

Master Builders ***Survey of Industry Conditions***

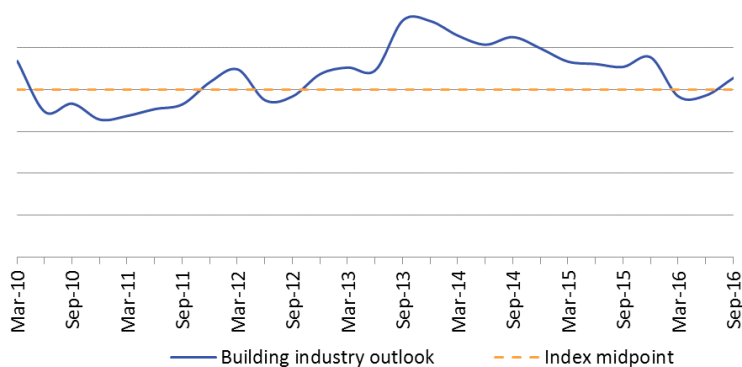
EDITION 28 SEPTEMBER 2016 QUARTER

Welcome to the September 2016 quarter edition of Master Builders' *Survey of Industry Conditions* – a report on current conditions and business sentiment in the Queensland building and construction industry.

Economic outlook

Business confidence in the Queensland building industry strengthened during the September 2016 quarter, returning to positive territory. The majority of respondents (54%) now regard the outlook as stable. The August interest rate has helped to remove some of the weakness in demand that was evident in the June 2016 quarter.

Queensland outlook



Source: Master Builders

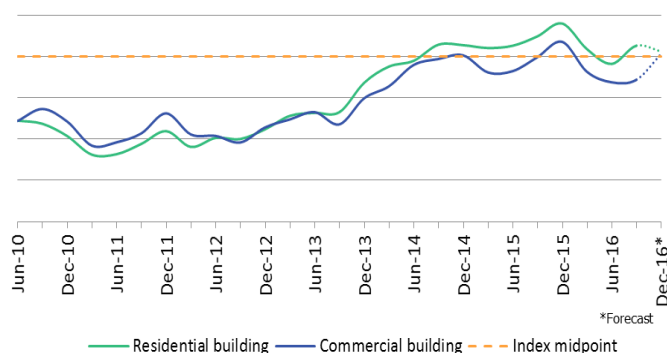
12 month economic outlook Queensland building industry

Stronger	28%
Stable	54%
Weaker	17%

Residential and commercial sectors

Conditions in both the residential and commercial sectors improved somewhat during the September quarter. Nearly half (44%) of respondents regard conditions in the residential sector as stronger, while more than half (64%) expect this to continue going forward. While the outlook is more mixed for the commercial sector, two out of three respondents expect conditions to stabilise going forward.

Queensland building industry conditions



Source Master Builders

Residential sector conditions

	Jun 2016	Sep 2016	Dec 2016
Stronger	36%	44%	22%
Stable	28%	26%	64%
Weaker	36%	31%	21%

Commercial sector conditions

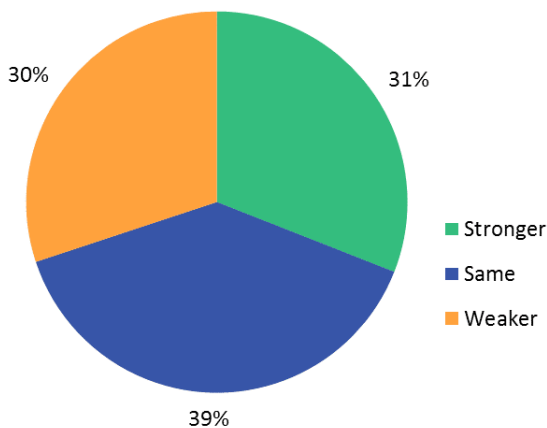
	Jun 2016	Sep 2016	Dec 2016
Stronger	32%	28%	19%
Stable	21%	33%	66%
Weaker	47%	39%	15%

Business activity

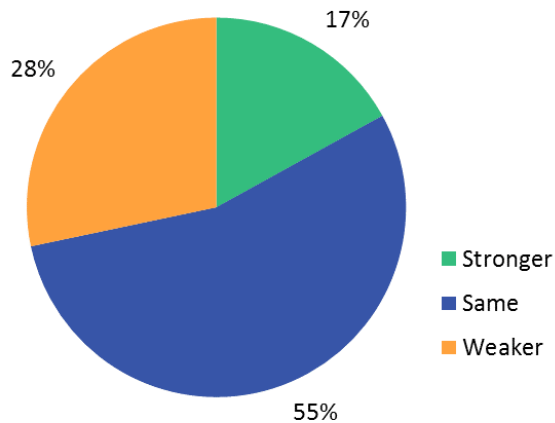
The level of business activity stabilised during the September quarter. More respondents (39%) are reporting stable levels of work in progress, while fewer (30%) are reporting weaker levels. Businesses are also confident for the future, with the majority (81%) expecting the situation to improve or at least stabilise in the coming three months.

The situation remained unchanged for average contract prices. The majority of respondents (55%) saw prices hold steady for the quarter and there was no change in the percentage reporting weaker prices (28%). This is expected to continue into the coming quarter.

Work in progress



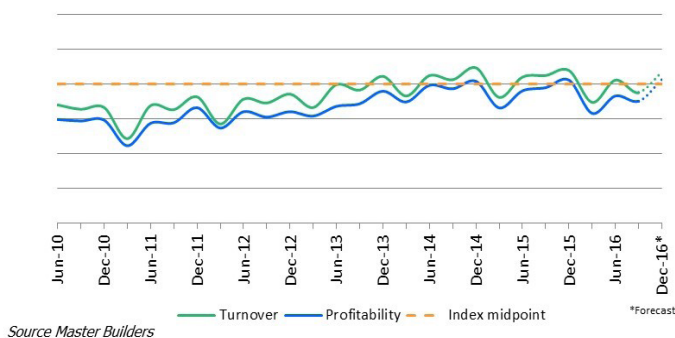
Average contract price



Turnover and profitability

Turnover and profitability stabilised for the September quarter, maintaining the gains of the previous quarter. Forty per cent of respondents now regard turnover as stable and 47% regard profitability as stable. The proportion of respondents expecting stable turnover and profits is expected to grow in the next three months.

Business performance



Turnover			
	Jun 2016	Sep 2016	Dec 2016
Stronger	39%	30%	29%
Stable	31%	40%	57%
Weaker	30%	29%	14%

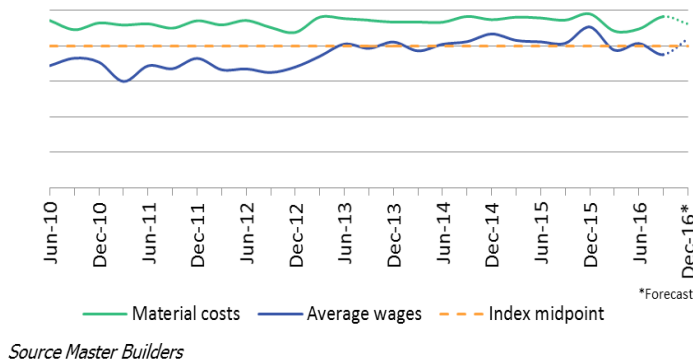
Profitability			
	Jun 2016	Sep 2016	Dec 2016
Stronger	29%	24%	23%
Stable	37%	47%	62%
Weaker	34%	29%	15%

Input costs – wages and materials

There was an increase in the proportion of respondents reporting higher costs for the quarter – up to 41%. Costs remained stable for the majority of respondents (51%), and these costs are expected to stay stable.

Average wages stabilised during the quarter with two out three respondents (64%) reporting that they were unchanged. This is expected to continue for the coming three months (67%).

Input costs



Material costs			
	Jun 2016	Sep 2016	Dec 2016
Stronger	37%	41%	27%
Stable	46%	51%	69%
Weaker	16%	8%	4%

Average wages			
	Jun 2016	Sep 2016	Dec 2016
Stronger	27%	16%	21%
Stable	55%	64%	67%
Weaker	18%	20%	12%

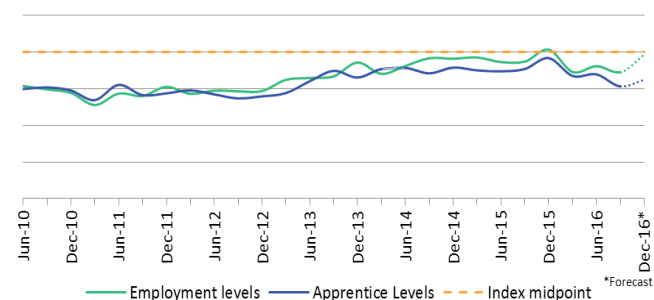
Employment levels and skills shortages

Employment levels also stabilised for the September quarter but remained in negative territory. This is expected to continue during the coming December quarter, with nearly three-in-four (71%) businesses anticipating no change.

While apprenticeship levels were also stable for the most part (70%), there remains a significant number (25%) reporting weaker levels. This is not expected to continue during the next few months because the number of businesses expecting to maintain their current level of apprentices will grow to three-in-four (75%).

There was a marked increase in finding suitability qualified senior staff such as project managers, site manager and supervisors for the June quarter. At the same time, finding trade qualified staff remained challenging.

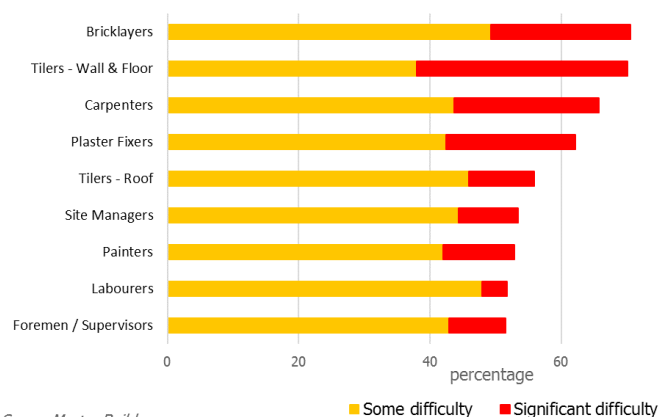
Employment



Employment Levels			
	Jun 2016	Sep 2016	Dec 2016
Stronger	19%	12%	14%
Stable	56%	64%	71%
Weaker	26%	24%	15%

Apprentice levels			
	Jun 2016	Sep 2016	Dec 2016
Stronger	11%	5%	4%
Stable	67%	70%	75%
Weaker	22%	25%	21%

Difficulty finding key staff



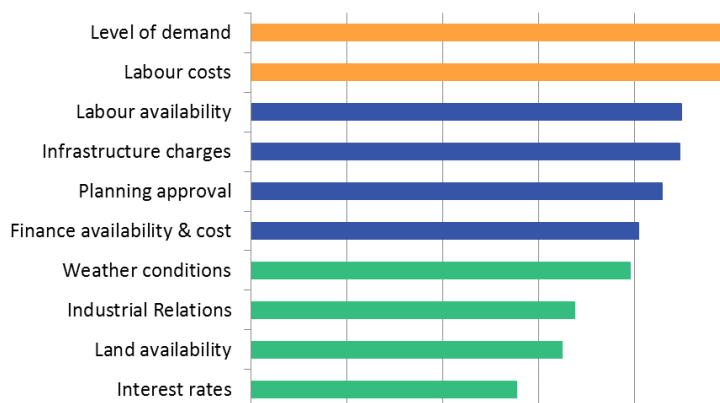
Business Constraints

Low levels of demand have returned as the most critical constraint on business growth. This is in line with the concentrated nature of demand which has failed to reach many regions and sectors of the industry. Many respondents are also reporting that potential customers are unable to secure finance with valuations for new construction less than construction costs.

Labour costs continue as an important constraint on the industry. As demand remains low, builders are finding their margins continue to be squeezed against inflexible input costs. In the pockets of high demand, labour availability is proving challenging.

Infrastructure charges is another major constraint, with reports that the cost of bringing land to the market has increased, causing frustration among builders and developers.

Constraints on business growth in Queensland



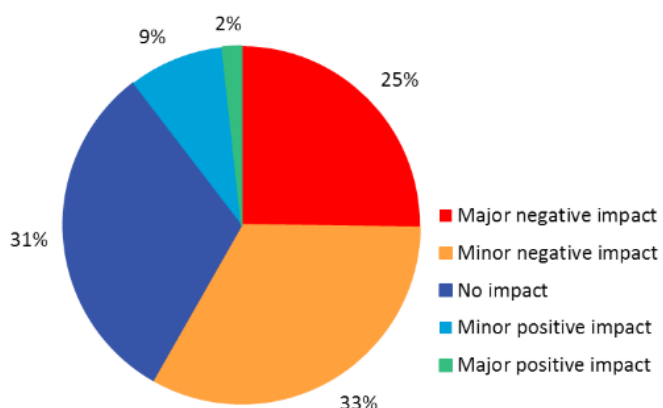
Source Master Builders

Housing affordability

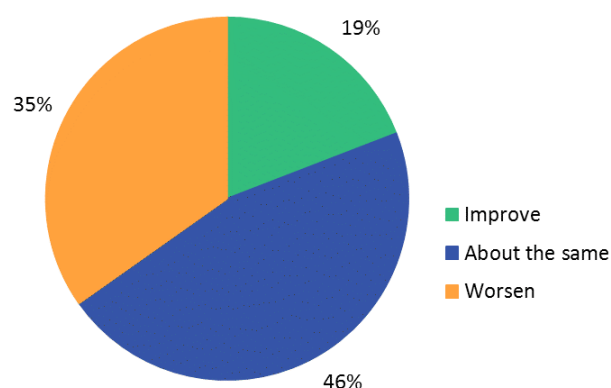
The outlook for housing affordability remained troubling for the September quarter. More than a third of respondents (35%) think the situation is deteriorating. While interest rates remain low and building costs are competitive, the ability to invest continues to fall, with stagnating wages and a tightening of finance terms by lenders, especially for investors.

New housing continues to be beyond the reach of many, with more than half (58%) of respondents identifying affordability as having a negative impact on new housing demand.

Impact of affordability on new housing demand



Outlook for housing affordability



Regional summary

The residential sectors on the Gold and Sunshine coasts are pulling away from their previous position as the stand-out performers in the state. Greater Brisbane remained steady but is less confident for the future.

Wide Bay Burnett and Darling Downs SWQ are also enjoying a good run but are less consistent and improving off a lower base.

While the resource areas of Central Queensland, Mackay & Whitsunday and North Queensland continue to struggle with record low demand, they remain incredibly confident for the future and are focused on the 'light at the end of the tunnel'.

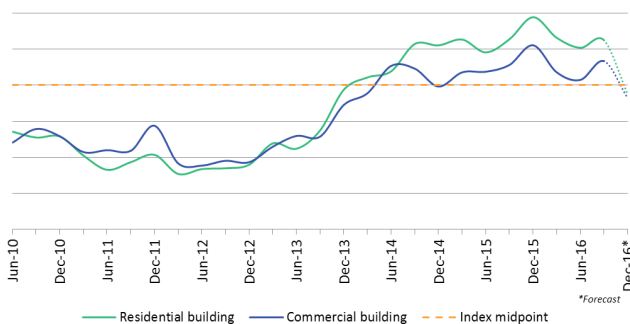
Far North Queensland remained unchanged and expectations are that this will continue.

Region	Building industry outlook	Turnover	Profit	Employment	Average wages	Level of work
Greater Brisbane	45.4	53.4	48.6	47.8	52.3	50.0
Gold Coast	57.5	58.3	58.3	44.4	66.7	62.5
Sunshine Coast	61.5	52.1	45.8	43.8	47.9	56.3
Darling Downs & South West Queensland	52.1	37.5	43.8	42.5	40.9	52.1
Wide Bay Burnett	61.1	50.0	41.7	46.4	58.3	50.0
Central Queensland	50.0	25.0	30.0	18.8	20.0	35.0
Mackay & Whitsunday	55.0	37.5	35.0	47.5	44.4	37.5
North Queensland	50.0	33.3	37.5	33.3	37.5	20.8
Far North Queensland	57.7	50.0	46.2	48.1	43.2	42.3
Queensland	52.8	47.5	45.1	44.5	47.5	47.8

Greater Brisbane

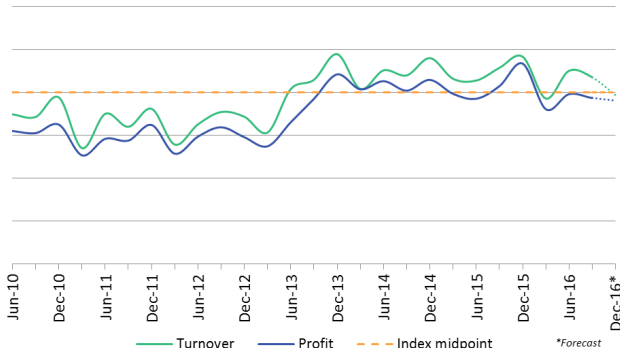
Business confidence in the building and construction industry rose during the September quarter, recovering ground lost in the previous June quarter. It still remains within negative territory and is a reflection of the concentrated nature of the current building boom.

Trading conditions - Greater Brisbane



Turnover and profitability, which are less elevated, remained unchanged for the September quarter. Looking forward, both indicators are expected to decline slightly.

Business Performance - Greater Brisbane



Employment levels stabilised during the three months to September, with more than half (65%) of businesses planning on maintaining their current workforce. Similarly, 86% of businesses are expecting to maintain their apprenticeship levels.

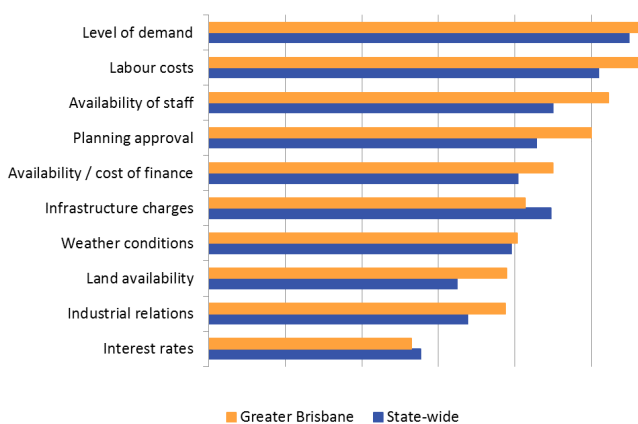
The current employment market is helping to stabilise wage growth, with nearly three-quarters of respondents (70%) reporting that wages are stable. This is expected to continue for the next three months.

In spite of this, respondents are continuing to report difficulties in recruiting key trades, namely plasters, tilers and bricklayers.

The lacklustre level of demand continues to challenge businesses. The current upswing in demand is not reaching all segments of the market and many parts of the region continue to be challenged by weak confidence, fears about job security and household finances.

Labour costs is another critical constraint for businesses operating in the region. Not surprisingly, the related challenge of securing appropriately qualified staff is also significant.

Constraints - Greater Brisbane

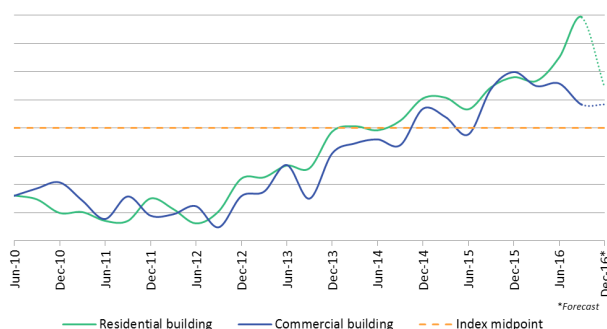


Gold Coast

Business confidence in the building and construction industry on the Gold Coast dropped away to some extent but remained strong for the September quarter.

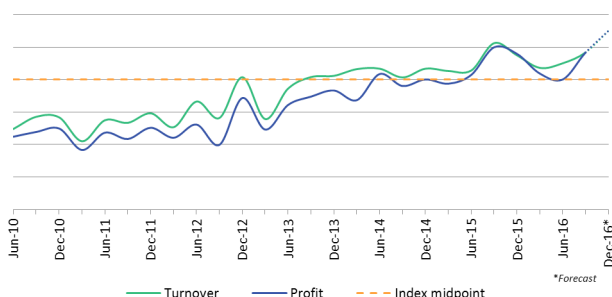
Trading conditions were mixed. The residential sector continued to surge forward, while the commercial sector experienced a drop. A significant fall is expected in the residential sector during the coming quarter, despite strong building approvals data. No further drops are anticipated in the commercial sector.

Trading conditions - Gold Coast



Turnover and profitability, which are less elevated, remained unchanged for the September quarter. Looking forward, both indicators are expected to decline slightly.

Business Performance - Gold Coast



Employment levels remained stable during the September quarter, with two thirds (67%) of respondents reporting no change. Once again, confidence in the future remains with apprenticeship levels remaining stable for two out of three respondents (67%). This is expected to continue into the coming quarter.

The pressure on wages continued to build, with two thirds (67%) of businesses now reporting wage increases. This is expected to continue during the coming quarter as the labour market responds to the current level of demand on the Gold Coast.

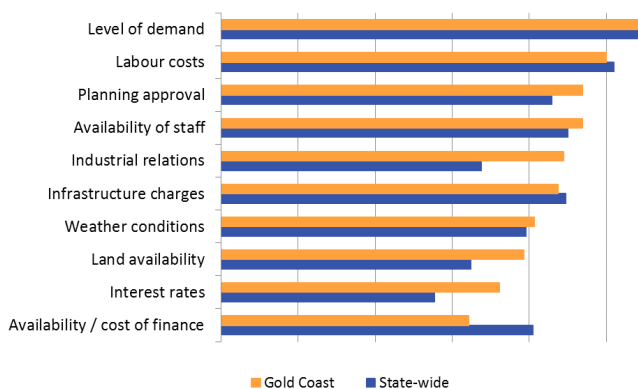
Consistent with this, respondents are continuing to report difficulties in recruiting key trades, namely plasterers, tilers and bricklayers.

The lacklustre level of demand continues to challenge businesses. The current upswing in demand is not reaching all segments of the market and many parts of the region continue to be challenged by weak confidence, fears about job security and household finances.

Labour costs are another critical constraint for businesses operating in the region. Rising labour costs in the face of competitive tendering is proving a challenge in providing jobs on-budget.

A future emerging constraint being reported anecdotally is land availability. Increasing delays in getting titles through, means that blocks are being held in limbo for what can be months, delaying construction before being released.

Constraints - Gold Coast

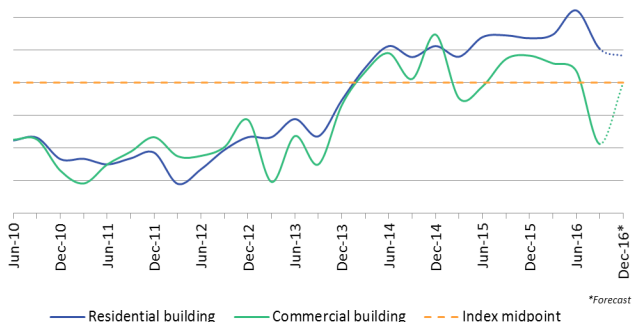


Sunshine Coast

Business confidence in the building and construction industry grew during the September quarter, moving further into positive territory.

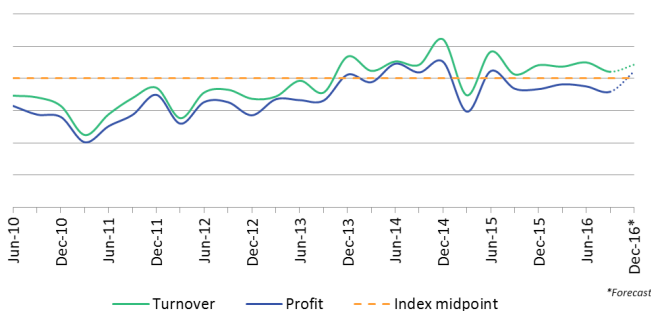
This was in spite of a significant drop in trading conditions for the residential and commercial sectors. This is expected to be temporary for the commercial sector with a return to previous levels expected during the coming three months. The residential sector should remain unchanged going forward.

Trading conditions - Sunshine Coast



Both turnover and profitability remained largely unchanged for the quarter. While respondents are reporting good turnover, competition is still such that they are less able to convert that into improved profits. There is a level of confidence that profitability will improve looking forward.

Business Performance - Sunshine Coast



Employment levels in the industry stabilised for the three months to September, with the majority of respondents (58%) reporting stable employee and subcontractor levels. Apprenticeship levels were stable. This is expected to continue into the next quarter.

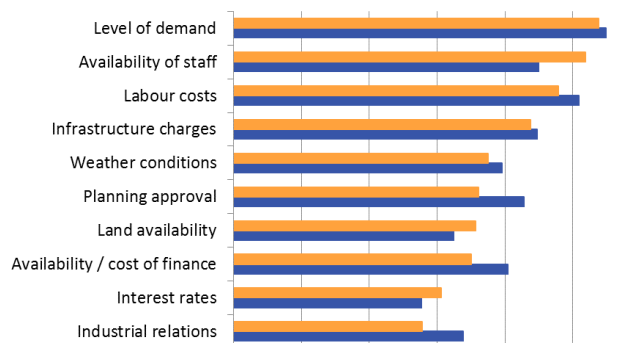
Wage levels also remained steady with half of respondents (50%) reporting that there was no

change. The employment market is tightening however, with difficulties in recruiting tilers, bricklayers, carpenters and roof tilers being reported.

The lacklustre level of demand continues to challenge businesses. The current upswing in demand is not reaching all segments of the market and many parts of the region continue to be challenged by weak confidence, fears about job security and household finances.

As the labour market begins to tighten, the availability of staff and labour costs are growing as constraints. Any increase in input costs in a competitive tendering environment is a challenge to bringing jobs in on budget.

Constraints - Sunshine Coast

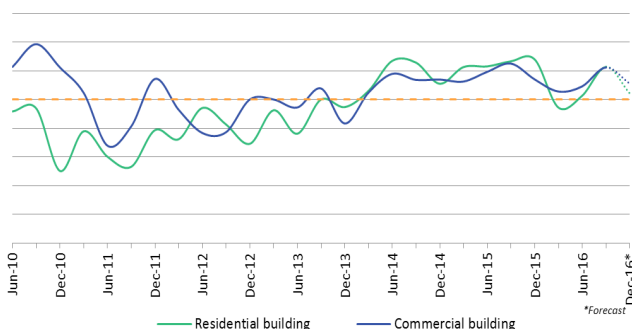


Darling Downs & South West Queensland

Regional confidence in the building and construction industry returned to positive territory for the September quarter.

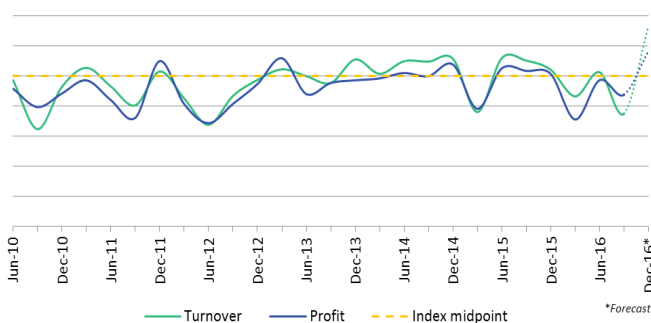
The rise in confidence mirrors a rise in trading conditions where conditions in the residential and commercial sectors improved during the quarter. Respondents are not yet confident that this improvement can be sustained.

Trading conditions - Darling Downs & South West Queensland



Conversely, there was a drop across turnover and profitability for the quarter, losing the improvements of the previous quarter. This is expected to be temporary with strong gains anticipated for both indicators during the coming three months.

Business Performance - Darling Downs & South West Queensland



In spite of the movement, employment levels have remained steady. The majority of respondents (60%) are reporting no change in the work available for employees and subcontractors. Wage levels are similarly stable with 73% of respondents reporting no change. Both employment and wage levels are expected to strengthen going forward, with one in three respondents (36%) anticipating an increase.

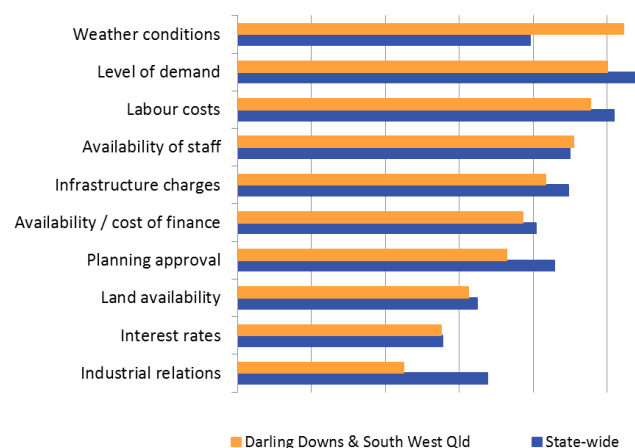
Apprenticeship levels held steady and there is no sign of a change in the immediate future.

There were no reports of any problems in finding suitability qualified staff.

Weather conditions were the most pressing constraint on the industry for the September quarter. This was due to unseasonable rain during winter which hampered construction work.

The lacklustre level of demand also continued to challenge businesses. Any upswing in demand is patchy at best and is not reaching all segments of the market. Many parts of the region continue to be challenged by weak confidence, fears about job security and household finances.

Constraints - Darling Downs & South West Queensland



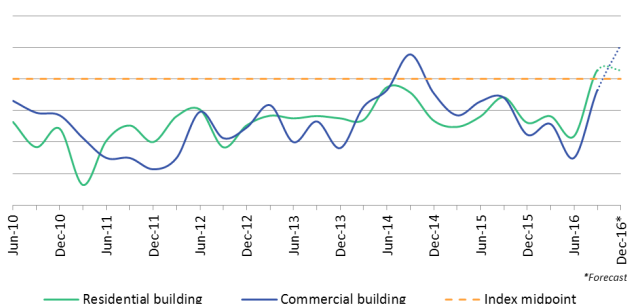
Wide Bay Burnett

Business confidence in the building and construction industry moved up sharply during the September quarter, moving to a level not seen in three years.

Mirroring this confidence, both the residential and commercial sectors surged forward.

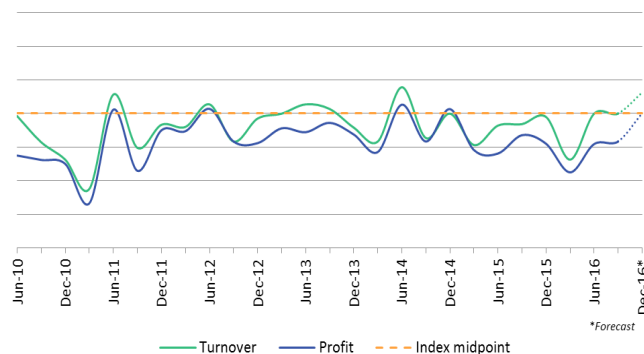
For the residential sector this is the first time in the history of the survey that trading conditions have been in positive territory. Looking forward, this is expected to continue. For the commercial sector, conditions are at a two-year high with further improvements expected.

Trading conditions - Wide Bay Burnett



In contrast, business performance held steady, remaining unchanged for the quarter and it is expected these two indicators will improve.

Business Performance - Wide Bay Burnett



Employment prospects in the region were stable with the majority of respondents (71%) reporting no change to employee and subcontractor levels. Correspondingly, wage levels were also stable with 80% reporting no change. The majority of respondents (80%) also reported that apprenticeship levels are now stable.

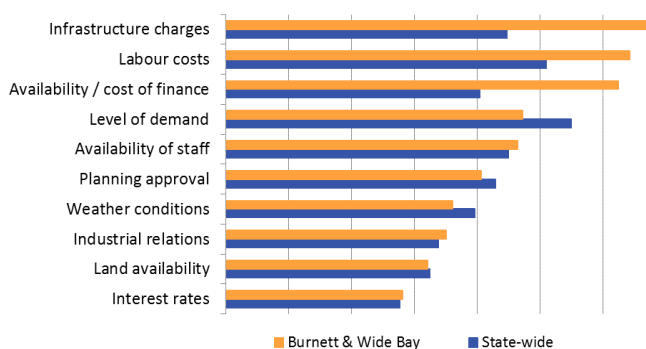
Looking forward, while employment levels are expected to remain unchanged for the most part,

respondents are anticipating an increase in wage levels into the December quarter.

As the employment market begins to tighten, difficulties in recruiting key trades, in particular, tilers (both roof and wall) and carpenters are emerging.

In a competitive tendering environment, key input costs such as infrastructure charges, labour costs and the cost of finance each serve to act as a major constraint to delivering projects on budget.

Constraints - Wide Bay Burnett

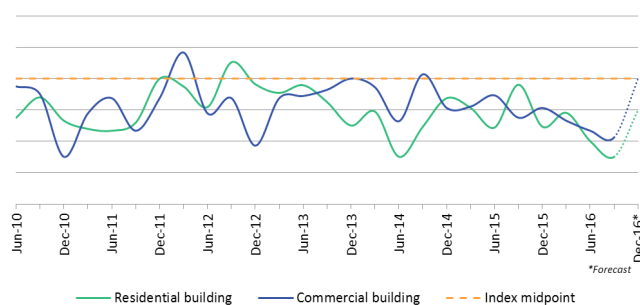


Central Queensland

Confidence in the local building and construction industry remained unchanged for the quarter as the region continues to believe that the worst may be behind them.

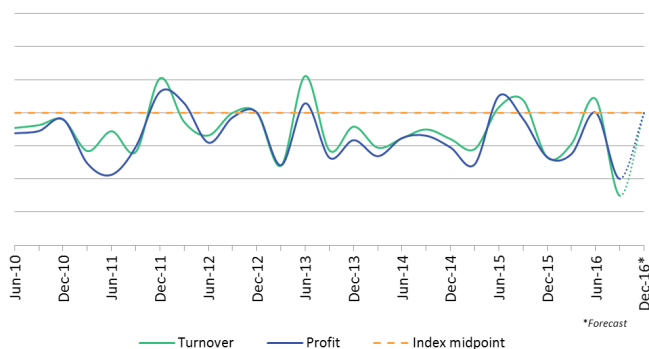
Trading conditions in the residential and commercial sectors fell once again, but this is expected to be temporary. Looking forward, both sectors remain confident for the future.

Trading conditions - Central Queensland



This result was mirrored in turnover and profitability indicators with a large dip, following an earlier surge. Once again respondents remain confident in the future.

Business Performance - Central Queensland



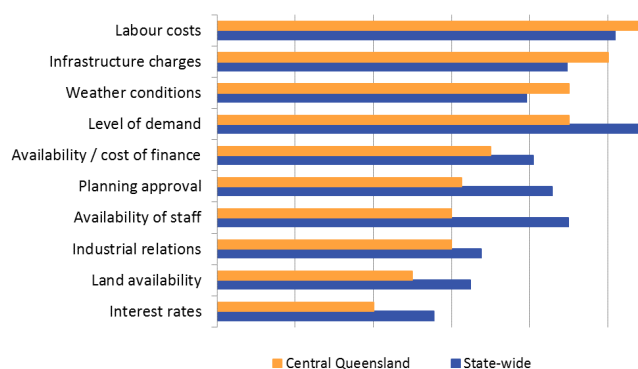
There has been another sharp drop in employment levels with three quarters (75%) reporting weaker employee and subcontractor levels. This indicator is now at an all-time low. There is an expectation that this will stabilise to some extent looking forward with 60% expecting no change in employment levels for the coming three months. It is a similar story for apprenticeships.

When it came to recruiting staff, no one reported any difficulty in recruiting and retaining suitably qualified employees and subcontractors.

The lacklustre level of demand continues as one of the most critical constraints on business growth in the region.

In the context of weak demand, development costs such as labour costs and infrastructure charges rate as a significant concern, pushing costs beyond what is affordable. Given the ready availability of qualified staff, little can be done to reduce labour costs.

Constraints - Central Queensland

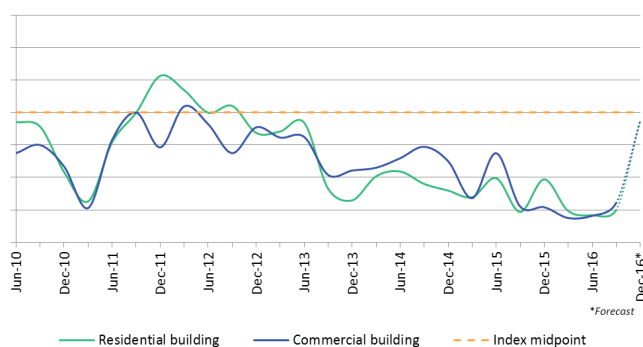


Mackay & Whitsunday

Business confidence in the building and construction industry had a strong surge during the September quarter.

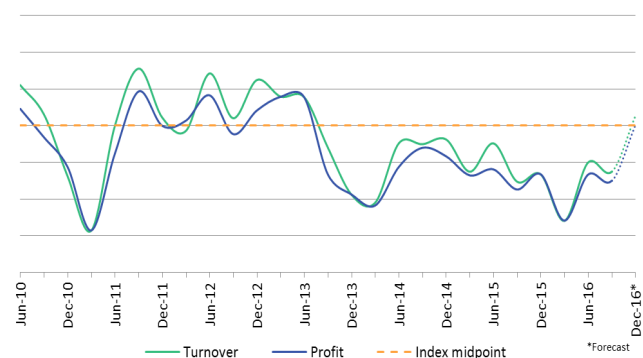
While trading conditions for the residential and commercial sectors remain depressed, there is a strong expectation that things will improve.

Trading conditions - Mackay & Whitsunday



Business performance in the region also remained largely unchanged with turnover and profitability only recording a small drop. This is expected to improve significantly in the coming three months.

Business Performance - Mackay & Whitsunday



Employment levels in the region were stable during the quarter with nearly all respondents (90%) expecting to hold their current level of employees and contractors steady. No change is anticipated in the future. It is a similar situation for apprentices with all respondents reporting no change.

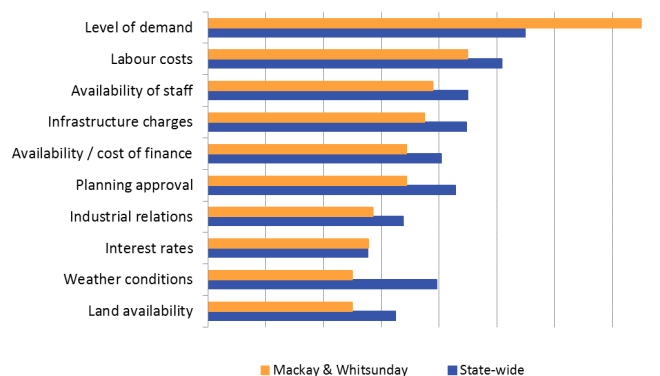
Wages levels were also stable and no change is anticipated in the coming three months.

There are still no reports of any difficulties in recruiting and retaining suitably qualified employees and subcontractors.

The most critical constraint on business growth was once again the lacklustre level of demand as the region continues to struggle with the end of the mining boom and resultant housing over-supply.

In the context of weak demand, development costs such as labour costs rate as a significant concern, pushing costs beyond what is affordable.

Constraints - Mackay & Whitsunday



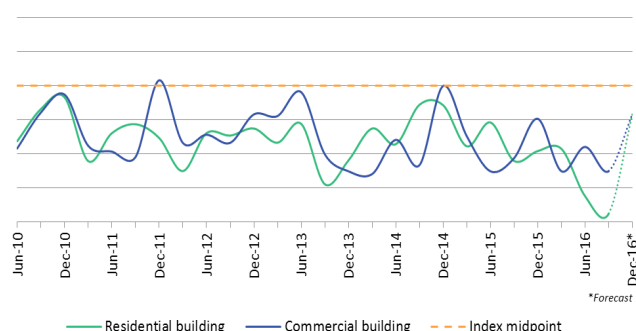
North Queensland

Business confidence in the building and construction industry improved during the September quarter, moving out of negative territory.

Trading conditions in the residential sector continued to fall but this is still expected to only be temporary.

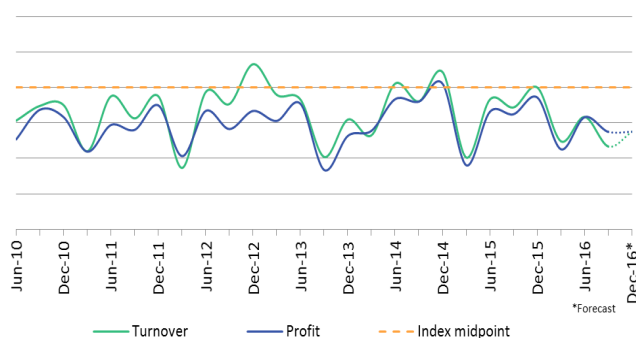
The commercial sector failed to hold onto the improvements of the previous quarter. Again, this is expected to be temporary with commercial respondents confident in the future.

Trading conditions - North Queensland



There was a drop in turnover and profitability and respondents hold modest expectations for both indicators.

Business Performance - North Queensland

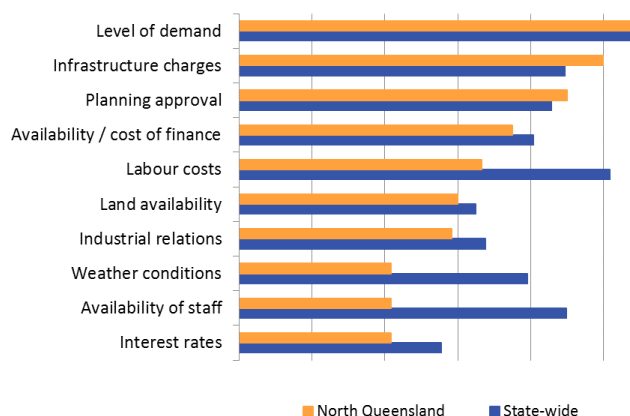


Employment levels remained stable with two thirds of all respondents (67%) reporting no change. Similar results were recorded with apprentice levels (50% reported they were unchanged) and wage levels (67% reported they were unchanged). There is the expectation that the situation will continue to remain stable.

Unsurprisingly, in this environment there are no reports of difficulties in recruiting and retaining suitably qualified employees and subcontractors.

Consistent with the state-wide results, the most critical constraint on North Queensland business growth in the September quarter continued to be the lacklustre level of demand.

Constraints - North Queensland

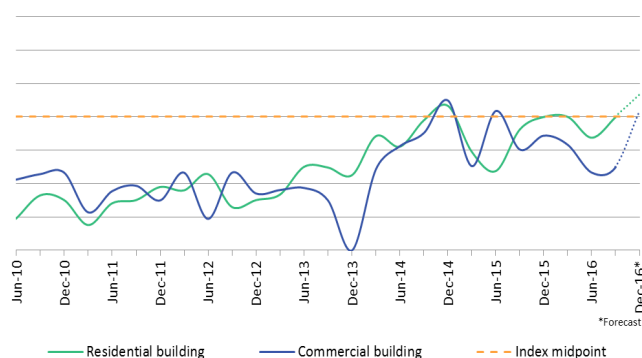


Far North Queensland

Business confidence in the building and construction industry and the Queensland economy remained positive for the September quarter.

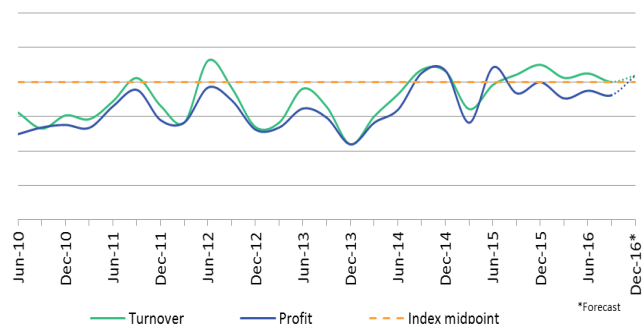
Trading conditions in the residential and commercial sectors recovered much of the ground lost in the previous quarter and further improvements are expected. Strong gains for the commercial sector are anticipated going forward.

Trading conditions - Far North Queensland



Turnover and profitability remained steady and are expected to improve somewhat during the next three months.

Business Performance - Far North Queensland



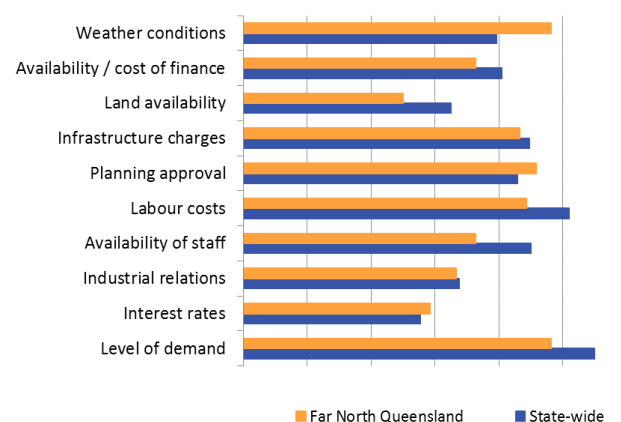
Employment levels in the region remained stable during the three months to September, with more than half of all respondents (54%) reporting no change. Similar results were recorded with apprentice levels (50% reported no change) and wage levels (82% reported no change). Going forward there is the expectation that the situation will remain stable.

Unsurprisingly, in this environment there are no reports of difficulties in recruiting and retaining suitably qualified employees and subcontractors.

Consistent with the state-wide results, the most critical constraint on Far North Queensland business growth continues to be the lacklustre level of demand.

Weather conditions were the most pressing constraint on the industry. This was due to unseasonable winter rain which hampered construction work.

Constraints - Far North Queensland



Hot Topic – POLICY & ADVOCACY AGENDA

As Master Builders begins to prepare its policy agenda for the coming year we asked members what they thought were the pressing issues across a number of key areas that require focused attention. Here are some of their responses:

BARRIERS TO ADOPTING NEW MATERIALS AND OR METHODS OF CONSTRUCTION

A common theme in the responses was the difficulty in being able to select new products with confidence. It was regarded as a dilemma of the “tried and tested” versus the ‘shiny and new.’

“I know what to expect with what I know, there’s always trepidation with new materials and methods. There’s always the unknown quantity for 7-10 years down the road, how will the product perform? Will I have to replace/repair it? Will the supplier still be in business in 7-10 years?”

In choosing to go ahead with a new method or material, there is the additional cost in order to establish compliance. “Making sure they have been approved to use by building certifiers and engineers.” This can require a thorough knowledge of Australian Standards and the testing required to meet those standards.

There can be traps: “Warranting the fitness of the products has to be done through limited field testing coupled with simulated exaggerated environmental conditions to fast track the products release. There is no substitute for testing the products against time.” Often there is “no real conformance criteria” with which to assess new products. Do we have “genuine testing results?” Ensuring products are up to the cyclonic conditions of north Queensland was a particular concern.

The warranty for failures of new materials does not always provide confidence. “Sales staff will not back their product up when there is a material failure and direct us towards fine print that indemnifies them from fault.” “The best we can get out of a supplier after a failure is the materials. No demolition, no new labour costs for remedial works, even when they admit the failure of their product.”

Then there is the cost to adapt – training staff and gaining necessary experience in new methods and materials. “Practical onsite difficulties, that are not able to be identified at the start due to lack of

knowledge or inexperience, causes delays and cost blowouts.”

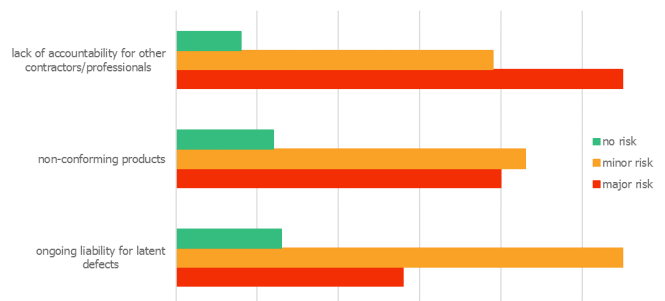
After clearing these hurdles, there is the need to satisfy the other participants in the building chain – the client, other contractors, consultants and staff who are also part of the project.

Currently, “unproven technologies are not worth the risk when compared to known costs and rates of return.” There is “not enough information and certainty to future proof new methods and materials”. If we are to be an industry that is ready and able to adopt new materials and construction methods, we need to provide tools that drive down the cost of adoption and minimise the risk. We need greater “affiliation between the building regulators and the installers”.

RISKS TO GOOD CONSTRUCTION AND/OR YOUR BUSINESS

By far the most significant risk identified by respondents was the lack of accountability for other contractors and professionals in the building chain. The growing prevalence of non-conforming products also registered as a significant concern.

Risks to good construction & your business



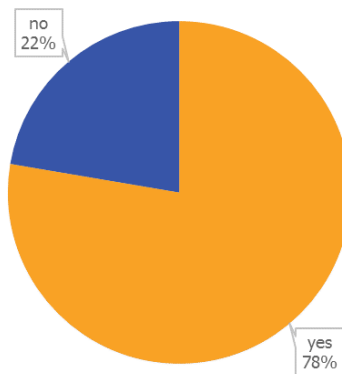
MANDATORY SYSTEM OF ON-GOING TRAINING AND DEVELOPMENT

Respondents were overwhelming in favour of a mandatory system of training. “Completing a certificate or degree does not mean that you will be compliant for the rest of your working days.”

“It is vital to our industry if we are to be market leaders and innovators.” “Things change over time, the old school tradies need to keep up, and the newly qualified apprentices need to learn to manage their businesses and stop cutting corners.”

It is seen as an opportunity to address problems. “Education would eliminate a good percentage of issues and defects.”

Would a mandatory system of on-going training raise standards?



Some were concerned with low standards among some licensees. “In recent interactions with supervisors of both commercial and residential builders, I found staff had no idea of their requirements under the QBCC act or the BCA.”

“Too many useless builders get licences. It is driving up competition and driving down quality. Profit margins suffer. Good builders suffer. And subbies suffer when the useless builders go bust!!! Both skills and office/business knowledge are lacking. We are a profession. Not just another ticket for a chippy.”

The arguments against were centred on cost and time. “It will only add the ongoing costs of construction.” “No one has enough time to do it.”

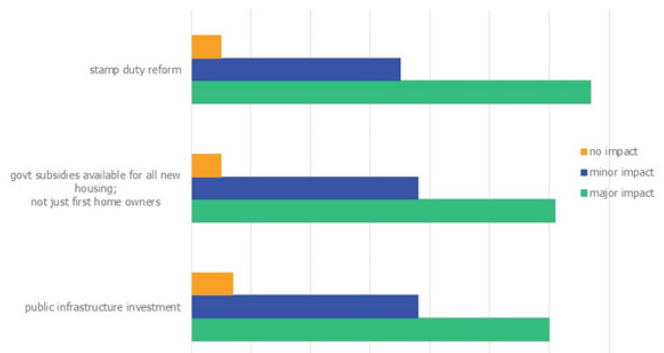
Some felt that it would not actually address problems. “Non-conformance is a by-product of financial pressures much more than training.” “This would just create more red tape.”

If implemented, it needs to be done right. “There are courses for CPD in other professions that people do for the sake of ‘getting up their hours’ rather than for the expansion of skills. Mandatory training will have a good side, but also it will foster a new industry and [place the] cost on business.” “It has to be priced reasonably so all levels, small business to large business, have the same opportunities.”

INCREASING THE DEMAND FOR NEW CONSTRUCTION

Tax reform and in particular stamp duty is regarded as a major opportunity to increase the demand for new construction. “Reignite the tax reform debate” and “look to tackle stamp duty.” “Stamp duty reform is what is needed above all.”

Increase demand for new construction



“It is also important to address company taxes and government charges that add to the cost of building a home.”

Government regulation is adding to the cost of new construction.

“We live in a jurisdiction with more regulation than any other in the world. This keeps standards high, but there is a lot of regulation to consider in construction. A builder requires an encyclopaedic knowledge across dozens of different fields just to remain legally sound. A reduction of regulation could only free-up costs in construction.”

“NBN charges, water charges, electricity charges and regulation is stifling. The time taken for Utilities to carry out work is criminal.”

Bank lending restrictions and their valuation process is a problem. “Facilitate access and increase the availability of private finance.”

Do more to keep a lid on rising land costs that are putting the “heat on our industry.”