

# State of Trade Survey

October 2016 - £90



## Mixed Picture for Q3 but Optimism Improves for Year Ahead

### Headlines:

- 26% of heavy side firms and half of light side firms reported that **sales rose** during the third quarter of 2016, the fourteenth quarter of growth
- 38% of heavy side product manufacturers and 33% of light side product manufacturers reported that they **anticipated sales rising** during the next 12 months
- 42% of heavy side firms and 40% of light side firms anticipated a **rise in exports** over the next 12 months
- **Cost increases** were reported by 57% of heavy side manufacturers and 56% of those on the light side, driven by wages and salaries, as well as raw materials

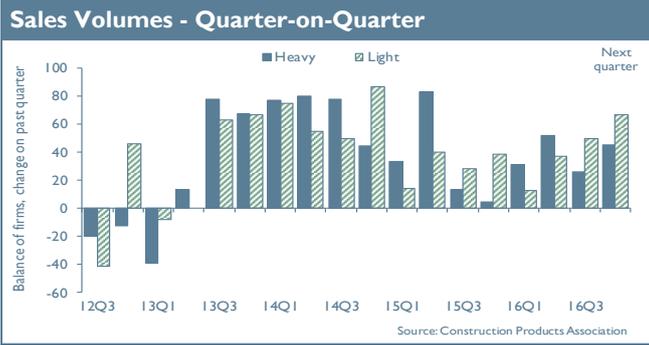
Amid increased economic and political uncertainty following the UK's vote to leave the EU, construction product manufacturers painted a largely positive picture for sales in Q3, which marked a fourteenth consecutive quarter of growth. On the heavy side, a balance of 26% of firms reported an increase in sales during the quarter, down from 52% in Q2. Half of light side firms reported a rise in product sales, up from 38% in the previous quarter. Following on from this performance, forward-looking indicators signalled a positive outlook for the next quarter and year ahead. The notable upward shift in sentiment was most likely underpinned by better-than-expected post-referendum economic data. 45% of heavy side manufacturers anticipated an increase in sales over the next quarter, whilst a balance of 67% was recorded on the light side, the highest since 2014 Q3. Similarly, product manufacturers' expectations for the next 12 months recovered from the recent historic lows registered in Q2. Although the marked depreciation in the Sterling since the vote has improved the outlook for export sales, the opposing impact on import costs has driven raw material costs for manufacturers, particularly those on the heavy side.

Construction product manufacturers continued to experience growth in sales during Q3. On balance, 26% of heavy side manufacturers and half of light side manufactures reported that sales had increased compared to Q2. On the heavy side, the balance weakened from 52% reported in the second quarter of 2016, whereas the balance for the light side strengthened from 38% in Q2, reflective of increased heavy side activity in the first half of 2016 filtering through to the later stages of the construction products supply chain. On an annual basis, 68% of heavy side firms reported that sales had increased in Q3, whilst on the light side, 60% of firms reported that sales were higher than a year earlier. The balance for the light side firms was a notable increase from the zero balance registered in Q2. Despite ongoing uncertainties regarding the UK economic outlook, there was a clear improvement in manufacturers' sentiment for the next quarter and year, likely underpinned by better-than-expected economic data in the early post-referendum period. On balance, 45% of heavy side manufacturers and 67% of those on the light side anticipated an increase in sales in Q4. These balances improved significantly from those recorded in the Q2 survey. Furthermore, 38% of heavy side firms and 33% of light side firms anticipated a rise in sales over the next 12 months.

Following the Brexit outcome, the Sterling/Euro exchange rate fell to a three-year low and in September, depreciated 14.2% compared to a year earlier. However, muted global economic growth during the quarter offset any export benefits, with heavy and light side firms both reporting weakness in export sales in Q3 compared with 2015 Q3. Nevertheless, manufacturers expected overseas sales to increase over the next 12 months.

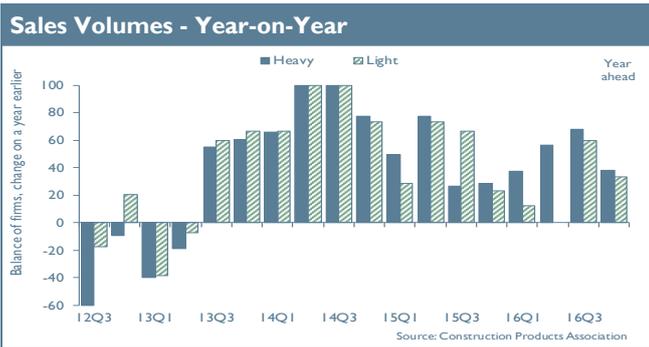
Alongside continued inflationary pressures from wages and salaries, raw materials were also cited as a key driver of cost inflation for construction product manufacturers in Q3, reflecting higher import prices due to the weaker Sterling. 75% of heavy side firms and half of light side firms reported an increase in raw materials costs compared to a year earlier.

# Sales & Constraints



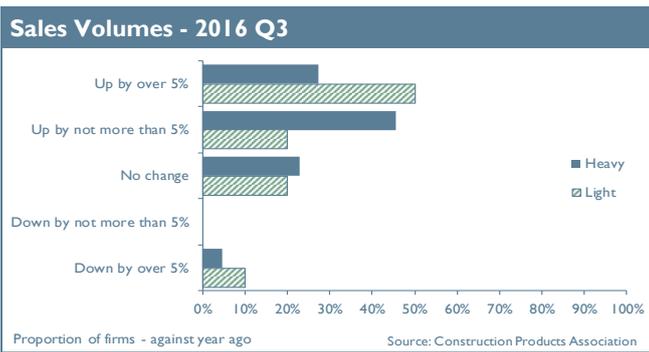
## Quarterly sales painted a mixed picture in Q3...

Construction product sales continued to increase in Q3, the fourteenth consecutive quarter of growth since 2013 Q2. In Q3, 26% of heavy side manufacturers, on balance, reported an increase in quarterly sales. This is lower than the balance of 52% reported in Q2. On the light side, half of manufacturers, on balance, reported a quarterly rise in sales in Q3, compared to 38% in Q2. Looking ahead, product sales are expected to rebound in Q4, with 45% of heavy and 67% of light side manufacturers anticipating a rise over the next quarter, on balance.



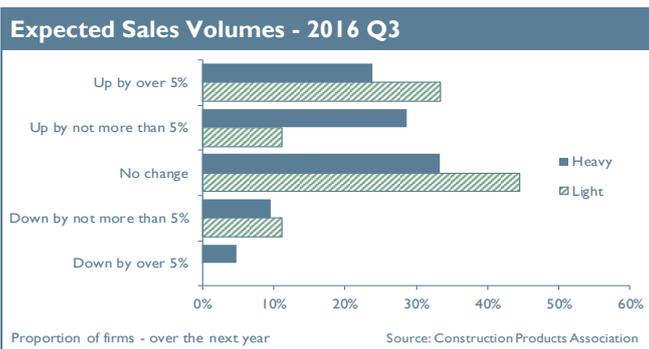
## ...but growth continued on an annual basis...

On balance, 68% of heavy side manufacturers and 60% of light side manufacturers reported that sales were higher than a year earlier in Q3. The heavy side balance strengthened from a balance of 57% reported in Q2, whilst the balance for light side manufacturers improved from zero in the second quarter of 2016. Looking forward, 38% of heavy side manufacturers and 33% of light side manufacturers anticipated an increase in sales in the next 12 months.



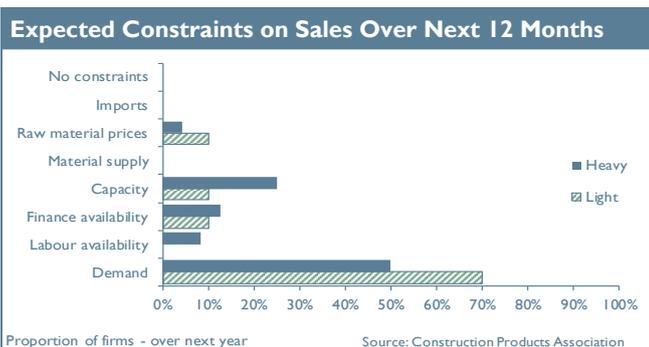
## ...with manufacturers reporting significant growth.

The key drivers of construction growth over the past year have widened beyond housing to infrastructure, commercial and industrial, which has benefitted most product manufacturers. 27% of heavy side manufacturers and half of light side manufacturers reported 'significant' rises in sales in Q3 (rises of over 5%) compared with a year earlier. 45% of heavy side firms and 20% of light side firms reported that sales had increased by up to 5% over the same period. However, only 5% of heavy side firms and 10% of light side firms reported that sales fell during Q3.



## Prospects for the next 12 months have improved...

Despite increased uncertainty regarding the UK economic outlook following the Brexit vote, sentiment among product manufacturers improved in Q3. 24% of heavy side manufacturers and 33% of light side manufacturers reported that they anticipated sales over the next year would rise 'significantly', by over 5%. A further 29% of heavy side firms and 11% of light side firms anticipated further rises in sales of up to 5%. However, 15% of firms on the heavy side and 11% on the light side anticipated a fall in sales over the next 12 months, compared to 22% and 43% in Q2.



## ...but demand still the key concern.

Despite optimism over sales, demand was reported as the key constraint on sales growth over the next 12 months. Half of heavy side manufacturers and 70% of light side manufacturers reported that demand was likely to be the key constraint on sales during the next 12 months. For heavy side firms, the other expected major constraints were; capacity (25%) and finance availability (13%). For the light side, 10% of manufacturers reported each of finance availability, capacity and raw materials prices as potential constraints.

# Costs, Employment, Capacity & Investment

## Cost pressures increased in Q3...

Annual consumer price inflation in the UK was 0.6% in August, unchanged from July. In Q3, cost increases were reported by 57% of heavy side construction product manufacturers, on balance, compared to 41% in Q2. Similarly, a balance of 56% of light side firms reported rising costs in Q3, increasing from 29% in Q2 and reaching the highest balance since 2013 Q4. Going forward, manufacturers' cost pressures are expected to continue over the next 12 months, according to 73% of heavy side firms and 78% of light side firms.

## ...with wages & salaries still the driver of cost inflation.

Continuing the trend seen in the last two years, the key driver of cost inflation was wages & salaries in Q3, reflecting the impact of the rapid rise in demand for skilled labour. On balance, 75% of heavy side firms and 67% of light side firms reported that wages and salaries rose over the past year. Raw materials and exchange rates were also noted as a key driver of costs for both heavy side and light side firms. Following seven consecutive quarters of negative balances, fuel costs increased in Q3, on balance, for both heavy side and light side.

## Employment growth and prospects remained positive...

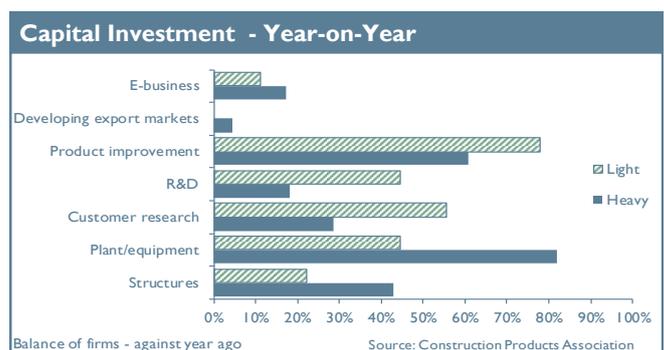
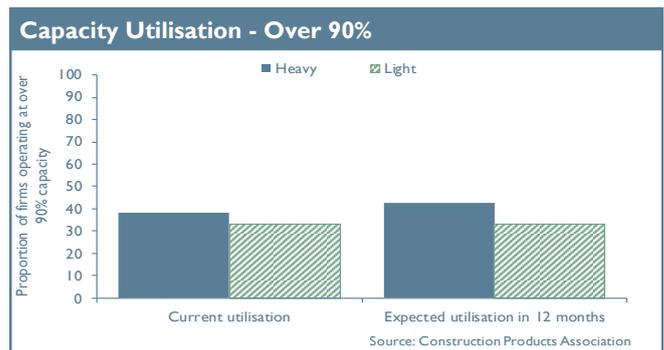
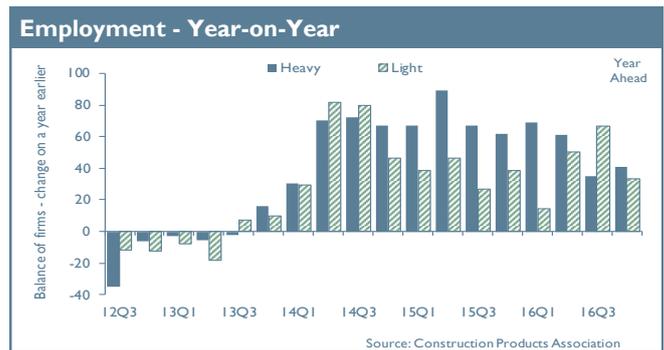
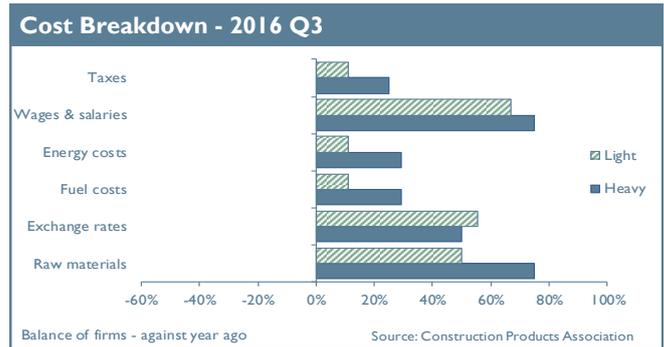
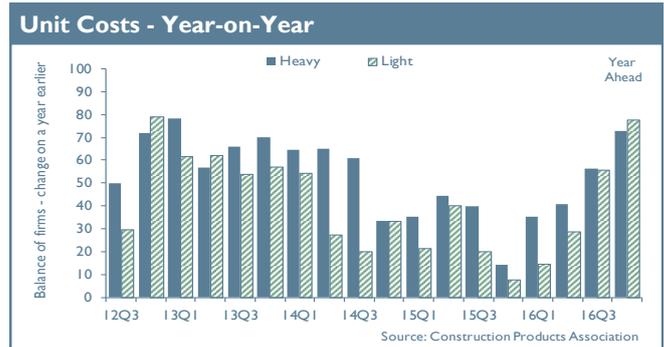
The rise in sales over the last three years, coupled with expectations of further increases in sales over the next year, has seen product manufacturers increase employment. In Q3, 35% of heavy side and 67% of light side manufacturers, on balance, reported that employment rose on a year earlier. On the heavy side, this was the lowest balance since 2014 Q1. Looking forward, hiring intentions continued to remain positive. On balance, 41% of heavy side firms anticipated increasing headcount during the next 12 months. The balance was 33% for light side firms.

## ...but little concern over capacity.

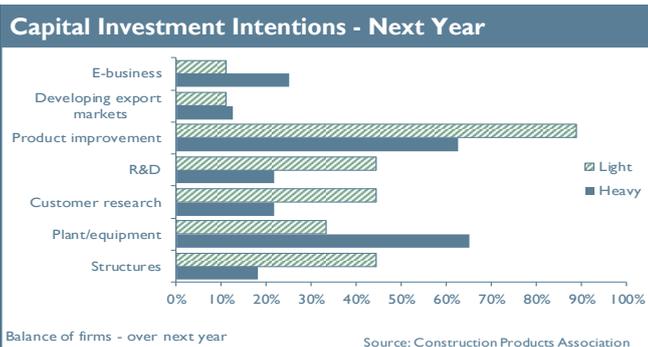
Overall, capacity levels were reported to be sufficient in Q3, given current construction output and demand. 38% of heavy side firms reported that they had operated at between 90% and full capacity over the last 12 months, compared to 29% in Q2. Similarly, 33% of light side firms reported that they had operated at 90% capacity or over in Q3. In 12 months' time, capacity utilisation is anticipated be 90% or higher according to 43% of firms on the heavy side. For light side manufacturers, the balance was 33%, which was the highest since 2012 Q2.

## Capital investment remained one of the key priorities...

In Q3, on balance, 82% and 61% of heavy side firms reported that investment in plant & equipment and product improvement, respectively, was higher than a year earlier. A balance of 43% also reported increased investment in structures. For light side firms, 78% and 56%, on balance, reported increased investment in product improvement and customer research, respectively, compared to a year earlier. A balance of 44% also reported increased investment in both plant & equipment and research and development (R&D).

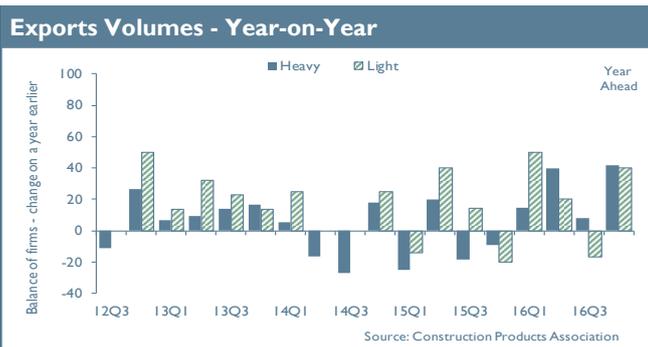


## Investment Intentions & Exports



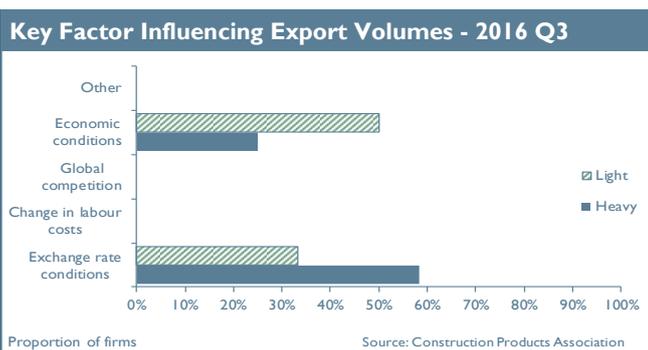
...with product improvement the focus of investment.

On the heavy side, plant & equipment was the focus of capital investment intentions for the next 12 months, with 65% of firms, on balance, anticipating increasing capital investment in this area. Furthermore, balances of 63% and 25% expected to increase investment in product improvement and e-business respectively. For firms on the light side, 89% of manufacturers anticipated increasing investment in product improvement, whilst 44% also anticipated increased investment in each of structures, customer research and research and development (R&D).



Mixed performance for export sales in Q3...

On balance, only 8% of heavy side manufacturers reported a rise in exports in Q3, compared with a year earlier, following a balance of 40% reported in Q2. In Q3, 17% of light side manufacturers, on balance, reported a decrease in export sales compared with a year earlier. This compares to a balance of 20% reporting a rise in Q2. Looking forward, 42% of heavy side manufacturers and 40% of light side manufacturers anticipated a rise in exports, on balance, over the next 12 months, aided by weakness in the Sterling exchange rate.



...reflecting economic conditions and Sterling weakness.

46% of heavy side product manufacturers and 30% of light side firms produced solely for the domestic market in Q3. Of those that did export, economic conditions in Europe, the primary export market, was the key factor influencing export volumes, according to half of light side firms and 25% of heavy side firms. The weaker Sterling exchange rate was also cited by 58% of manufacturers on the heavy side and 33% of light side firms as a key factor influencing export volumes in Q3.

### Information about the Construction Products Association and the State of Trade Survey

The **Construction Products Association** represents the UK's manufacturers and distributors of construction products and materials. The sector directly provides jobs for 313,000 people across 21,000 companies and has an annual turnover of more than £50 billion. The Association acts as the leading voice to promote and campaign for this vital UK industry.

The State of Trade Survey, conducted quarterly, provides insight into current and expected future industry trends. The survey analysis includes the use of 'balance of respondents' to assess survey results and identify trends. Balance of respondents is a percentage of firms reporting a rise less those reporting a decline. No weighting is given to allow for the extent of the change of the size of the firms involved.

Analysis is divided into heavy and light construction products. **Heavy side products** are typically structural materials used early in the construction process and include materials used in transport and other civil engineering projects. Heavy side materials include: aggregates, cement, ready-mix concrete, structural and reinforcing steel. **Light side products** are typically installed later in the construction process and include internal fittings and services. Light side products include: heating and ventilation systems, plumbing, electrical and lighting, doors and windows, kitchen furniture and thermal.

The State of Trade Survey is one of a range of publications produced by the Association, including the Construction Trade Survey and Construction Industry Forecasts. For further information on the content and availability of these publications please contact:

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