

1. Supply Shortages

The HomeBuilder Scheme has delivered a much-needed stimulus in the face of the COVID-19 pandemic. This, combined with other stimulus measures offered by both State and Federal Governments has generated billions of dollars in economic activity, supporting the Australian economy through the pandemic, securing the viability of thousands of businesses and tens of thousands of jobs. However, this is also having unintended consequences due to the combination of substantially increased demand coupled with international supply constraints. This is having a critical impact on our industry, which may adversely affect the wider Australian economy, if not addressed.

Current conditions have seen a reduced capacity in supply chains for building products, not only in Australia, but internationally. Usually, timber imports make up approximately one-fifth of Australia's total supply. However, competing forces worldwide – such as increased demand in the US - have seen our timber imports drop significantly. In addition to this, the conditions contributing to the shortages in Australia include:

- Environmental factors, such as bushfires and cyclones
- Fires at timber mills
- Train derailment in the Nullarboar
- Shipping delays due to the Suez Canal blockage
- World wide shipping container shortages

This convergence of events has led to real pressures on the domestic building sector within Victoria and more broadly across Australia.

In addition to these supply constraints, there has been substantial increased demand due to the various stimulus measures as well as increased spending capacity from residents who normally would have spent money on overseas travel, who have instead turned their attention to renovating or buying new homes.

We know that our industry remains Victoria's largest full-time employer and contributes 45 per cent of the state's tax revenue, with the housing sector alone generating \$3 of economic activity for every \$1 invested. Supply has been reduced for the reasons stated above and there are finite supplies of materials, particularly timber in our industry.

These factors have already resulted in large increases prices for both products and trades, as well as substantial delays and unavailability of stock. There is real concern for builders who have entered contracts and cannot absorb increasing costs that cannot be passed on to consumers. Small building and construction businesses are specifically being affected – there are approximately 111,000 small building and construction businesses in Victoria (as at 30 June 2020).

It is important to note that there is a finite amount of timber; demand is not expected to peak for another two to three months and shortage issues may not be resolved until demand decreases. However, before then, there is a pipeline of homes to build. Additionally, international borders are not expected to be fully open until the end of 2022, meaning this issue may continue until then.

2. Case Studies

2.1. Supply delays

Members are reporting the following:

- Material shortages – for example:
 - wait times for mesh and pods has gone from 2 weeks to 4 weeks and now to 6 weeks
 - wait times for frame and truss have gone from 4 weeks, to 8 weeks and now 12 weeks
 - windows are out to 8 weeks when we would normally have them in 4 weeks
 - bricks are starting to take up to 4 weeks longer than normal
- Timber suppliers across Victoria responding to requests stating there was nothing available and suppliers are unsure of when products will be available
- Shortage of timber already significantly impacting businesses, and project delivery
- Trade shortages due to availability and trades being able to name their price
- Structural Steel
- Colorbond roof sheeting

2.2. Price increase

Reports from members detail increased costs for materials such as timber, LVL, steel and bathroom supplies:

- There have been some examples of timber increasing in price by 50% this year already
- Others have reported up to 3 separate price rises, each in the region of 8% or more
- A major plumbing retailer recently put out a notice of more than 70 suppliers who had increased prices across a range of products by up to 30%
- Trades starting to name their prices due to the abundance of work available

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2.3. Potential loss of income

- One small business member is reporting a projected loss of half a million dollars on contracts because they cannot pass on price increases to the consumer. For example, frame and trusses on a new build cost \$22k late last year they are predicted to cost \$30k this year. These issues are particularly challenging for small business trying to manage cash flow.
- Banks are taking longer to approve loans and release money, meaning builders are carrying large amounts of debt and delaying payment of trades, sub-contractors, materials etc.

2.4. Unintended consequences on the Victorian community

- Theft from building sites as a result of supply shortages has increased dramatically in some areas over recent times – with particular reports from Regional Victoria.

3. Consequences if not addressed

- Large losses for the building and construction industry, which could result in job losses
- Inability to pay contractors and other trades
- Move to reliance on overdrafts
- Increased insolvencies
- Threat to the sustainability of economic recovery
- Theft from building sites dramatically increasing

4. What is Master Builders Victoria doing?

MBV understands the impact on our industry and, on behalf of members, we are doing the following:

1. Exploring the potential for support packages builders and suppliers who are bearing the brunt of the global price increases. Examples include MBV's State Budget Submission 21-22, which requested consideration of the following:
 - An industry specific grant available to those businesses in our industry that can demonstrate a reduction in GST turnover due to COVID-19
 - A waiver of the registration and re-registration fees for Registered Building Practitioners. MBV acknowledges and welcomes the decision taken to allow the Victorian Building Authority (VBA) to grant registration fee relief for practitioners who are suffering significant hardship due to COVID-19. However, we urge Government to grant full fee relief to all Building Practitioners for their next registration renewal, as a means to offset some of the costs incurred for COVIDSafe compliance.
 - 50 per cent reduction of all VBA levy payments. This would provide immediate support, proportionate to the size of relevant projects

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- A rebate on vehicle registration for tradespersons
2. Continuing to raise these issues with Victorian State Ministers
 3. Work with Consumer Affairs Victoria and Small Business Victoria to develop guidance to industry and consumers on how to manage price increases
 4. To advocate for the State Government's Assistant Treasurer to request the Commissioner for Better Regulation and Red Tape Commissioner to work with industry to consider solutions
 5. To understand the legal implications of these delays in residential housing and inform our members in a timely manner
 6. Convene a Victorian forum to discuss the issue further with major suppliers and seek regular updates and insights.
 7. Request that MBA convene a forum to discuss the issue further with major suppliers and seek insights.
 8. Work with MBA to:
 - continue to raise these issues with the relevant Ministers at a Federal level.
 - advocate federally for solutions, including ACCC action on price gauging.
 - explore the potential at a Federal level for a support package for builders and suppliers who are bearing the brunt of the global price increases.
 - encourage the Federal government to investigate securing material supply and the idea of subsidising the rising costs of materials.

5. Call to action

MBV is asking our members to:

- Avoid panic-led behaviour.
- Be patient and be kind' as these shortages are impacting all parts the building and construction sector.
- Continue to provide MBV with feedback and information related to the issue.

6. Contact details

MBV Assist Details here

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