

Build UK State of Trade Survey

Q1 2017

Executive Summary

Construction output grew modestly during the first quarter of 2017, according to the latest Build UK State of Trade Survey. In addition, contractors reported an increase in enquiries, especially for new social housing and public non-residential projects.

The survey, which was undertaken with Glenigan, found that contractors anticipate continued growth in workload during the current quarter and over the next twelve months; overall, 22% of contractors expect their workloads to rise in the next three months and 60% of firms expect their output to rise over the next 12 months.

Overall labour availability remains a concern with 14% of contractors reporting that the recruitment of skilled labour had been more difficult than during the previous three months and no firms reported that recruitment issues had eased. Recruitment remains difficult across a range of trades. Availability of bricklayers, cladders and roofers are among the most problematic, with all contractors reporting their recruitment as either 'difficult' or 'very difficult'. Similarly there were widespread problems in the recruitment of managers, supervisors and professional/technical employees.

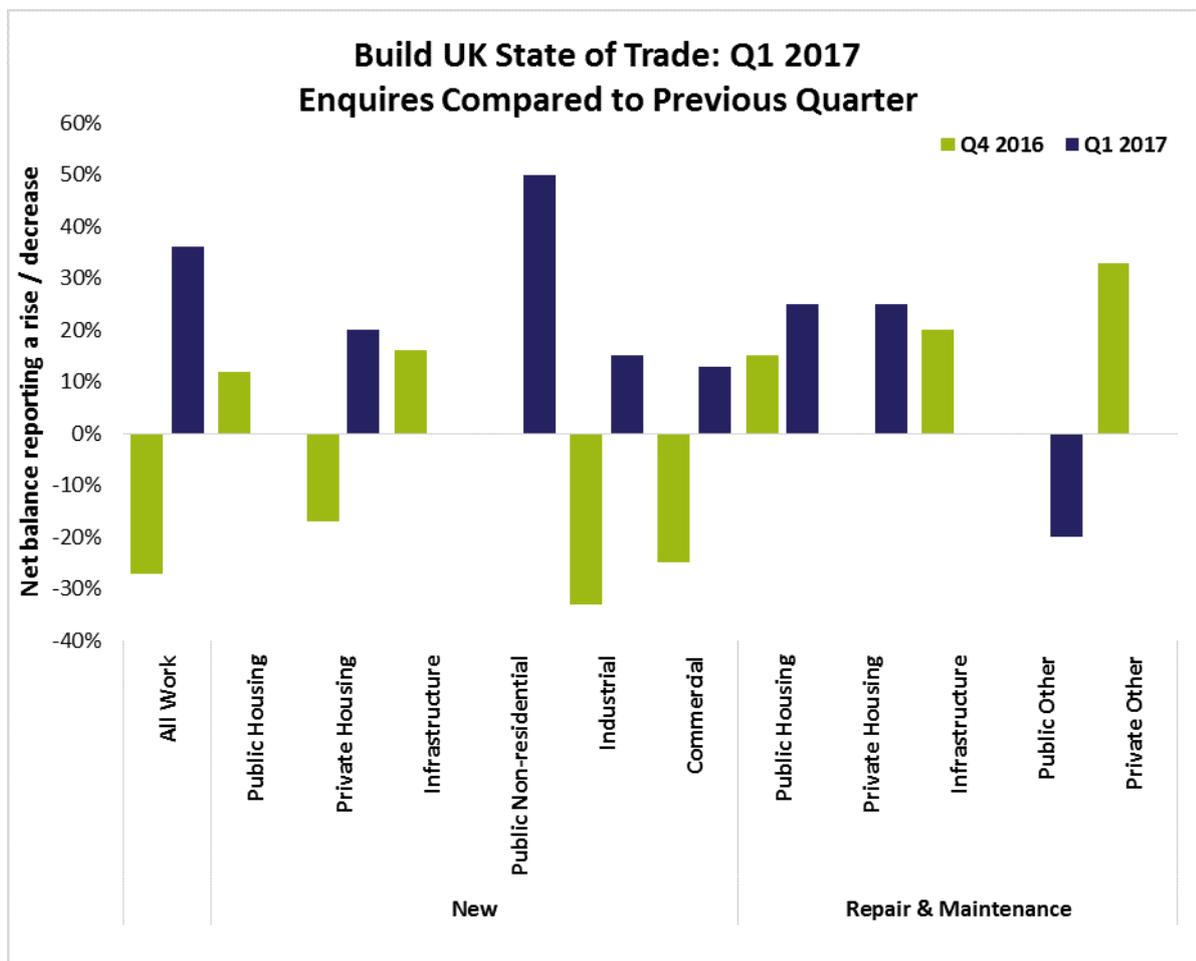
Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills as being an issue in 67% of cases. Lack of experience and required qualifications was cited as factors in 48% and 45% of cases respectively. Labour availability issues have impacted on contractors' business performance, with 7% saying that labour shortages had resulted in the late completion of work. Furthermore, recruitment difficulties are also impacting upon labour costs, with a balance of 53% of firms reporting that their labour costs had risen during the quarter and 60% reporting that they were higher than a year ago.

Furthermore, firms have seen widespread increases in material costs. 93% of firms reported higher material costs during the first quarter of 2017. Rising labour and material costs have increased overall building costs, with 38% of firms reporting an overall increase. However, the higher cost base is not reflected in tender prices, with a balance of just 7% of firms reporting a rise in tender prices during the quarter. Overall profit margins were unchanged on the previous quarter and just ahead of a year ago.

When it comes to payment, 47% of contractors reported waiting at least 46 days on average, despite only 7% having average contract terms of 46 days or more.

Enquiries

Contractors reported a recovery in enquiry levels during the first quarter of 2017. On balance of 36% of firms reported more enquires than during the previous three months and 22% reported that enquiries were up on the first quarter of 2016.



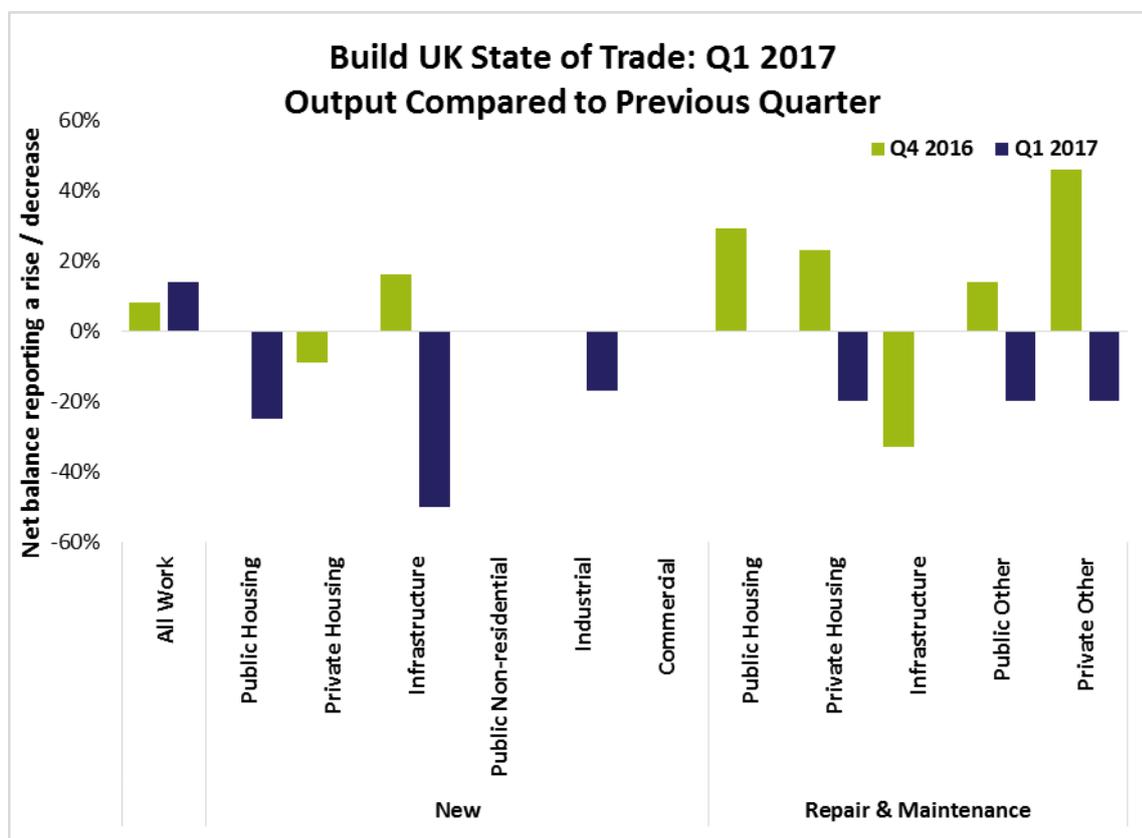
A high proportion of contractors reported more enquiries compared to the previous three months for commercial, industrial, public non-residential and new private housing work; which were all areas of weakness in the previous survey. In addition there has been a marked turnaround in public non-residential enquiries, with half of contractors operating in the sector reporting more enquiries in contrast to the deteriorating trend in previous surveys.

There was widespread strengthening in enquiries for repair and maintenance (R&M) work, with a balance of contractors reporting enquiries had either increased or were unchanged on the previous quarter. Public other R&M work was the exception with a balance of 20% of firms reporting fewer enquiries than in the preceding quarter.

Output

More than a quarter (27%) of contractors reported an increase in overall output compared to the previous quarter. This compares with 13% recording a decline, giving a final balance of +14%. This is an improvement on the +8% seen in 2016 Q4, but remains below the +22% and +20% balances seen in the second and third quarters of 2016. Overall output growth appears to have been weak. Whilst contractors reported an increase in new private housing, commercial and public non-housing workload during the quarter, a matching proportion of firms reported less work in these sectors. Elsewhere a balance of firms reported a decline in public new housing, infrastructure and industrial work, while no firm reported an increase in R&M work.

Nevertheless, a net balance of +20% of contractors reported that their output was up on a year earlier, this compares to a balance of +27% in the previous survey.



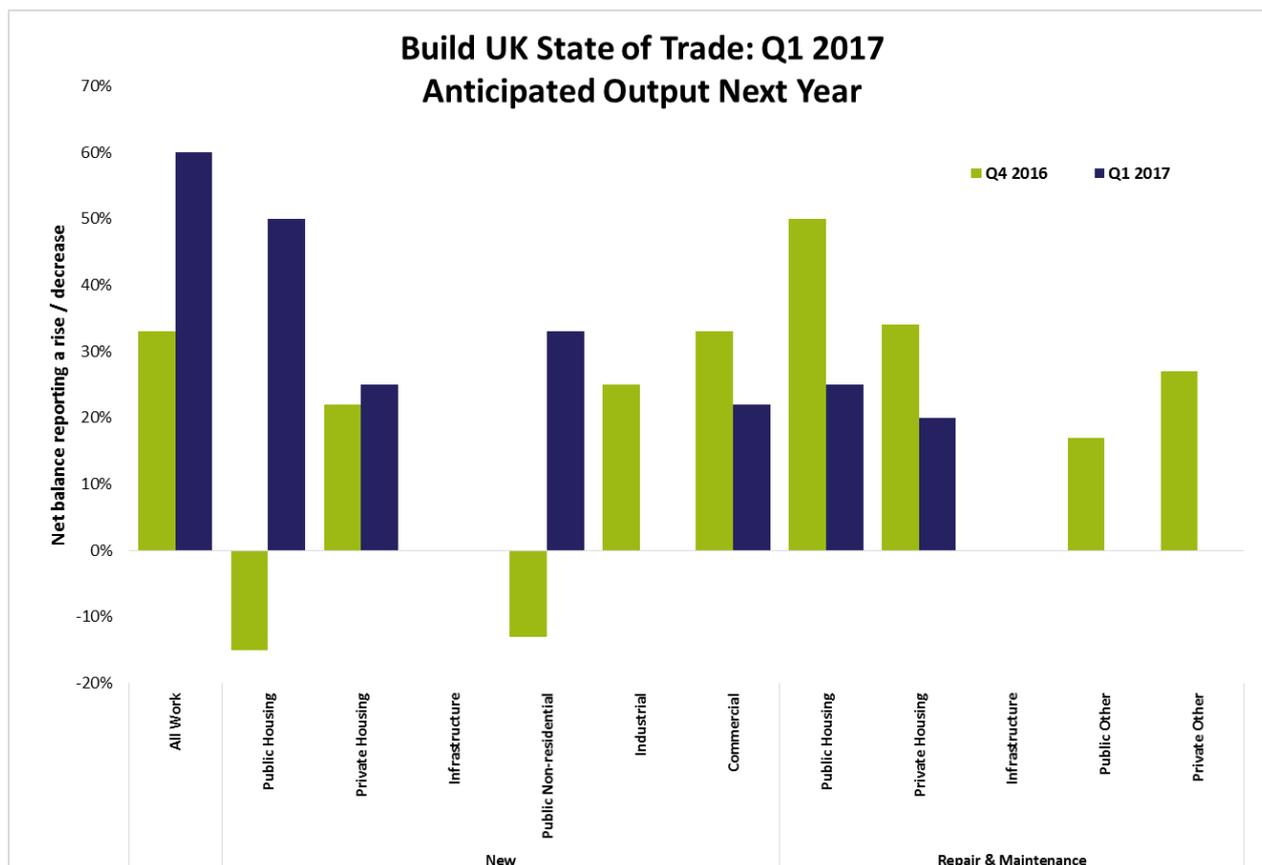
Work in Hand

62% of contractors regard their current levels of work in hand as normal. 38% of contractors currently have higher than normal levels, while no respondents had less work in hand than normal, giving a final balance of +38%.

Anticipated Workload

A balance of +22% of contractors expect workloads to rise in 2017 Q2 compared to 2017 Q1.

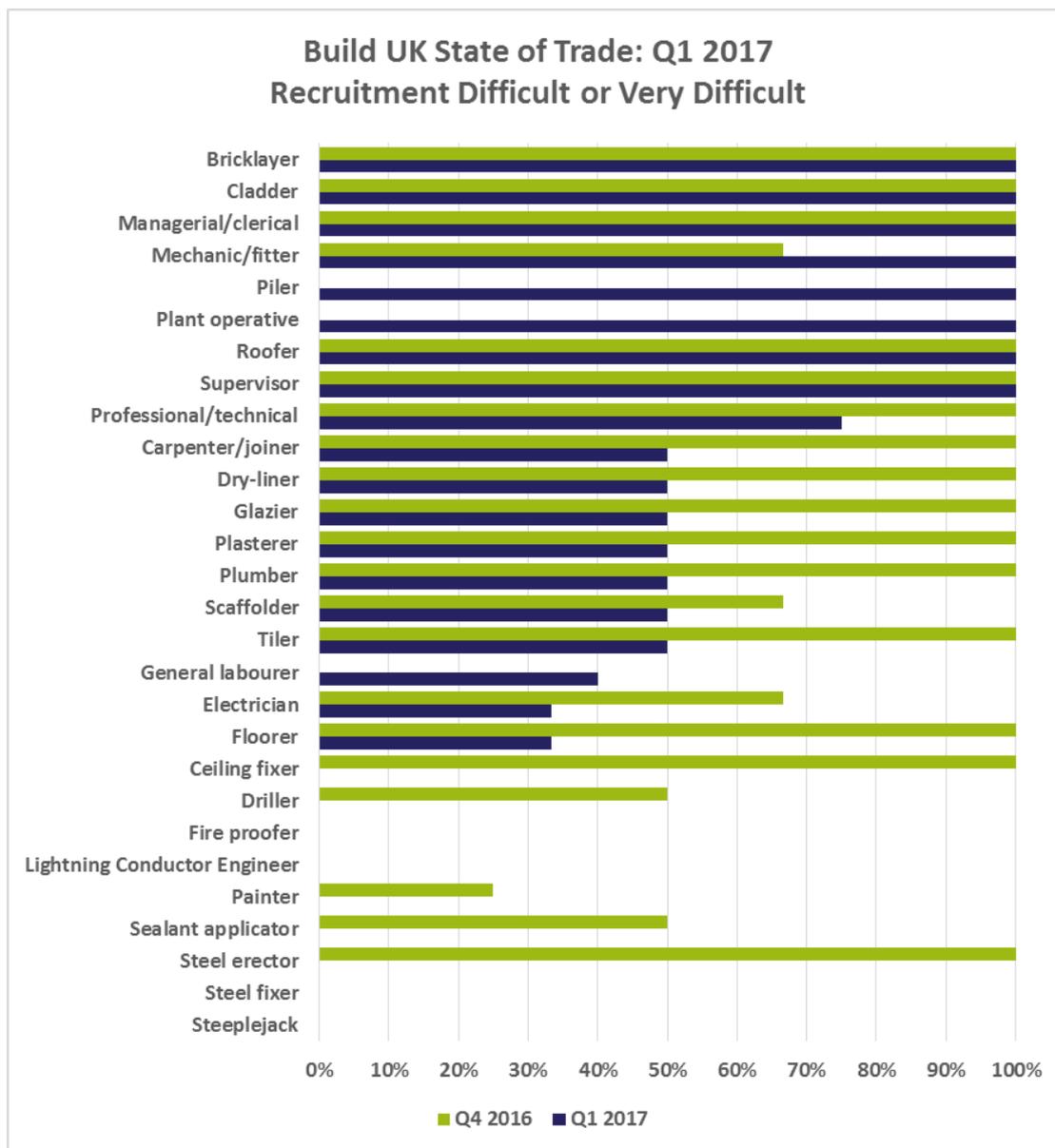
The new private housing, industrial and commercial sectors are anticipated to be growth areas near term, with a balance of +25%, +17% and +22% of contractors respectively anticipating a rise in their volume of work in these sectors. The private housing RM&I sector is also predicted to be strong, with a balance of +20% of contractors expecting to increase their output. In contrast contractors were cautious about prospects for the other private housing R&M sector with a balance (-20%) of firms anticipating that the volume of their work will decline.



Looking further ahead contractors remain positive about their overall workload during the next 12 months. 60% of contractors expect workloads to rise during the next 12 months compared to the last 12 months, while none anticipate their work volumes will decline. The balance of +60% compares to a +33% balance in the previous survey and is also the strongest result since the survey's inception. New build private housing and commercial sectors are anticipated to be growth areas over the next 12 months, with a balance of +25%, and +22% respectively of contractors expecting to increase their work volumes in these sectors. In addition, 50% of contractors operating in the public new housing sector expect to increase their workload in this area. Public and private housing RM&I workloads are also anticipated to rise, with balances of +25%, and +20% of contractors respectively expecting to increase their work in these sectors.

Recruitment

Overall labour availability appears to have become scarcer during the first quarter; with 14% of contractors reported that the recruitment of skilled labour had been more difficult than during the previous three months while no contractors reported that it had become easier.



Although the responses to the question on the availability of different trades and professions was low, the pattern of responses broadly matched those of previous surveys, with recruitment remaining difficult across a range of trades. Availability of bricklayers, cladders and roofers has remained problematic with all contractors reporting their recruitment as either ‘difficult’ or ‘very difficult’. Similarly there were widespread problems in the recruitment of managers, supervisors and professional/technical employees.

The recruitment difficulties reported in the previous survey in securing internal trades appears to have eased with only half of firms reporting problems recruiting dry liners, plasterers and plumbers. The availability of carpenters/ joiners also appears to have improved.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills as being an issue in 67% of cases. Lack of experience and required qualifications was cited as factors in 48% and 45% of cases respectively.

Recruitment difficulties have disrupted development programmes, with 7% indicating that labour shortages had resulted in the late completion of work. More encouragingly no contractors reported that labour shortages had prevented them bidding for work during the quarter. This compares to 21% of contractors in the previous survey.

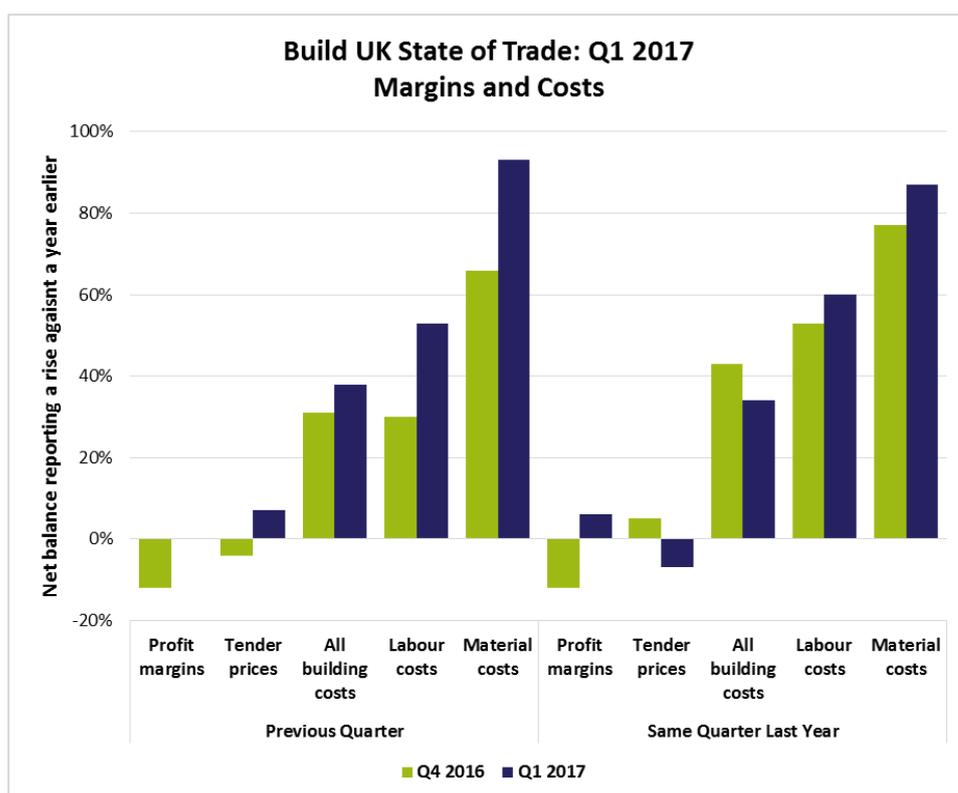
Capacity, Costs and Prices

Over four fifths (86%) of firms reported that they were operating at over 75% of their capacity during the latest quarter, with 29% of respondents operating at over 90% of capacity. Over the 12 months to March 2017, 79% of firms were operating at over 75% of their capacity and 29% were operating at over 90% capacity.

On balance, contractors' profit margins were unchanged during the first quarter of 2017. This follows a dip in reported profit margins during the fourth quarter. Overall profit margins during the first quarter were just ahead of a year ago, with 13% of firms reporting an increase in margins and 7% experiencing a tightening in margins.

Contractors reported a small rise in tender prices during the first quarter, reversing the dip in tender prices during the closing months of 2016. On balance (+7%) of contractors reported tender prices were up on the previous quarter but 7% also reported that they were lower than a year ago.

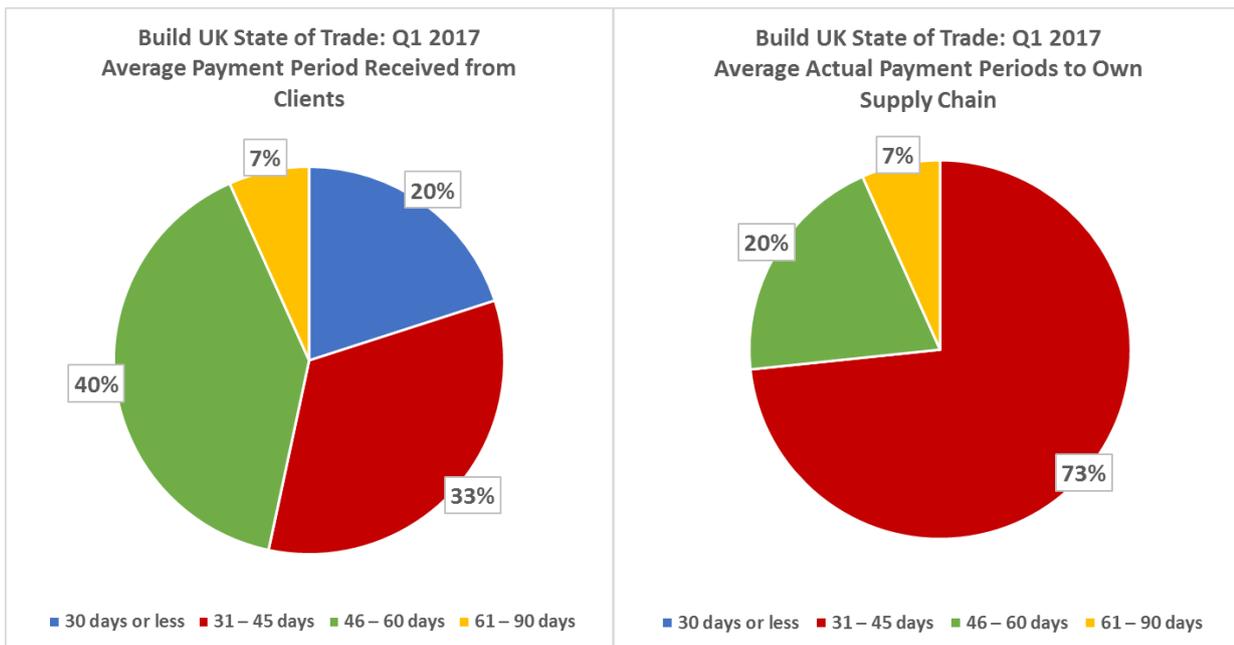
Over the last quarter, a net balance of +53% respondents judged that labour costs had risen while +93% reported higher material costs. A balance of +38% of contractors reported a rise in all building costs over the last quarter; 46% had seen costs rise, 46% said they were unchanged and 8% reported a fall.



42% of contractors have seen their overall building costs rise over the last 12 months, while half of contractors report that their building costs were unchanged and 8% seeing costs fall. A net balance of +60% of contractors reported a rise in their labour costs compared to the first quarter of 2016, with +87% of firms seeing material costs rise.

Payments and Disputes

Almost half of contractors (47%) were waiting 46 days or more on average to receive payments from their clients, with 40% waiting for 46 to 60 days and 7% waiting between 61 and 90 days. This is despite only 7% having average contract terms which include payment periods of 46 days or more. A third of contractors (33%) were waiting between 31 to 45 days on average to receive payment, with 20% receiving payment within 30 days.



A fifth (20%) of contractors had been involved in a contract dispute during the fourth quarter of 2016. The reported cause of the disputes were evenly split between payment, site conditions and variations.

