

NATIONAL SURVEY OF BUILDING & CONSTRUCTION



MASTER BUILDERS
AUSTRALIA

BUSINESS CONFIDENCE HIGHEST IN TWO YEARS

The residential building sector's record run has some way to go with the March quarter index supporting an expectation of a high level of activity to extend until the end of the year. This is backed by a strong pipeline of work which has driven an uptick in the index for expected future work.

Prospects for non-residential builders show some tentative signs of improvement in the remainder of 2017 with expectations that we have reached the bottom of the cycle. However, there is a growing discrepancy across states and territories as resource regions continue to languish and NSW and Victoria continue to lead the residential building boom.

Survey respondents noted a growing sense of optimism as the reintroduction ABCC restores the balance on Australia building sites.

Business confidence...highest in over two years

A solid start to the year for residential builders has supported a further improvement in business confidence, which edged up to 59.7 points, the highest level for the index in over two years.

Prospects for the non-residential building sector also showed signs of improvement as expectations that we have reached the bottom of the cycle support confidence for a greater level of non-residential building activity for the year ahead.

Business conditions...firmly in positive territory

Business conditions moderated slightly but remains firmly in positive territory, recording an index of 54.3 points. Profit expectations were largely unchanged at 50.8 index points, while own business expectations (the outlook of business owners for their businesses) edged down to 57.8, off a 12 month high of 62.7 recorded in December 2016.

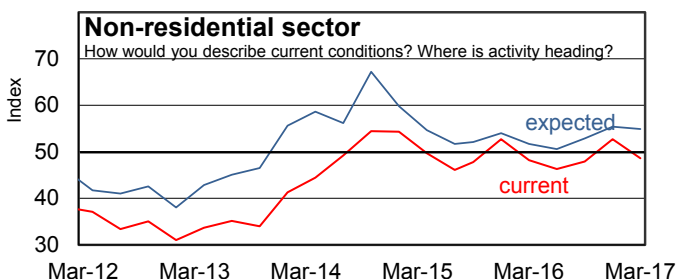
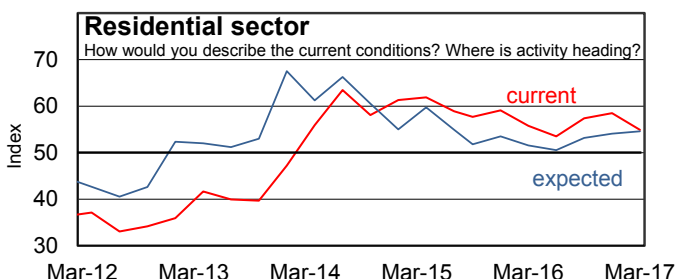
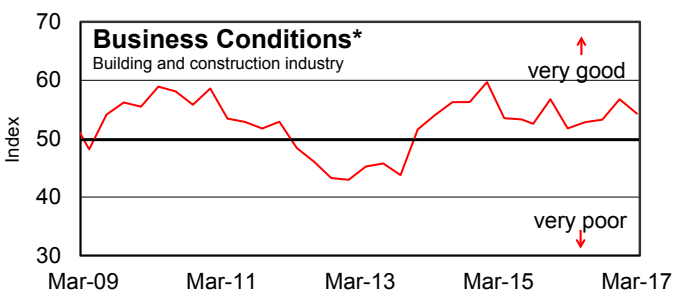
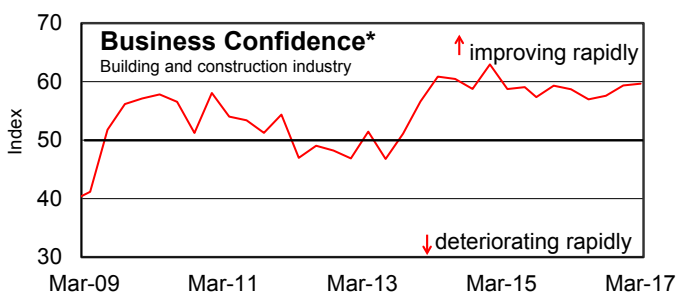
Residential sector... a positive start to 2017

The residential building sector's record run still has some way to go, with the March quarter 2017 index supporting an expectation for a high level of activity to extend until at least the end of the year. The index for current activity consolidated slightly to 54.9 index points, from an index of 58.9 recorded in December 2016.

But a strong pipeline of work has supported an uptick in the index for expected future work, recording an index of 54.6, up slightly from the 51.4 index point recorded in December 2016.

Non-Residential sector...outlook firms

The index for non-residential activity took another dip below 50, which continues a trend of volatility in the index over the last two years. Nationally, the value of the non-residential project pipeline has remained relatively unchanged for almost a decade. But better approvals data support a more positive outlook, with the index for expected future activity recording an index of 54.9.



*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...mixed across the states

Together, expectation for residential and non-residential building support an outlook of positive growth in 2017. Prospects have improved on both metrics since June 2016.

Expectations were mixed across the states, with building businesses in NSW and Victoria generally more positive than the rest of the country. Combined, the expectations index dipped slightly to 51.9 index points, down from 53.3 recorded in the December quarter 2016, but still firmly in positive territory.

Own business activity...plenty in the pipeline

The boom in residential housing construction, particularly in Sydney and Melbourne is supporting a positive outlook for own business activity that has extended since Q3 2013. Despite a moderate fall in the quarter, the index for own business activity of 57.8 suggests there is still plenty of work on the books.

Meanwhile, own business activity in Queensland and Western Australia remain depressed as a result of a reversal in inter-state migration which is reducing demand on the housing stock and commercial infrastructure. Both resource states recorded an index of own business activity of below 50.0, 44.6 in Western Australia and 47.8 in Queensland.

Own business prospects...highest in two years

The good run is expected to last a while longer and will continue to support a healthy pipeline of work, particularly in the residential sector. The index for own business activity for the next six months edged up again during the March quarter 2017, to record an index of 62.3, the highest index score since March 2015.

Prospects from non-residential builders were more positive, supported by an uptick in the approvals data recorded in the first few months of 2017. By state, prospects are the most positive in NSW recording an index of 67.3, and lowest in the NT at 48.7 points.

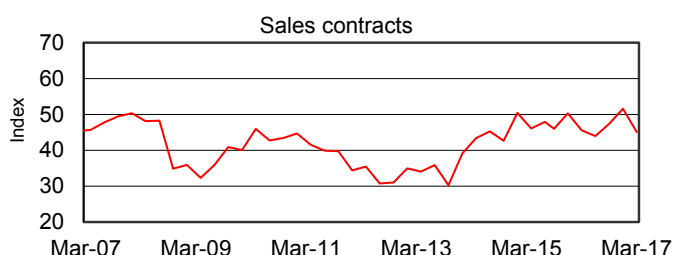
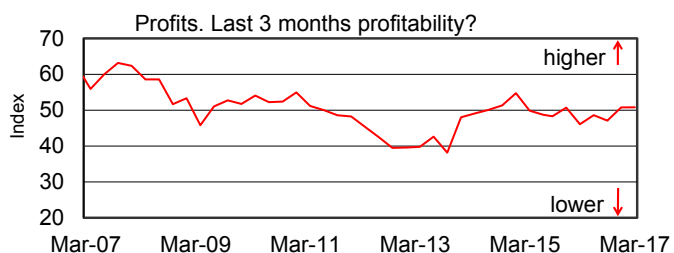
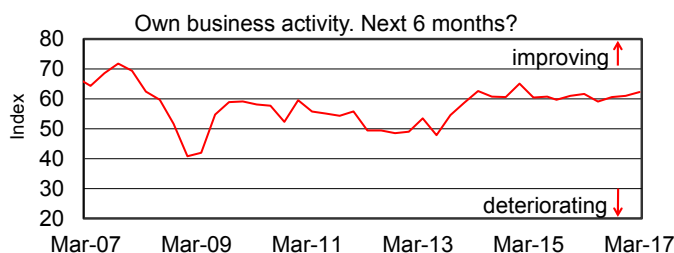
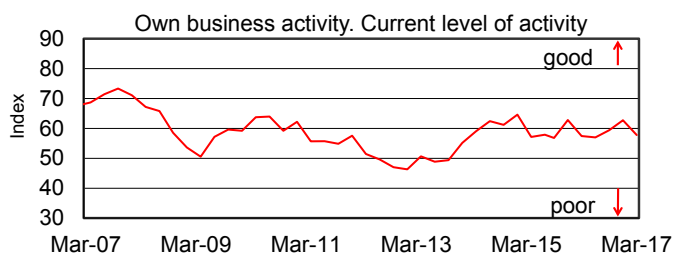
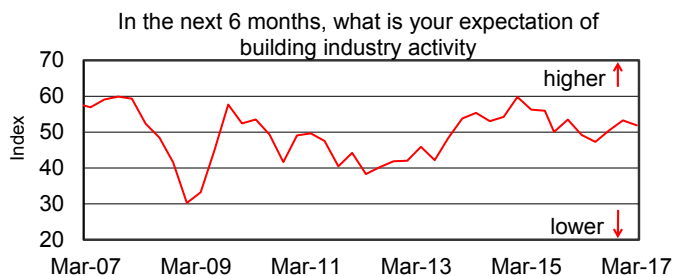
Own profits...depend on where you are building

Business profits were flat in the first three months of 2017, recording a moderately positive index score of 50.8. Profits are often a leading indicator of construction cycles and the first indicator to turn south as new supply brings the market back into balance.

The neutral score hides some considerable volatility across the states with NSW at the top (57.9 index points) and WA at the bottom (40.0 index points). It is important to note that despite a record level of residential building activity in NSW and Victoria over the past 12 months, and very strong house price growth, builders profits have remained largely unchanged.

Sales contracts...take a dive

Sales contracts took the biggest dip in the quarter from 51.6 index points recorded in December 2016, falling by over 10 per cent, to 45.1 index points in March 2017. Over the last four years, sales contracts have only managed to record a positive result in three out of the last 12 quarters. However, the dip is likely to be temporary with plenty in the pipeline to suggest sales contracts will remain relatively healthy in a number of jurisdictions in the next six months.



Jobs intentions...still positive for employment

Employment intentions did not move much over the first three months of 2017, recording an index of 53.2. But the latter suggests more building businesses intend to hire more staff in the next six months than those looking to reduce their workforce or maintain their existing workforce.

Across the states, labour demand has shifted to NSW and Victoria. But perhaps more compelling is a positive result from South Australia, which recorded an index of 58.1 indicating that the majority of building and construction businesses intend to hire more staff in the next six months.

Work on books...does the side step

Work on the book is unchanged over the March quarter 2017, recording an index of 55.1, supported by an improvement in non-residential approvals data and a pipeline of large residential developments boosting the books.

The three sectors of building and construction – residential, commercial and engineering construction – are at different stages in their construction cycles. As trends develop over the next six months we should get a better idea of the future pipeline and its composition.

Input costs...jump to second highest index on record

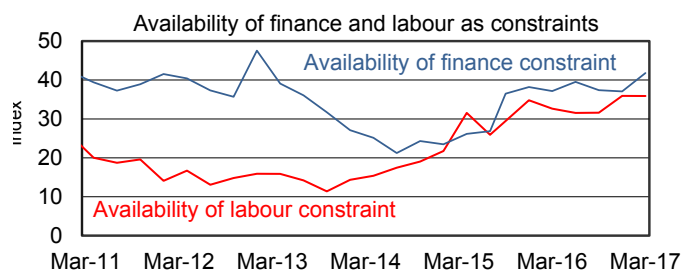
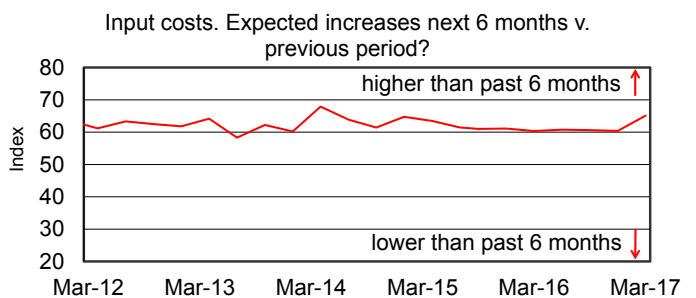
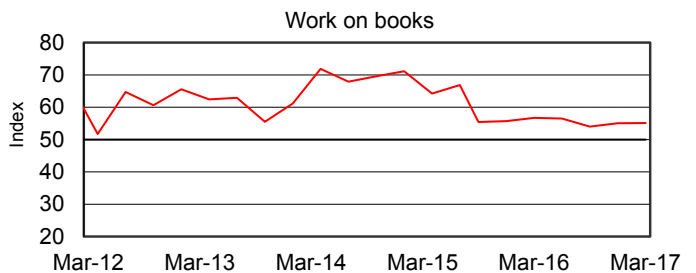
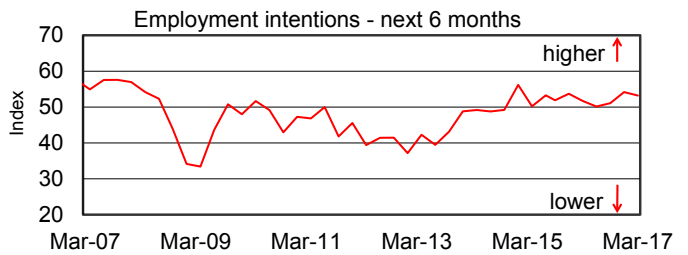
Industry expectations are for input costs to jump as resource constraints begin to bite. Both finance and labour constraints edged up in the quarter and tighter restrictions on cheap foreign products are starting to flow into prices. There is also early evidence that skills shortages in some occupations and in some jurisdictions are beginning to push up wages. As a result, the index for expected input costs jumped to 65.1 index points, up by 7.8 per cent in the first quarter of 2017.

But this is likely to be temporary as the market readjusts.

Availability of finance and of labour...tighten further

There was no change in the labour constraints index, recording a score of 35.9. But the latter remains at its highest level since the survey began in 2006, with labour constraints contributing to higher input costs and possibly lower profits. The latter highlights the need for skilled labour supply to be kept up.

The availability of finance index edged up to 41.8 in March 2017, the highest index score recorded in over four years. Tighter financial constraints raise the cost of capital and may start to impact activity if conditions continue to deteriorate.



2017

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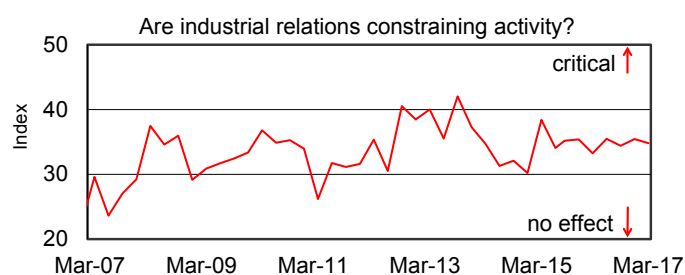
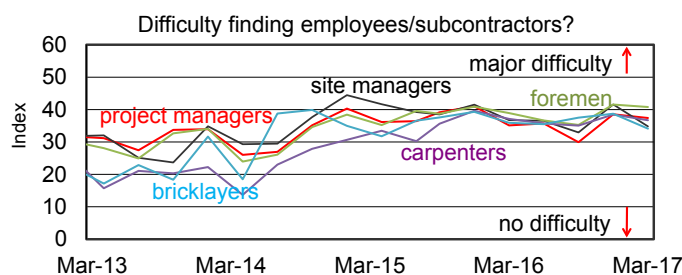
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Availability of labour... tightens to record levels

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, most occupations surveyed recorded a moderate fall in the index, suggesting labour availability across these occupations eased slightly in the first three months of 2017.

Foremen and supervisors recorded the highest index of 40.8, suggesting there is still some excess demand in the market for these occupations, closely followed by project managers at 37.4 index points.

Site managers recorded the biggest fall, with the index easing by 16 per cent to an index score of 34.8. On the other hand, steel fixers was the only occupation to record a tightening of labour constraints.

Building consultants, scaffolders and electricians round out the bottom three, with all recording an index score of under 20, with an abundance of labour in these occupations.

National availability of labour

	Mar 16	Dec 16	Mar 17
Foreman/Supervisor	38.9	41.6	40.8
Project Manager	35.1	38.6	37.4
Carpenters	37.1	38.5	36.7
Site Manager	36.7	41.6	34.8
Bricklayers	35.9	38.7	34.1
Tilers - Wall and Floor	31.0	32.5	30.6
Concretors	31.1	29.7	29.7
Plaster Fixers	25.6	25.4	25.2
Steel Fixers	24.1	22.7	23.0
Painters	22.6	22.5	22.5
Labourers	22.4	22.5	21.9
Tilers - Roof	24.3	23.2	21.3
Office Staff	35.9	23.6	19.2
Building Consultants	18.8	21.2	19.2
Scaffolders	17.0	20.0	18.8
Electricians	18.2	16.8	17.9

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.

Industrial relations constraint... eased with the reintroduction of the ABCC

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

The industrial relations constraint fell slightly to 34.8 index points in the March quarter 2017, compared to 35.4 index points in the December quarter 2016.

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 reduce building costs over the medium term.

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 2017, 282 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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