positive, recording an index score of 58.1 in June 2018. Over the year total dwelling approvals are still up, but have moderated over the first half of 2018, particularly for detached housing.

Booms never last forever and a moderation in new construction activity in some segments of the residential construction market is not necessarily a bad thing. However, rental vacancy rates are still very low in most capital cities and high population growth will mean new dwelling construction must keep pace to prevent supply constraints adding to house prices.

Chart 3: Current and Future Conditions, Residential
(Index: 50 = neutral value)



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 2018, 458 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.

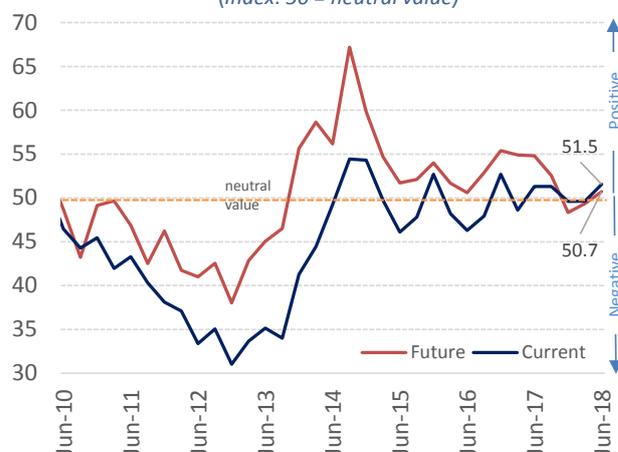
In calculating the index the responses are weighted according to firm size. An index reading of 50 indicates a neutral or satisfactory outcome, readings above 50 usually suggest a more positive result and those below 50 a more negative outcome.

Non-Residential sector...edges above neutral with higher expectations to come

The index for current conditions in the non-residential sector remains relatively neutral, recording a score of 51.5 in the June quarter 2018. Given the high level of work underway on major commercial construction projects, current prospects in the non-residential sector are likely better than the index is suggesting. This may just be down to a bit of a lag between the current level of activity and cautious business attitudes, given the long period of underperformance in the sector.

The index for future prospects in the non-residential building sector also edged above 50 in the June quarter 2018, recording a score of 50.7. The total value of non-residential approvals surged by 40 per cent in May 2018. Over the year to May the value of non-residential building approvals is up by around 6 per cent and the total value of projects approved topped \$46.5 billion. The latter should support more positive growth in the index for future non-residential building activity over the next few months.

Chart 4: Current and Future Conditions, Non-Residential
(Index: 50 = neutral value)



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