

Construction Trade Survey

February 2017 - £120

Fifteenth Quarter of Growth, but Cost Pressures Mounting

Firms across the construction industry supply chain reported growth in the final three months of 2016, marking the fifteenth quarter of expansion since 2013 Q2. Construction product sales rose for both heavy and light side manufacturers at the start of the supply chain in Q4, whilst activity on the ground was also reported to have increased. Output rose for main and specialist contractors and workloads were reported higher for SME builders and civil engineering firms. However, looking ahead to 2017, product manufacturers lost some of the optimism displayed in previous quarterly surveys, especially on the heavy side, with a balance of 18% anticipating sales increases over the year ahead, down from 38% in Q3. In addition, main contractors' order books were reported to be lower in Q4 and, notably, in private new housing, which had been a previous bright spot in forward-looking indicators. Furthermore, according to specialist contractors, both enquiries and new orders decreased in Q4. This pessimism was countered to some extent by an increase in orders and enquiries reported by 19% of civil engineering firms and 12% of SME builders respectively.

Raw materials continued to be the key driver of input price inflation in Q4, due to further depreciations in the Sterling during the quarter raising the cost of imported materials. Over three-quarters of main contractors, heavy side and light side product manufacturers noted an increase in prices in this category.

The construction industry marked a fifteenth consecutive quarter of growth in the fourth quarter of 2016, with net balances improving for product manufacturers, main contractors, specialist contractors and civil engineering firms, compared to Q3. 78% of heavy side product manufacturers reported an increase in sales in Q4, compared to a balance of 68% in Q3, whilst on the light side, product sales rose for 75% of manufacturers

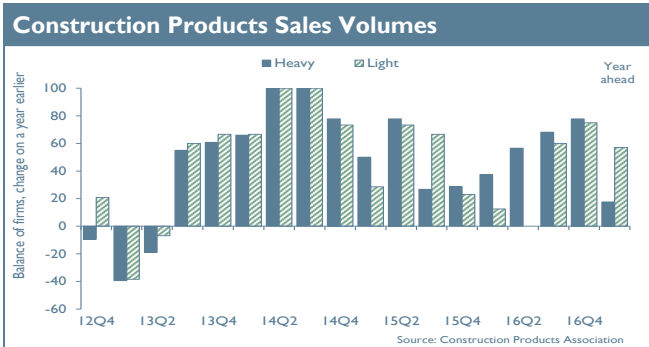
(compared to 60% in Q3). Activity on the ground also increased in Q4, with output reported higher by 38% of main contractors and 14% of specialists. This compares to respective balances of 33% and 7% in Q3. Activity also improved for civil engineers, with 11%, on balance, reporting an increase in workloads, up from only 1% in Q3. Among SME builders, workloads also increased, but the balance declined six percentage points to 12%.

Despite the pickup in Q4, expectations for the coming quarter and year ahead were more cautious. 18% of heavy side manufacturers anticipated an increase in product sales in 2017, whilst main contractors' order books were reported lower in four major sectors: private housing, public housing, private industrial and private commercial. Orders increased in public non-housing and non-housing R&M, sectors where activity is typically determined by longer-term spending plans and maintenance contracts and, therefore, less affected by an environment of rising economic uncertainty. Orders for civil engineering firms and enquiries to SME builders increased in Q4, but for specialist contractors, orders fell according to a balance of 12%, whilst 38% reported lower enquiries.

Cost inflation, particularly on the materials side, continued to rise in Q4. A balance of 88% of civil engineers experienced an increase in costs in Q4, with 74% reporting rises of more than 5%. For manufacturers, 78% of heavy side firms and 71% of those on the light side reported an increase in costs compared to a year ago. For raw materials, these balances were 78% for the heavy side and 88% for the light side. Raw materials prices were also the main driver of cost inflation for main contractors, reported by three-quarters, on balance. This follows the Sterling depreciating 2.1% against the Euro and 5.4% against the Dollar in Q4.

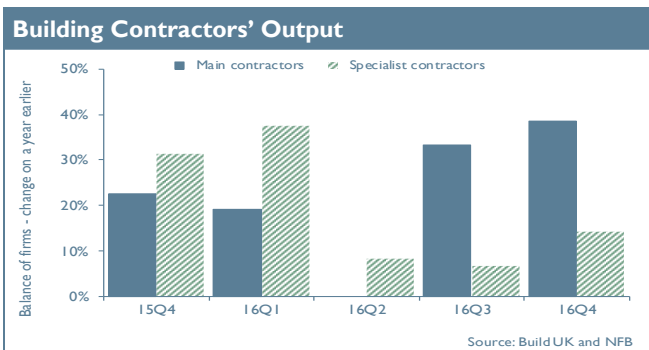
This report is compiled by the Construction Products Association and brings together results that survey members of Build UK, the Civil Engineering Contractors Association, Construction Products Association, Federation of Master Builders and National Federation of Builders.

Output & Sales



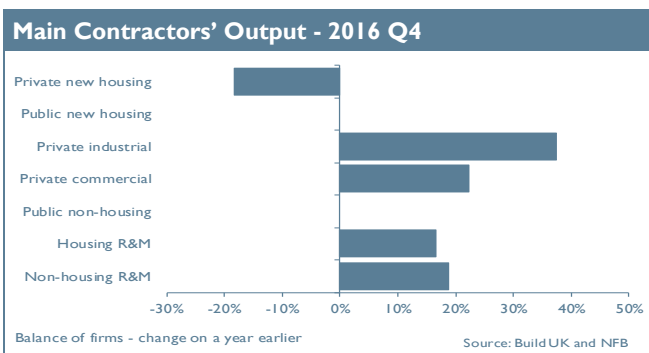
Construction product sales growth in Q4

On balance, 78% of heavy side manufacturers and 75% of light side manufacturers reported that construction product sales were higher than a year earlier in Q4. This was an improvement from the balances of 68% on the heavy side and 60% on the light side reported in the third quarter of 2016. Looking forward, 18% of heavy side manufacturers and 57% of light side manufacturers anticipated an increase in product sales in the next 12 months.



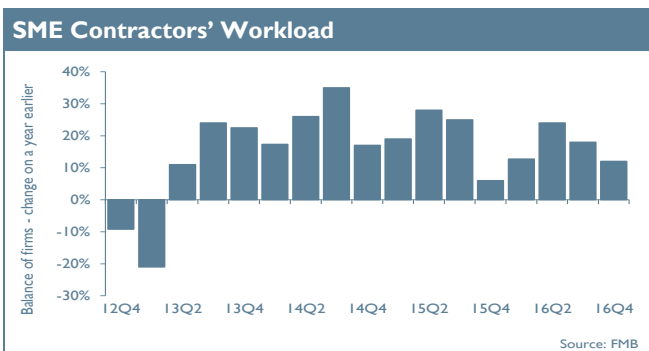
Building contractors' output increased

On balance, 38% of main building contractors reported that construction output rose in Q4 compared with a year earlier. This compared to a zero balance in Q2 and 33% in Q3. 54% of main contractors reported an increase in output, whilst 15% of respondents reported that output was lower. For specialist contractors, output increased according to 14% of respondents, on balance. This increased slightly from a balance of 7% in Q3, but was down markedly from 38% in 2016 Q1.



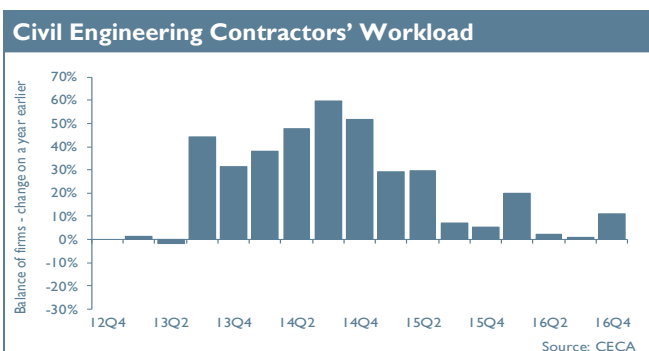
Growth in four sectors for contractors

Main contractors reported growth in output in four sectors in Q4. On balance, 38% of main contractors reported growth in private industrial, 22% in private commercial, 19% in non-housing R&M and 17% in housing R&M. A negative balance was reported in private housing, with 18% of main contractors reporting that output declined. Zero balances were recorded in the public housing and public non-housing sectors.



SME workloads increased once again

In the fourth quarter of 2016, a balance of 12% of SMEs reported an increase in workloads, a decrease of 6 percentage points compared to 2016 Q3. 32% of firms reported higher activity levels, down from 33% in Q3. 20% of respondents reported lower workloads, increasing from 14% in Q3. A positive workloads balance was recorded in private housing, private housing rm&i and social new housing, with a negative balance for commercial, public non-housing and industrial.



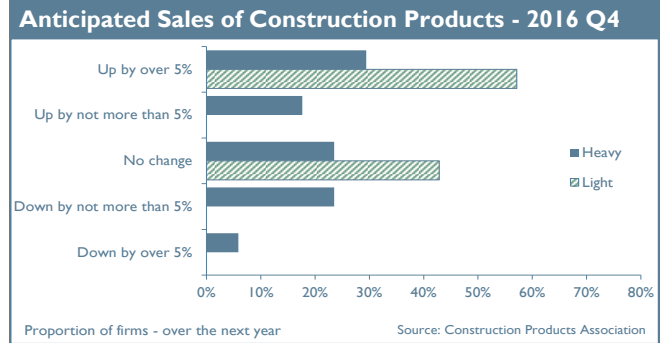
Workloads growth for civil engineers

Workloads increased, on balance, across Great Britain for a fourteenth consecutive quarter in Q4. 11% of firms, on balance, reported that workloads had increased, compared to only 1% in Q3. For England, 13% of firms, on balance, reported an increase in workloads in Q4, compared to a balance of 14% in Q3. In Scotland, 16% of firms, on balance, reported an increase in workloads in Q4, compared to 4% in Q3 that reported workloads had declined. In Wales, 6% of firms, on balance, reported an increase in workloads in Q4 after two quarters of decline.

Expectations

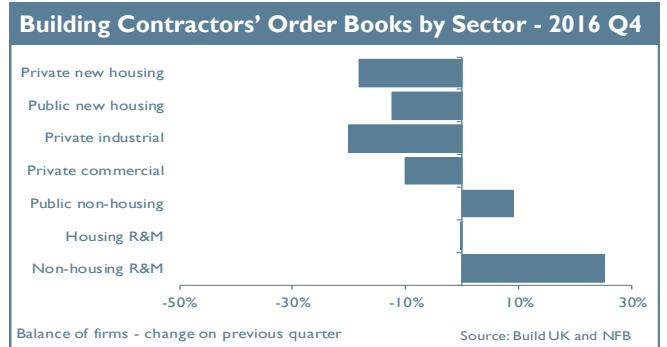
Mixed expectations among manufacturers

Product manufacturers painted a mixed picture for the next 12 months, in Q4. 29% of heavy side manufacturers and 57% of light side manufacturers reported that they anticipated sales over the next year would rise 'significantly', by over 5%. A further 18% of heavy side firms anticipated further rises in sales of up to 5%. 30% of firms on the heavy side anticipated a fall in sales during 2017, whereas 43% of firms on the light side anticipated no change in sales over the coming year.



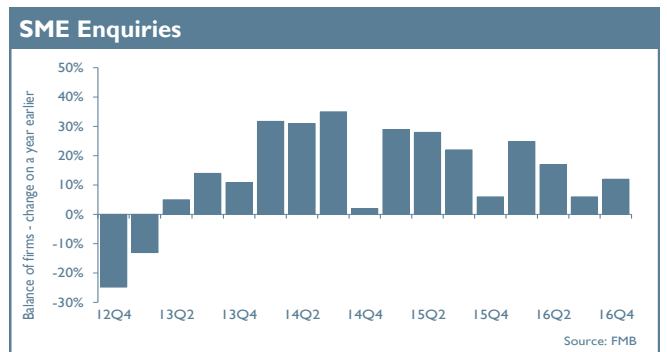
Weakness in contractors' order books in Q4

Main contractors' order books were reported to be lower in four sectors in Q4 compared to the previous quarter. Order books were lower in private housing and industrial (balances of 18% and 20% respectively), 13% reported lower orders in public housing and 10% in private commercial. Order books were reported to be higher for 25% of main contractors in non-housing R&M and for 9% in public non-housing.



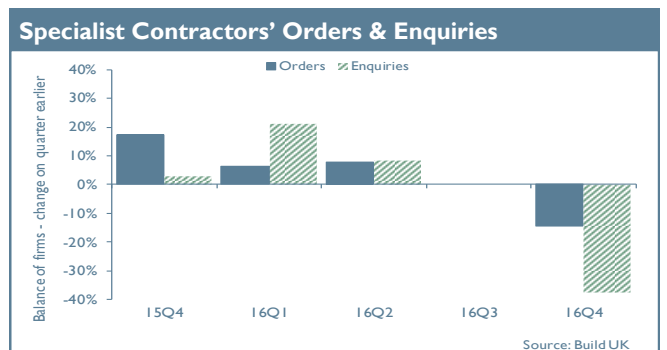
SME enquiries balance improved in Q4

The net balance for total enquiries to SMEs was 12% in Q4, up from 6% in 2016 Q3 and has remained in positive territory for 15 consecutive quarters. A larger share of firms (34% in Q4 vs 29% in Q3) stated higher levels of enquiries, whilst the proportion of businesses registering a lower level of enquiries decreased marginally to 22% from 23% in Q3. A positive enquiries balance was reported in private housing new build and rm&i, as well as in the public housing rm&i sector.



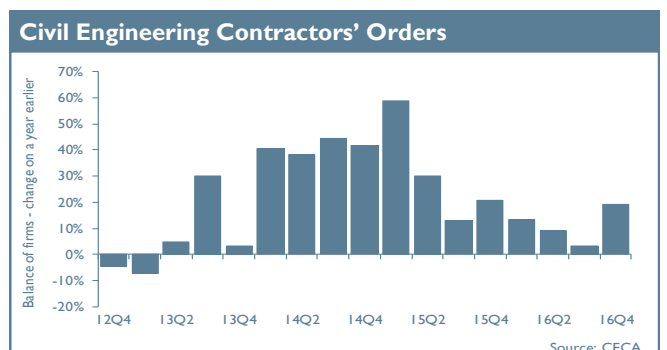
Specialist orders and enquiries decreased

In Q4, a balance of 38% of specialist contractors reported a decrease in enquiries, worsening from a zero balance in Q3. 38% of specialist contractors also reported that the number of enquiries was unchanged during the quarter. In terms of new orders, the majority (86%) of specialist contractors reported that order books were at similar levels to Q3 but 14% reported they were lower, leaving a balance of -14%.

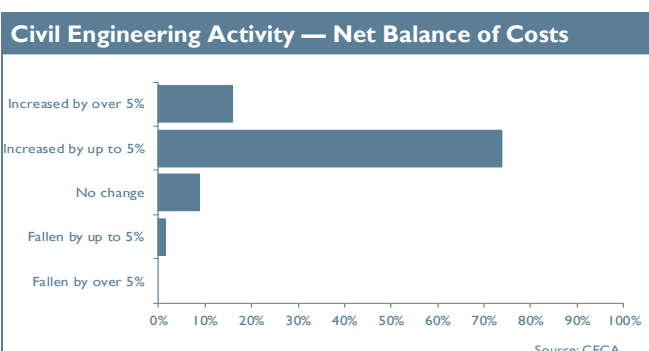
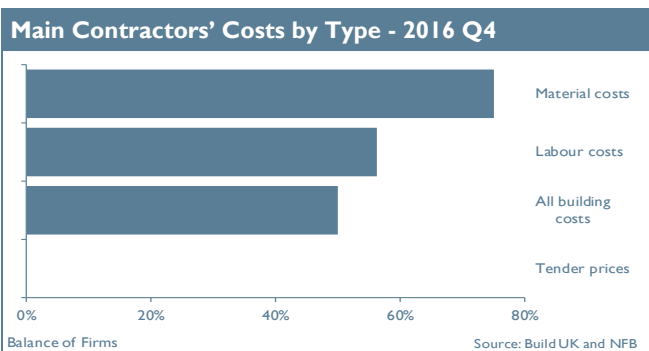
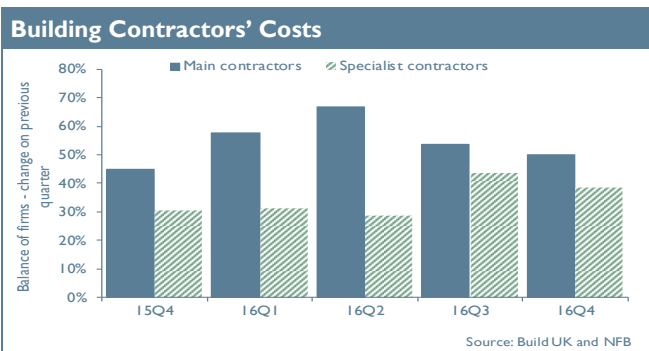
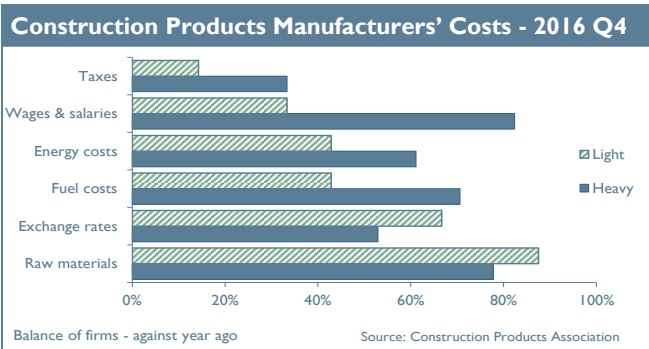
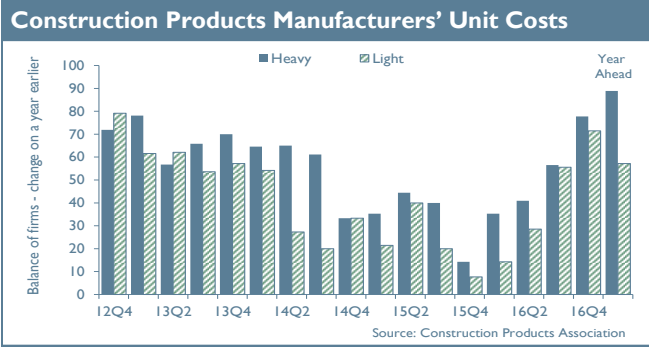


Growth in infrastructure orders during Q4

On balance, 19% of firms in Great Britain reported growth in orders in Q4, compared to only 3% in Q3. 40% of respondents reported that orders had increased and 39% of respondents reported that they were unchanged. In England, orders increased according to 34% of firms, on balance, the highest in two years. Orders in Scotland increased, on balance, according to 23% of firms, but orders declined according to 79% of firms, on balance, in Wales. This was the lowest balance since 2010 Q2.



Costs



Cost pressures increased in Q4

Annual CPI inflation in the UK was 1.6% in December, up from 1.2% in November. In Q4, cost increases were reported by 78% of heavy side construction product manufacturers, on balance, compared to 57% in Q3, and the highest balance in four years. A balance of 71% of light side firms reported rising costs in Q4, increasing from 56% in Q3 and the highest balance since 2012 Q4. Manufacturers' cost pressures are expected to continue over the next 12 months, according to 89% of heavy side firms and 57% on the light side.

Raw materials drove cost inflation

The key driver of cost inflation was raw materials in Q4, reflecting higher import costs following Sterling depreciation. On balance, 78% of heavy side firms and 88% of light side firms reported that raw materials rose over the past year. These were the highest balances in five years. Wages & salaries were also noted as a key driver for heavy side firms, for 82% of firms, on balance but the figure was 33% on the light side, the lowest since 2011 Q1. Exchange rates and energy costs were also cited as key drivers for both heavy and light side firms.

Costs for contractors rose again in Q4

Main contractors reported a rise in costs in the fourth quarter. On balance, half of respondents stated that costs had increased compared to a quarter earlier. Within this, no main contractors reported that costs decreased. For specialist contractors, a balance of 38% reported an increase in overall building costs. Within this, 46% of respondents reported that costs were higher, 46% reported that costs remained unchanged from Q3 and 8% reported that costs declined.

Materials costs rose for contractors

Materials and labour costs remained the key drivers of cost rises for main building contractors during the fourth quarter of 2016. A balance of 75% of contracting firms reported that materials costs rose in Q4, with 56% of firms, on balance, also reporting labour costs were higher over the quarter. On balance, no main contractors reported a rise in tender prices in Q4, although 60% reported that tender prices were unchanged from the previous quarter.

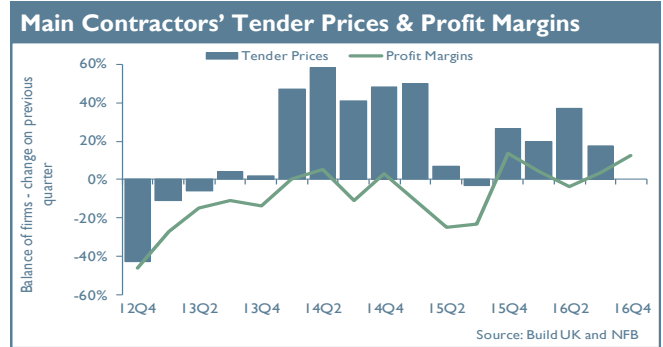
Costs rose for civil engineers

In Great Britain in Q4, a balance of 88% of firms reported an increase in costs, up from 58% in Q3. 74% of firms in Great Britain reported that costs increased by up to 5% compared to 12 months earlier and 16% reported increases of over 5%. In England, 90% of firms, on balance, reported an increase in costs. In Scotland, costs increased, on balance, according to 93% of firms and in Wales, 67% of firms, on balance, reported an increase in costs compared to 12 months earlier.

Costs, Profit and Payment

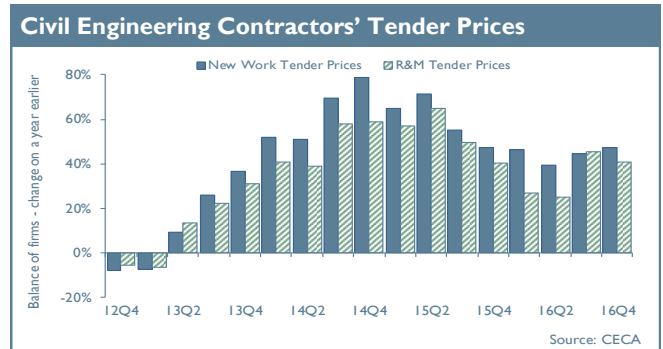
Tender prices increased for main contractors

20% of main contractors reported an increase in tender prices in the fourth quarter of 2016 (compared to Q3) and 20% reported a decrease, resulting in a zero balance. However, 60% reported no change. Profit margins were reported to have increased, with 13% of main contractors, on balance, reporting a rise in profit margins in Q4. This improved from a balance of 3% that reported an increase in profit margins in the third quarter of 2016.



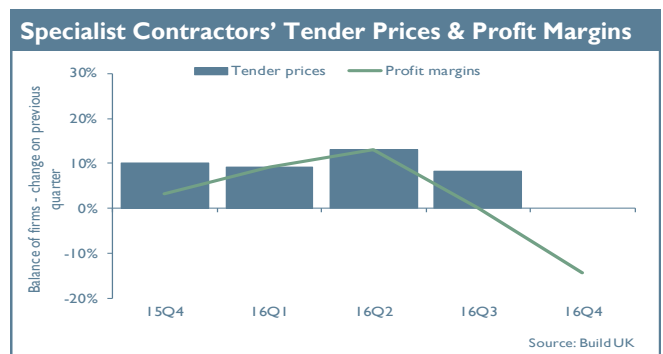
Tender prices rose for civil engineers

Compared to 12 months ago, tender prices were higher, on balance, for 47% of firms for new work and improvement, and 41% for r&m. In England, 53% of firms, on balance, reported higher tender prices for new work and 46% for r&m. In Scotland, on balance, 45% of respondents reported an increase for new work and 42% for r&m. Welsh firms reported the weakest balances compared to Q3. On balance, 11% of respondents reported a fall in tender prices for new work, whilst 11% of firms reported a decline for r&m.



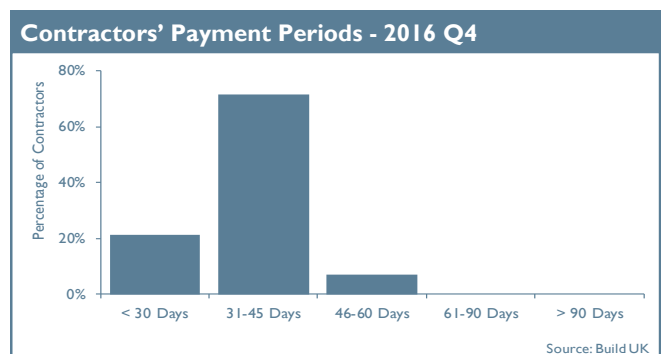
Fall in profit margins for specialists

15% of specialist contractors reported an increase in tender prices during the fourth quarter of 2016 and 15% reported a decrease, resulting in a zero balance overall. In contrast to main contractors, profit margins were reported to have decreased, on balance. 8% of respondents indicated an increase in margins relative to the previous quarter, whereas 23% of respondents reported that margins fell, resulting in a negative balance of 14%. 77% of respondents reported profit margins were unchanged from Q3.



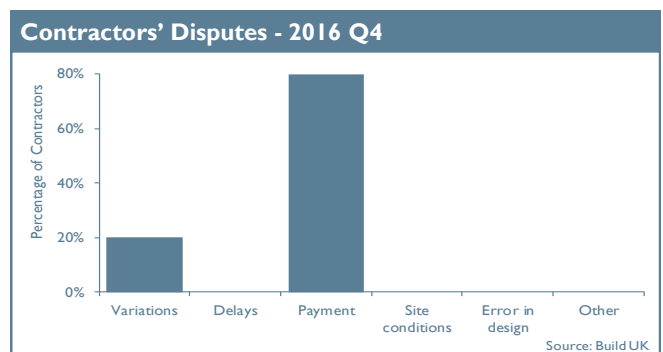
21% of contractors paid in under 30 days

In Q4, 21% of building contractors (main contractors and specialist contractors) were reported as being paid within 30 days. A further 71% of contractors reported payment between 31 and 45 days, and 7% reported payment in 46-60 days. In Q4, no contractors reported receiving payment in a period of greater than 60 days.



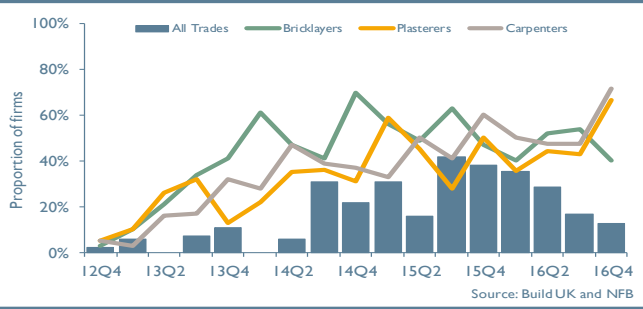
Payment disputes for contractors

20% of building contractors (main contractors and specialist contractors) reported that they had been involved in a dispute in the fourth quarter, a decrease from the 32% that reported a dispute in Q3. There were two causes of disputes in the quarter: payments, which were related to 80% of disputes, and variations, which were reported in 20% of disputes.



Employment & Capacity

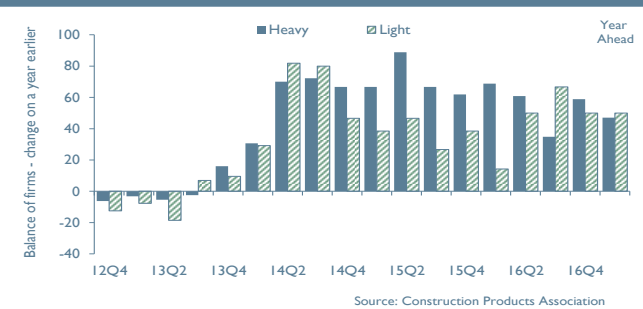
Main Contractors' Difficulty Recruiting Site Trades



Contractors struggled to recruit on site trades

Overall, 13% of main building contractors reported difficulties recruiting general on-site trades in Q4. The supply of carpenters and plasterers was the largest concern for main contractors in the quarter, with 71% of main contractors reporting difficulties with recruitment of carpenters and 67% of firms reporting recruitment difficulties for plasterers. 40% of main contractors cited difficulties in recruiting bricklayers in the fourth quarter.

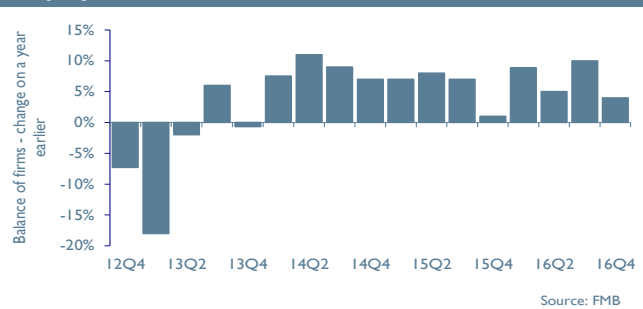
Product Manufacturers' Employment Trends



Employment prospects remained positive

The rise in sales over the last four years, coupled with expectations of further increases in sales over the next year, has seen product manufacturers increase employment. In Q4, 59% of heavy side and half of light side manufacturers, on balance, reported that employment rose on a year earlier. Looking forward, hiring intentions continued to remain positive. On balance, 47% of heavy side firms anticipated increasing headcount during the next 12 months. The balance was 50% for light side firms.

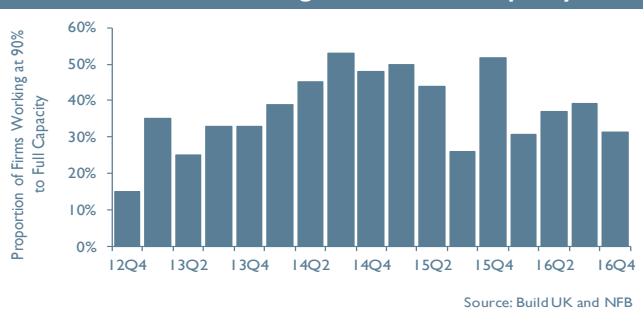
Employment Trends Within SME Contractors



SME employment increased in Q4

In the fourth quarter of 2016, the net balance for total employment within SME contractors decreased six percentage points to 4%. This marked the twelfth consecutive quarter that the balance has remained in positive territory. The proportion of respondents stating that there had been an increase in employment levels was unchanged from Q3, at 18%. At 14%, the proportion of firms reporting that employment had decreased was higher than in Q3 (9%).

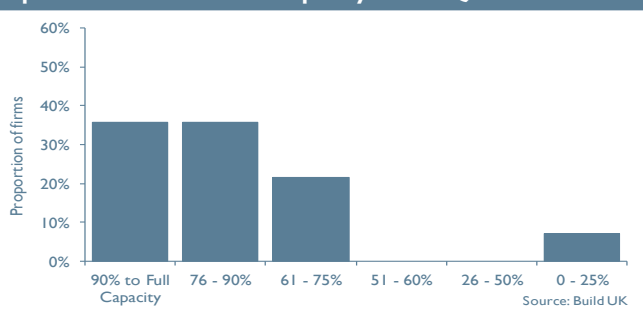
Main Contractors Working at 90% to Full Capacity



Capacity eased for main contractors

The proportion of main building contractors working at between 90% and full capacity was reported at 31% in Q4. This is slightly below the five-year average balance of 35% and the balances reported in Q2 and Q3. In Q4, a further 25% of main contractors were reported to be working at between 76% and 90% of their full capacity during the quarter, resulting in a total of 56% operating at over 75% capacity.

Specialist Contractors' Capacity - 2016 Q4



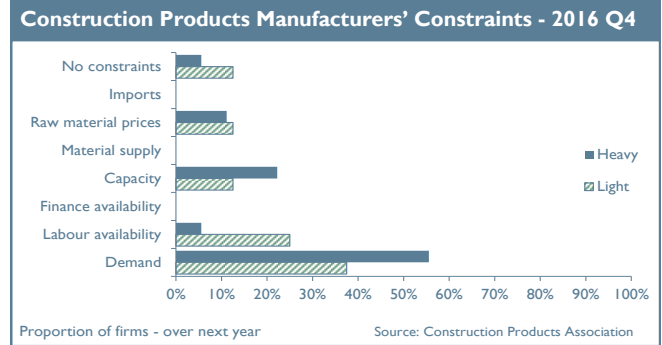
Specialists' capacity utilisation eased

36% of specialist contractors reported that they were working at over 90% capacity in Q4. In total, 71% reported capacity utilisation over 75%. On balance, 14% of specialist contractors anticipated a decrease in output over the next quarter, and no specialist contractors, on balance, anticipated a rise in output over the coming year. Insufficient demand was ranked as the most likely constraint on activity over the coming 12 months, but the availability of labour and weather conditions were also cited.

Constraints, Investment & Trade

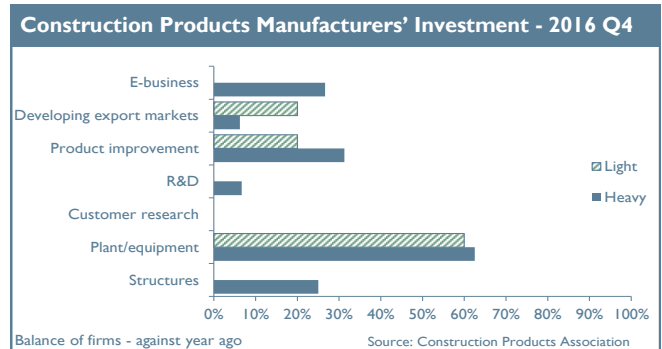
Demand the key concern for manufacturers

Demand was reported as the key constraint to sales growth over the next 12 months, according to 56% of heavy side manufacturers and 38% of light side manufacturers. On the light side, this was the lowest balance since 2007 Q4. For heavy side firms, the other expected major constraints were; capacity (22%) and raw material prices (11%). For the light side, 25% of manufacturers reported labour availability as a constraint and 13% cited capacity and raw materials prices as potential constraints.



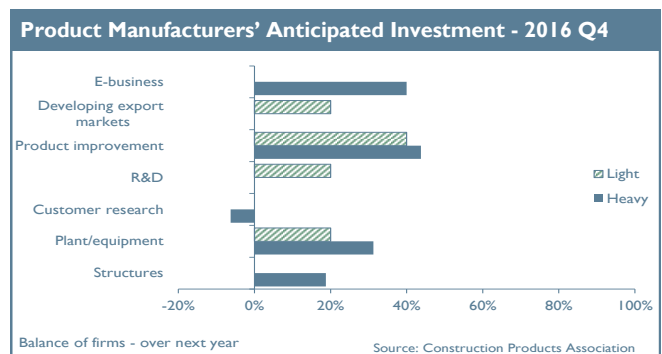
Capital investment one of the key priorities

In Q4, on balance, 63% and 31% of heavy side firms reported that investment in plant & equipment and product improvement, respectively, was higher than a year earlier. A balance of 27% and 25% also reported increased investment in e-business and structures, respectively. 60% of light side firms, on balance, reported increased investment in plant & equipment, whilst investment in both product improvement and developing export markets was higher for a balance of 20% of light side firms.



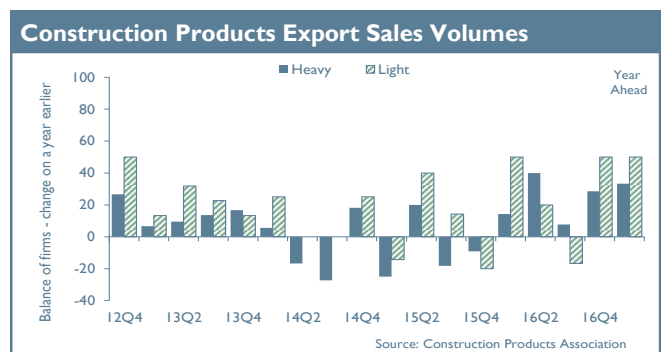
Investment focus on product improvement

On the heavy side, product improvement was the focus of capital investment intentions for the next 12 months, with 44% of firms, on balance, anticipating increasing capital investment in this area. Furthermore, balances of 40% and 31% expected to increase investment in e-business and plant & equipment respectively. On the light side, 40% of manufacturers anticipated increasing investment in product improvement, and 20% anticipated increased investment in each of plant & equipment, R&D and developing export markets.



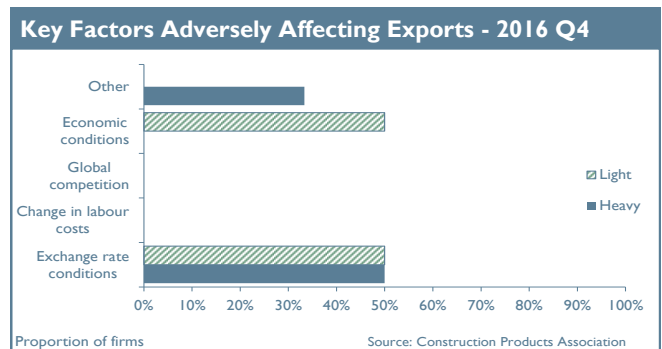
Export sales improved in Q4

On balance, 29% of heavy side manufacturers reported a rise in exports in Q4, compared with a year earlier, following a balance of only 8% reported in Q3. In Q4, half of light side manufacturers, on balance, reported an increase in export sales compared with a year earlier. This compares to a balance of 17% reporting a fall in Q3. Looking forward, 33% of heavy side manufacturers and half of light side manufacturers anticipated a rise in exports, on balance, over the next 12 months, supported by the recent Sterling depreciation.



Sterling depreciation and weak demand

67% of heavy side product manufacturers and 71% of light side firms produced solely for the domestic market in Q4. These balances were the highest in the history of the survey. Of those that did export, exchange rate conditions was the key factor influencing export volumes, according to half of manufacturers (both heavy and light). Economic conditions in Europe, the primary export market, was also a key factor influencing export volumes in Q4, according to half of light side firms.





About the Build UK Survey

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. Enquiries to:

David Bishop, Build UK, 6-8 Bonhill Street, London EC2A 4BX T: 0844 249 5351
Email: david.bishop@BuildUK.org Website: www.BuildUK.org



About the Civil Engineering Contractors Association (CECA) Survey

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. Enquiries to:

Alasdair Reisner, CECA, 1 Birdcage Walk, London SW1H 9JJ T: 020 7340 0454
Email: alasdairreisner@ceca.co.uk Website: www.ceca.co.uk



About the Construction Products Association Survey

The Construction Products Association represents the UK's manufacturers and suppliers of construction products, components and fittings. The Association acts as a single voice for the construction products sector, representing the industry-wide view of its members. The sector has an annual turnover of more than £50 billion and accounts for over 1/3 of total construction output. For further information on the content and availability of these publications please contact:

Rebecca Larkin, Construction Products Association, 26 Store Street, London WC1E 7BT T: 0207 323 3770
Email: rebecca.larkin@constructionproducts.org.uk Website: www.constructionproducts.org.uk



About the Federation of Master Builders (FMB) Survey

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'. Enquiries to:

Sarah McMonagle, FMB, David Croft House, 25 Ely Place, London, EC1N 6TD



About the National Federation of Builders (NFB) Survey

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. Enquiries to:

Paul Bogle, NFB, Spectrum House, Suite AF29, Beehive Ring Road, Gatwick, West Sussex, RH6 0LG
T: 01293 855 203 E-mail: paul.bogle@builders.org.uk Website: www.builders.org.uk