NATIONAL SURVEY OF BUILDING & CONSTRUCTION

MASTER BUILDERS AUSTRALIA

BUSINESS CONFIDENCE: RIDING HIGH ON THE HOUSING BOOM

The boom run in the residential sector is about to reach its crescendo, driving business confidence to pre-GFC levels and supporting the best conditions for building businesses in years.

The reintroduction of the ABCC has also given commercial builders a new injection of confidence as the watchdog regains power to restore balance to building sites across the country.

But with the leading indicators showing signs of weakness, this period of elevated confidence is not expected to last. Indeed, the index for future activity dipped during the June quarter 2017, supporting an expectation for a weaker period of residential building activity looking past the next 6 months.

Business confidence…above 60 first time in two years

Business confidence continued to improve in the June quarter, reaching an index score of 60 or above for the first time since June 2015.

This peak in confidence is a product of a very healthy construction sector, particularly in the south eastern states where a housing boom and produce a record level of new housing construction over the past two years.

But this may turn out to be the peak in confidence as falling building approvals and a moderation in Sydney and Melbourne house prices in recent months suggests we are about to enter a softer period.

Business conditions…riding the housing boom for a few more months

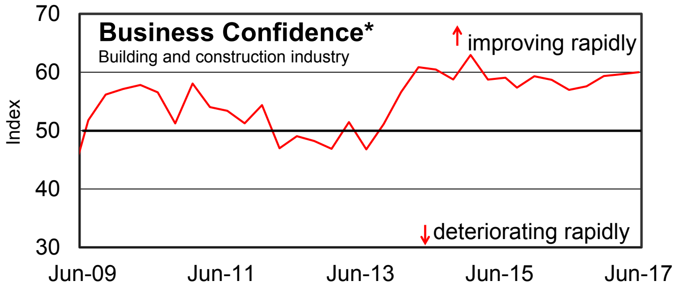
Better profits and a healthy pipeline of work are supporting broad positive sentiment around business conditions. The index recorded a score of 58.3 for the June 2017 quarter, the highest index score for business conditions in over two years.

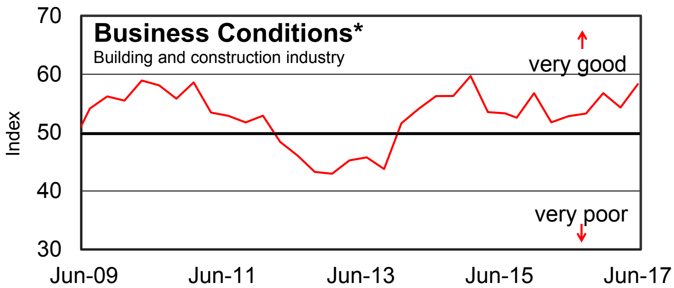
However, while current conditions are positive a number of survey respondents noted an expectation for business conditions to moderate, particularly in the housing sector where activity may have peaked.

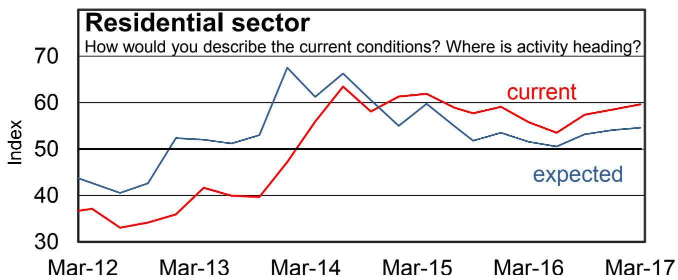
Residential sector… at the peak

Financial year 2017 is expected to add a third straight year where new housing commencements surpassed 200,000. As a result the index for residential builder's current conditions was recorded at 61.8 in the quarter, the best result in over two years.

But the divide between current and future expected activity is growing, with an index of 52.0 recorded for future expectation for activity in the residential sector.







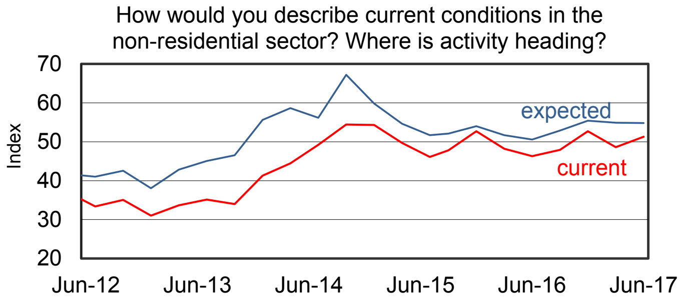
*Business conditions index is a simple average of builders' own business conditions and profits reported by respondents.

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

Non-Residential sector…prospects improving

The index for current conditions in the non-residential sector took a turn for the positive, recording an index score of 51.3 in June 2017.

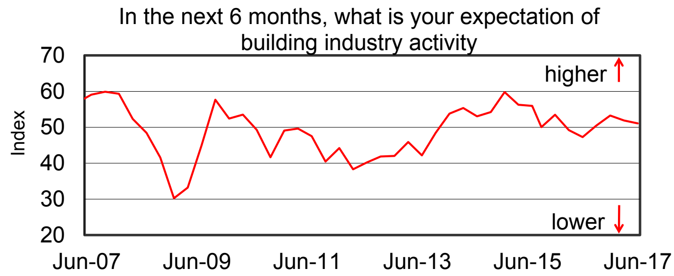
But the index continues to be choppy as a number of factors, particularly on the demand side, remain uncertain. Future expectations remain above the index for current activity and suggests there is some positive work in the pipeline for non-residential building businesses.



Expectations for building industry…beginning to show weakness

Expectations for broader building activity are starting to moderate as we start to look past the current housing construction boom. As a result, the index for broad industry expectations fell to 51.1 in June 2017.

We are beginning to see a growing divide between the outlook for non-residential and residential building businesses, while by location, the outlook in NSW and Victoria is still more positive than the rest of the country.

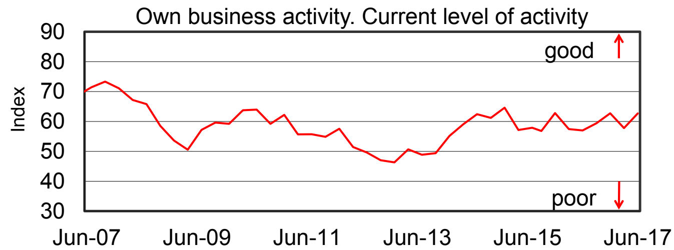


Own business activity…riding the housing boom

The index for own business activity largely follows sentiment in the industry, with the index moving further into positive territory, recording an index score of 62.7.

The peak in housing construction has been extraordinary – a product of a perfect storm of very low interest rates, very high net migration and a period of underbuilding which lasted from 2004 to 2014 and meant new housing construction feel short by around 165,000 houses over the period.

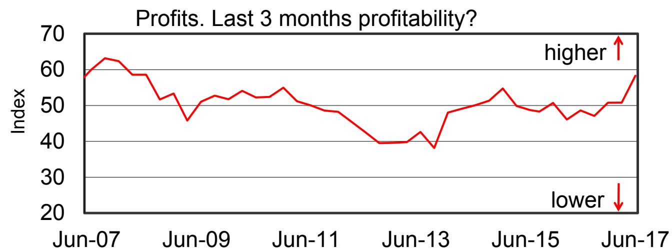
But we are likely to see a moderation in the index for own business activity in the remaining quarters in 2017 as housing construction moves past the peak.



Own profits…with big booms come big profits

The business profits index jumped in June from a relatively neutral score recorded in March of 50.8, to and index score of 58.3 – the highest index score since July 2008. Higher profits are consistent with the broader economy where profits are well up on the past few years.

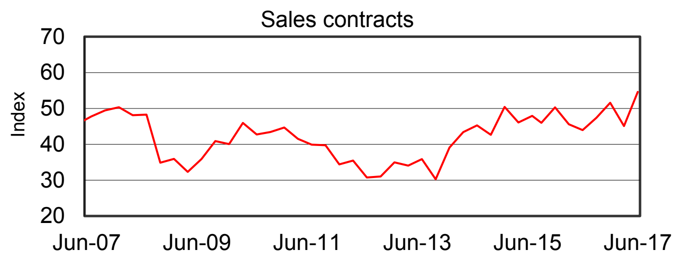
But a fall in building approvals which has been trending for about a year, combined with a moderation in Sydney and Melbourne in the past few months suggests activity in the housing sector is headed for a softer period. Given house builders have been the major driver of the recent upturn in profits, we expect the profits index to fall, in line with house building activity.



Sales contracts…bounce on the peak of the housing boom

The sales contracts index continues to exhibit the type of volatile behaviour you would expect in an industry in transition. Despite a large fall recorded in March 2017, the latest sale contract index jumped to 54.6, moving firmly into positive territory.

However, with building approvals providing a good leading indicator for sales activity, we could see sales contracts take a turn from about this point onwards.

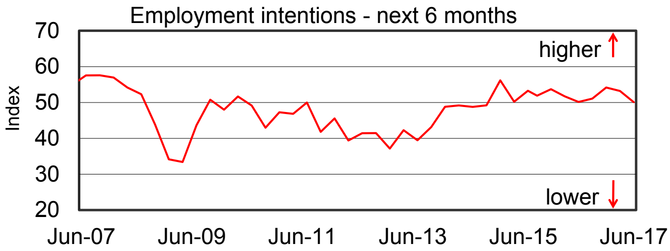


Jobs intentions...easing

Job intentions tend to follow the level of activity, so it should not come as a surprise that the index for job intentions fell in the June quarter, to record an index score of 50.1, down from 53.2 in March 2017.

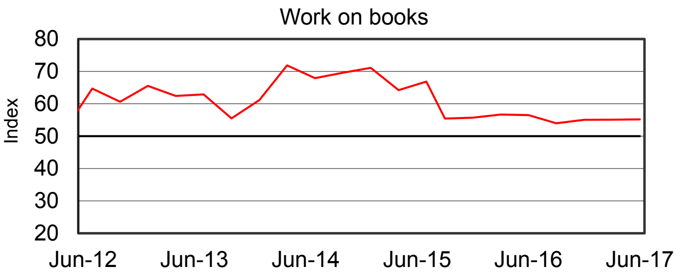
With a score pretty much bang on 50, the index suggests there are now about an equal portion of business owners intending to hire new staff as there are business looking to reduce or maintain their current workforce.

But the likelihood is for a further deterioration in the index over the remaining months in 2017 as building activity falls.



Work on books...flat at the peak

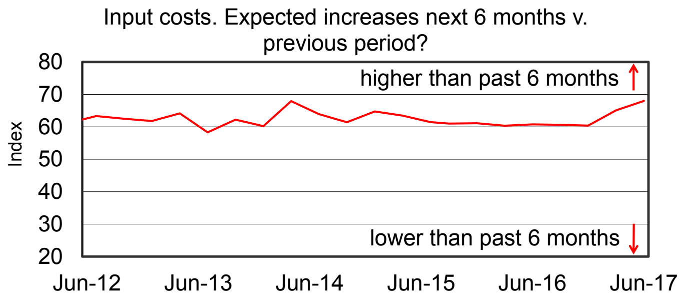
The work on the books index is a good indicator of future prospects, and with the index now flat for the best part of two years, it supports an expectation for a fall in construction activity on the horizon. The index came in at a score of 51.2 but is driven largely by residential building businesses and hence reflects the emerging weakness in the residential pipeline.



Input costs...up for the second quarter in a row

There is feedback from industry that the boom in residential construction in NSW and Victoria is beginning to stretch the supply of intermediate goods, with the index for building input costs moving up for the second quarter in a row, recording an index of 68.0.

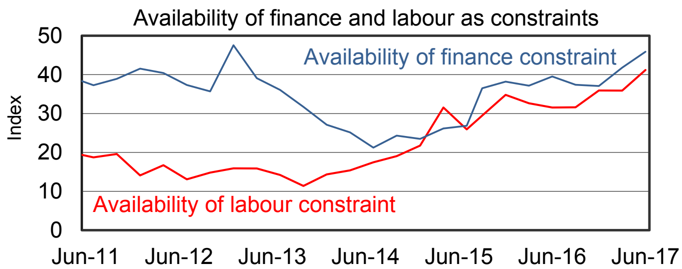
We expect inputs costs to moderate in line with the passing of the peak in the Sydney and Melbourne housing markets.

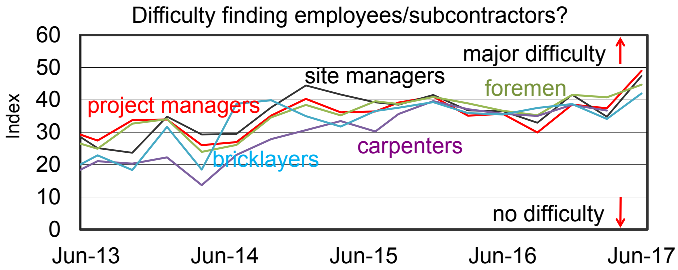


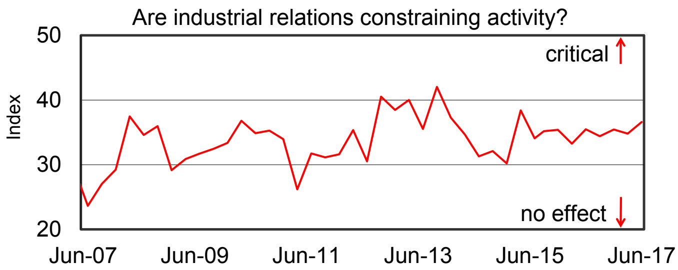
Availability of finance and of labour...lenders put their bear suits on

Constraints on labour and capital both tightened for the second quarter in a row. Labour constraints are typically the tightest at the peak of the construction cycle, with the index for labour constraints largely representing the current experience of residential builders, particularly high density builders in Sydney and Melbourne.

Capital constraints have also edged up for the past six months, with lenders more cautious as whispers that the housing markets is about to enter a softer period turn into a loud murmur. Lending constraints on investors have also begun to bite, while lending for high density development is becoming increasingly tight.







Availability of labour… tighter at the peak

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.

Overall, there was a tightening in labour constraints across all major construction occupations. However, as the chart shows, all occupations remain below an index of 50, suggesting there are still more businesses not experiencing labour constraints than those that are experiencing labour constraints.

National availability of labour

	Jun 16	Mar 17	Jun 17
Project Manager	35.7	37.4	49.0
Site Manager	36.6	34.8	47.4
Foreman/Supervisor	36.6	40.8	44.7
Carpenters	35.7	36.7	43.0
Bricklayers	35.5	34.1	42.0
Concretors	28.4	29.7	37.0
Tilers - Wall and Floor	28.9	30.6	36.0
Painters	22.9	22.5	34.1
Office Staff	22.8	19.2	30.7
Steel Fixers	20.8	23.0	29.4
Labourers	22.0	21.9	28.4
Plaster Fixers	25.3	25.2	28.2
Tilers - Roof	22.5	21.3	27.8
Building Consultants	19.0	19.2	26.2
Electricians	17.0	17.9	23.7
Scaffolders	17.3	18.8	22.8

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.

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.

Master Builders Australia
Level 3, 44 Sydney Avenue FORREST ACT 2603
PO Box 7170 YARRALUMLA ACT 2600
Tel: 61 2 6202 8888 enquiries@masterbuilders.com.au
www.masterbuilders.com.au

Industrial relations constraint… ABCC regains power

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

The industrial relations constraint increased slightly to 36.6 index points in the June quarter 2017, compared to 34.8 index points in the March quarter 2017.

There is positive sentiment from industry, particularly from non-residential building businesses that balance has been brought back to building sites and the unlawful activity of the building and construction union will stop. Removing constraints from unlawful industrial action is expected to boost activity and ensure the community does not pay up to 30 per cent more for critical infrastructure like schools, roads and hospitals.

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 2017, 473 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:

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