

NATIONAL SURVEY OF BUILDING & CONSTRUCTION



MASTER BUILDERS
AUSTRALIA

WEAKER CONDITIONS UNDERLINE NEED FOR PROMPT GOVERNMENT ACTION

- Conditions in the residential building sector have weakened further.
- Outlook for commercial and civil construction activity remains slightly positive.
- Planning approvals and financing conditions are the greatest challenges.
- Hiring intentions have moved backwards.



Conditions across Australia's construction industry have got tougher in the first half of 2019 according to the latest results of the Master Builders Australia National Survey of Building & Construction (MBA Survey). Those active in the industry also anticipate that conditions are likely to remain challenging over the coming six months.

The MBA Survey captures the views of builders, trade contractors, consultants and suppliers of the construction industry right across Australia. In addition to the regular set of questions, participants were also asked about the impact on their businesses of tighter mortgage lending by the banks following the Hyane Royal Commission.

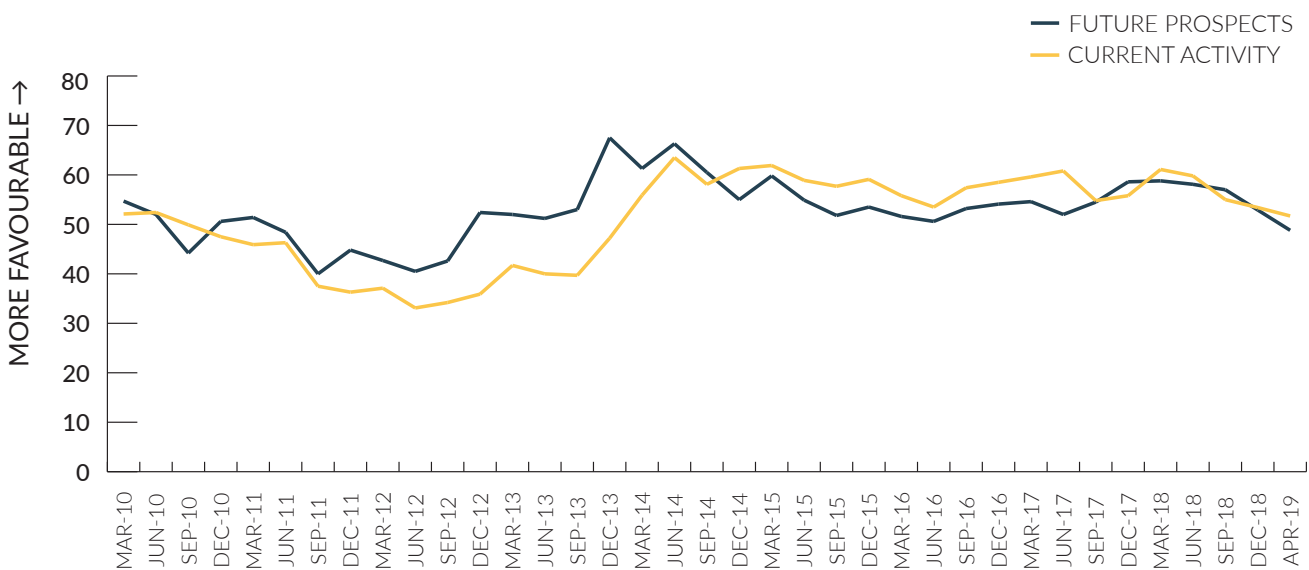
RESIDENTIAL BUILDING: MARKET CONDITIONS WEAKEN FURTHER

During April 2019, the MBA Index of Residential Building Activity declined to 51.7 from September's 55.0 result. The fact that the result was above 50 still means that current conditions are on the favourable side of the ledger – but only just. It is of some concern that the result for April 2019 is the lowest reading for the index since December 2013 - not particularly surprising given the backdrop of difficult credit conditions and further reductions in house prices in many places.

Looking forward, the MBA Expectations Index for Residential Building sank into slightly pessimistic territory during April with the result declining to

48.8 from 57.0 in September. A result of below 50.0 signifies that optimistic responses were outnumbered by pessimistic ones – the first time we have seen this since 2012. It is worth noting that the survey was taken during the May Federal Election Campaign. The conclusion of the voting and the decisive outcome is likely to instil a little more optimism amongst residential builders. The impending relaxation of APRA's mortgage lending rules and the introduction of the new national First Home Buyer Deposit Scheme announced by the Prime Minister are also likely to be received favourably.

MBA INDEX OF RESIDENTIAL BUILDING, 2010 TO 2019



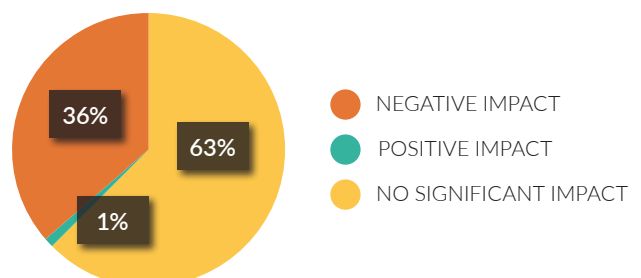
IMPACT OF BANKING ROYAL COMMISSION

The publication of the banking Royal Commission's Final Report in February was one of the high profile events in the first half of 2019. The Royal Commission was established at the end of 2017 – since then, credit conditions are perceived to have tightened significantly with much tougher eligibility criteria around housing and business loans. According to the qualitative responses to the MBA Survey, tighter credit conditions have curbed the borrowing capacity of their customers and had a disruptive impact on cash flow.

The chart below shows the perceptions of survey respondents about how conditions have been since the Royal Commission was wound up and its Final Report issued. Just 1% of respondents have identified an improvement in conditions since the Royal Commission, with 36% seeing conditions as having deteriorated. Some 63% have not discerned further

deterioration in business conditions since the Royal Commission ended with credit conditions remaining sluggish for them.

HOW HAS THE CONCLUSION OF THE ROYAL COMMISSION AFFECTED YOUR BUSINESS?





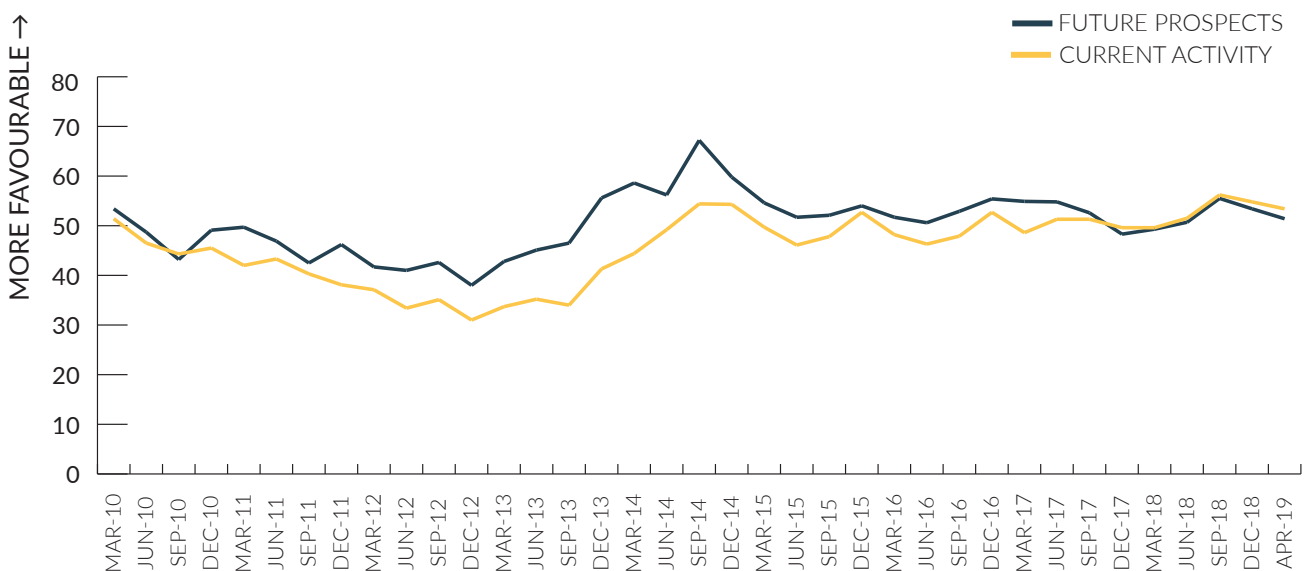
NON-RESIDENTIAL: STILL ABOVE THE WATERLINE

In contrast to residential building, the non-residential side of the construction sector remains guardedly positive both in terms of perceptions around current market conditions and the likely direction of activity over the next 6 months or so. During April, the MBA Index of Non-Residential Building clocked in at 53.4 – above the crucial 50-point threshold but lower than last September’s result of 56.2.

The forward-looking MBA Expectations Index for Non-Residential Construction suggests that

conditions will still be marginally favourable for firms reliant on commercial building and civil construction over the next 6 months. The index score fell to 51.4 from 55.5 in September of last year, just about remaining in optimistic territory. The perceptions of MBA members echo official data showing steady expansion in commercial building activity, the fruit of robust population growth and continued solid gains in full-time employment.

MBA INDEX OF NON-RESIDENTIAL CONSTRUCTION, 2010 TO 2019



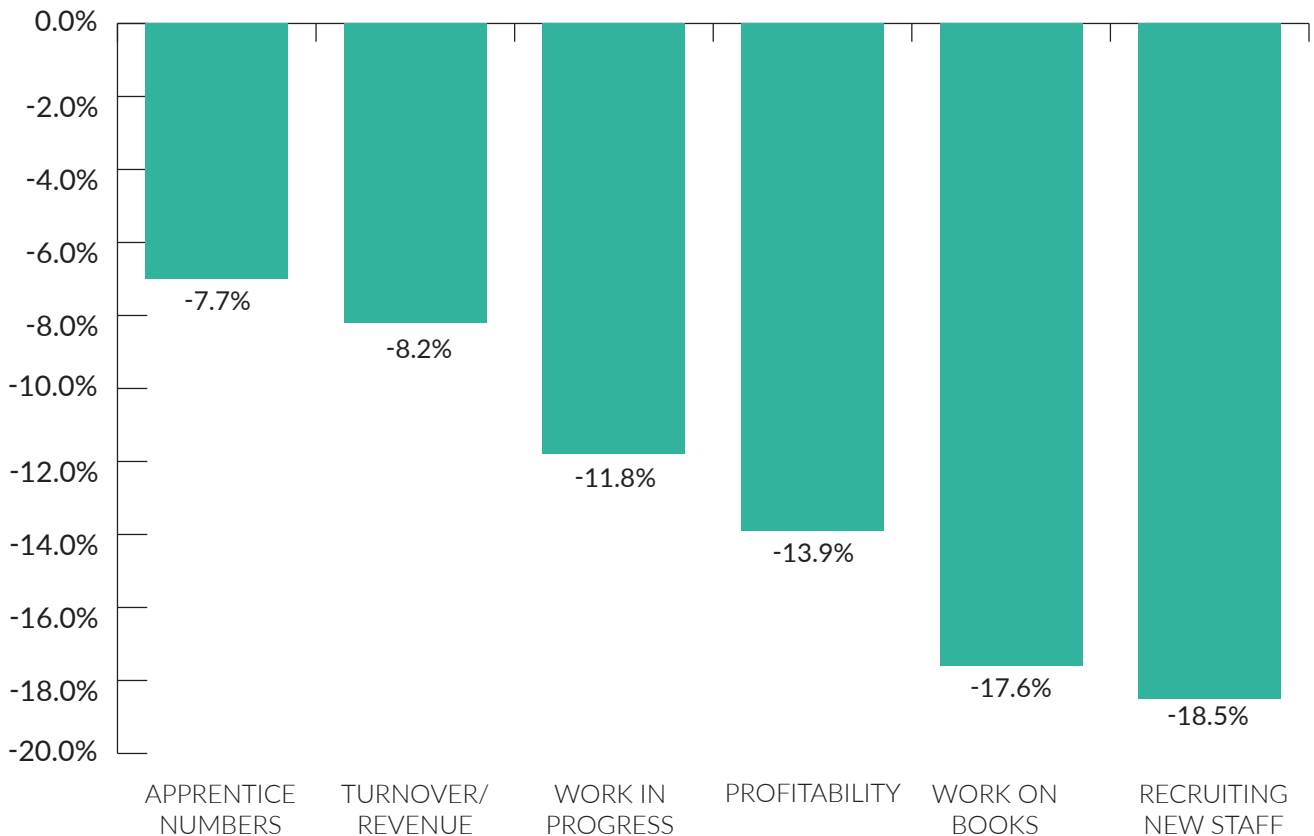


FIRMS SLOW DOWN HIRING AMID SLUGGISH FINANCE CONDITIONS

In addition to assessing perceptions around current and future market conditions, the MBA Survey has also identified the specific ways in which firms view their current performance. The chart below summarises the results with respect to a number of performance metrics: in all cases, the balance of respondents saw

their firm's performance deteriorate compared with the time of the last Survey. The challenges to firms' performance has been greatest with respect to the Recruitment of New Staff and the volume of Work on their Books. Profitability is also an area where conditions have moved backwards.

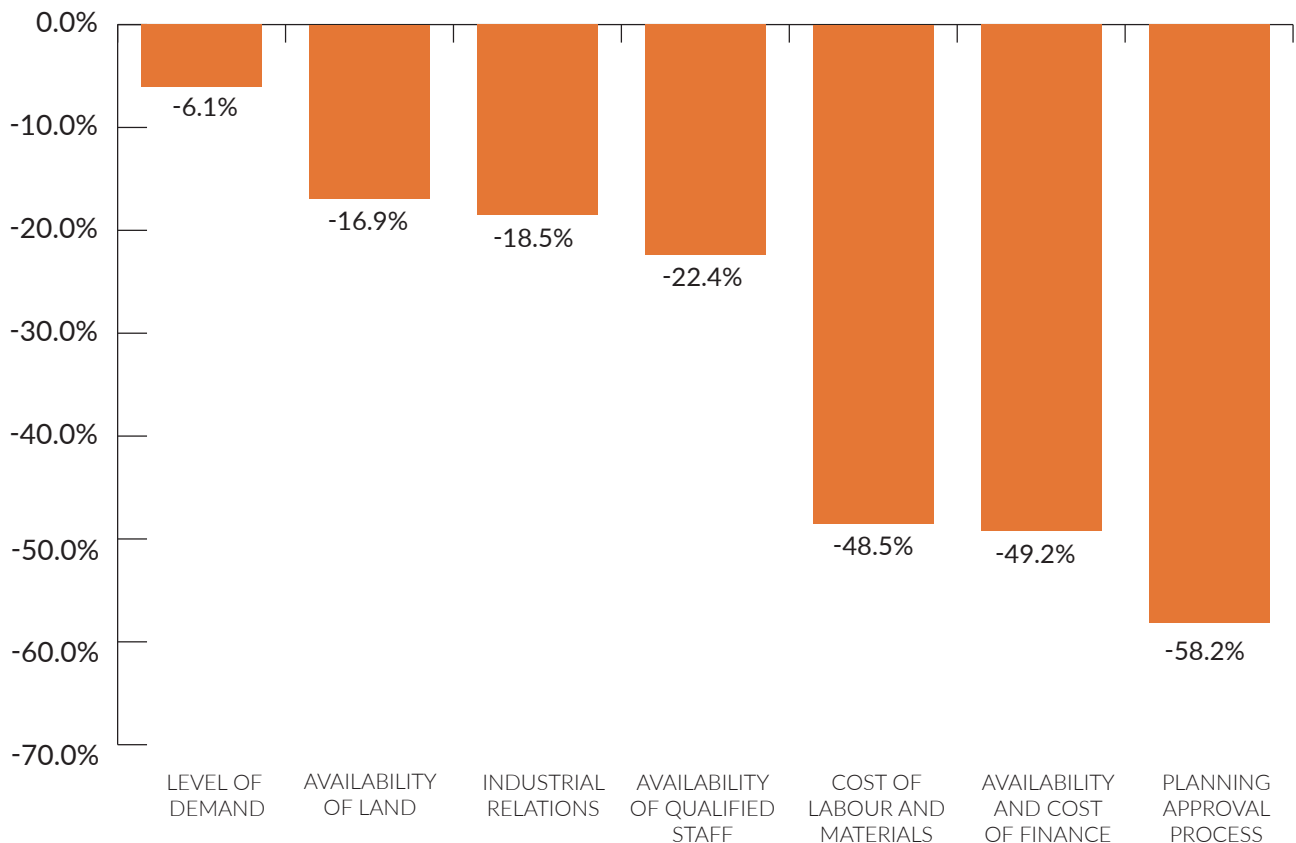
HOW HAS YOUR FIRM PERFORMED?



In the Survey, firms were also asked about the impact seven external factors were having on their performance. As the chart below shows, these seven factors were all viewed as having a negative effect on the performance of these firms to varying degrees. The Planning Approval Process was regarded as the most negative external factor for those in the

industry followed by the availability/cost of finance. The adverse financing conditions are a consequence of the credit freeze following the establishment of the banking Royal Commission. Other factors seen as weighing negatively on the performance of the industry, include labour/materials costs and the availability of qualified staff.

HOW HAVE THESE FACTORS AFFECTED YOUR FIRM'S PERFORMANCE?



ABOUT THE SURVEY

The survey of building and construction is a national survey of Master Builders' members published on a quarterly basis. 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.