

Build UK State of Trade Survey

Q2 2016

Executive Summary

Results of the second State of Trade survey for 2016 show that whilst output from Build UK members rose before the EU referendum, there is uncertainty around future workloads following Brexit with labour supply remaining a cause for concern.

The latest Build UK survey, which was undertaken by Glenigan, reveals that industry capacity remains increasingly tight with 81% of contractors operating at over 75% of their capacity and 46% operating at over 90% capacity. Enquiry levels during the second quarter of 2016 experienced little change from the previous three months, however output has increased by 22% which is a substantial increase compared to the 5% and 3% recorded in the previous two surveys.

When considering the upcoming quarter, 19% of contractors anticipate workloads to rise on the results of Q2 2016, with new build infrastructure and commercial sectors expected to be particular growth areas. However, this result is a decrease of 8% from the results of the last quarter (27%) and 11% from the Q4 2015 result (30%), reflecting the increasing uncertainty of the industry pre and post EU referendum.

This feeling of uncertainty continues when assessing the next 12 months. Overall, 21% of contractors still expect their own workloads to rise, however this represents a 5% decrease on the previous quarter (26%), and a 26% decrease when compared to Q4 2015 (47%). Furthermore, whilst contractors feel that their workloads will be higher in 12 months' time, they also reported that they believe that the majority of industry sectors will see a decline in output, with only repair and maintenance work in the private other sector experiencing an increase.

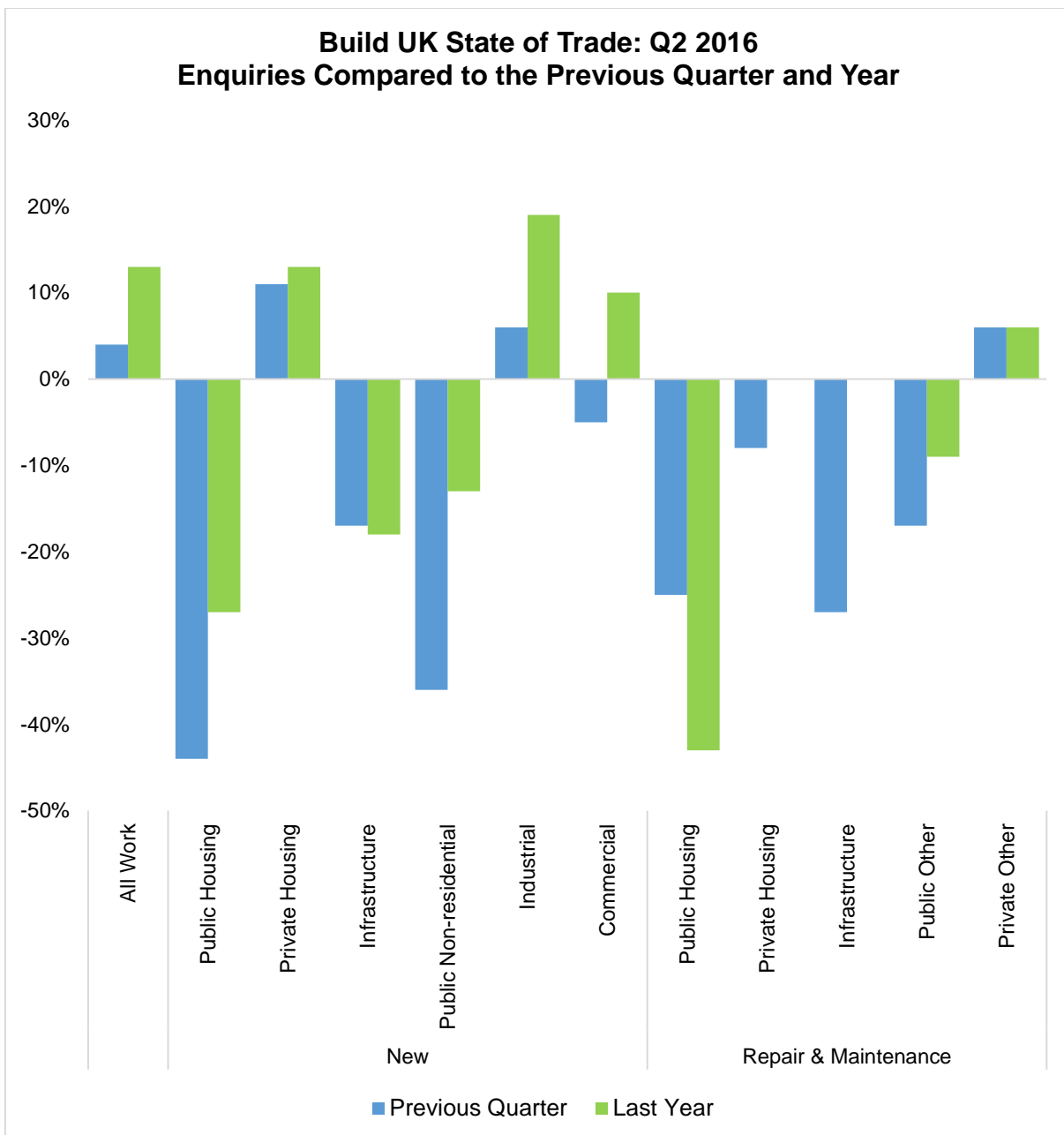
Labour supply remains an area of concern for the industry, with 82% of contractors reporting that professional and technical employees were either 'difficult' or 'very difficult' to recruit. Three-quarters of firms cited difficulty in recruiting supervisors and bricklayers, with two-thirds specifying carpenters or joiners and ceiling fixers. Where contractors had experienced difficulties in recruiting staff, firms cited lack of experience (61%), lack of skills (57%) and a lack of qualifications (41%) as the reasons for the problems. These difficulties continue to impact upon the cost of labour, with 45% of respondents reporting an increase in labour costs compared to the previous quarter and almost two thirds (65%) reporting higher costs than a year ago.

In terms of payment, 35% of contractors reported waiting at least 46 days on average despite only 18% having average contract terms of 46 days or more.

Enquiries

Contractors reported enquiry levels during the second quarter of 2016 were similar to the previous three months. One third (33%) of contractors reported an increase in enquiries compared to the previous quarter while 29% reported a decrease, giving a net balance of just 4 points.

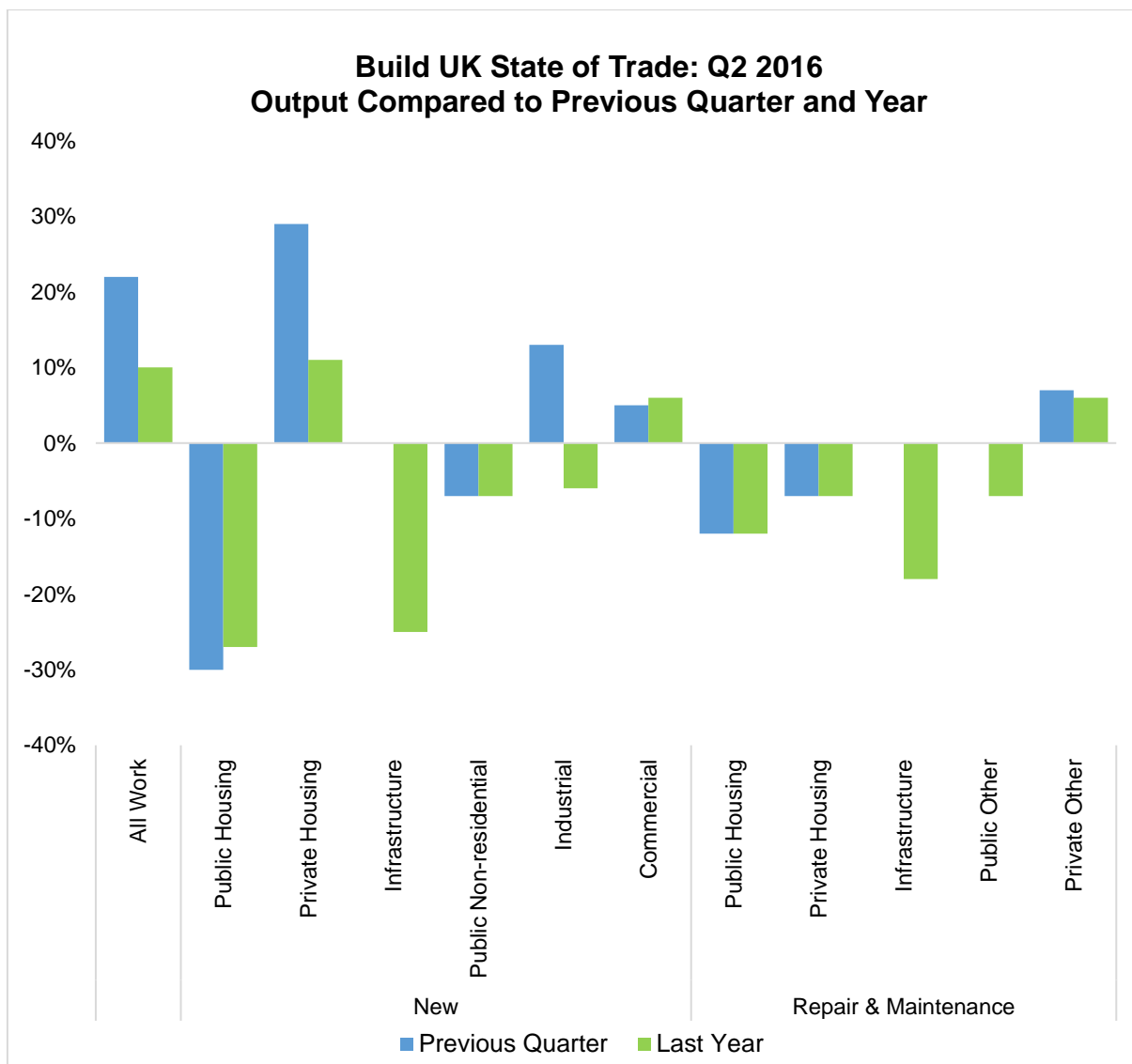
Enquiry levels were similarly ahead compared to Q2 2015; 45% of contractors reported an increase against 32% recording a decline, giving a net balance of 13%. The year on year rise in enquires was driven by increases in the industrial, commercial and private housing sectors, although a small balance of contractors (5%) reported that commercial enquiries were down on the first quarter of 2016. In contrast, contractors on balance reported fewer enquires for public funded and infrastructure projects for the second straight quarter.



Output

45% of contractors reported an increase in output compared to the previous quarter. This compares with 23% of respondents who recorded a decline, giving a balance of 22 points. This is a marked improvement on the net balances of 5 points and 3 points recorded in the previous two surveys.

Compared to a year earlier the rise in output was more modest; 40% of contractors reported a rise compared to 30% recording a decline, giving a balance of 10 points. 22% of contractors reported increases in new build private housing, 20% in industrial work and 11% in new build private housing.



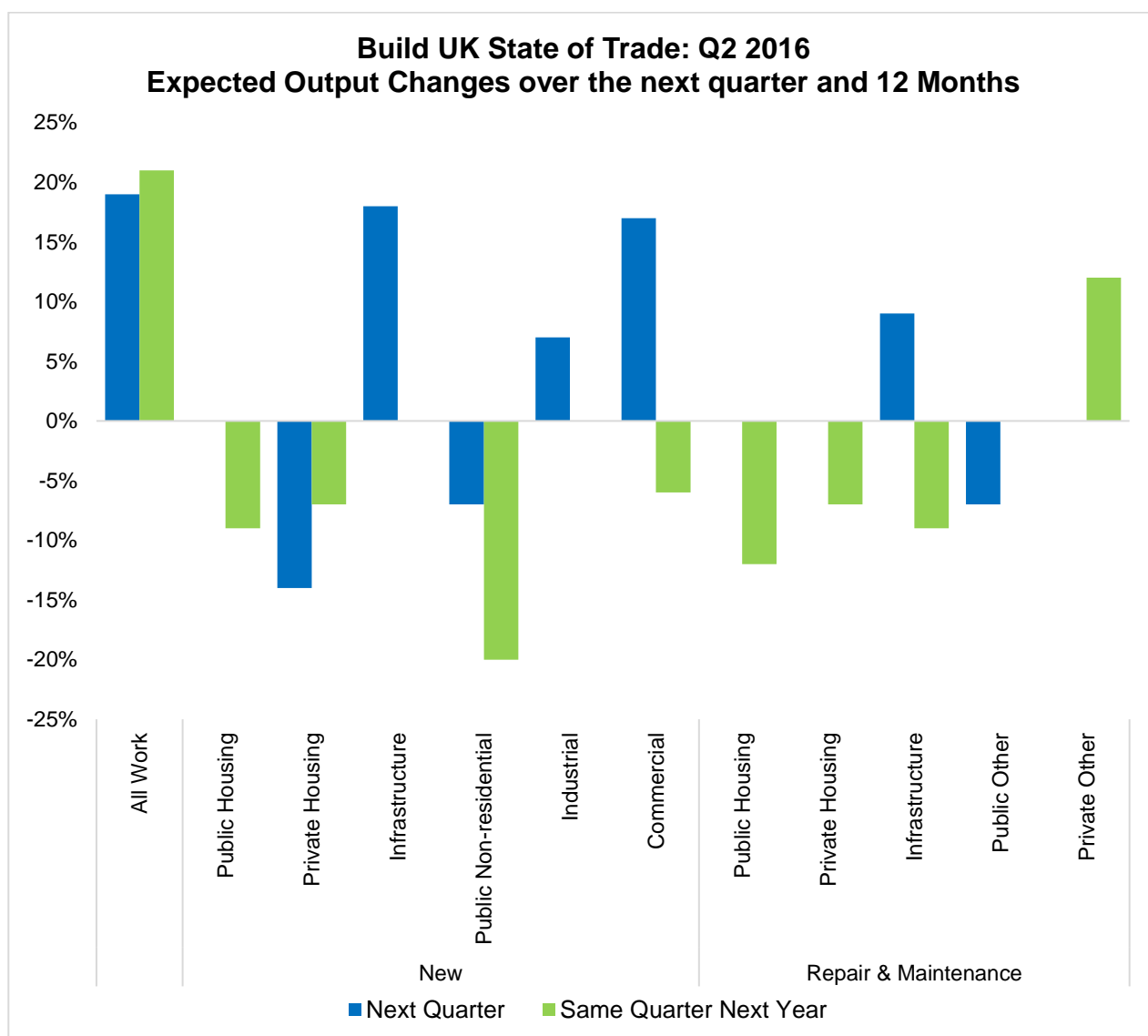
Work in Hand

30% of contractors regard their current levels of work in hand as normal. 40% of contractors currently have higher than normal levels and 30% currently have lower than normal levels, giving a resultant balance of 10 points; an increase from -3 points reported last quarter.

Anticipated Workload

19% of contractors expect workloads to rise in Q3 2016 compared to Q2 2016, with new build infrastructure and commercial sectors expected to be particular growth areas. This represents a decrease of 8% from last quarters’ results (27%) and 11% from the Q4 2015 result (30%), reflecting the uncertainty of the industry pre and post Brexit.

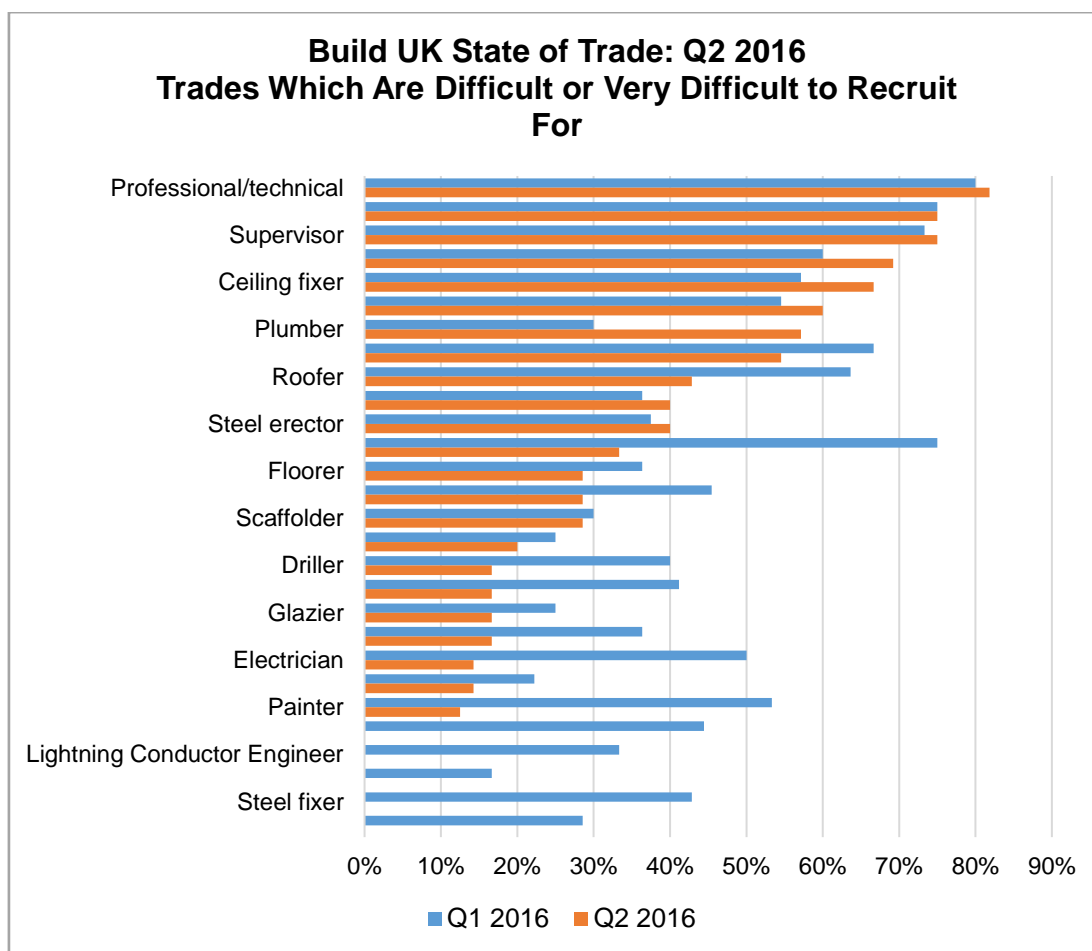
This feeling of uncertainty continues when Contractors were asked to anticipate workloads during the next 12 months: overall 21% of contractors expect workloads to rise, a percentage which is 5% lower than the previous quarter (26%), and 26% lower than Q4 2015 (47%). Furthermore, whilst overall contractors felt that their own workloads would increase in 12 months’ time, they also reported that they believe that the majority of sectors across the industry would see a decline in output, with only R&M work in the private other sector seeing an increase in output.



Recruitment

Labour availability appears to have improved marginally during the second quarter. Nevertheless, recruitment remained difficult across a range of trades. Recruitment of professional/technical employees has consistently been a problem area in the last three surveys and was identified as either ‘difficult’ or ‘very difficult’ by the highest proportion (82%) of firms during the second quarter of 2016. Three-quarters of firms reported that supervisors and bricklayers were ‘difficult’ or ‘very difficult’ to recruit.

Carpenters/joiners, and ceiling fixers were also amongst the most difficult to recruit, with over two-thirds of firms reporting that recruitment was ‘difficult’ or ‘very difficult’. The availability of roofers, cladders and plasterers appears to have improved during Q2 2016, with far fewer contractors reporting that recruitment was ‘difficult’ or ‘very difficult’ than had done in the previous survey. In contrast there was a marked increase in contractors reporting difficulty recruiting plumbers.



Where contractors had experienced difficulties in recruiting staff, firms cited lack of experience and lack of skills as a factor in 61% and 57% of cases respectively. Lack of qualifications was cited as a factor in 41% of cases. Other reasons identified by contractors related to the general supply of skilled labour, lack of commitment from applicants and poor spoken English skills.

These recruitment difficulties are impacting contractors’ business performance with 18% of firms reporting that labour shortages had resulted in the late completion of work and 16% reporting that it had resulted in them being unable to bid for work.

Capacity, Costs and Prices

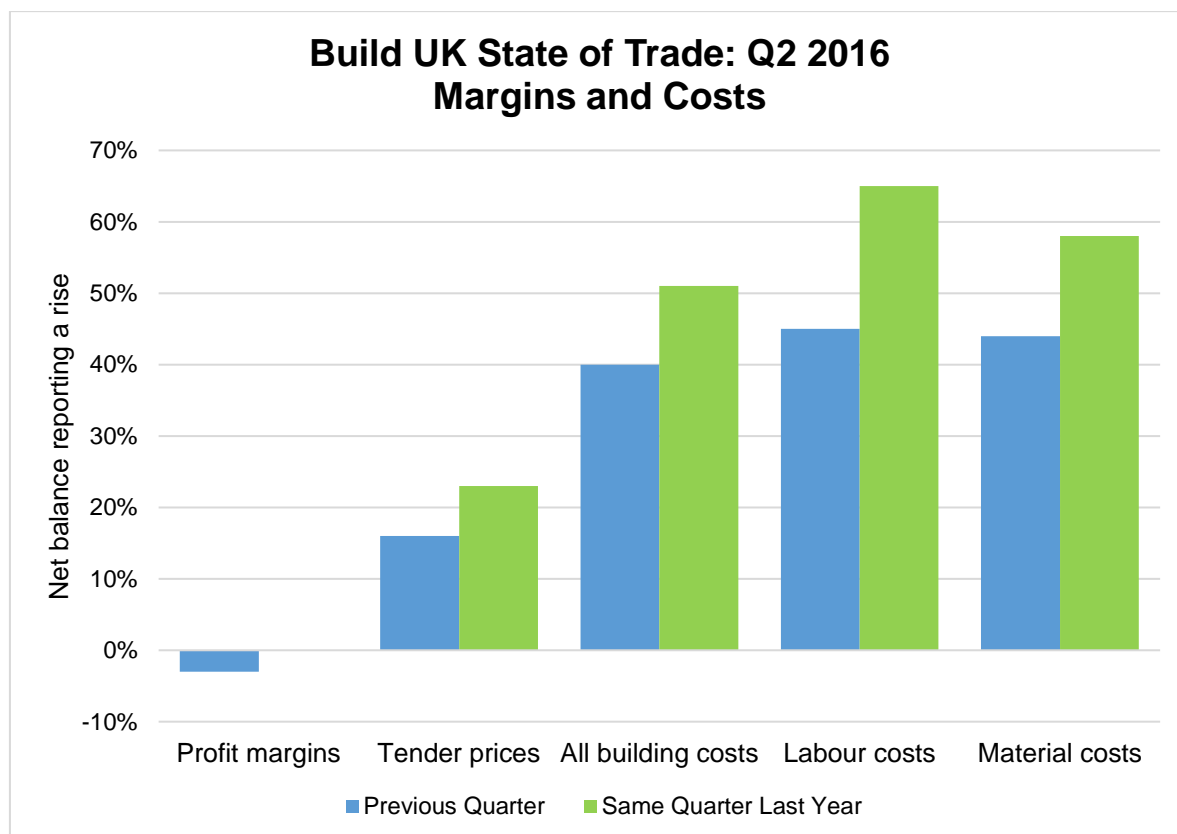
Contractors are continuing to report working at close to full capacity with 81% of firms operating above 75% capacity, and 46% operating at over 90% capacity. Compared to last quarter, this is an increase of 6% of firms working above 75% capacity, and 3% working at over 90% capacity. Over the 12 months to June 2016, 73% of firms were operating at least 76% of their capacity and 43% were operating at over 90% capacity.

On balance, slightly fewer contractors have seen their profit margins rise rather than fall. Compared to the previous quarter, 18% saw margins rise compared to 21% who saw them fall. Overall profit margins during the second quarter were unchanged compared to a year ago, with 24% of firms reporting an increase in margins offset by a similar proportion reporting tighter margins.

16% of contractors reported a rise in tender prices compared to the previous quarter, and 23% experienced a rise since the corresponding quarter last year.

Over the last quarter, a similar balance of respondents judged that labour costs had risen (45%) to those reporting a rise in material costs (44%). Furthermore, 40% of contractors reported a rise in all building costs.

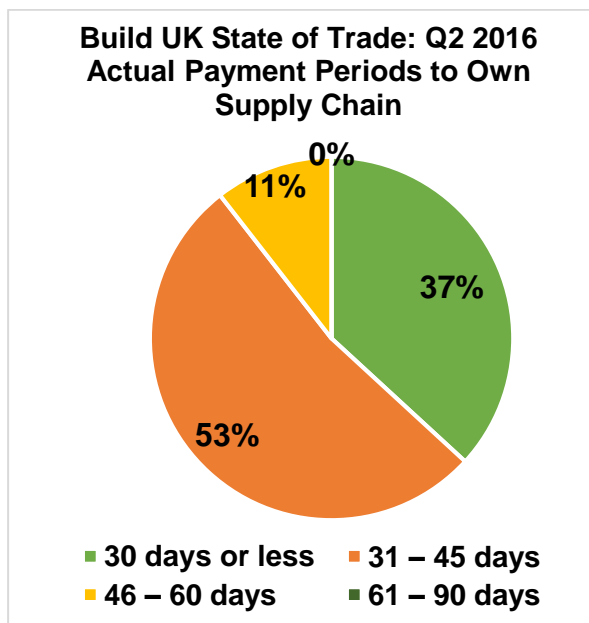
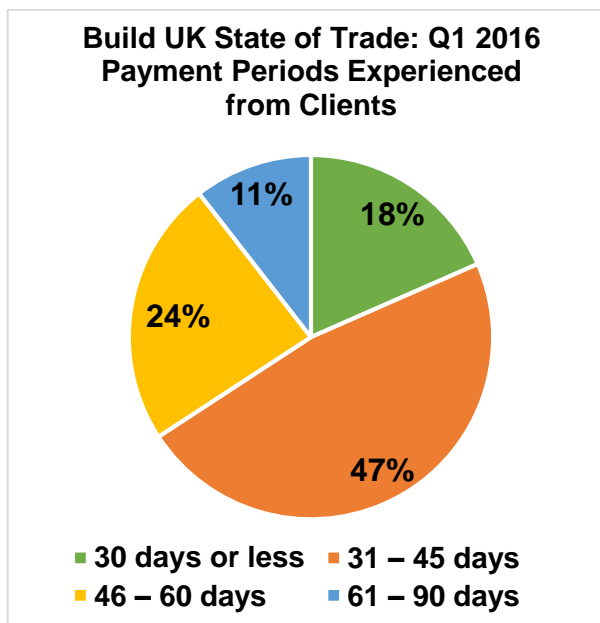
Compared to the same quarter last year, 65% of contractors reported that their labour costs had risen, 58% that material costs had increased and just over half (51%) that their overall building costs had grown.



Payments and Disputes

Almost a quarter of contractors (24%) were waiting between 46 and 60 days on average to receive payments from their clients and 11% waited between 61 and 90 days. This is despite only 18% having average contract terms which include payment periods of 46 days or more.

18% of contractors reported that, on average, they receive payment within 30 days; this compares to 16% during the first quarter of 2016. Almost half (47%) concluded that they usually receive payment between 31 and 45 days; this compares to a quarter of firms (25%) in the previous survey.



Almost a fifth (18%) of contractors had been involved in a contract dispute during the second quarter of 2016. The most common cause of disputes was delays (43%), followed by payments (29%) and errors in design and variations (both 14%).

