



*The home of building*

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

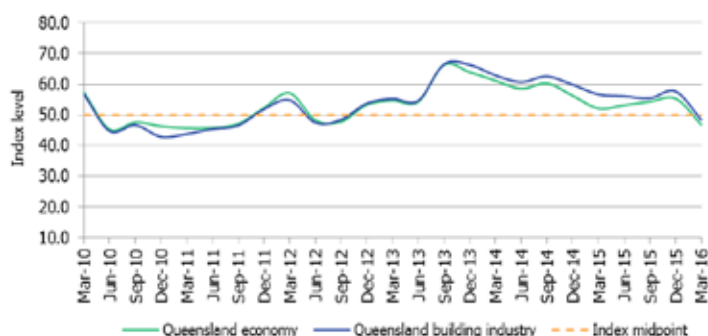
**EDITION 26** MARCH 2016 QUARTER

Welcome to the March 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 economy and building industry hit a wall in the March 2016 quarter and dropped into negative territory for the first time in more than three years.

### Queensland outlook



12 month economic outlook March 2016 quarter		
	Queensland economy	Queensland building industry
Stronger	21%	25%
Stable	48%	44%
Weaker	32%	31%
Index Level	46.9	48.4

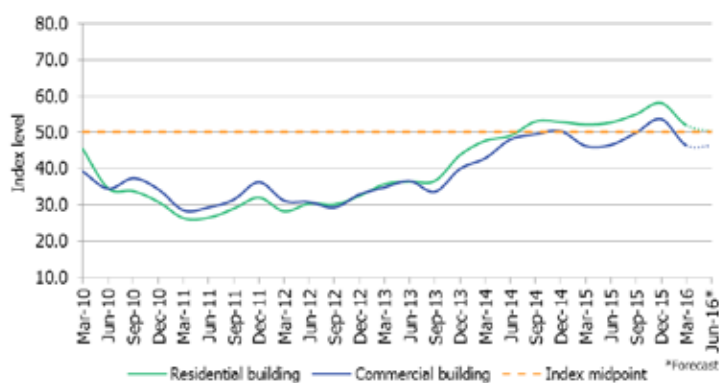
For the most part respondents expect the economic outlook for the Queensland economy (48%) and building industry (44%) to remain stable. However there is a growing number of respondents who now hold a more pessimistic outlook for the future. Nearly one-in-three respondents expect the economic outlook to deteriorate going forward. This is in line with recent building approvals which have moved off the peak.

## Conditions - residential and commercial sectors

Conditions in the residential and commercial sectors softened in the March quarter. For the commercial sector the drop was the result of more respondents seeing the conditions shift from stronger to stable, while a growing number of respondents in the residential sector forecast weaker conditions.

Encouragingly respondents from both sectors expect conditions to stabilise into the June quarter. More than half of respondents from the residential (62%) and commercial (51%) sectors expect conditions to be stable going forward.

### Queensland building industry conditions



Residential sector conditions			
	Dec 2015	Mar 2016	Jun 2016
Stronger	48%	39%	21%
Stable	31%	31%	62%
Weaker	21%	30%	18%
Index Level	58.1	51.9	50.3

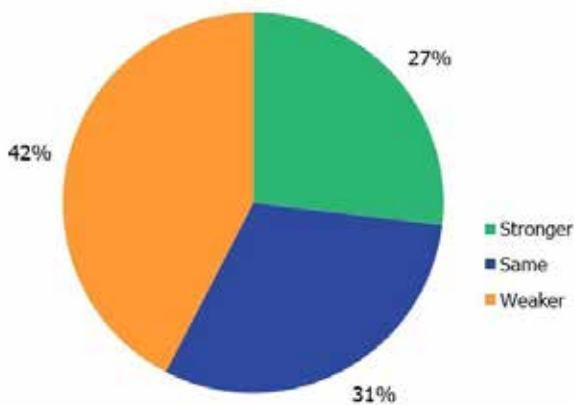
Commercial sector conditions			
	Dec 2015	Mar 2016	Jun 2016
Stronger	42%	25%	19%
Stable	29%	43%	51%
Weaker	29%	32%	30%
Index Level	53.6	46.4	46.3

## Business activity

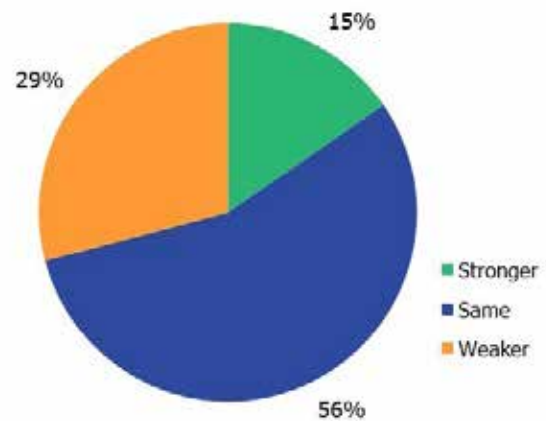
The level of business activity fell during the March quarter. Nearly half (42%) of all respondents are now reporting weaker levels of work in progress. Businesses are more confident for the future with the majority (72%) expecting the situation to improve or at least stabilise for the coming three months.

The story is similar for average contract prices. While the majority of respondents (56%) saw prices hold steady during the quarter there was an increase in the number of respondents reporting weaker contract prices (29%). This is expected to continue into the coming quarter.

### Work in progress



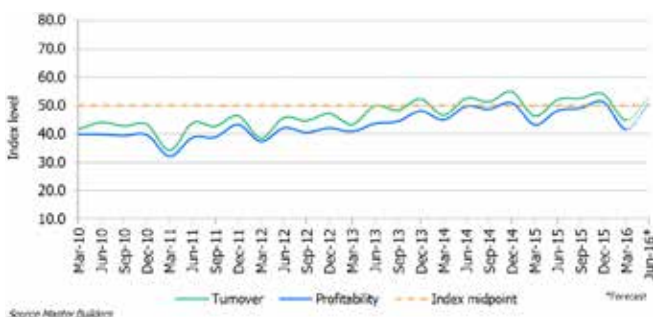
### Average contract price



## Turnover and profitability

Turnover and profitability dropped in the March quarter, with both indices turning negative. It is anticipated that this will only be temporary. The majority of respondents expect turnover and profitability to either improve or remain stable over the coming three months.

### Business performance



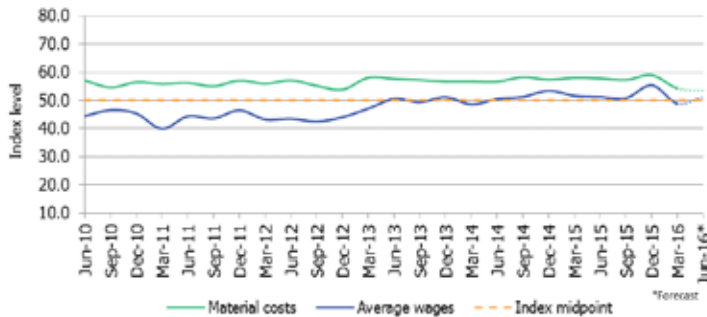
Turnover			
	Dec 2015	Mar 2016	Jun 2016
Stronger	39%	26%	33%
Stable	40%	37%	48%
Weaker	21%	37%	19%
Index Level	54.0	44.8	52.9

Profitability			
	Dec 2015	Mar 2016	Jun 2016
Stronger	34%	18%	28%
Stable	41%	43%	53%
Weaker	25%	39%	19%
Index Level	51.3	41.6	50.8

## Input costs – wages and materials

In an encouraging sign, wage and material costs stabilised for the quarter. The majority of respondents reported stable costs, while a reduced number reported increases, causing the index to fall back for the first time in three years. Going forward, more respondents expect material costs and average wages to stabilise at 59 per cent and 61 per cent respectively.

### Input costs



Material costs			
	Dec 2015	Mar 2016	Jun 2016
Stronger	43%	32%	29%
Stable	48%	55%	59%
Weaker	9%	13%	12%
Index level	58.9	54.2	53.4

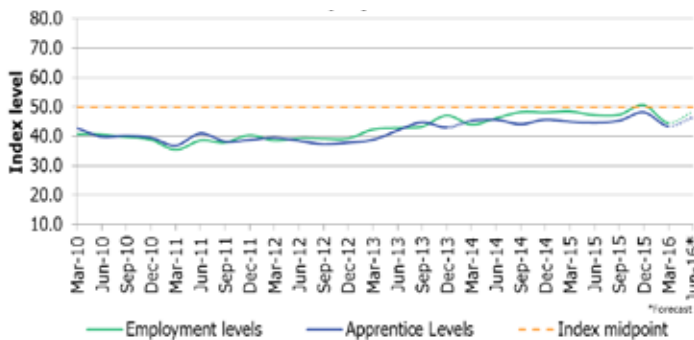
Average wages			
	Dec 2015	Mar 2016	Jun 2016
Stronger	34%	24%	24%
Stable	55%	52%	61%
Weaker	11%	23%	15%
Index level	55.3	48.8	51.1

## Employment levels and skills shortages

Employment levels dropped during the March quarter and returned to negative territory. A small rebound is expected for the coming June quarter, with nearly one-in-five (17%) businesses anticipating an improvement in employment levels.

While there was less movement in the demand for apprentices, it did soften during the quarter. This is expected to continue for the next few months with nearly three-quarters (69%) of businesses expecting to maintain their current level of apprentices.

### Employment levels

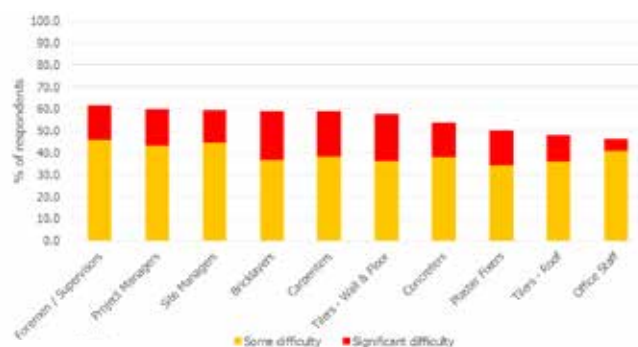


Employment Levels			
	Sep 2015	Dec 2015	Mar 2016
Stronger	16%	21%	21%
Stable	62%	64%	65%
Weaker	22%	15%	14%
Index level	47.4	50.4	51.2

Apprentice levels			
	Sep 2015	Dec 2015	Mar 2016
Stronger	10%	14%	15%
Stable	69%	70%	70%
Weaker	21%	16%	15%
Index level	48.3	48.0	49.5

While there was a marked decrease in the difficulty in finding key staff during the March quarter, finding suitability qualified supervising staff, bricklayers and carpenters continued to be challenging.

### Difficulty finding key staff



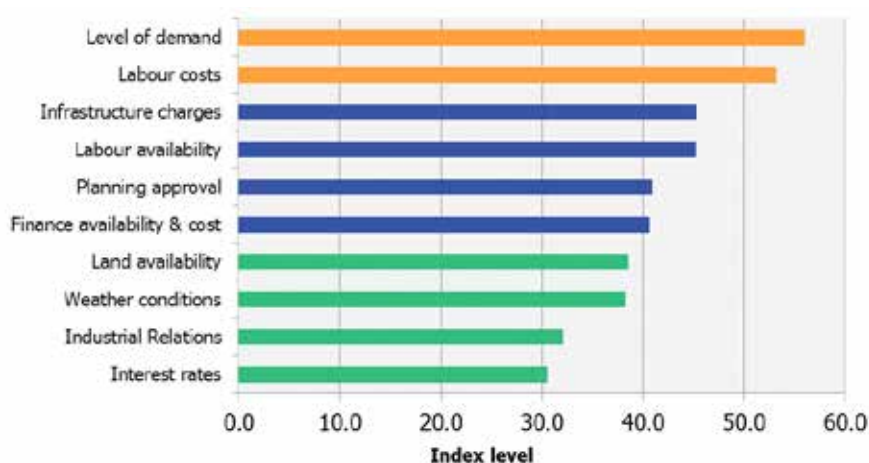
## Business Constraints

Low levels of demand have returned as the most critical constraint on business growth. This is in line with falls in building approvals over the same period and the concentrated nature of the demand which has failed to reach many regions and sectors of the industry.

Labour costs returned as the second most important constraint on the industry. As demand falls, builders are finding their margins squeezed further and are challenged by inflexible input costs.

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. It is vitally important that the government proceeds with the reform agenda in this area.

Constraints on business growth in Queensland

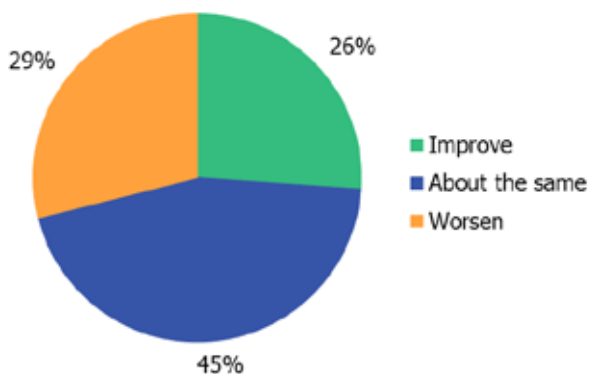


## Housing affordability

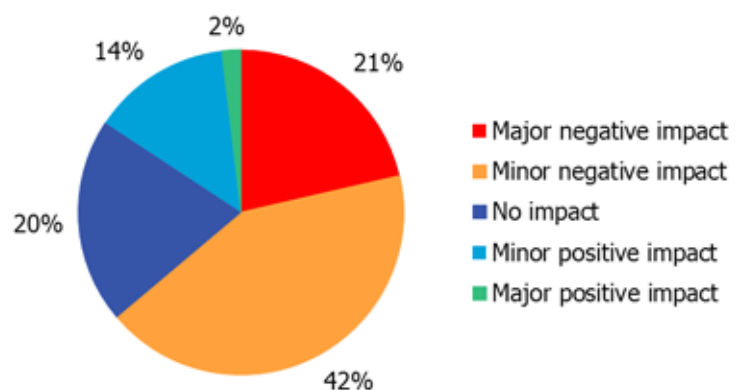
The outlook for housing affordability remained troubling during the March quarter. Nearly a third of respondents still regard the situation as deteriorating. While interest rates remain low and building costs are competitive, the ability to invest continues to fall with stagnating wages and a tightening of finance terms by banks, especially for investors.

New housing continues to be beyond the reach of many, with two thirds of respondents identifying affordability as having a negative impact on new housing demand.

Outlook for housing affordability



Impact of affordability on new housing demand



## Regional summary

The Gold and Sunshine Coasts now stand alone in maintaining a strong performance.

Central Queensland had a good quarter, moving off a low base and Far North Queensland continues as the stand out amongst the regions.

Greater Brisbane has come off its high as the demand for new unit construction begins to peak.

North Queensland and Wide Bay have slumped and joined Darling Downs & South West Queensland and Mackay Whitsunday in a struggle to find sufficient demand.

Overall, while many of the regions struggled through the March quarter they all remain confident that this is a temporary setback and that there will be a return to stronger conditions over the coming three months.

Region	Building industry outlook	Turnover	Profit	Employment	Average wages	Capital expenditure	Level of work
Greater Brisbane	46.4	48.4	46.0	49.4	53.0	50.4	52.4
Gold Coast	61.6	53.6	51.8	45.8	59.6	51.9	59.5
Sunshine Coast	56.0	53.7	48.1	45.8	48.9	46.2	55.2
Darling Downs & South West Queensland	48.1	43.3	35.6	42.7	47.0	42.0	48.1
Burnett Wide Bay	46.3	36.3	32.5	37.5	41.7	27.6	38.8
Central Queensland	46.9	40.6	37.5	41.7	53.3	43.8	32.8
Mackay & Whitsunday	42.0	24.1	24.1	31.0	32.7	28.7	20.5
North Queensland	41.3	34.8	32.6	31.3	27.8	28.6	26.1
Far North Queensland	52.2	51.2	45.2	53.8	55.3	44.0	47.7
Queensland	48.4	44.8	41.6	44.6	48.8	43.8	46.1

## Greater Brisbane

Business confidence in the building and construction industry slumped during the March quarter, returning to negative territory for the first time in more than three years.

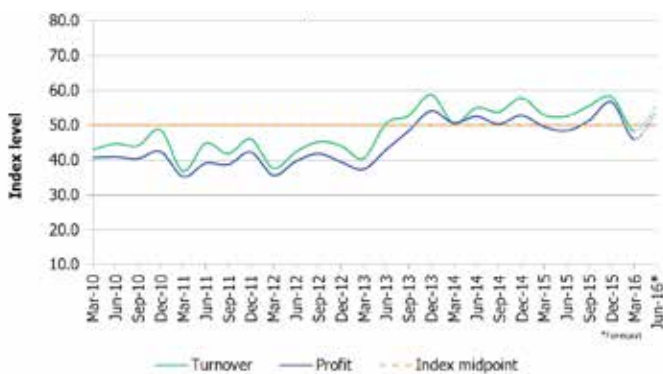
In line with falling confidence, trading conditions in the residential and commercial sectors fell sharply, yet remained in positive territory. A further drop is expected over the coming three months.

### Trading conditions - Greater Brisbane



Turnover and profitability also fell and returned to negative territory. Respondents are optimistic that this drop will only be temporary.

### Business Performance - Greater Brisbane



Employment levels stabilised during the three months to March. Two-in-three businesses (66%) are now planning on maintaining their current workforce. Similarly, 67 per cent of businesses are expecting to maintain their apprenticeship levels.

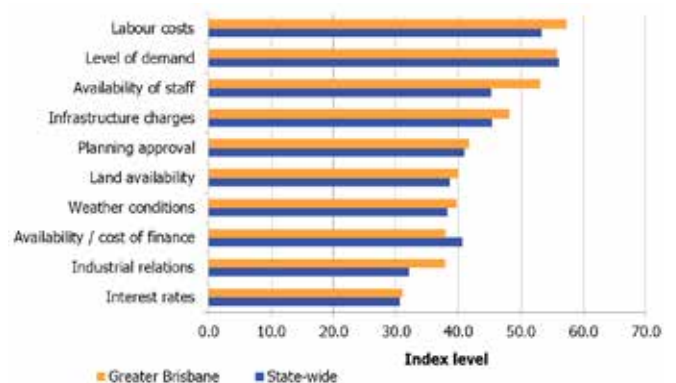
The stable employment market is helping to stabilise wage growth, with over a half of respondents (55%) reporting stable wages. This is expected to increase to two thirds (66%) over the next three months.

In spite of this respondents are continuing to report difficulties in recruiting key staff, namely bricklayers, wall and floor tilers and carpenters.

Labour costs continue as the most critical constraint for businesses operating in the region. Not surprisingly, the related challenges of securing appropriately qualified staff is also significant.

Another critical constraint on business growth was the lacklustre level of demand. 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.

### Constraints - Greater Brisbane



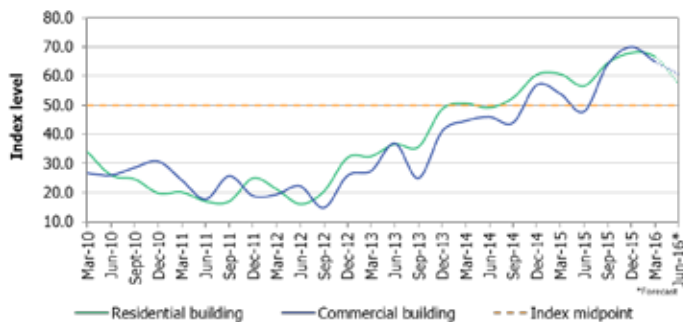


## Gold Coast

Business confidence in the building and construction industry on the Gold Coast declined during the March quarter, returning to levels seen a year ago.

Similarly, trading conditions for both the residential and commercial sectors moderated in the three months to March. Further drops are expected into the coming quarter.

### Trading conditions - Gold Coast



Turnover and profitability also weakened during the March quarter. There was an increased number of respondents reporting weaker turnover (25%) and profitability (29%). They remain optimistic, however, and expect an improvement within the next three months. The region's optimism is backed by strong building approval data.

### Business Performance - Gold Coast



Employment levels also weakened during the March quarter, with an increased number (33%) reporting weaker levels. Once again, confidence in the future remains with apprenticeship levels remaining stable for three out of four respondents (75%). This is expected to continue into the coming quarter.

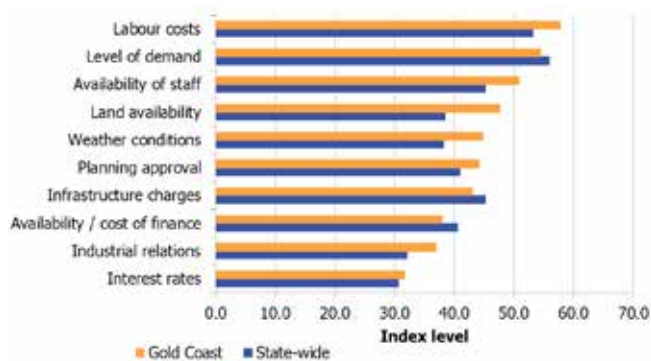
The pressure on wages continued to build, with more than a third (35%) of businesses reporting wage increases. This is expected to continue during the coming quarter as the labour market continues to respond to new levels of demand on the Gold Coast.

Respondents are reporting particular difficulties in recruiting senior staff such as project managers and supervisors as well as bricklayers, carpenters and concreters.

Unsurprisingly then, labour costs continue to be the number-one constraint in the region. The availability of staff is also a concern.

The level of demand is once again a major constraint as growth from the previous quarters begins to level-out.

### Constraints - Gold Coast





## Sunshine Coast

Business confidence in the building and construction industry remained at a high level during the March quarter.

Trading conditions in the residential sector moved to new record high for the quarter, while the commercial sector softened but remained strong. Some moderation is expected going forward.

### Trading conditions - Sunshine Coast



Both turnover and profit remained unchanged over the quarter. While respondents are reporting good turnover, competition is still such that they are less able to convert that into improved profits. This trend is expected to continue into the coming quarter.

### Business Performance - Sunshine Coast



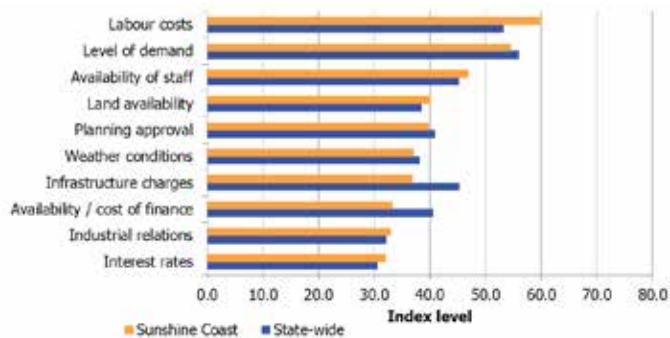
Employment levels in the industry held steady for the three months to March, with the majority of respondents (67%) reporting no change to employee and subcontractor levels. Apprenticeship levels were also stable. This is expected to continue into the next quarter.

The employment market remains flexible. There are few challenges in finding suitably qualified staff and wage levels are steady.

Labour costs continue to be the most critical constraint for businesses operating in the region. As a key input cost this is a reflection of low margins that continue to be squeezed. Not surprisingly, the related challenges of securing appropriately qualified staff is also growing.

Another critical constraint on business growth was the lacklustre level of demand. 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.

### Constraints - Sunshine Coast



## Darling Downs & South West Queensland

Regional confidence in the building and construction industry and the Queensland economy slid into negative territory during the March quarter.

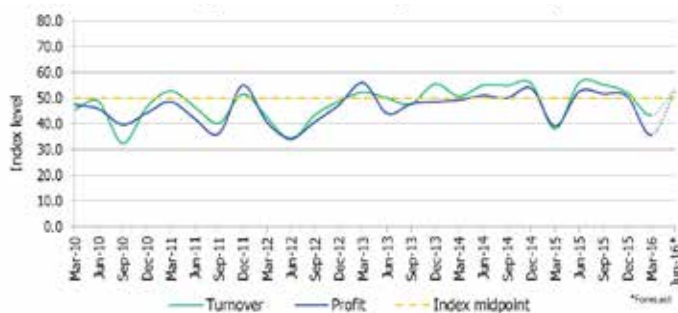
This muted confidence is backed by a similar drop in trading conditions for the residential and commercial sectors. The drop was sharpest for the residential sector. This is expected to ease going forward and the commercial sector should remain in positive territory over the next three months.

### Trading conditions - Darling Downs & South West Queensland



There were similar sharp drops in turnover and profitability during the quarter with both returning to negative territory. Profitability has now slid to a level that has not been seen in nearly three years. Encouragingly, this drop is only expected to be temporary.

### Business Performance - Darling Downs & South West Queensland



In spite of the drop, employment levels have remained steady. Nearly three quarters of respondents (71%) are reporting no change in the work available for employees and subcontractors. Wage levels are similarly stable with 60 per cent of respondents reporting no change. Employment

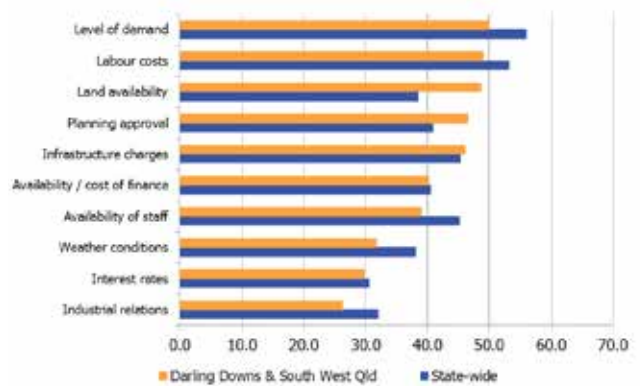
and wage levels are expected to remain unchanged going forward. Apprenticeship levels held steady and there is no sign of a change going forward.

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

The key constraint on business growth was the lacklustre level of demand. The region continues to be challenged by the downturn in resource investment and with it oversupply, weak confidence, fears about job security and household finances.

Labour costs and land availability as a key cost inputs are also challenging builders who struggle to provide an affordable product.

### Constraints - Darling Downs & South West Queensland

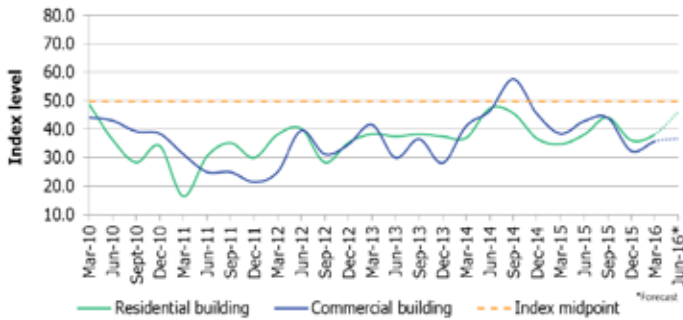


## Wide Bay Burnett

Business confidence in the Queensland economy and the building and construction industry continued to slump during the March quarter.

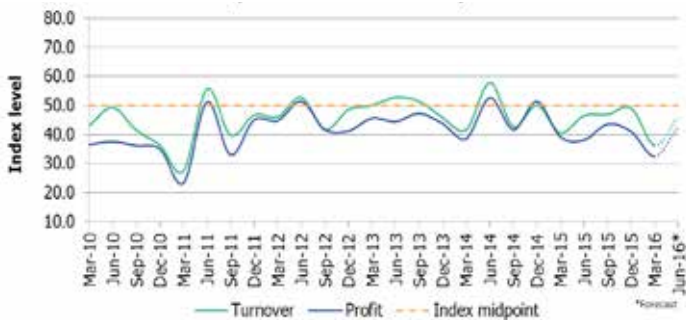
This is a reflection of challenging trading conditions in both the residential and commercial sectors which continued to languish in negative territory. Encouragingly, there is an expectation that this will improve in the coming three months.

### Trading conditions - Wide Bay Burnett



Business performance is a concern with turnover and profitability falling. Once again there is some confidence that there will be an improvement going forward.

### Business Performance - Wide Bay Burnett



Employment prospects in the region weakened with a two in five respondents (40%) reporting lower employee and subcontractor levels. Correspondingly, wage levels also fell with 33 per cent reporting a drop. This is expected to stabilise into the June quarter.

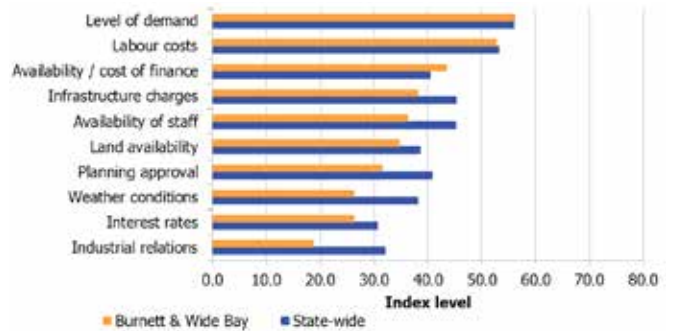
The majority of respondents (73%) reported that apprenticeship levels are now stable. This is expected to continue over the next three months.

When it came to recruiting staff, few businesses reported serious difficulties in recruiting and retaining suitably qualified employees and subcontractors.

The lacklustre level of demand is once again one of the most critical constraints on business growth in the region.

In the context of weak demand, development costs such as labour costs, the availability/cost of finance and infrastructure charges rate as a significant concern, pushing costs beyond what is affordable. It is important therefore for the government to continue to pursue reform in these areas.

### Constraints - Wide Bay Burnett

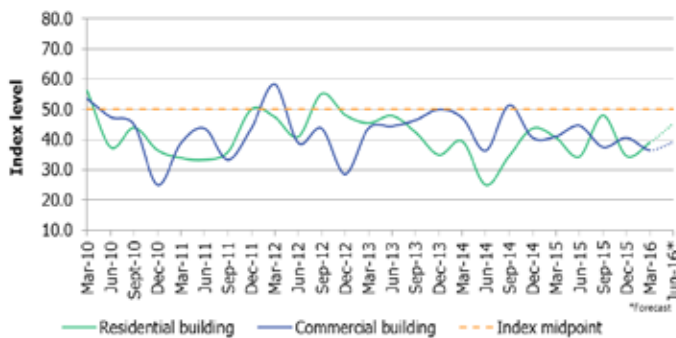


## Central Queensland

Local confidence in the Queensland economy and the building and construction industry rose off a low base as the region begins to believe that the worst may be behind them.

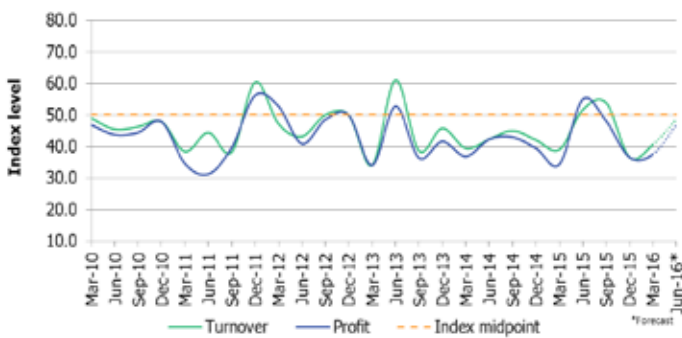
Trading conditions in the residential sector moved up but remained in negative territory. There was a drop in the commercial sector as the gains of previous quarter were lost. The region remains confident that conditions will improve going forward.

### Trading conditions - Central Queensland



Turnover and profitability moved up, recovering some of the losses of the previous quarter. Looking forward this is expected to continue to improve.

### Business Performance - Central Queensland



Unfortunately there has been a drop in employment levels with nearly half (47%) of respondents recording a fall in the work available for employees and subcontractors. This is expected to stabilise during the coming three months with 73 per cent expecting no further fluctuations.

Wage levels on the other hand have remained stable and this is expected to continue during the coming three months. Employment for apprentices has also

remained stable and will continue to be so for the coming three months.

When it came to recruiting staff, few businesses reported any difficulty in recruiting and retaining suitably qualified employees and subcontractors.

The availability and cost of finance is growing as a constraint as banks take an increasingly conservative approach to investment loans in response to the housing boom in southern markets.

In the context of weak demand, development costs such as infrastructure charges rate as a significant concern, pushing costs beyond what is affordable. It is important therefore for the government to pursue reform in these areas.

### Constraints - Central Queensland



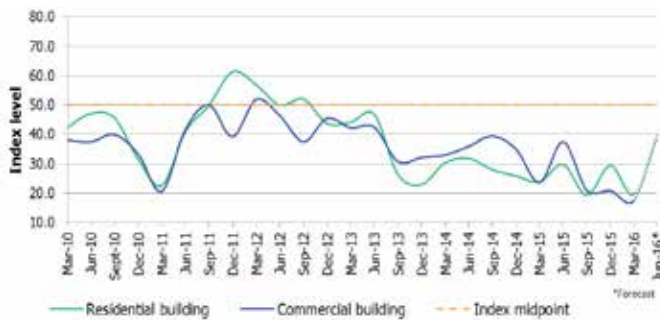
## Mackay & Whitsunday

Business confidence in the building and construction industry fell further during the March quarter.

The lack of confidence is a reflection of the continued challenging trading conditions for both the residential and commercial sectors.

Encouragingly, while both sectors posted further falls this quarter, significant gains are expected for the coming three months.

### Trading conditions - Mackay & Whitsunday



The story is similar for turnover and profitability which also declined during the March quarter and are expected to improve for the coming three months.

### Business Performance - Mackay & Whitsunday



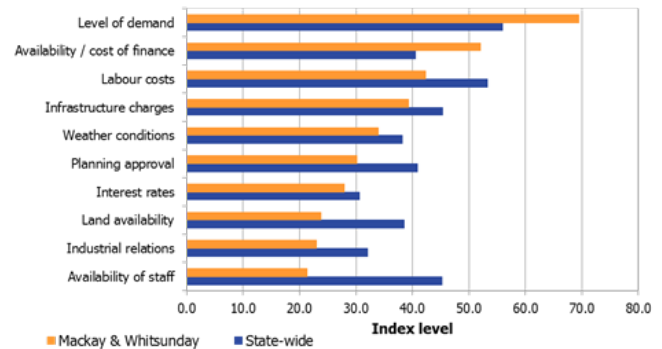
Employment levels in the region fell sharply during the quarter with more than half of respondents (56%) reporting a slide in the work available for employees and contractors. Looking forward, the situation is not expected to improve. It is a similar situation for apprentices with 46 per cent of respondents reporting lower levels of work and no improvement expected going forward.

There were no reports of any difficulties in recruiting and retaining suitably qualified employees and subcontractors. This is reflected in the wage growth pressure which softened markedly during the quarter.

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 this weak demand, development costs such as the cost of finance, labour 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. We are looking to the state government to continue to address the high cost of infrastructure charges on new developments.

### Constraints - Mackay & Whitsunday





## North Queensland

Business confidence in the building and construction industry returned to negative territory with a sharp drop during the March quarter.

Trading conditions in the residential sector held steady during the quarter and are expected to improve. Conditions in the commercial sector have proven to be more volatile and during the March quarter lost all of the gains of the previous quarter. This cycle is expected to repeat with similar gains expected in the three months to June.

### Trading conditions - North Queensland



There were small improvement in both turnover and profitability over the quarter but respondents hold grave reservations for both indicators going forward.

### Business Performance - North Queensland



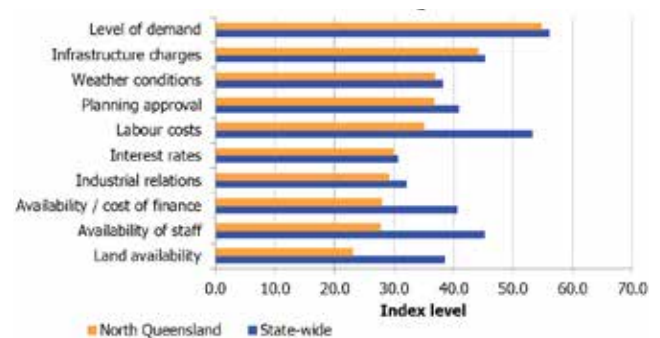
Employment levels in the region fell during the three months to March with half of all respondents reporting a drop. Similar results were recorded with apprentice levels (40% reported they were weaker) and wage levels (61% reported they were weaker). Going forward there is the expectation that the situation will begin to stabilise.

Unsurprisingly, 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 March quarter was the lacklustre level of demand.

In the context of this weak demand, development costs such as infrastructure charges rate as a significant concern, pushing costs beyond what is affordable. It is important therefore that the state government addresses the high cost of infrastructure charges on new developments.

### Constraints - North Queensland



## Far North Queensland

While remaining positive, business confidence in the building and construction industry took a hit during the March quarter.

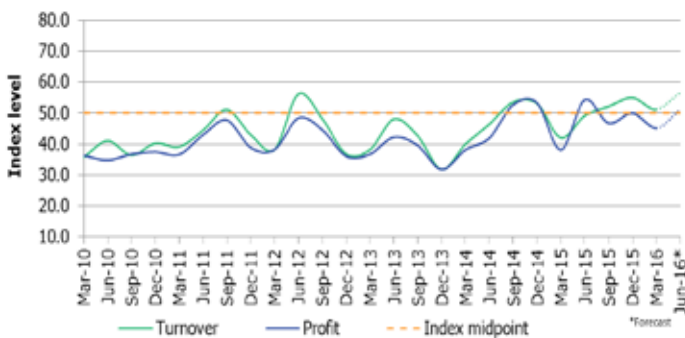
Trading conditions for the residential sector held steady for the quarter, while the commercial sector fell slightly. Looking forward, both sectors are expected to improve and move into positive territory.

### Trading conditions - Far North Queensland



The story was similar with respect to turnover and profitability. Both indicators recorded a small drop which is expected to recover during the next three months.

### Business Performance - Far North Queensland



Employment levels remained steady. More than half of all respondents (55%) reported no change for the quarter. This is expected to continue going forward. The story is also the same for apprentices which similarly did not shift.

Wages levels are rising with 32 per cent reporting an increase. This should moderate for the coming three months. There are no reports of difficulties in recruiting and retaining suitably qualified employees and subcontractors.

The lack of demand returned as the main constraint for the region. In the context of this weak demand, development costs such as labour and infrastructure charges rate as a significant concern, pushing costs beyond what is affordable.

### Constraints - Far North Queensland





## Hot Topic – Security of payment

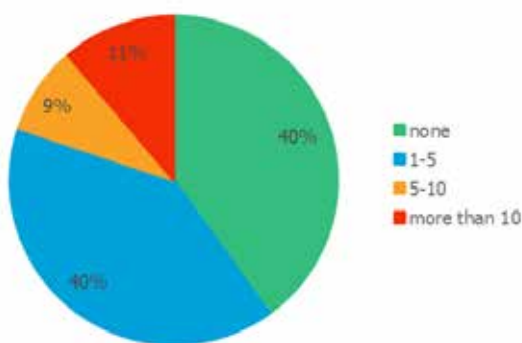
Payment is the life blood of our industry. In this quarter’s Hot Topic we sought to better understand the extent of non-payment problems in the industry, effectiveness of existing tools and to gather recommendations for change.

Non-payment or delayed payment is common in our industry. Six out of 10 respondents reported that they had experienced payments that were not paid on time or in full. For 11 per cent of industry this is common, occurring on more than 10 occasions.

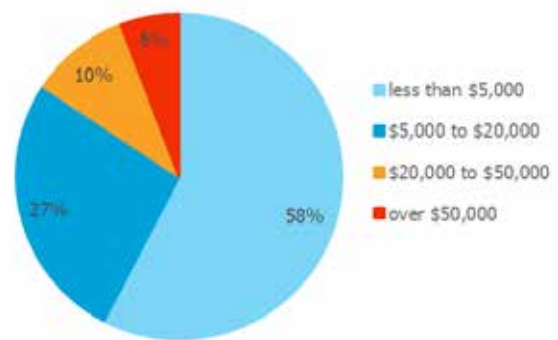
While for the most part, the amounts tended to be relatively small (under \$5,000), a worryingly high proportion of respondents (6%) had experienced an amount over \$50,000 withheld.

Withheld payments had a significant impact on businesses in four out of 10 cases.

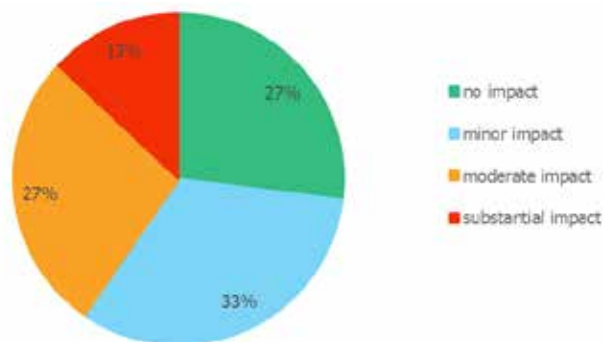
Percentage not paid on time and in full



Average amount withheld

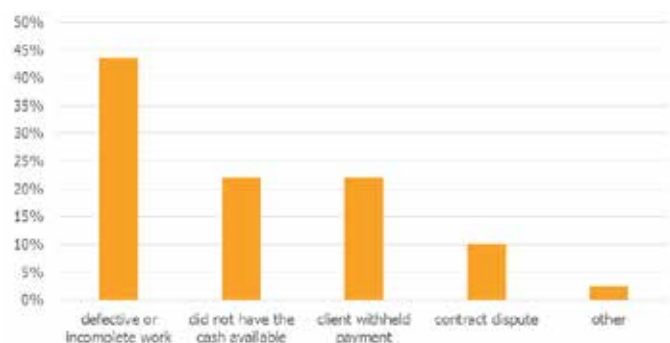


Impact of withheld payments on your business



Four out of 10 respondents declared that they themselves had delayed or withheld payment. The most common reason given for this was defective or incomplete work. In two out of five cases it was because they did not have the cash available to make the payment or because the client withheld payment. Slow payment by banks and insurance companies was also the case.

Reasons for delayed payment



When it came to strategies to secure payment the one used most commonly is to suspend work. Negotiation and communication was also seen as being useful and if it came down to it “consistent and repetitive contact – annoy them enough and they pay”.

There is a willingness to make use of the legal tools under the Building and Construction Industry Payments Act and the QBCC’s dispute resolution process. Securing a statutory debt or accessing the protection under the Subcontractor’s Charges Act was less common. For some respondents there was a concern that current options for legal recourse are “hard to access and time consuming”.



Other strategies to help head off payment problems include the use of trust accounts (such as the one offered by Master Builders), purchase orders, well written contracts and signed variations. The use of bank guarantees and checking the payment history of the client were also recommended.

When it came to improvements to the current system many felt that it was important for owners to be held accountable as the chain of non-payment usually begins there. “Include homeowners in the legislation with penalties for non-payment.” Being able to secure larger deposits and having greater support from the QBCC were seen as important. As is introducing harsher penalties for non-payments such as points against a QBCC license or a “register of offenders, be they home owners or business directors”.

Improving the profitability of the industry, in particular margins for builders, will reintroduce a buffer for when things go wrong. Corporate clients and government should not be able to dictate payment terms that are outside the QBCC Act. Contractors should be protected if they cease work due to non-payment. Faster, easier and cheaper dispute resolution processes would be welcome.

Project bank accounts and trust account were seen as appropriate in some circumstances.

Better education both for the industry and clients is important. “Builders and subcontractors are in a broad and ever changing industry.” “Educate clients on how the system works and there is no problem.”

## About the survey

This report is based on a quarterly survey of businesses in the building and construction industry undertaken by Master Builders.

The analysis in this report uses the original survey data and indexes to assess the views of survey respondents regarding current and future conditions in the industry.

The indexes in the report are calculated using the following formula:

$$\text{Index} = \sum \text{proportion of respondents} * ((n-i)/(n-1))$$

where      n = the number of response options for a given question  
              i = the number of a particular response option

The possible range of the index is 0 to 100. The index level would be zero if every respondent selected the weakest response option for the relevant question, while it would be 100 if every respondent selected the strongest response option.

For most of the indexes, an index level of 50 indicates that conditions are satisfactory and an index level of over 50 indicates that conditions are more than satisfactory.

Conversely, an index level of less than 50 indicates that conditions are less than satisfactory. A more detailed guide to interpreting the index results is provided below.

Very poor	0 – 19.99
Poor	20 – 49.99
Satisfactory	50 – 69.99
Good	70 – 84.99
Very good	85 – 100

The interpretation of the business constraints and skills shortage indexes is slightly different and a detailed guide to interpreting these index results is provided below:

No constraint/shortage	0 – 29.99
Slight constraint/shortage	30 – 39.99
Moderate constraint/shortage	40 – 59.99
Major constraint/shortage	60 – 74.99
Critical constraint/shortage	75 – 100

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