

## Build UK State of Trade Survey

Q1 2016

### Executive Summary

The first State of Trade Survey for 2016 shows that activity and costs continue to rise for Build UK members as labour supply remains cause for concern.

The latest survey which was undertaken by Glenigan shows that, whilst output rose only slightly, contractors reported a strengthening in enquiries during the quarter. Costs for contractors continue to rise as 39% reported a rise in all building costs over the past quarter and almost two-thirds of contractors reported a rise over the past year. The cost of labour has also risen with 43% reporting an increase in labour costs compared to the previous quarter, and almost two thirds reporting that their labour costs were higher than a year ago.

Even so, overall contractors remain positive about their future prospects with 27% expecting workloads to rise during the next quarter. Industrial and commercial sectors are identified as particular growth areas, and the majority (52%) of contractors expect workloads to rise over the next 12 months. However, 26% expect their work volumes to decline, compared to just 9% last quarter, which suggests that the overall pace of industry growth will be slower than previously anticipated.

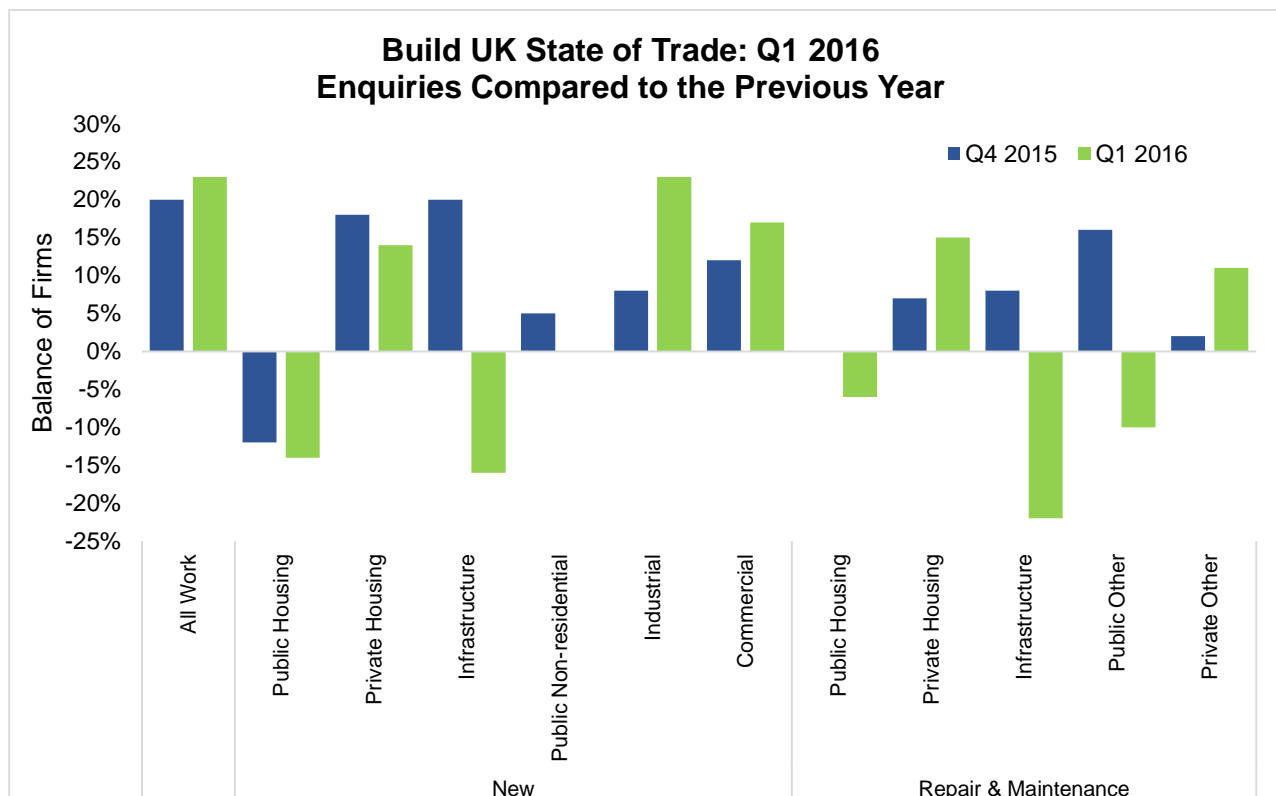
Results also show that labour supply remains a concern, with contractors reporting widespread difficulties in recruiting supervisors, managerial, professional and technical staff along with bricklayers and cladders. The main reasons stated for the difficulties in filling vacancies were the low number of applicants with their required skills (53%), a lack of required experience (53%) and a lack of qualifications (48%).

In terms of payment, half of contractors reported waiting at least 46 days on average, despite only 20% having average contract terms of 46 days or more.

## Enquiries and Orders

Contractors reported a strengthening in enquiries during the first quarter of 2016. 42% of contractors reported an increase in enquiries compared to the previous quarter while 19% reported a decrease, giving a net balance of 23 points.

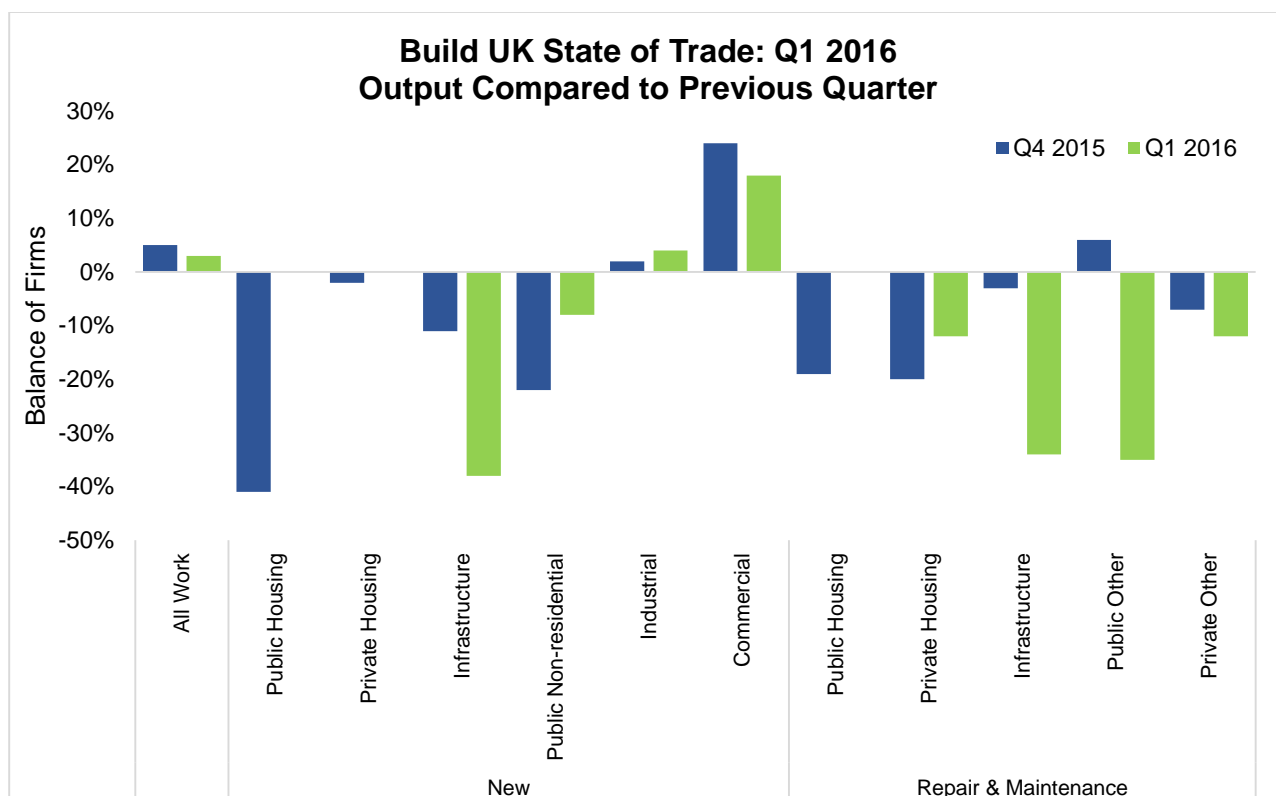
Enquiry levels were similarly ahead compared to Q1 2015; 43% of contractors reported an increase against 20% recording a decline, giving a net balance of 23 points. The rise in enquires was driven by increases in the industrial, commercial and private housing sectors. In contrast, contractors on balance reported fewer enquires for publically funded and infrastructure projects.



## Output

29% of contractors reported an increase in output compared to the previous quarter. This was slightly ahead of the 26% of respondents who recorded a decline, giving a balance of 3 points. This constitutes a slightly weaker balance than the 5 points recorded in last quarter’s survey.

Compared to a year earlier the rise in output was more discernible; 53% of contractors reported a rise compared to just 25% recording a decline, producing a balance of 28 points.



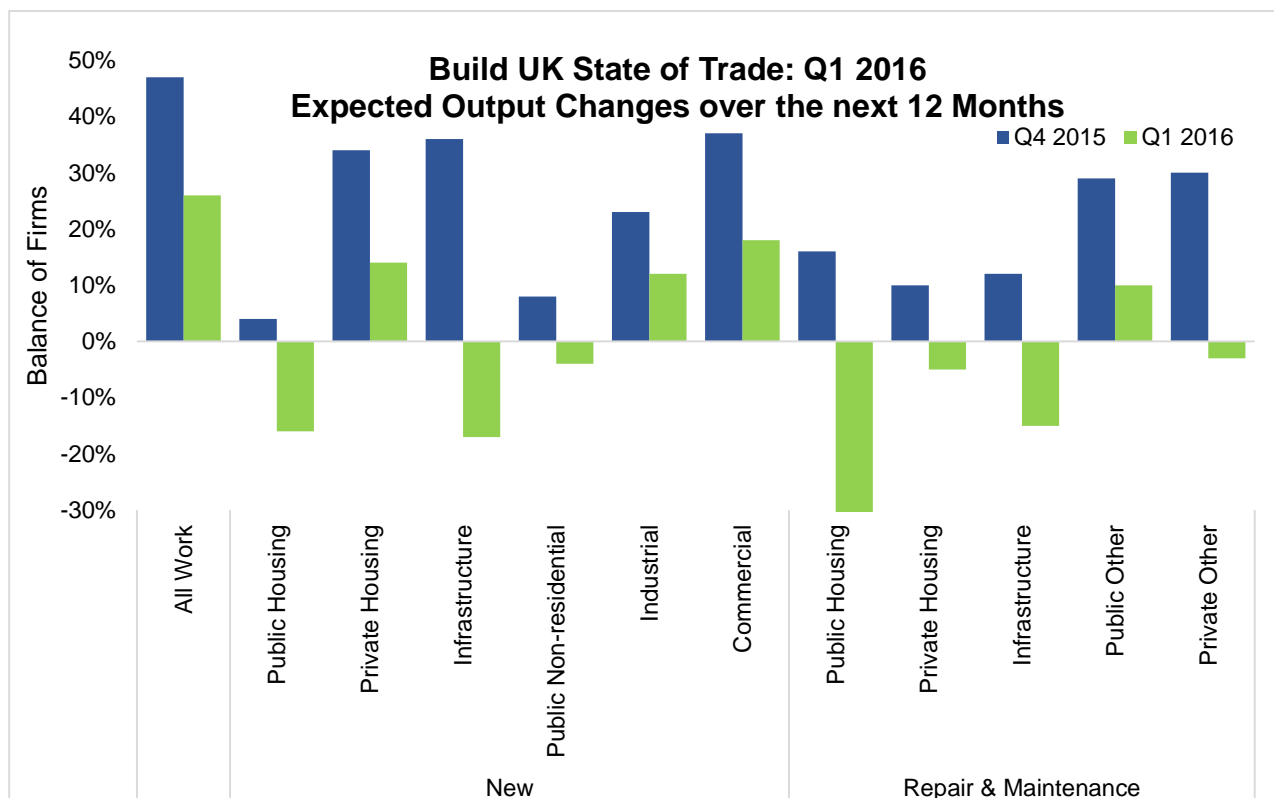
## Work in Hand

61% of contractors regard their current levels of work in hand as normal. 18% of contractors currently have higher than normal levels compared to 21% who currently have lower than normal levels, giving a resultant balance of -3 points.

## Anticipated Workload

27% of contractors expect workloads to rise in Q2 2016 compared to Q1 2016 with industrial and commercial sectors representing particular growth areas.

The majority of contractors (52%) expect workloads to rise during the next 12 months compared to the previous year whilst 26% expect their work volumes to decline, providing a resultant balance of 26 points.



## Recruitment

80% of respondents said that professional/technical employees and supervisors were either 'difficult' or 'very difficult' to recruit during the first quarter of 2016.

Bricklayers, cladders, supervisors and managerial/clerical were also amongst the most difficult to recruit, with over two-thirds of firms reporting that their recruitment was difficult or very difficult.

Contractors encountered relatively few difficulties recruiting scaffolders, tilers, glaziers and dry liners during the quarter.

The main reasons stated for difficulty in filling vacancies was the low number of applicants with the required skills (53%), a lack required experience (53%) and a lack of qualifications (48%).

Recruitment difficulties are still affecting contractors' business performance as 24% of respondents were unable to bid for work during the last quarter due to labour shortages, and 14% reporting that it had resulted in the late completion of work.

## Capacity, Costs and Prices

Contractors are, for the most part, nearing full capacity. 75% of respondents are operating above 75% capacity, and 43% are operating at over 90% capacity. Contractors have been similarly busy when looking at the last 12 month period.

On balance, slightly more contractors have seen their profit margins rise rather than fall. Compared to the previous quarter 24% saw margins rise compared to 20% who saw them fall, giving an overall balance of 4 points. In comparison to a year ago, 38% reported a rise as opposed to 25% reporting a fall, resulting in a balance of 13 points.

69% of contractors are operating above 75% capacity, and 45% at over 90% capacity. Contractors have been similarly busy when looking at the last 12 months with 79% operating above 75% capacity, and 36% over 90% capacity.

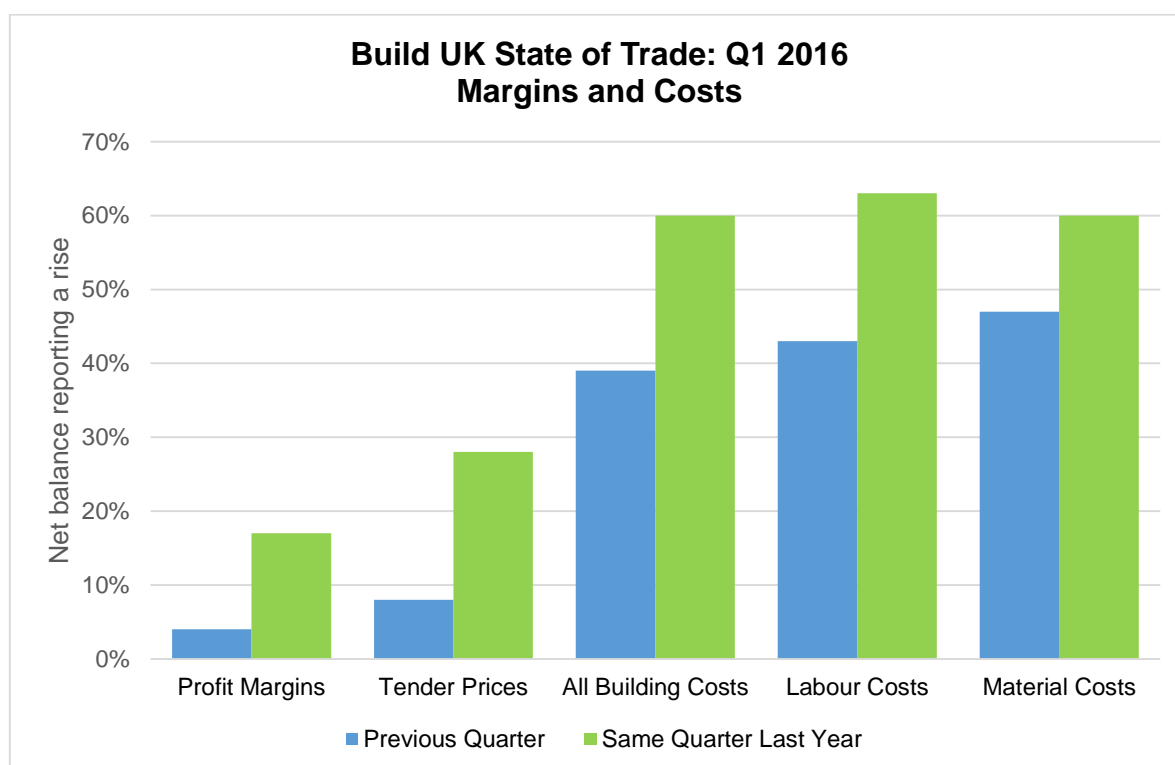
On balance, slightly more contractors have seen their profit margins rise rather than fall. Compared to the previous quarter, 27% saw margins rise compared to 23% who saw them fall. Against a year ago, 37% reported a rise compared to 20% reporting a fall, resulting in a balance of 17 points.

8% of respondents experienced a rise in Tender Prices compared to the previous quarter, and 28% experienced a rise since the corresponding quarter last year.

Over the last quarter, more respondents stated that material costs had risen (47%) than reported rising labour costs (43%). Overall, 39% of contractors reported a rise in all building costs over the last quarter. The majority (43%) were unchanged, and only a small proportion (4%) reported a fall.

Over the last year, almost two-thirds (64%) of contractors reported that their overall building costs had risen, while just 4% reported that they had fallen.

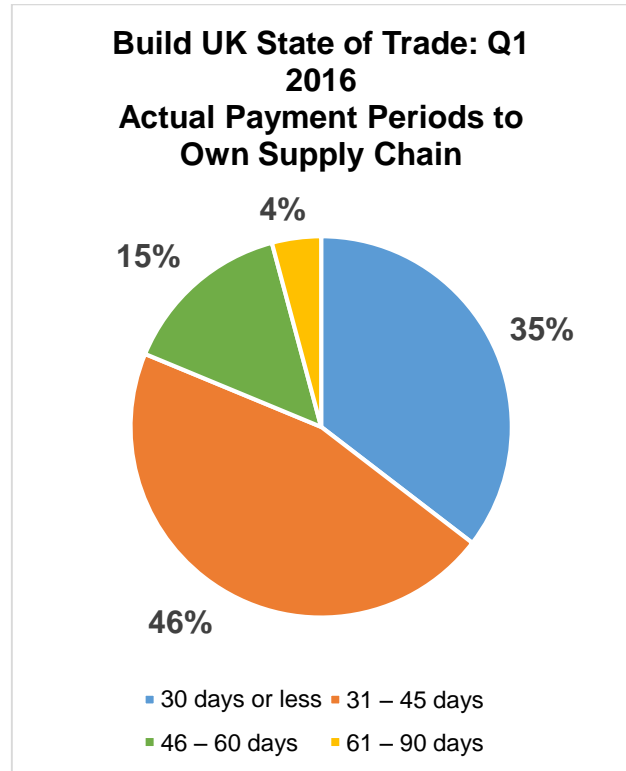
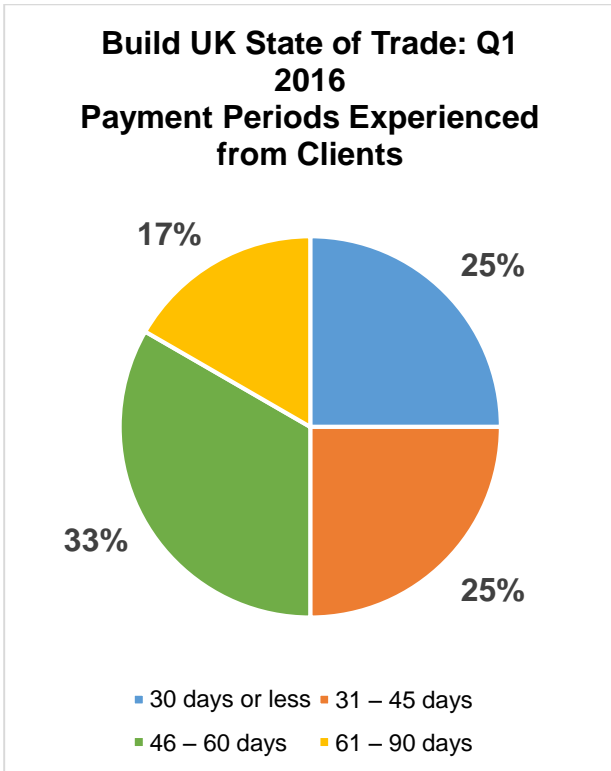
Labour costs were judged to have risen by 65% of respondents over the previous year; 33% said they remained unchanged, while just 2% found they had fallen. Similarly 62% of firms had seen their material costs rise over the last year, with 36% stating that they were unchanged and 2% reporting a fall.



## Payments and Disputes

46% of Contractors waited between 46 and 60 days on average to receive payment from their clients and 11% waited between 61 and 90 days. This is despite only 15% having average contract terms which included payment periods of 46 days or more.

16% of Contractors reported that, on average, they receive payment within 30 days, and 27% confirmed that they usually received payment between 31 and 45 days.



A third (33%) of Contractors had been involved in a contract dispute during the last quarter. The most common cause of disputes was payment (36%), followed by delays (25%) and variations (14%).

