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Political Uncertainty and Cost Rises Hit Construction Outlook

In a quarter characterised by political uncertainty, the Construction Products Association's Construction Trade Survey shows that despite a strong Q2 the industry's supply chain are more pessimistic for the year ahead.

The survey of main contractors, SME builders, civil engineering firms, product manufacturers and specialist contractors found that all reported increases in sales, output and workloads in the quarter driven by increased demand. Notably however, order books were sustained by private housing and R&M work, but fell in sectors such as commercial and industrial. This was echoed throughout the supply chain, with net balances weakening for enquiries, orders and expected sales among SMEs, civil engineering contractors and product manufacturers compared to Q1.

After Sterling's depreciation since the EU Referendum, the strongest cost pressures for the construction industry have been rising prices for imported materials. On balance, 88% of main contractors, 87% of heavy side manufacturers and all light side manufacturers reported raw materials costs rose in Q2. In spite of this, almost half of main contractors and specialist contractors opted to keep tender prices unchanged, leading to a fall in margins.

Commenting on the survey, Rebecca Larkin, Senior Economist at the CPA, said: "This was the 17th consecutive quarter of growth for the construction industry, but a cautious stance over future expectations is not surprising. Another quarter of slow GDP growth, rising costs and a near-term outlook clouded by Brexit uncertainty have led to a fall in orders in privately-financed sectors such as commercial and industrial, and this pessimism has also spilled over into infrastructure.

"Perhaps more conspicuous in the survey data is the squeeze on margins for main contractors and specialist contractors. Strained margins had already been acute for some time given skills shortages pushing up construction wages. Now there's the added pressure of contractors trying to avoid or delay passing on the full cost of higher raw materials prices to clients when tendering for upcoming construction projects."

Brian Berry, Chief Executive of the Federation of Master Builders, said: "Despite rising material prices and a period of political uncertainty, it is encouraging to see the SME construction sector continuing to grow. The industry is demonstrating significant resilience, especially when we consider difficulties in recruiting key trades such as bricklayers and carpenters, and shortages in other trades, such as plumbers and plasterers. Furthermore, there are real challenges ahead for the sector. The possibility of Brexit exacerbating already severe skills shortages and the continuing upward pressure on wages and salaries this brings, means construction SMEs will be cautious in their optimism".

Richard Beresford, Chief Executive of the National Federation of Builders said: "Although SMEs have found more work, project viability seems to be increasingly stifled by spiralling material costs. Construction SMEs are

reporting a tightening of profit margins, which may impact productivity in the coming twelve months. The NFB's house building members appear more confident about their immediate future, despite not having an assured work pipeline. The Government must enable constructors - particularly SMEs - to establish a pipeline of work either through more streamlined procurement or by reforming the planning process. However, the weakening pound shows that, in the long term, constructors either need improved access to material markets or short-term financing for project completions. The Government must deal with the impact of a weaker exchange rate and Brexit more urgently. It must work with industry to understand and navigate more unpredictable and potentially difficult times."

Key survey findings include:

- 22% of main building contractors, on balance, reported that construction output rose in the second quarter of 2017 compared with a year ago
- 30% of specialist contractors reported a rise in output during Q2
- 13% of civil engineers, on balance, reported an increase in workloads during Q2
- On balance, 24% of SME contractors reported increased workloads in Q2 compared to three months earlier
- Main contractors reported higher orders in private housing and both housing and non-housing R&M
- 3% of civil engineering firms reported an increase in new orders in Q2, on balance
- 36% of SMEs and 20% of specialist contractors reported an increase in enquiries in Q2, on balance
- Overall costs increased for 84% of civil engineering contractors, whilst 88% of main contractors, 87% of heavy side manufacturers and all light side manufacturers reported raw materials costs rose in Q2.

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NOTE TO EDITORS:

1. The [Construction Products Association](#) represents the UK's manufacturers and distributors of construction products and materials. The sector directly provides jobs for 300,000 people across 22,000 companies and has an annual turnover of more than £55 billion. The Association is the leading voice to promote and campaign for this vital UK industry.

The CPA produces a range of economic reports including the quarterly Construction Industry Forecasts, Construction Trade Surveys and the State of Trade Surveys.

Much of the CPA's work is focused on serving as the first point of contact for politicians and policy makers requiring advice and information about matters that affect construction products or the wider construction industry. This includes understanding the need for investment into manufacturing or the built environment, new housing and energy-saving retrofitting of the existing housing stock; helping to develop effective, UK and EU legislation, regulations and product standards; and promoting the role of manufacturers in delivering a resource efficient built environment.

2. [Build UK](#) provides a strong collective voice for the contracting supply chain in construction. Build UK brings together 27 of the industry's largest main contractors and 40 leading trade associations representing over 11,500 specialist contractors. Build UK was created as a result of a merger between the National Specialist Contractors' Council (NSCC) and UK Contractors Group (UKCG) in 2015.
3. The [Civil Engineering Contractors Association](#) (CECA) has over 300 member firms that carry more than 80% of all civil engineering work in Great Britain. The CECA survey of civil engineering workload trends, in which more than a third of the membership takes part, tests for changes over the past year in contractors' workload, workforce, order books, cost trends, and tender prices. It also examines the supply situation for key resources, and contractors' expectations of trends in new orders and employment in the coming 12 months.
4. The [Federation of Master Builders](#) (FMB) is the largest trade association in the UK construction industry representing thousands of firms in England, Scotland, Wales and Northern Ireland. Established in 1941 to protect the interests of small and medium-sized (SME) construction firms, the FMB is independent and non-profit making, lobbying for members' interests at both the national and local level. Within its membership, around 45% of FMB members build new homes either as their primary function or as part of the suite of building services they provide, but most are primarily active in the domestic RM&I market. The FMB is committed to raising quality in the construction industry and offers a free service to consumers called 'Find a Builder'.
5. The [National Federation of Builders](#) (NFB) represents around 1,500 builders and contractors across England and Wales. In addition to providing specialist advice and business services, the federation, with a network of four regional offices, lobbies local, national and European government on a range of issues to sustain positive trading conditions for members. With origins dating back to 1876, today's NFB is a modern organisation providing the medium sized contractor and smaller builder with an unparalleled package of services.

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