

**MASTER BUILDERS AUSTRALIA**



1890-2010

# national survey of building and construction

## June Quarter 2010

### BUILDERS BECOMING LESS CONFIDENT AS STIMULUS PIPELINE BEGINS TO TAPER

Each quarter Master Builders in all states and territories are asked to complete an online survey canvassing their views on the national economy and conditions within their own enterprises

Builder sentiment fell back in the June quarter in line with a decline in expectations for building industry activity.

After a collapse of confidence in the wake of the global financial crisis and economic downturn, the solid pick up in sentiment experienced in recent times appears to have stalled, with builders becoming increasingly concerned about the sustainability of recovery as government stimulus programs begin to wind down.

Master Builders' latest quarterly survey shows own-business activity and profits fell in the June quarter (see chart) and despite the recovery from last years' trough, most indicators remain well short of levels achieved prior to the downturn.

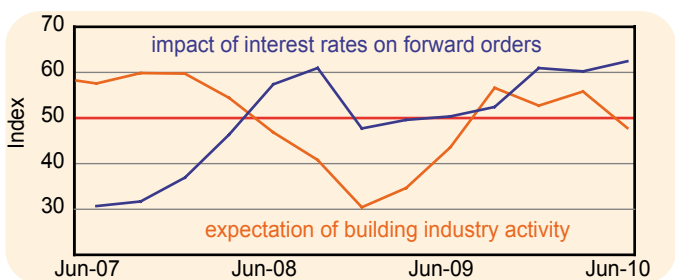
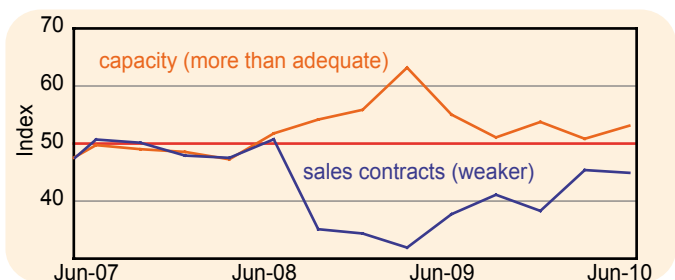
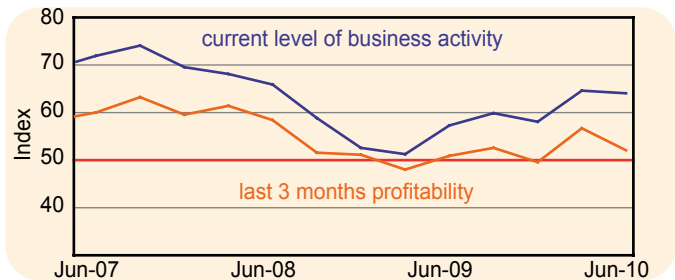
Builders are now less enthusiastic about prospects for a strong upturn in the residential sector. Non-residential building indicators also fell back after the improvement seen in recent times on the back of government stimulus programs such as the BER.

The sharp rebound in builder sentiment in the second half of 2009 has plateaued (chart) and forward indicators such as sales, traffic and capacity are not pointing to any strong and sustainable recovery in building industry conditions.

Employment intentions fell back in the June quarter, with businesses now likely to cut back on employees and sub-contractors over the next six months. A slight fall in the building and construction workforce, however, would certainly be a better outcome than was expected at the height of uncertainty associated with the global financial crisis.

Financial constraints remain an issue for builders. Although down from recent highs, nearly 30 per cent of respondents surveyed were concerned that availability of finance was having a large or constraining effect on their business. Builders expect further rises in interest rates and the index measuring the impact of interest rates on forward orders has risen sharply in the past six months (see chart).

Pressures related to finding skilled labour fell back across most categories in the June quarter although builders are still experiencing some difficulty finding certain categories of subcontractors/employees; particularly project managers, site managers and foremen/supervisors.



**Building industry activity now expected to fall...**

The index measuring expectations for building industry activity fell below the neutral 50 mark in the June quarter, indicating that builders believe industry activity will be lower over the next six months relative to the past six months. After recovering from the depths plumbed during the global financial crisis, the index clawed its way back into positive territory during the second half of 2009, but has been unable to sustain any further improvement over the past six months before recording the latest disappointing result.

**...recovery in builders' own business conditions - but can it hold up?**

Builders' current level of own business activity dipped slightly in the June quarter, after a solid result achieved in the previous quarter. Nonetheless, the index has recovered substantially from weak readings in late 2008/early 2009, although it remains well shy of previous highs. The outlook for the building industry, however, is mixed.

**...own business prospects still positive**

Builders expect their own business activity to improve over the next six months, with the index virtually unchanged in the June quarter. Recent consolidation comes after 12 months of steady improvement following the period of extreme uncertainty in the wake of the global financial crisis. The index stands at 58.8, indicating that builders believe that their own business activity will improve over the next six months.

**Profits 'satisfactory', with builders expecting some improvement...**

The reading for own business profitability fell back in the June quarter after a more positive result in the previous quarter. The index has been around the 'satisfactory' mark for two years now, well down on healthy levels of profitability achieved prior to the global financial crisis. Builders see their own profits improving over the next six months, despite the fall in the index recorded during the latest quarter.

**Weak investment...**

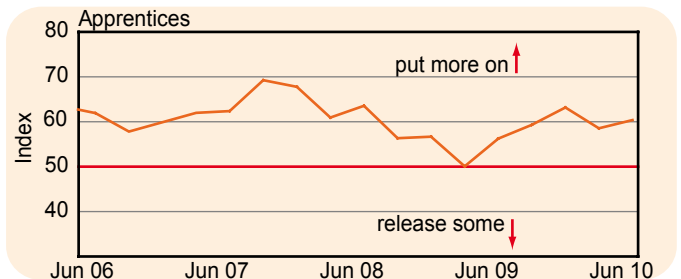
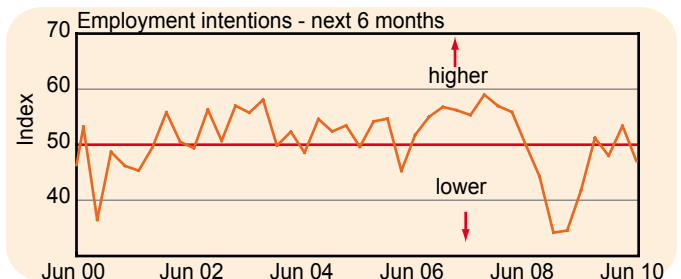
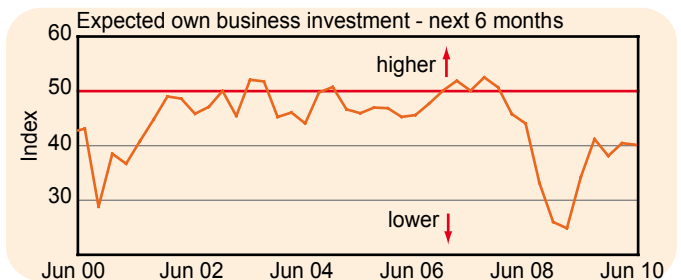
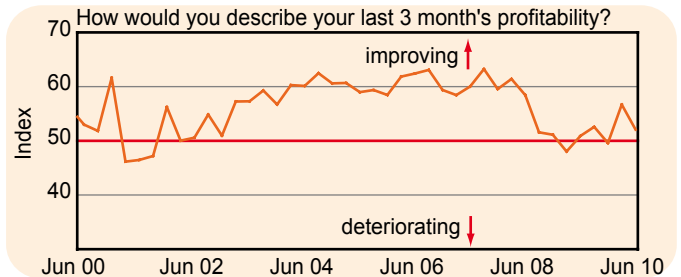
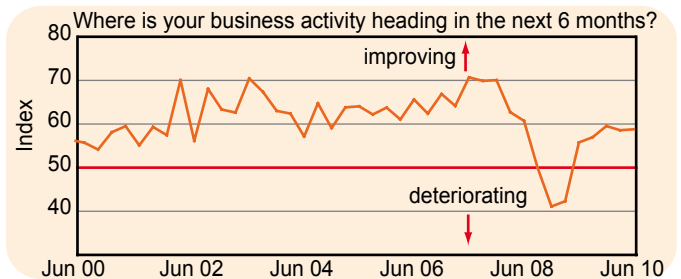
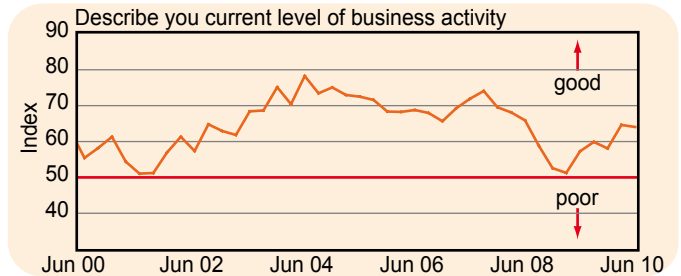
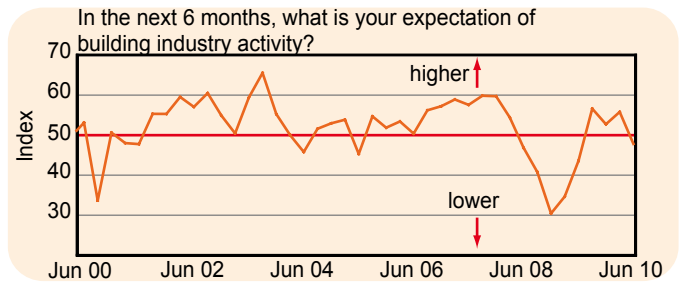
Builders' intentions regarding investment in plant and equipment in the next 6 months (compared with the previous 6 months) remained firmly in the 'lower' category in the June quarter. The index fell marginally to 40.2 from 40.5 in the previous quarter, remaining well below the neutral 50 mark.

**...workforce may fall slightly...**

Builders are asked about their intentions regarding the likely level of employees and subcontractors for the next six months relative to now. In the June quarter, the index fell to 47.1, down on the previous quarter (53.4) and now back below the neutral 50 mark, indicating that builders believe their workforce may be fractionally lower in the period ahead.

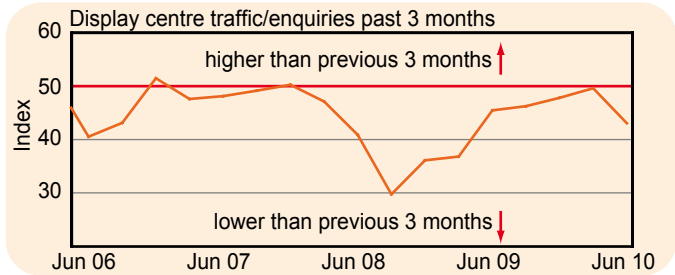
**... apprentices not in the firing line**

Although three quarters of respondents are not looking to change their apprentice levels, the proportion of builders saying they will put on more has recovered since the first half of 2009. However, the index remains below previous highs.



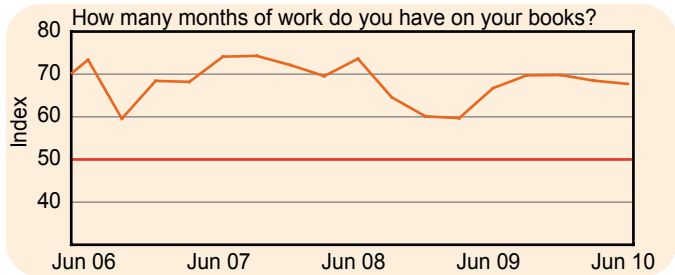
**Display centre traffic/enquiries still down...**

The index for display centre traffic/enquiries fell back in the June quarter. As the chart shows, the index had been improving for nearly a year and a half until the latest result. The index, at 43.0, is below the neutral 'no change' 50 mark, indicating that traffic/enquiries are yet to normalise.



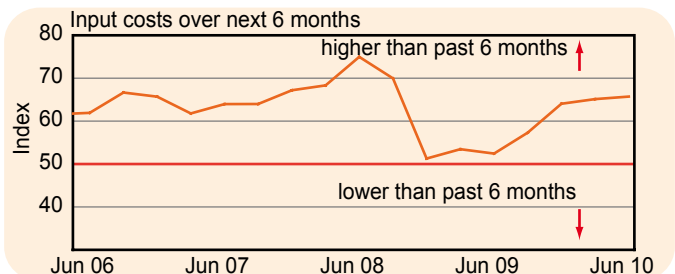
**...though the backlog of work is holding**

Builders' backlog of work has strengthened over the past 12 months after falling back due to uncertainty surrounding the global financial crisis. The index fell back slightly in the June quarter but remains not too far below where it was prior to the global financial crisis, with 40 per cent of respondents reporting more than six months of work on the books.



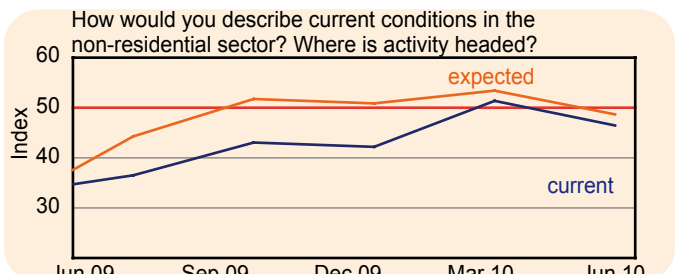
**Input costs creep higher...**

After cooling rapidly in late 2008 and the first half of 2009, cost pressures have begun to re-surface. The index rose to 65.7 in the June quarter, up fractionally on the previous quarter. Respondents are asked whether they expect input cost increases (labour/materials) to be higher or lower over the next six months, compared to the past six months. The index peaked at 75 in June quarter 2008, before the global financial crisis and economic downturn saw the issue fall away as a serious concern until the latest increases.



**Non-residential—heading south again...**

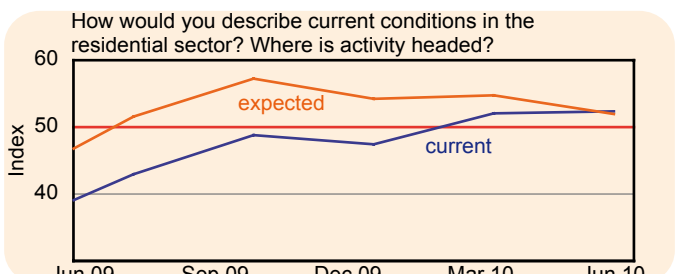
Builders with significant operations in both residential and non-residential sectors are asked a series of questions relating to the respective sectors—'how would you describe current conditions' and 'where do you believe activity is headed'.



In the non-residential sector, the index measuring current conditions fell back below the 'satisfactory' mark in the June quarter after rising above it in the previous quarter. The index measuring expectations about future activity similarly fell back below the neutral 50 mark in the June quarter, suggesting non-residential builders believe activity will deteriorate once again.

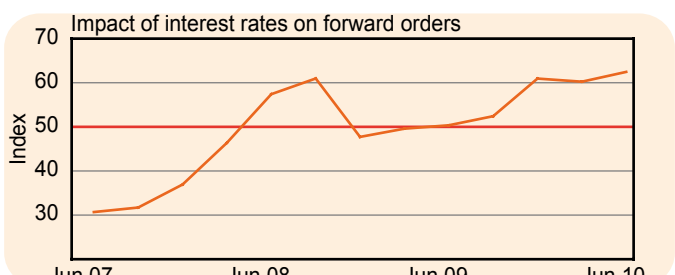
**...residential—no boom in sight!**

For the residential sector, the index for current conditions was virtually unchanged, and at 52.4 is slightly above the 'satisfactory' mark. In terms of where builders believe the residential sector is headed, the index fell to 52.0 in the June quarter from 54.7 in the previous quarter. Although the index remains above the neutral mark, indicating that residential conditions are expected to improve over the next six months, very few builders believe that there is likely to be any rapid improvement.



**Financial constraints still operative...**

Financial constraints remain an issue for builders. Nearly 30 per cent of respondents surveyed were concerned that availability of finance was having a large or constraining effect on their business. Although down on recent highs, this figure is still up sharply on survey results of 18 months-two years ago prior to the global financial crisis.



Builders now expect interest rates to rise significantly over the next 12 months and the index measuring the impact of interest rates on forward orders has risen sharply in recent times (see chart).

### Availability of labour...

Respondents are asked about the degree of difficulty in finding a range of subcontractors/employees. A high index reading indicates large to critical difficulty in finding employees or sub-contractors. A low index reading indicates builders are experiencing slight or no difficulty in finding subcontractors/employees.

At the national level, pressures related to finding skilled labour fell back across most categories in the June quarter, although the index is well up on a year ago across all categories surveyed. The global financial crisis and economic downturn saw a significant relaxation of pressures but builders are beginning to once again experience some difficulty finding certain categories of subcontractors/employees; particularly project managers, site managers and foremen/supervisors.

### IR constraint...

Respondents are also asked to indicate the degree to which they perceive industrial relations is acting as a constraint on their business. A dramatic fall in the index occurred in 2005 and 2006 associated with the introduction of the BCII Act and establishment of the ABCC. The index rose in the first three quarters of 2008 as industrial relations appeared to become more of an issue for builders again. After easing back in the wake of the global financial crisis, the index began to rise in the latter part of 2009 and into 2010, before falling back in the June quarter (see chart).

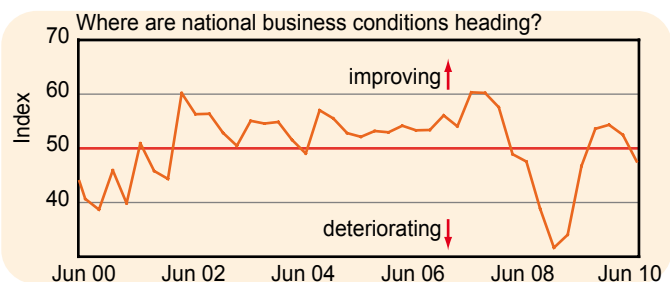
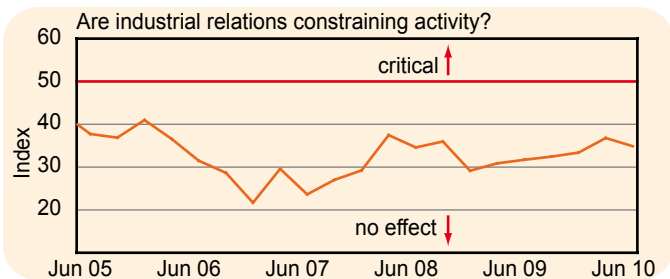
### National economic conditions deteriorating...

In addition to providing information on conditions in their own business, respondents are asked to comment on the economy in general. Perceptions about national business conditions fell back in the June quarter after a recovery from the dramatic fall recorded in the second half of 2008 into 2009. The index measuring expectations about where national business conditions are headed in the next six months also declined in the June quarter (see chart) and the index is now below the neutral 50 mark, indicating a deterioration in general economic conditions is now expected.

#### National availability of labour

	Jun 2009	Mar 2010	Jun 2010
Project Managers	31.4	50.6	48.9
Site Managers	30.5	45.9	51.3
Foremen/Supervisors	27.5	47.2	48.9
Bricklayers	16.8	36.5	44.9
Carpenters	15.5	38.3	31.8
Tilers - floor and wall	19.9	35.1	34.2
Tilers - roof	13.8	30.0	31.6
Electricians	11.9	29.5	25.4
Steel Fixers	16.2	31.2	29.9
Concreters	16.2	33.1	32.6
Building Consultants	8.7	32.0	20.8
Plaster Fixers	15.8	27.2	32.1
Office Staff	13.1	25.5	33.3
Painters	11.4	26.7	26.8
Labourers	8.1	22.4	19.1
Scaffolders	10.5	26.8	23.5

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.



### 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 2010, 504 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:

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