

Build UK State of Trade Survey

Q1 2018

Executive Summary

Contractors have become more cautious over their prospects, according to the latest Build UK State of Trade Survey. Although in the short term a modest recovery in workload was anticipated during the second quarter after a first quarter that was disrupted by adverse weather conditions, a general weakening in workload was anticipated for the next twelve months.

The survey, which was undertaken with Glenigan, found that a balance of 9% of contractors expect their workloads to rise in 2018 Q2, but a balance of 27% of firms expect their output to fall over the next 12 months.

These more cautious expectations follow a weakening in output and new enquiries during the first quarter of 2018. 40% of firms reported their first quarter output was down on a year ago and 20% reported a year-on-year fall in new enquiries.

Despite the more cautious view on output, 40% of firms were looking to increase their workforce over the next 12 months. This suggests that many firms believe that they are currently understaffed.

Certainly, labour availability issues have impacted on contractors' business performance, with 36% saying that labour shortages had resulted in the late completion of work and over a quarter (27%) reporting that it had prevented them bidding for work.

Overall labour availability remains a concern with 25% of contractors reporting that the recruitment of skilled labour had been more difficult than during the previous three months.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills as being an issue in 38% of cases. Lack of experience and required qualifications were cited as factors in 43% and 33% of cases respectively.

Recruitment difficulties are also impacting upon labour costs, with 64% of firms reporting that their labour costs had risen during the quarter and 55% reporting that they were higher than a year ago.

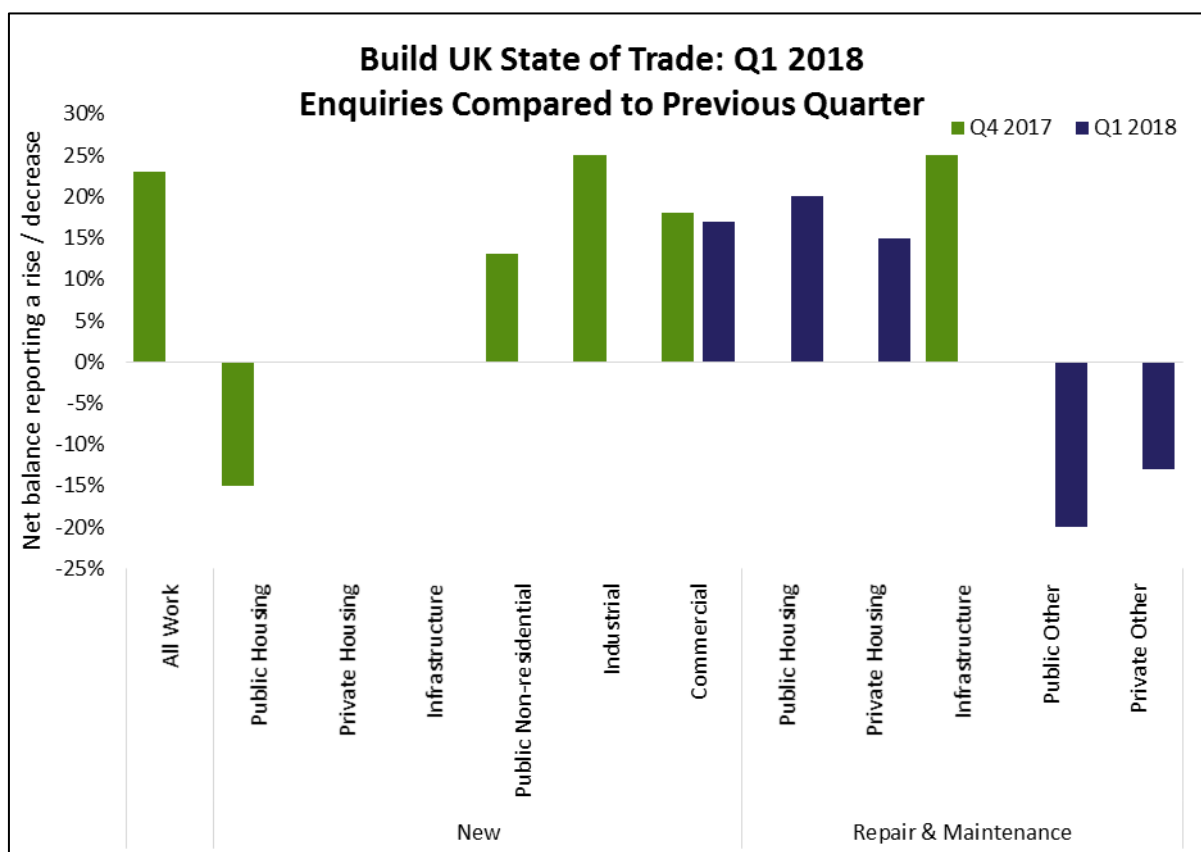
In addition, firms have seen widespread increases in material costs. 82% of firms reported that material costs were higher than during both the fourth quarter of 2017 and a year earlier. Rising labour and material costs have increased overall building costs, with 64% of firms reporting an overall increase in costs during the first quarter. Against this background of rising costs, 18% of firms saw tender prices weakened against the previous quarter. Together, rising costs and lower tender prices resulted in a fall in profit margins during the quarter, with 55% of firms reporting margins were down on the previous quarter.

When it comes to payment, 27% of contractors reported that the average wait for payment was 46 days or more.

Enquiries

Contractors reported overall enquiry levels were unchanged in the first quarter, consolidating upon the rise in enquiries seen in the previous survey.

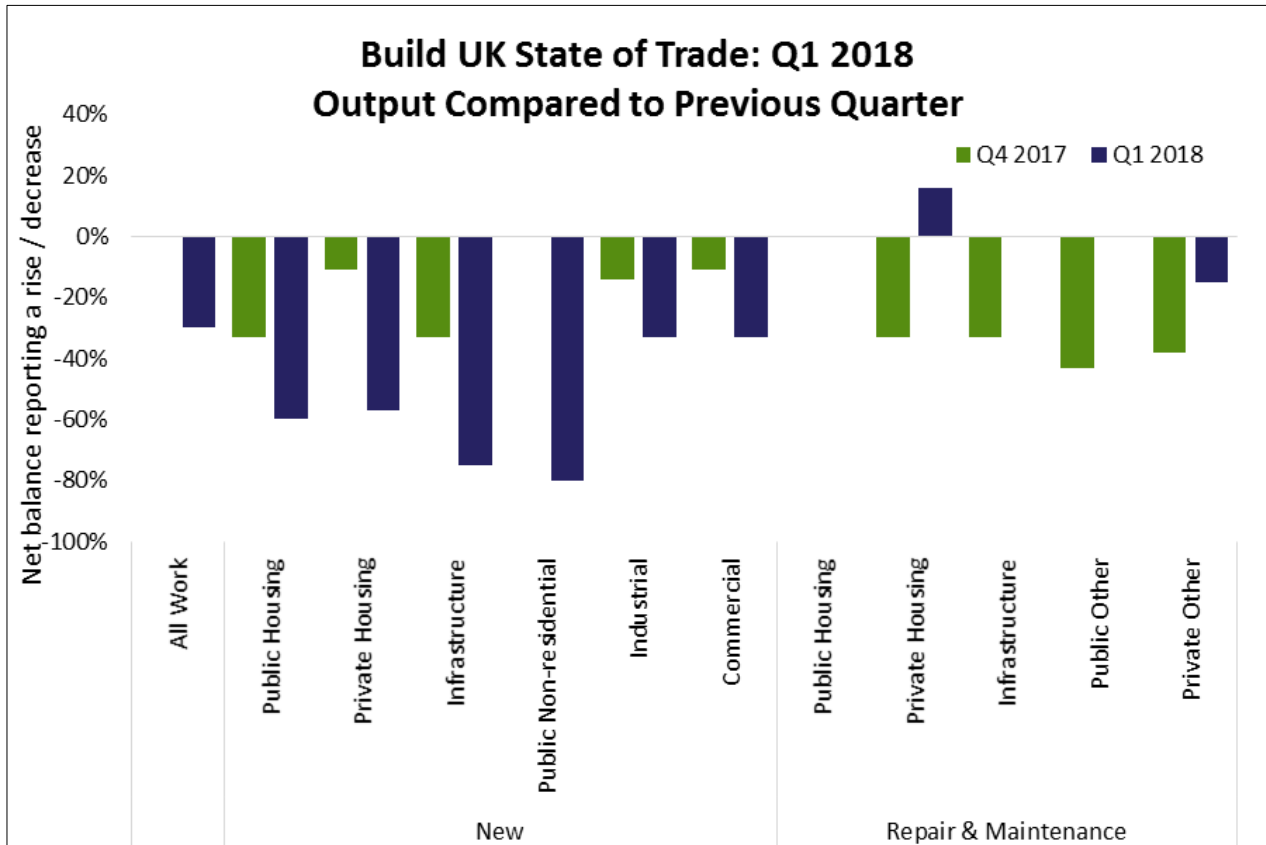
On balance firms reported that enquiry levels were unchanged across most new build sectors. Firms working in the private commercial, public housing RM&I and private housing RM&I sectors reported a rise in enquiries. However, a balance of firms reported a decline in enquires for public non-residential R&M and private non-residential R&M work.



Enquiry levels overall were lower than in the first quarter of 2017; a balance of 20% of firms reported lower enquiry levels than a year earlier. However, 14% and 25% respectively reported that enquiries for private housing and infrastructure work were ahead of a year ago.

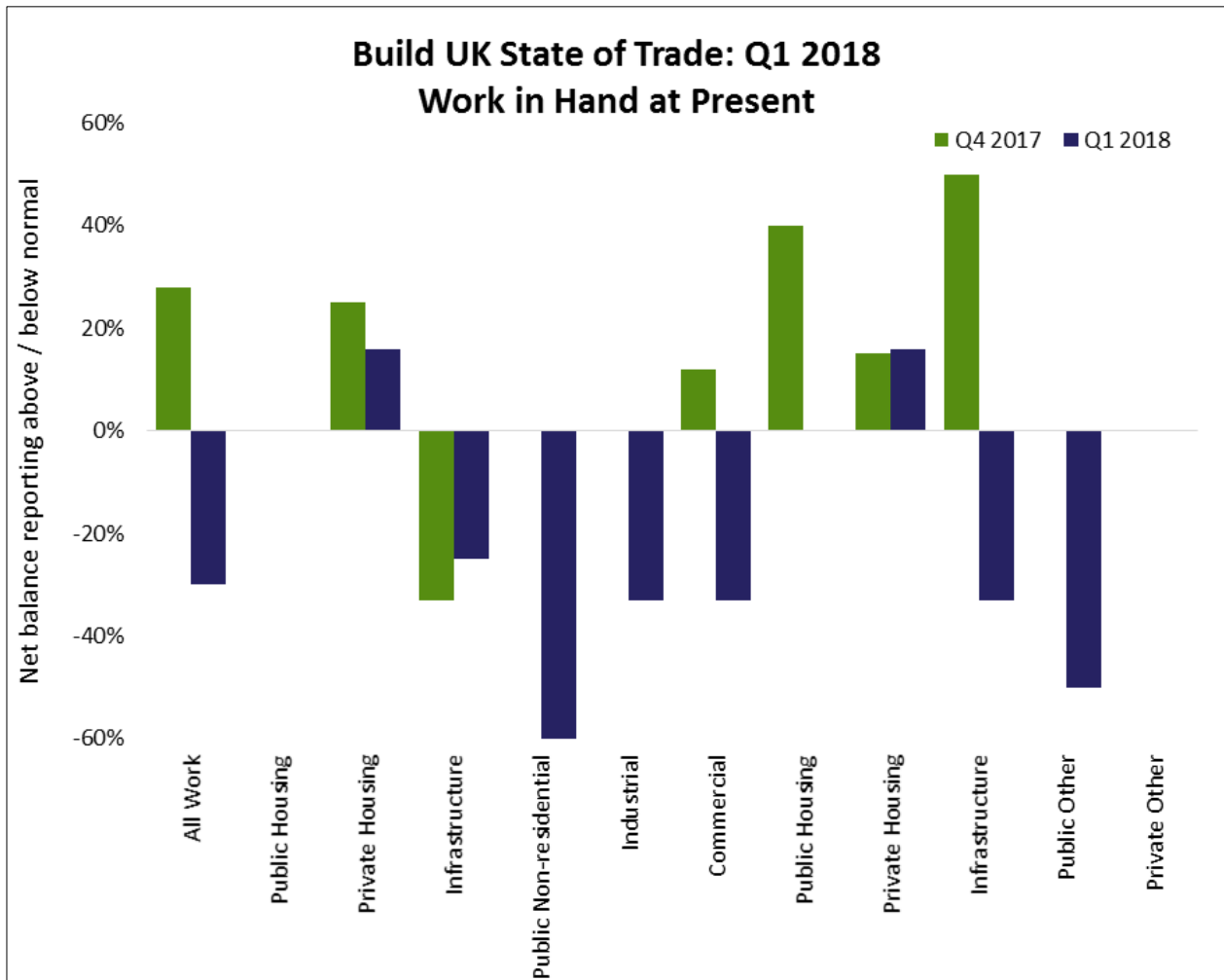
Output

Overall output volumes weakened during the first quarter of 2018, with 30% of firms reporting output was down on the fourth quarter of last year. Firms reported a marked weakening in output across all new work sectors, which may partially reflect the adverse weather conditions during the quarter. Repair & maintenance activity was more settled: 16% of firms reported an increase in private housing RM&I output, 15% saw a decline in private non-residential R&M work and the other sectors were unchanged against a year earlier.



Work in Hand

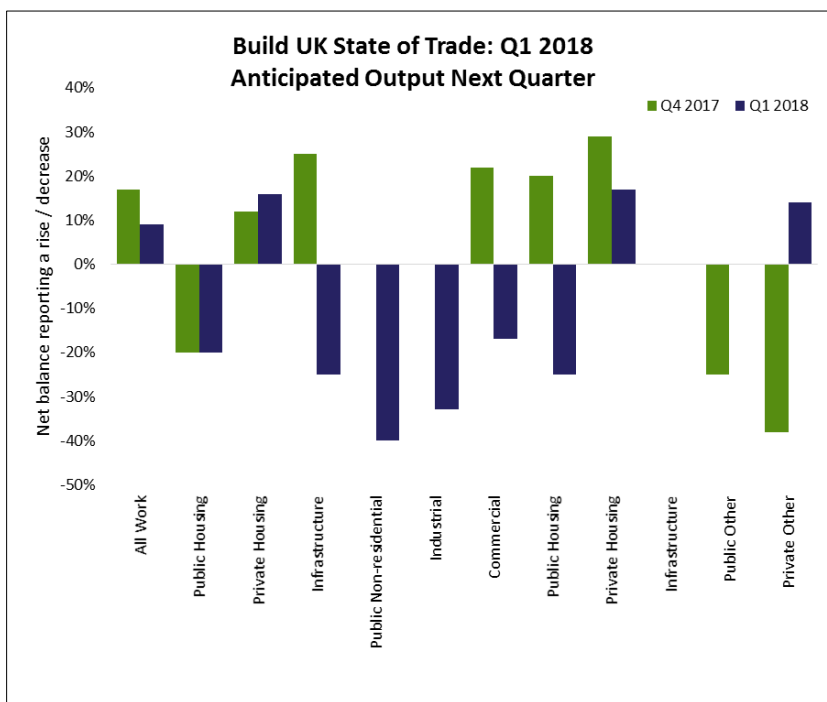
Half (50%) of contractors regard their current levels of work in hand as normal: 10% of contractors currently had higher than normal levels of work, while 40% of respondents had less work in hand than normal, giving a final balance of negative 30%. This compares to a positive balance of 28% reporting above normal levels of work in hand in the previous survey and is the weakest balance since the survey's instigation in 2016.



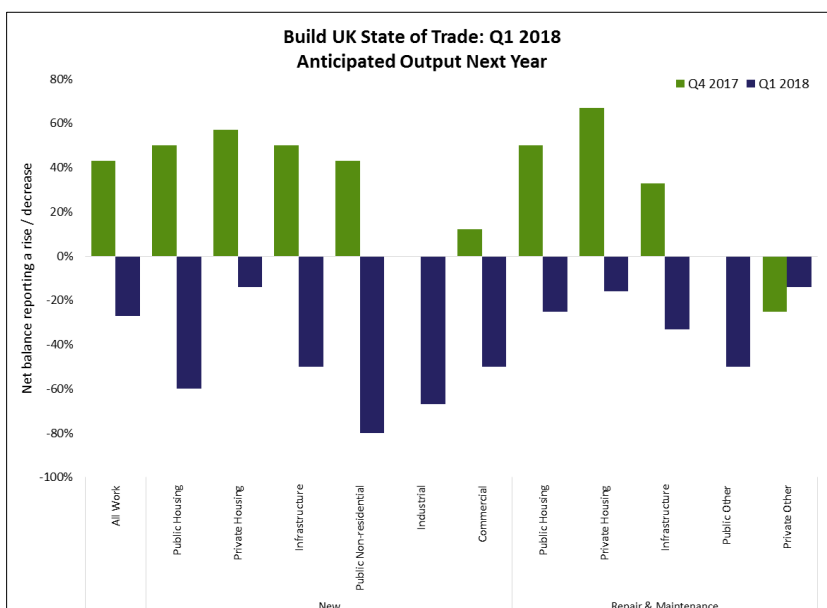
Anticipated Workload

Firms' expectations remained positive overall for the second quarter, despite the fall in work in hand during the first three months of 2018.

Private new housing, private housing RM&I and private non-residential R&M were anticipated to be growth areas during the second quarter, with 16%, 17% and 14% of contractors respectively anticipating a rise in their work volumes in these sectors. In contrast, contractors were cautious about prospects for the other new work sectors, especially public non-residential (-40%) and industrial work.

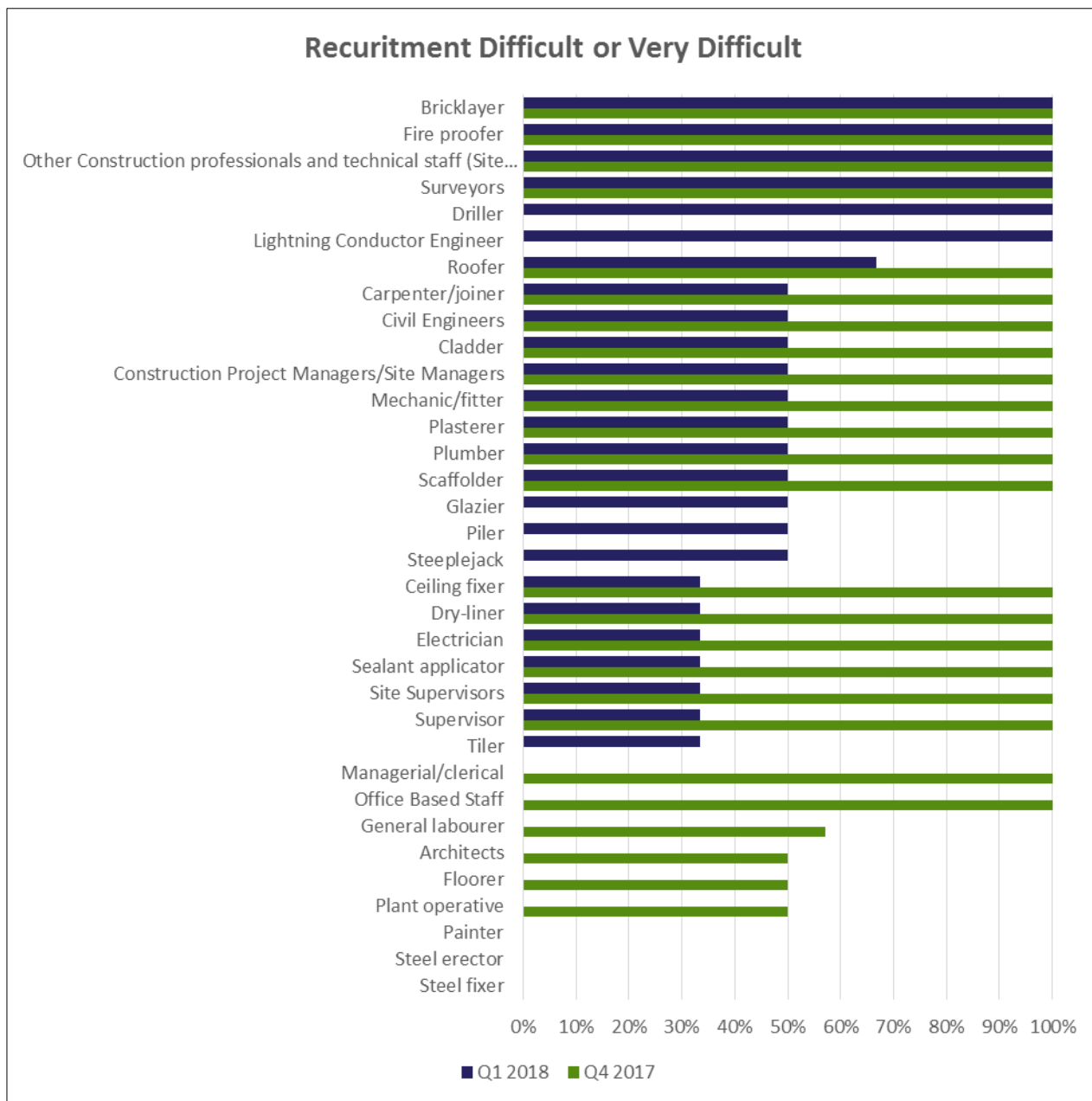


Firms were more cautious about prospects for the next twelve months. 27% of Contractors expect their overall workload to fall. This compares to 43% in the previous survey anticipating a rise in workload during the following 12 months. The shift in expectations were broadly based, with a balance of firms anticipating a weakening in their output across all construction sectors. Expectations were especially poor for the public non-residential, industrial and public new housing sectors.



Recruitment

In contrast to the cautious view on output, 18% of firms expected to increase their workforce during 2018 Q2 and 40% expected to increase their workforce over the next twelve months. However labour availability and recruitment remains difficult: 25% of contractors experienced greater difficulty finding skilled workers during the fourth quarter of 2017, while no firms reported that labour availability had improved.



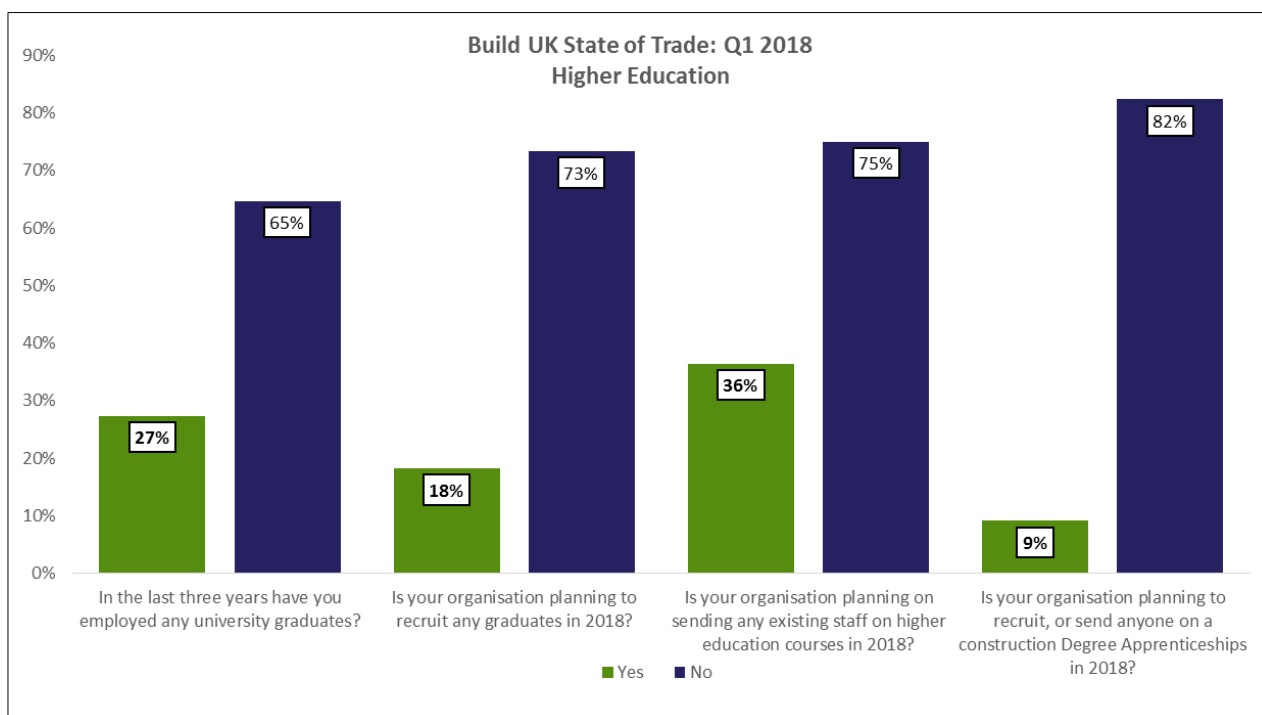
Firms reported widespread difficulties recruiting bricklayers, fire proofers, surveyors and other construction professional and technical staff during the first quarter, with all respondents seeking to hire staff in these areas describing recruitment as difficult or very difficult.

In addition, widespread were difficulties were also reported in the recruitment of roofers, carpenters/ joiners, civil engineers, cladders, project managers, mechanics/fitters, plasterers, plumbers, scaffolders, glaziers, pilers and steeple jacks.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of experience as being an issue in 43% of cases. Lack of skills and required qualifications was cited as factors in 38% and 33% of cases respectively, with other issues stated as a factor in 5% of cases.

Recruitment difficulties have disrupted firm’s development programmes: 36% reported that labour shortages had resulted in the late completion of work and 27% indicated it had prevented them bidding for work.

Higher Education



The first quarter survey included supplementary questions on the recruitment and employment of graduates. 27% of surveyed firms have recruited graduates during the last three years, with an 18% planning to appoint graduates during 2018. Over a third (36%) of firms intended to send existing staff on higher education courses during 2018, while a 9% intended to recruit or send members of staff on a Construction Degree Apprenticeship.

Firms reported that their graduate employees had studied a variety of subjects. A third of firms reported that their graduates had all been from non-construction disciplines. While no respondents had only recruited graduates with construction related degrees, such as architecture, civil engineering, construction management or surveying, two-thirds (67%) had recruited both construction and non-construction graduates.

Where firms had appointed graduates with a construction related degree, a third reported that surveyors was the main discipline that they had recruited, with the remaining 67% had mainly opted for graduates with other construction related degrees.

Capacity, Costs and Prices

Two-thirds (67%) of firms reported that they were operating at over 75% of their capacity during the latest quarter, with 11% of respondents operating at over 90% capacity. This compares with 93% of firms operating at over 75% capacity utilisation and 53% operating at over 90% utilisation during the fourth quarter of 2017.

Contractors saw an increase in construction costs and a weakening in tender prices during the first quarter, increasing pressure on margins.

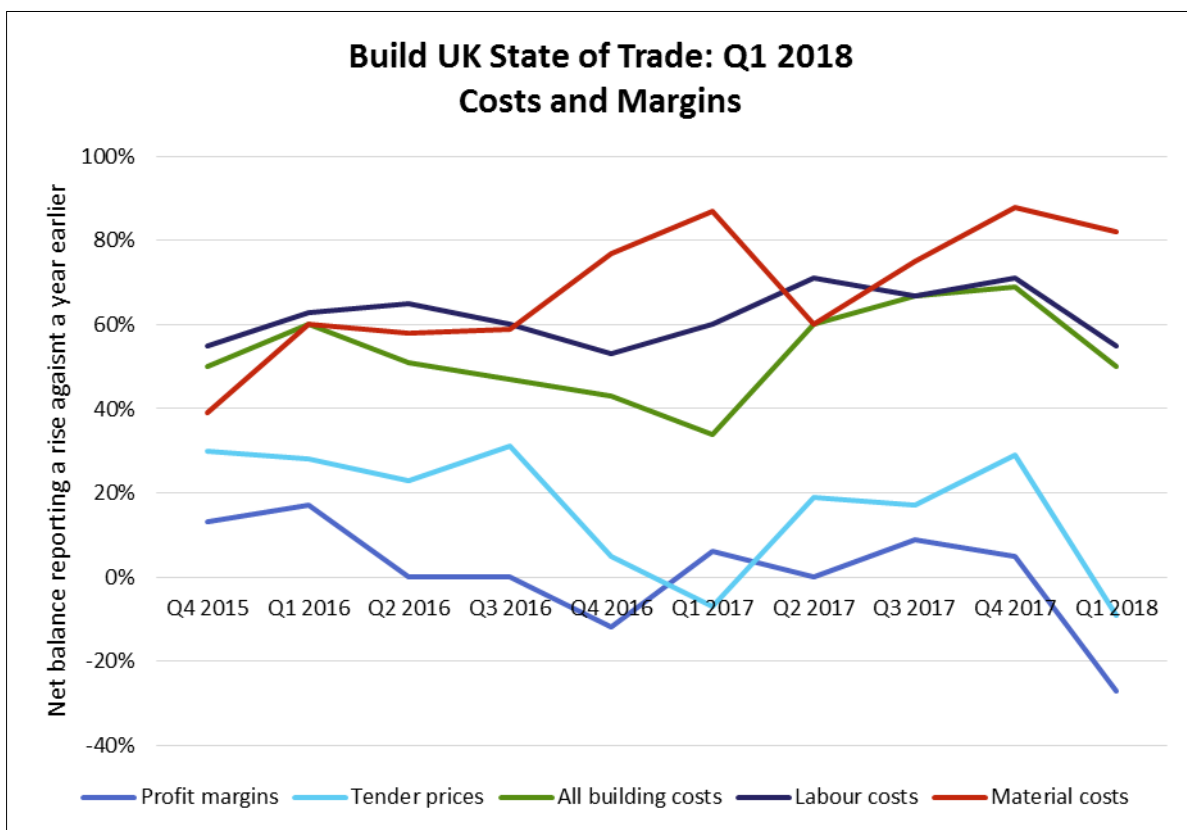
Over the last quarter, +64% respondents judged that labour costs had risen while 82% reported higher material costs. 64% of contractors reported a rise in overall building costs over the last quarter; 64% had seen costs rise, 36% said they were unchanged and none reported a fall.

While costs had risen, a negative balance of firms (-18%) reported that tender prices were lower during the previous quarter. Against this background of rising costs and weakening tender prices, a balance of 55% of firms reported a deterioration in margins during the quarter.

Over the last 12 months, 50% of contractors have seen their overall building costs rise, while half report their building costs were unchanged and none reported lower costs. 55% of contractors reported a rise in their labour costs compared to the first quarter of 2017, with 82% of firms seeing material costs rise.

A negative 9% balance of contractors reported that tender prices were lower than a year ago.

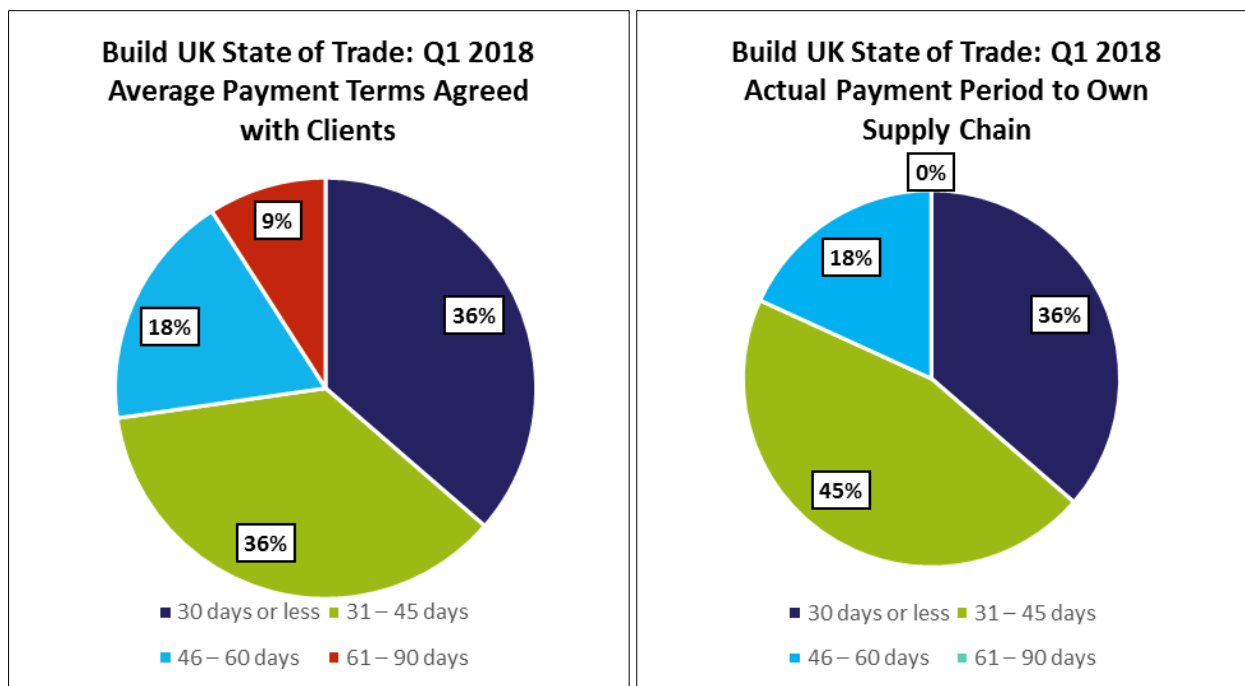
27% of firms reported that their profit margins were down compared to a year ago.



Payments and Disputes

27% of contractors were waiting 46 days or more on average to receive payments from their clients, with 18% waiting for 46 to 60 days and 9% waiting between 61 and 90 days. This is despite no survey respondents having contract terms which include average payment periods of 46 days or more. 36% of firms were waiting between 31 to 45 days on average to receive payment, with 36% receiving payment within 30 days.

In contrast 55% of firms reported that they paid their own supply chain within 30 days, while 45% paid within 31 to 45 days and only 18% paid after more than 46 days.



Twenty-seven per cent of contractors reported that they had been involved in a contract dispute during the first quarter of 2018: Two-thirds of the disputes during the quarter related to delays and the other third to payment.