



The home of building

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

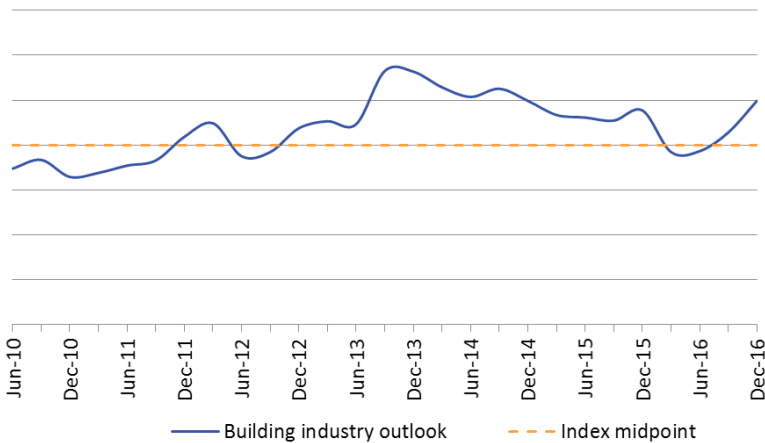
EDITION 29 DECEMBER 2016 QUARTER

Welcome to the December 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 December 2016 quarter, continuing to surge into positive territory. The largest proportion of respondents (45%) now regard the outlook as stronger.

Industry outlook



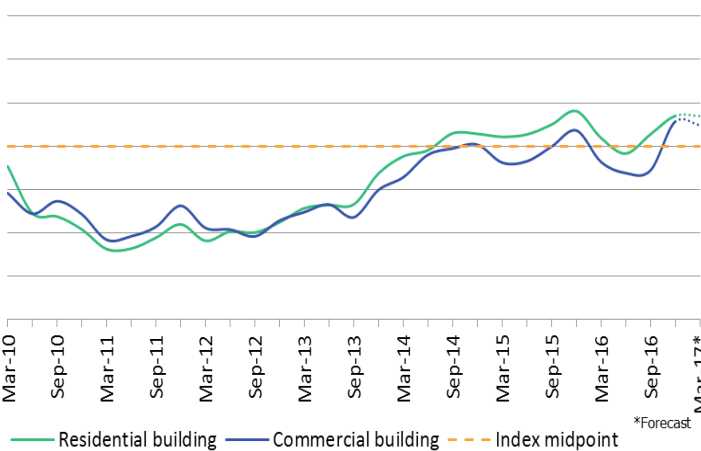
Source: Master Builders

12 month economic outlook Queensland building industry	
Stronger	45%
Stable	43%
Weaker	11%

Residential and commercial sectors

Conditions in the residential and commercial sectors increased during the December quarter. Nearly half (45%) of respondents regard conditions in the residential sector as stronger and nearly a third (31%) expect them to continue to improve. The outlook is similarly optimistic in the commercial sector, with 41% regarding conditions as stronger and a third (32%) expecting further growth.

Queensland building industry conditions



Source Master Builders

Residential sector conditions			
	Sep 2016	Dec 2016	Forecast
Stronger	44%	45%	31%
Stable	26%	34%	60%
Weaker	31%	22%	9%

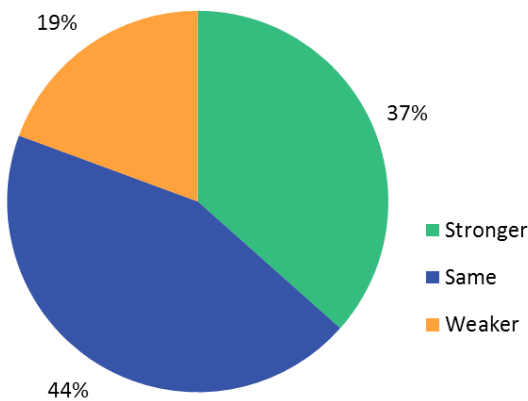
Commercial sector conditions			
	Sep 2016	Dec 2016	Forecast
Stronger	28%	41%	32%
Stable	33%	37%	52%
Weaker	39%	22%	15%

Business activity

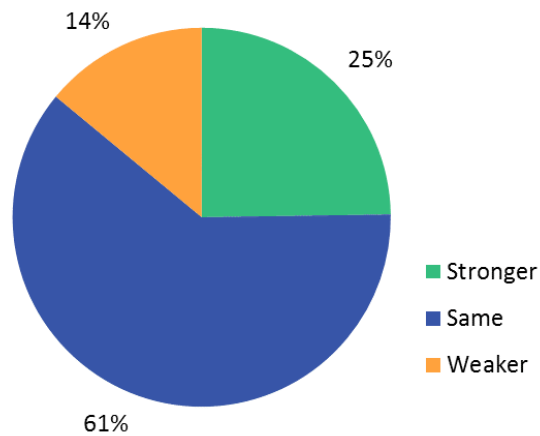
The level of business activity increased during the December quarter. More respondents (37%) are reporting stronger levels of work in progress, while fewer (19%) are reporting weaker levels. Businesses are also confident for the future, with nearly all respondents (89%) expecting the situation to improve or at least stabilise in the coming three months.

Correspondingly, average contract prices also strengthened. The majority of respondents (61%) saw prices hold steady for the quarter and there was a significant increase in those who reported stronger prices (up to 25%). This is expected to continue into the coming quarter.

Work in progress



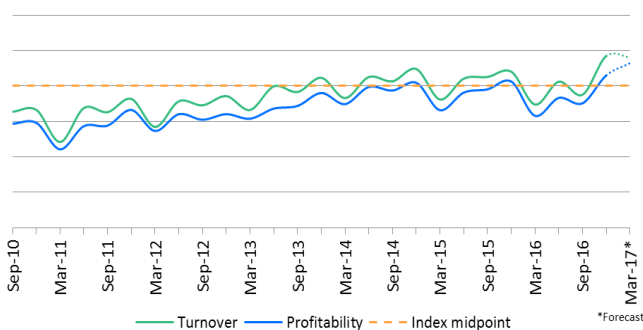
Average contract price



Turnover and profitability

Turnover and profitability stabilised for the December 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



Source Master Builders

Turnover			
	Sep 2016	Dec 2016	Forecast
Stronger	30%	45%	43%
Stable	40%	38%	38%
Weaker	29%	18%	18%

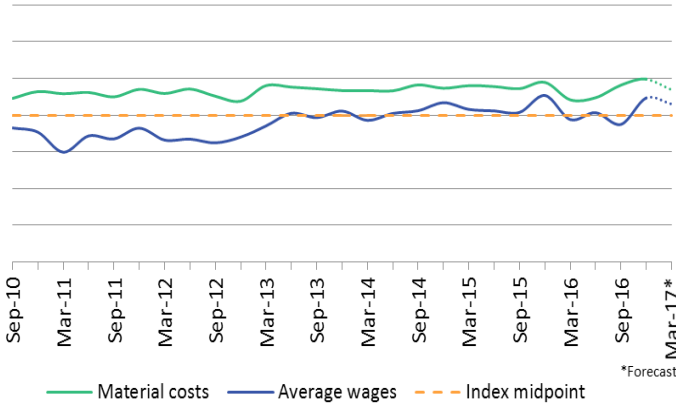
Profitability			
	Sep 2016	Dec 2016	Forecast
Stronger	24%	35%	38%
Stable	47%	42%	47%
Weaker	29%	23%	15%

Input costs – wages and materials

There was an increase in the proportion of respondents reporting higher costs for the quarter – up to 44%. However, for the majority of respondents (50%), costs remained stable and are expected to stay that way.

While average wages increased for a significant proportion of respondents (up to 32%), they remained unchanged for the majority (56%). This is expected to continue for three months (66%).

Input costs



Source Master Builders

Material costs			
	Sep 2016	Dec 2016	Forecast
Stronger	41%	44%	36%
Stable	51%	50%	53%
Weaker	8%	6%	11%

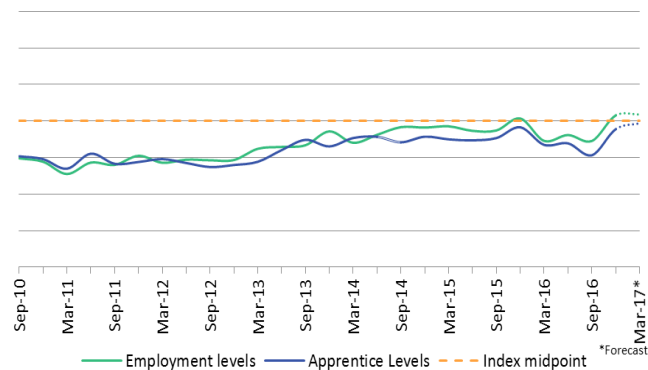
Average wages			
	Sep 2016	Dec 2016	Forecast
Stronger	16%	32%	23%
Stable	64%	56%	66%
Weaker	20%	11%	10%

Employment levels and skills shortages

Employment levels also strengthened, returning to positive territory. This is expected to continue into the coming March quarter, with nearly three-in-four (68%) businesses anticipating no further change.

While apprenticeship levels were stable for the most part (67%), a larger number of respondents (16%) reported stronger conditions. This is expected to stabilise during the next few months with the majority (77%) of businesses expecting to maintain their current level of apprentices.

Employment



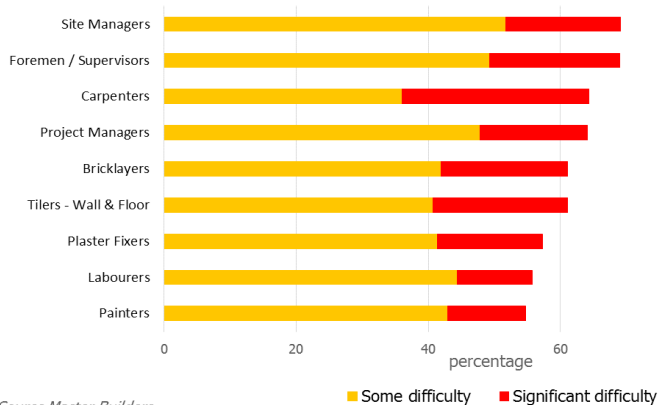
Source: Master Builders

Employment Levels			
	Sep 2016	Dec 2016	Forecast
Stronger	12%	22%	21%
Stable	64%	62%	68%
Weaker	24%	16%	11%

Apprentice levels			
	Sep 2016	Dec 2016	Forecast
Stronger	5%	16%	12%
Stable	70%	67%	77%
Weaker	25%	17%	11%

There was a marked increase in difficulty in finding senior staff, such as supervisors, site managers and project managers. It also became more challenging to find carpenters, while bricklayers moved down the list.

Difficulty finding key staff



Source Master Builders

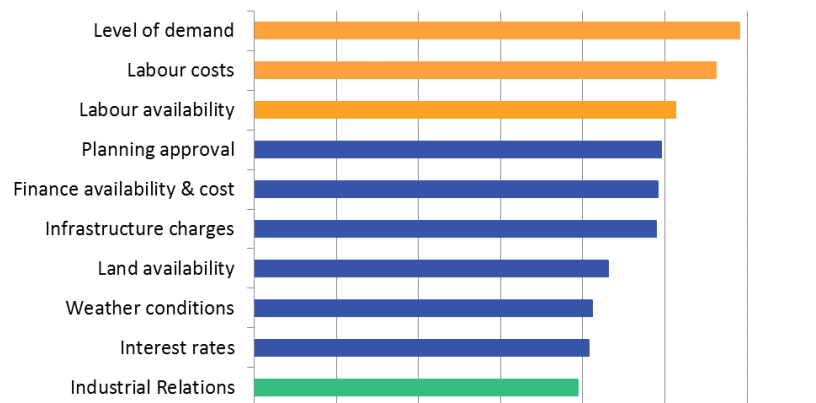
Business Constraints

Low levels of demand have continued as the most significant 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 also 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.

Planning approval is another major constraint, with reports that the growing challenge of getting a project underway is causing frustration among builders and developers.

Constraints on business growth in Queensland



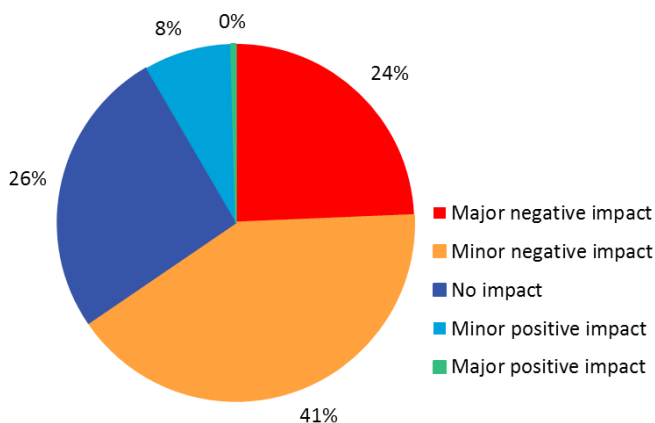
Source Master Builders

Housing affordability

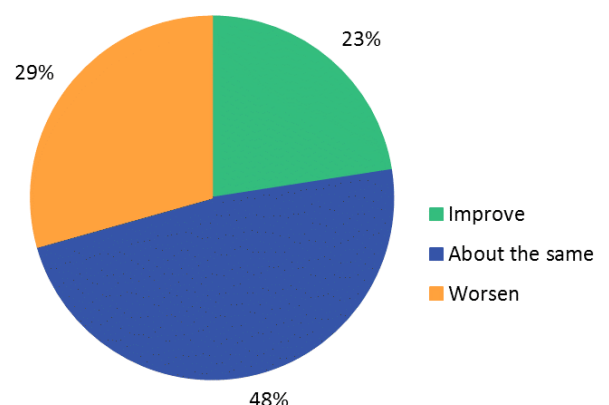
The outlook for housing affordability grew more troubling in the December quarter. Nearly a third of respondents (29%) think the situation is deteriorating. While interest rates remain low and building costs are competitive, the ability to invest continues to fall, with stagnating wages and a tightening of finance terms by lenders, especially for investors.

New housing continues to be beyond the reach of many, with nearly two out of three (65%) respondents saying affordability is negatively impacting new housing demand.

Impact of affordability on new housing demand



Outlook for housing affordability



Regional summary

While confidence moved up across all regions, the Gold Coast remains the stand out performer. The Darling Downs and SWQ also had a strong quarter off the back of strong demand for non-residential construction.

For Greater Brisbane, as the demand for new inner-city units cools, it is shifting in favour of smaller unit projects, townhouses and detached houses in the suburbs.

The resource regions of Central Queensland, Mackay & Whitsunday and North Queensland have finally enjoyed large improvements during the December quarter, despite starting at a low base. While some moderation is expected, it is clear the worst is now behind them.

The Sunshine Coast and Far North Queensland also recorded improvements, although these were more modest than their neighbours.

Wide Bay Burnett continues to quietly tick along, mostly avoiding the swings experienced in other regions.

Region	Building industry outlook	Turnover	Profit	Employment	Average wages	Level of work
Greater Brisbane	53.6	60.0	53.9	50.6	56.6	57.1
Gold Coast	60.3	67.2	55.9	60.9	65.0	60.3
Sunshine Coast	61.5	58.0	51.0	51.1	56.3	60.0
Darling Downs & South West Queensland	62.5	68.8	60.9	60.9	54.7	57.4
Wide Bay Burnett	60.3	52.9	47.1	48.4	48.4	51.5
Central Queensland	63.1	47.6	47.6	38.2	40.8	38.1
Mackay & Whitsunday	68.8	56.3	52.1	56.3	56.3	50.0
North Queensland	67.3	55.8	51.9	54.2	52.1	46.2
Far North Queensland	73.2	58.9	60.7	55.8	57.7	57.1
Queensland	59.9	58.5	53.0	51.5	54.7	54.5

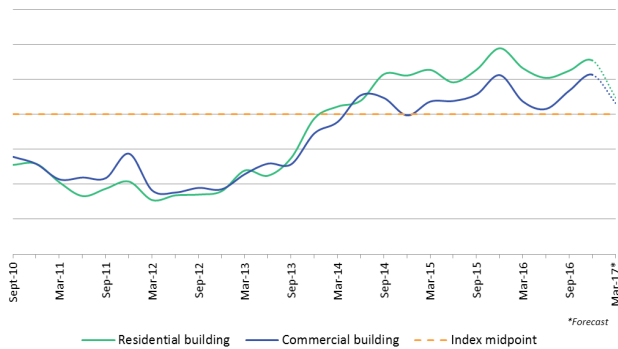
*An Index of 50 represents a neutral position, below 50 is negative and above positive.

Greater Brisbane

Confidence in the 12-month outlook for the building and construction industry rose again during the December quarter, adding to the improvement in the previous September quarter.

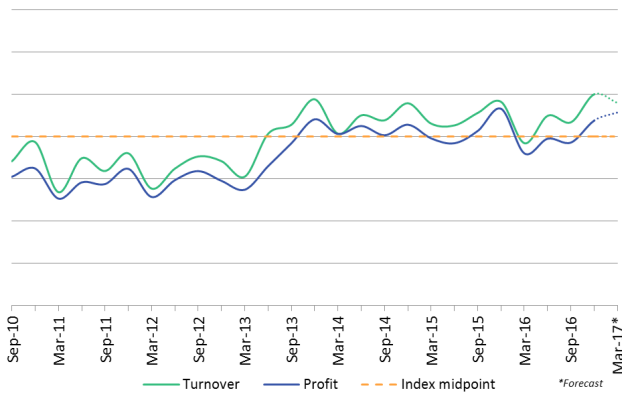
Trading conditions in the residential and commercial sectors also improved. However, the constant commentary of a looming oversupply in units is affecting the outlook for the future.

Trading conditions - Greater Brisbane



Turnover and profitability, also surged forward. These elevated levels are expected to continue.

Business Performance - Greater Brisbane



Employment levels remained stable, with more than half (61%) of businesses planning to maintain their current workforce. Similarly, 64% of businesses are expecting to maintain their apprenticeship levels.

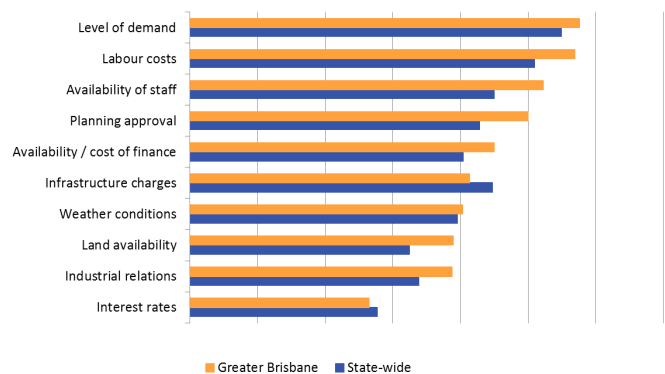
The current employment market is helping to stabilise wage growth, with nearly two-thirds of respondents (62%) reporting that wages are stable. This is expected to remain for the next three months.

In spite of this, respondents are continuing to report difficulties in recruiting key trades, namely carpenters, bricklayers and plaster fixers.

The 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

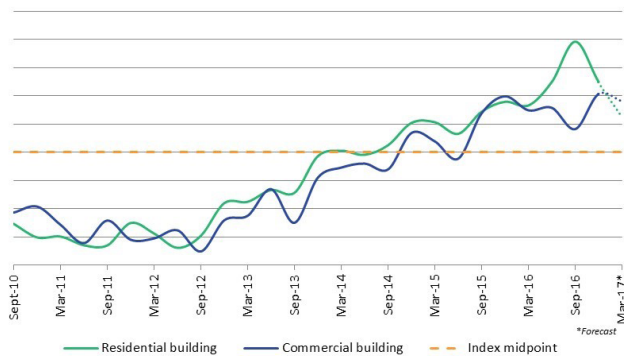


Gold Coast

Business confidence in the building and construction industry on the Gold Coast improved again, remaining strong for the December quarter.

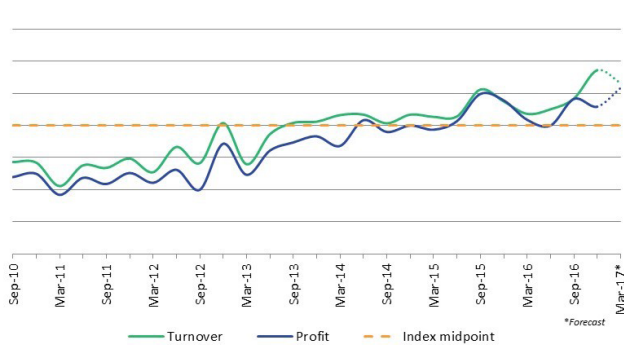
Trading conditions in the residential sector lost the gains of the previous quarter but demand remained strong. Respondents were less confident for the future as the continued commentary on an expected oversupply dampened the outlook. The commercial sector moved forward and is expected to hold this ground for the coming three months.

Trading conditions - Gold Coast



Turnover and profitability remained in positive territory and are expected to remain elevated for the coming three months.

Business Performance - Gold Coast



Employment levels remained stable, with three quarters (75%) of respondents reporting no change. Once again, confidence in the future remains with apprenticeship levels remaining stable for the majority of respondents (86%). This is expected to continue into the coming quarter.

The pressure on wages continued to build, with more than half (53%) of businesses reporting wage increases. This is expected to stabilise during the coming quarter as the labour market adjusts to the higher level of demand on the Gold Coast.

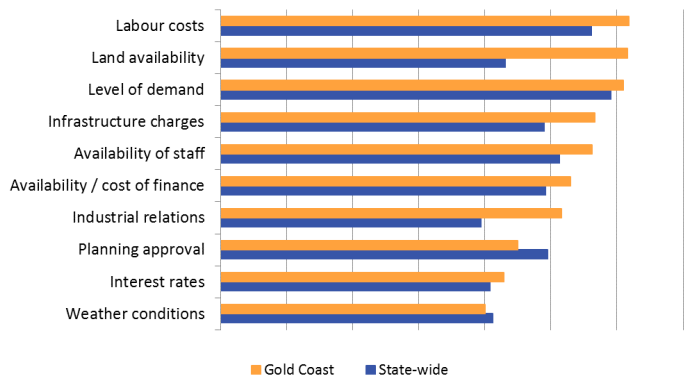
This is evident in that respondents say they have no difficulties recruiting qualified staff.

Labour costs are the most 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.

Land availability is a growing constraint. Increased delays in getting titles through means that blocks are being held in limbo for what can be months, delaying construction before being released.

The elevated levels 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.

Constraints - Gold Coast

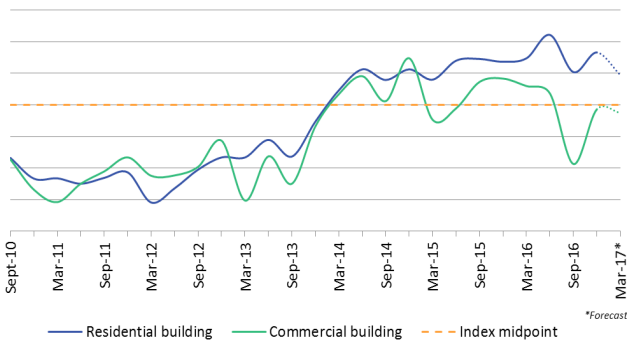


Sunshine Coast

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

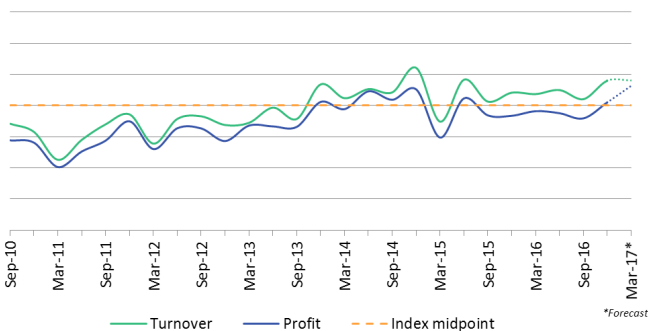
This movement was supported by a surge in trading conditions for the residential and commercial sectors. The commercial sector, in particular, enjoyed a strong improvement and while not yet moving into positive territory, it is expected to hold onto these gains. The residential sector will continue trading well within positive territory.

Trading conditions - Sunshine Coast



Turnover and profitability also improved during the quarter and both indicators are expected to continue to do well for the coming three months.

Business Performance - Sunshine Coast



Employment levels in the industry stabilised, with the majority of respondents (70%) reporting stable employee and subcontractor levels. Apprenticeship levels were also stable. This is expected to continue.

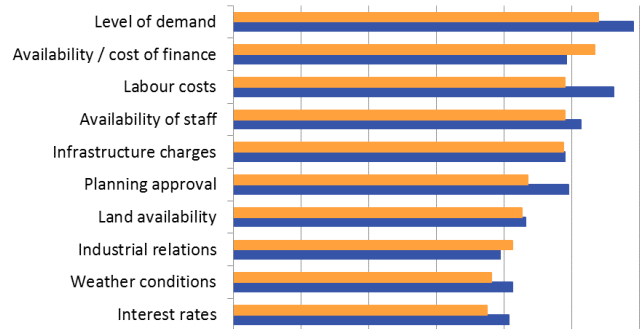
Wage levels also remained steady with half of respondents (50%) reporting no change. The employment market is tightening however, with difficulties in recruiting tilers, bricklayers, plumbers and carpenters.

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.

The restrictions being imposed by lenders are beginning to challenge the industry as the availability and cost of finance grows as a constraint.

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

Constraints - Sunshine Coast

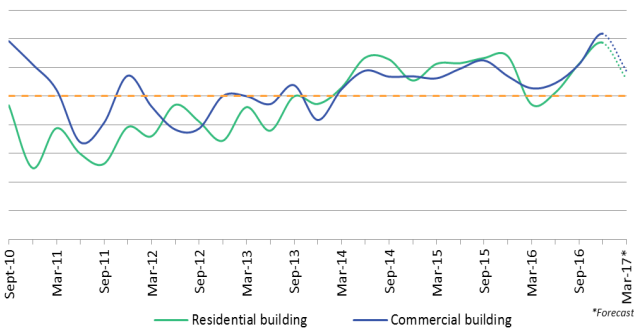


Darling Downs & South West Queensland

Regional confidence in the building and construction industry further improved during the December quarter.

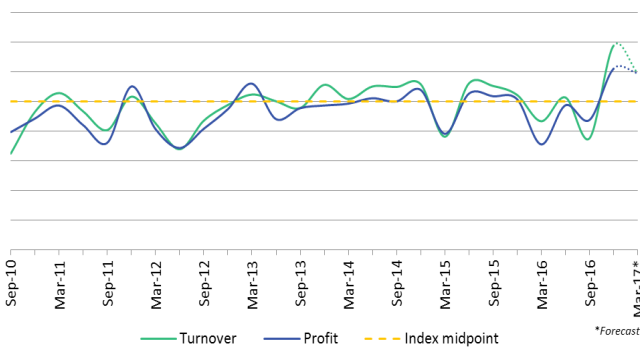
The rise in confidence mirrors a rise in trading conditions where conditions in the residential and commercial sectors improved strongly. Respondents are not yet confident that this improvement can be sustained.

Trading conditions - Darling Downs & South West Queensland



Similarly, there was a sharp improvement in turnover and profitability for the quarter and once again the outlook for the coming three months is more muted.

Business Performance - Darling Downs & South West Queensland



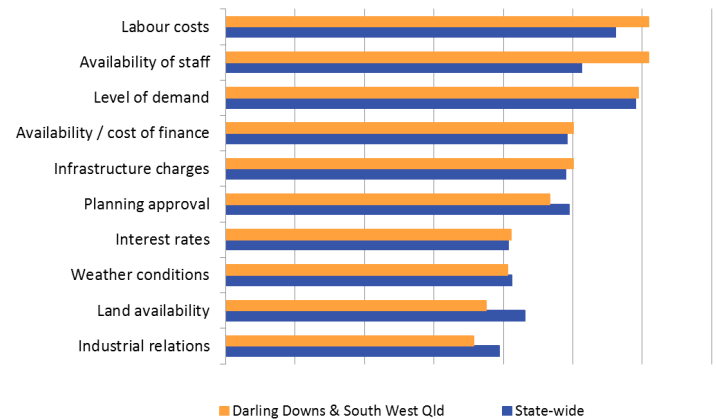
Employment levels reflected the improved conditions, with a large increase in the number of respondents reporting stronger conditions – up to 44%. Wage levels were more stable with 69% of respondents reporting no change. Both employment and wage levels are expected to stabilise. Apprenticeship levels held steady and there is no sign of a change in the immediate future.

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

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

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

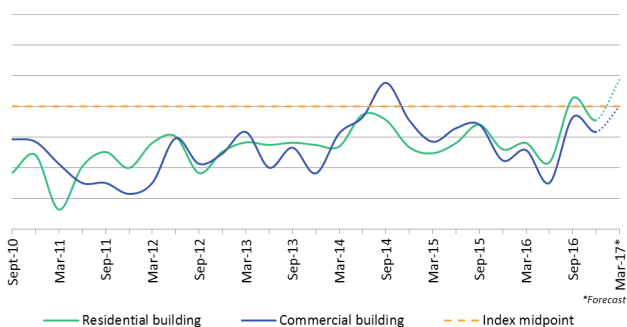


Wide Bay Burnett

Business confidence in the building and construction industry continued at a high level during the December quarter.

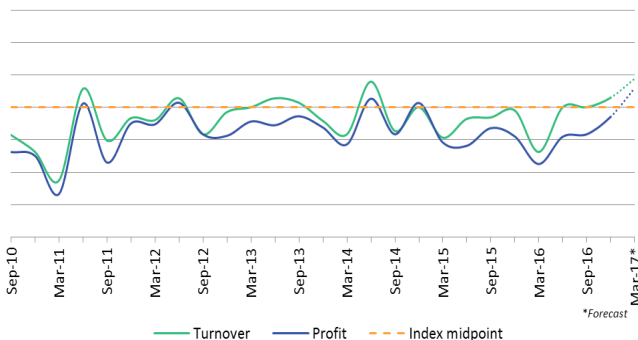
Despite the strong confidence, trading conditions in the residential commercial sectors decreased. This was a temporary adjustment, following the significant gains of the previous quarter. Renewed improvements are expected in the coming three months.

Trading conditions - Wide Bay Burnett



Business performance indicators, turnover and profitability improved. Further gains are expected, moving business performance into positive territory.

Business Performance - Wide Bay Burnett



Employment prospects in the region were stable with the majority of respondents (69%) reporting no change to employee and subcontractor levels. Correspondingly, wage levels were also stable with 69% reporting no change. The majority of respondents (73%) also said that apprenticeship levels are now stable.

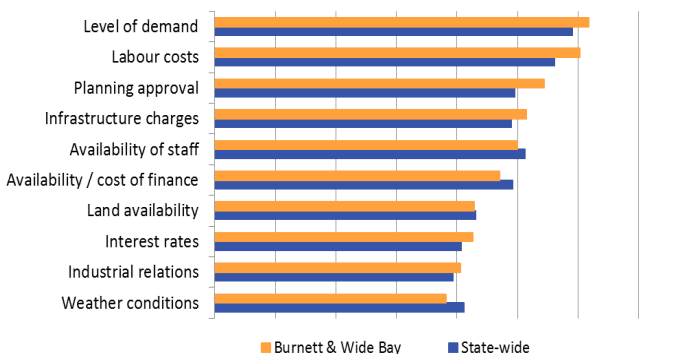
Respondents are anticipating no changes into the March quarter.

There are pockets of the industry where it is becoming difficult to recruit key trades, namely steel fixers and carpenters.

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.

In a competitive tendering environment, key input costs such as labour costs, planning approvals and infrastructure charges serve to act as a major constraint to delivering projects on budget.

Constraints - Wide Bay Burnett

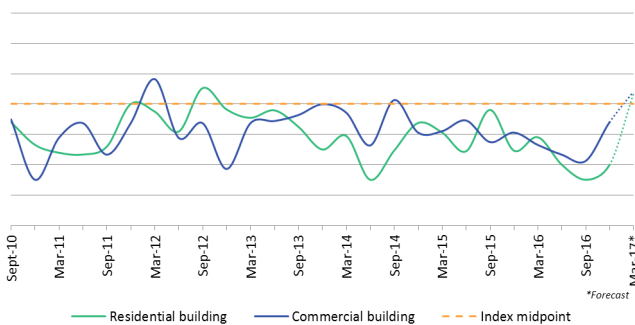


Central Queensland

Confidence in the local building and construction industry surged during the December quarter as the region continues to leave the worst of the downturn behind.

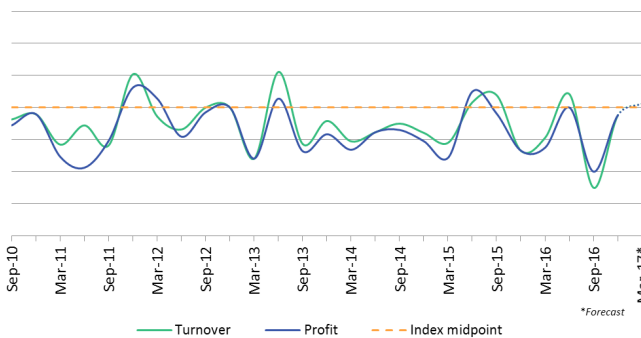
This confidence is well founded as trading conditions also rose, with further gains expected in the coming three months. The expectation is that conditions may at last return to positive territory by March.

Trading conditions - Central Queensland



This result was mirrored in turnover and profitability with a large surge bringing both indicators within touching distance of positive territory.

Business Performance - Central Queensland



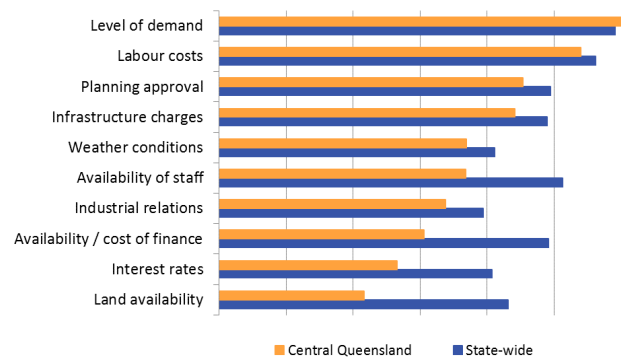
Employment levels have begun to stabilise, following the sharp drops of the previous quarter. More than half of respondents (53%) are reporting no change in employee and subcontractor levels. There is an expectation that this will stabilise further, with 68% expecting no change in employment levels for 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, planning approval 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

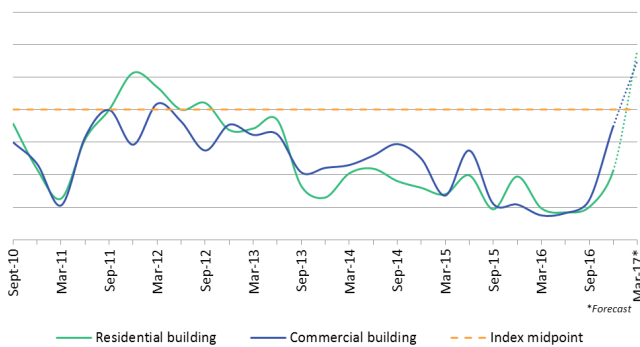


Mackay & Whitsunday

Business confidence in the building and construction industry continued to grow during the December quarter, moving to a record high.

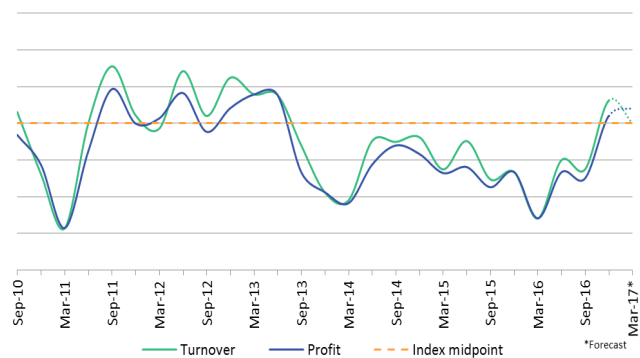
The confidence is unpinned by strong improvements in the residential and commercial sectors. There is a strong expectation that this will improve further, possibly returning to positive territory for what would be the first time in more than four years.

Trading conditions - Mackay & Whitsunday



Business performance in the region also improved, with turnover and profitability recording sharp increases and returning to positive territory. Both indicators are expected to remain positive into the coming three months.

Business Performance - Mackay & Whitsunday



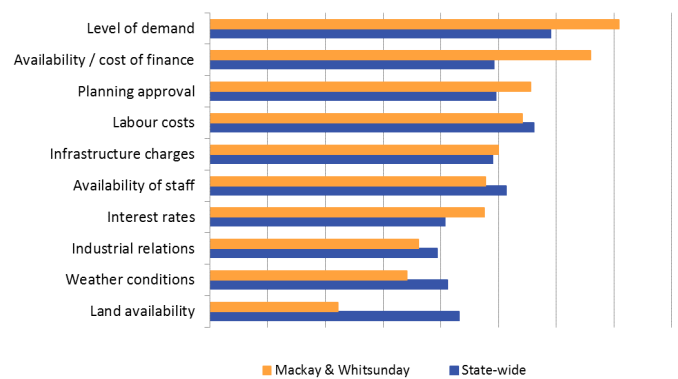
Employment levels in the region strengthened with half of all respondents recording stronger employee and subcontractor levels. Average wages responded to the surge, similarly strengthening. Apprenticeship levels remained stable with 71% of respondents registering no change. The majority of respondents anticipate the current levels will be maintained for the coming three months.

Despite the surge in employment, there are only a few reports of senior staff, such as project managers and site managers, becoming more difficult to recruit.

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.

Lender valuations and the limits they place on borrowing are acting as a constraint on otherwise viable projects, further stifling demand.

Constraints - Mackay & Whitsunday

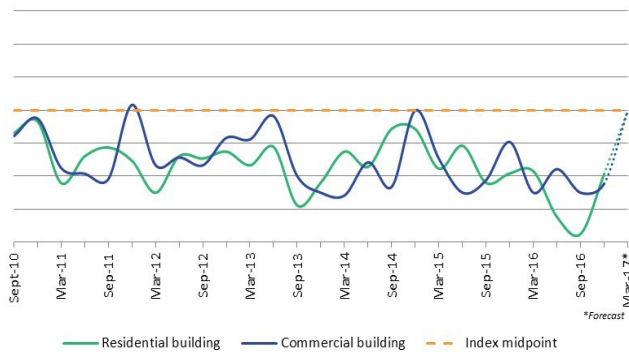


North Queensland

Business confidence in the building and construction industry improved during the December quarter, moving to a record high.

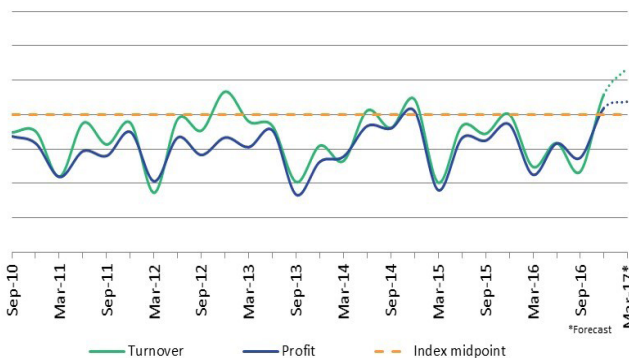
The confidence is underpinned by an upturn in trading conditions for the residential and commercial sectors. Further, strong improvements are expected during the coming three months.

Trading conditions - North Queensland



Business performance indicators also surged, with turnover and profitability returning to positive territory. Further improvements are expected.

Business Performance - North Queensland

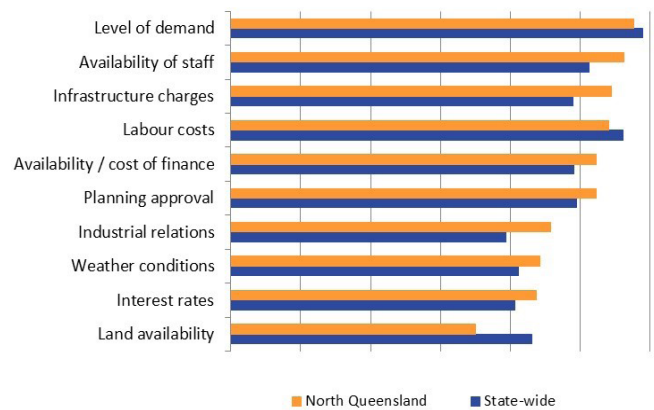


Employment levels remained stable with three quarters of all respondents (75%) reporting no change. Similar results were recorded with apprentice levels (71% reported they were unchanged) and wage levels (58% reported they were unchanged). There is the expectation that the situation will continue to remain stable into the coming three months.

Unsurprisingly, given the stable employment conditions, there were few reports of any difficulty 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 December quarter continued to be the lacklustre level of demand.

Constraints - North Queensland

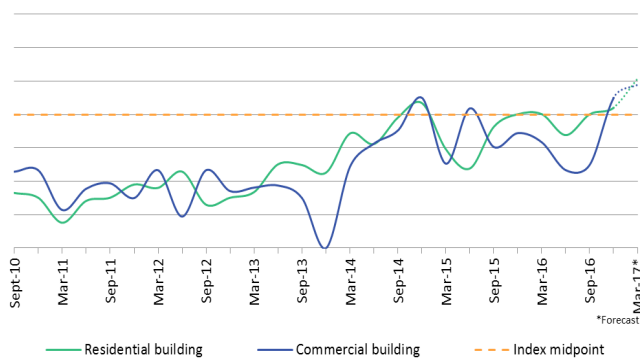


Far North Queensland

Business confidence in the building and construction industry and the Queensland economy improved further during the December quarter.

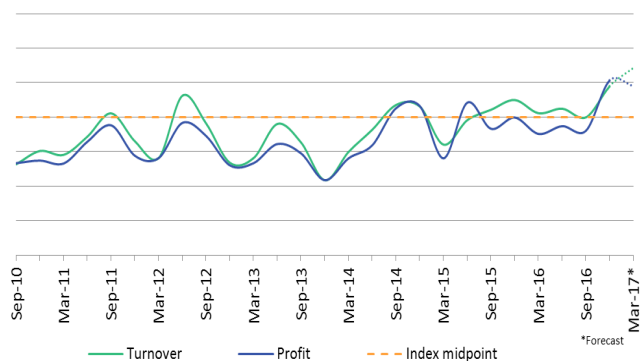
Trading conditions in the residential and commercial sectors surged forward during the quarter and further improvements are expected. The commercial sector in particular, enjoyed strong improvements in trading conditions.

Trading conditions - Far North Queensland



Indicators for turnover and profitability also moved forward and are expected to remain at this elevated level for the coming three months.

Business Performance - Far North Queensland

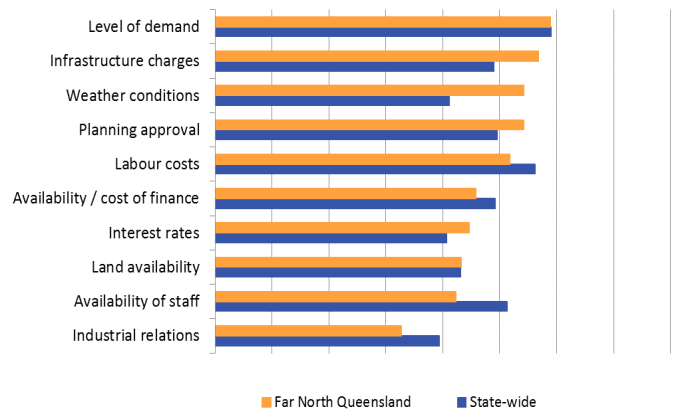


Employment levels in the region remained stable, with more than two thirds of all respondents (69%) reporting no change. Similar results were recorded with apprentice levels (78% reported no change) and wage levels (62% reported no change). Going forward there is the expectation that the situation will 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.

Constraints - Far North Queensland



Hot Topic – QUEENSLAND BUILDING PLAN

Project Bank Accounts

While there was strong support for a mechanism that would ensure payment, there were concerns that a system of project bank accounts would not work as intended. There were also concerns that such a system, while well intended, would tie up businesses with more complexity and paperwork. Those respondents who are currently being paid promptly were worried that their payments would be delayed. Others could not see it working with existing contractual arrangements. Respondents were also concerned about giving banks a role in the payment process.

License and insurance thresholds

The majority of respondents felt that both thresholds should remain unchanged. There was a concern that raising the threshold would open the way for unqualified “handymen” and that the current level provides a “reasonable level for consumer protection.” “It provides peace of mind.” Those who could see a need for a change cited rising construction costs and the fact that “\$3,300 does not go far anymore.” Those in favour of seeing an increase also argued that at the current level it has a disproportionate effect on the affordability of the job.

Housing Code

Not having seen drafts of the proposed Code, respondents were reluctant to give their support. There was support for a document that resulted in “less confusion” and was an “easier reference document.” There was scepticism that a code would change anything – “compliance is still required regardless of how it is written.”

Engaging building certifiers

The majority of respondents opposed the idea of a ‘cab rank’ model for assigning building certifiers. A strong relationship with the certifier was seen by many as important in delivering a quality project. The lack of an ongoing relationship would make it more difficult to get answers to questions as they arise and may lead to issues being ignored or avoided. There is also a concern that it would allow certifier standards to drop. “Substandard certifiers are not adequately reprimanded and the choice to use a good certifier would be taken away.” Respondents questioned whether certifiers with the right experience would be assigned on specialist projects. “The next one available does not mean they are the most experienced or suitable.”

Investigating and prosecuting non-conforming products

Respondents were almost universally in favour of stronger government intervention to stem the flow of non-conforming products. “Someone has to step up and take responsibility.” “Definitely as it will allow building with realistic prices, using quality projects to win more jobs.” There were questions asked as to who would pay for this and whether it would result in higher license fees. Also, who would undertake any identified remedial work and who would pay? It was important that suppliers to be held to account. “If it is available in a local store it should comply. It is not the builders’ forte to research the origin of a product and its correctness.”