

Build UK State of Trade Survey

Q2 2018

Executive Summary

Contractors expect increased residential construction activity to offset weakness in other sectors over the coming months, according to the latest Build UK State of Trade Survey. The survey, which was undertaken with Glenigan, found that a balance of 22% of contractors expect their overall workloads to rise next quarter. A smaller balance of 11% of firms expect their output to rise over the next 12 months.

Expectations of residential-led growth follow a weakening in output during the first quarter of 2018. A net balance of -13% of firms reported their second quarter output was down on a year ago and the same net balance (-13%) reported that their work-in-hand was below normal levels.

However, contractors reported a rise in residential construction output. In addition, firms saw a rise in residential new enquiries that is anticipated to help sustain activity during the second half of 2018.

Contractors have become more cautious over their employment requirements. The proportion of firms planning to increase the size of their workforce, both during the third quarter and the next twelve months, was matched by a similar proportion expecting their headcount to fall.

Despite the stabilisation in overall employment requirements, labour availability remains a concern with 14% of contractors reporting that the recruitment of experienced and skilled labour had been more difficult than during the previous three months. Firms report labour availability issues are impacting on business performance; 43% of firms saying that labour shortages had resulted in the late completion of work and over a quarter (29%) reporting that it had prevented them bidding for work.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of experience as being an issue in 52% of cases. Lack of skills and required qualifications were cited as factors in 47% and 33% of cases respectively.

Recruitment difficulties also appear to have fed through to labour costs, with 75% of firms reporting that their labour costs had risen during the second quarter and 50% reporting that they were higher than a year ago.

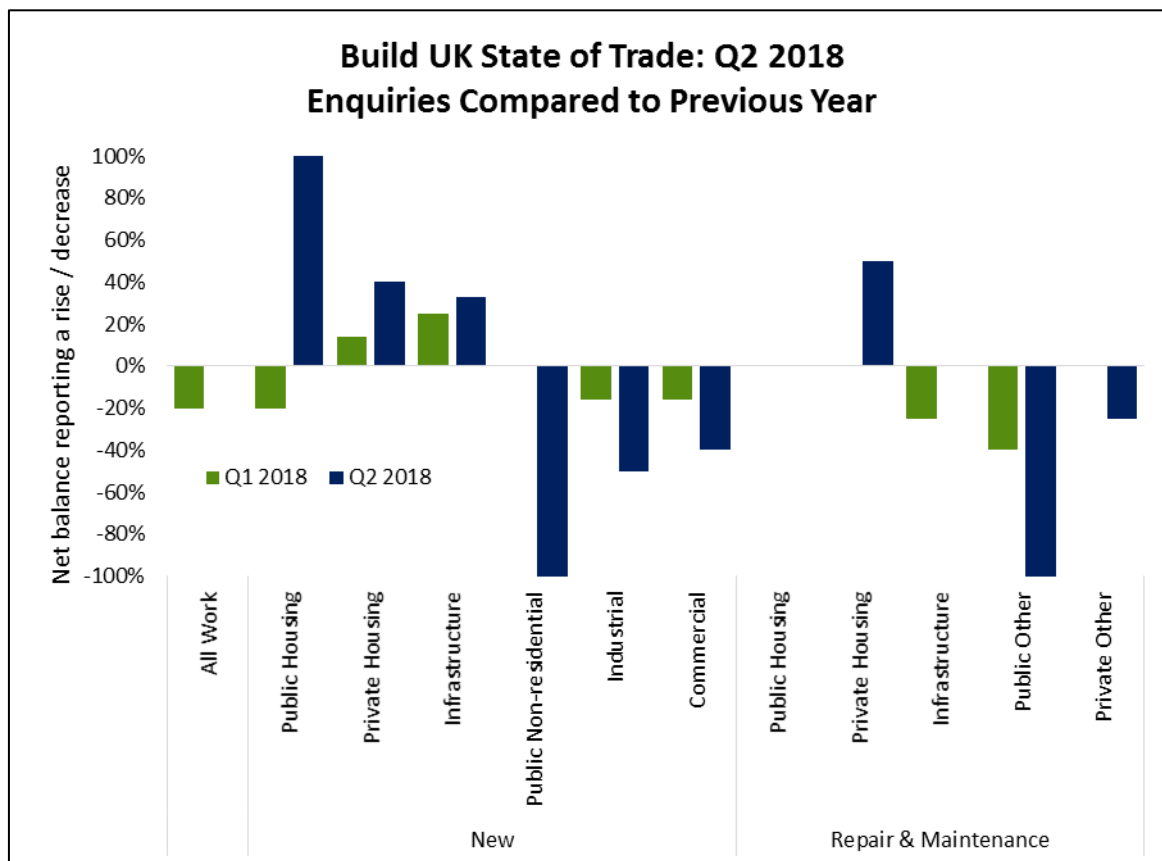
Firms have seen widespread increases in material costs. 88% of firms reported that material costs were higher than during the first quarter of 2018 and 62% reporting an increase on a year earlier. Rising labour and material costs have increased overall building costs, with 75% of firms reporting an overall increase in costs during the second quarter.

The sustained increase in construction costs has now fed through to tender prices. 50% of firms had increased their tender prices during the second quarter against both the preceding three months and a year ago. This contrasts with 18% of firms reporting a weakening in tender prices during the first quarter. The rise in tender prices appears to have been sufficient to stabilise contractors' profit margins after the squeeze experienced in the first quarter.

Enquiries

Contractors reported a rise in overall enquiry levels during the second quarter.

11% of firms reported a rise in enquiry levels compared to the first quarter. The overall rise was driven by more enquiries for private and public sector housing work. These increases were partially offset by fewer enquires for new public non-residential and industrial work and for non-residential R&M work.

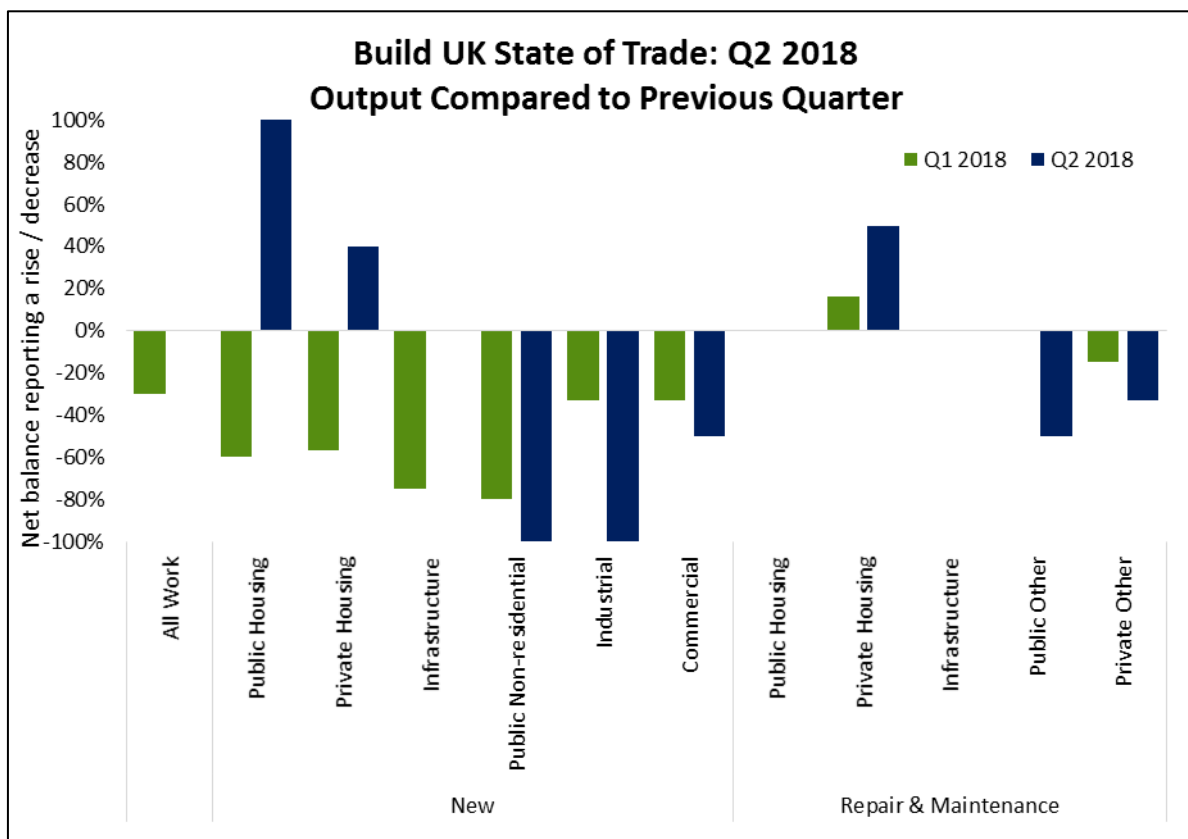


Enquiry levels overall were unchanged on the second quarter of 2017. Firms operating in the private and public residential sectors reported that enquires were ahead of a year ago. Firms also reported that infrastructure enquiries were up on a year ago. However, a balance of firms reported fewer enquires across the new build and R&M non-residential building sectors.

Output

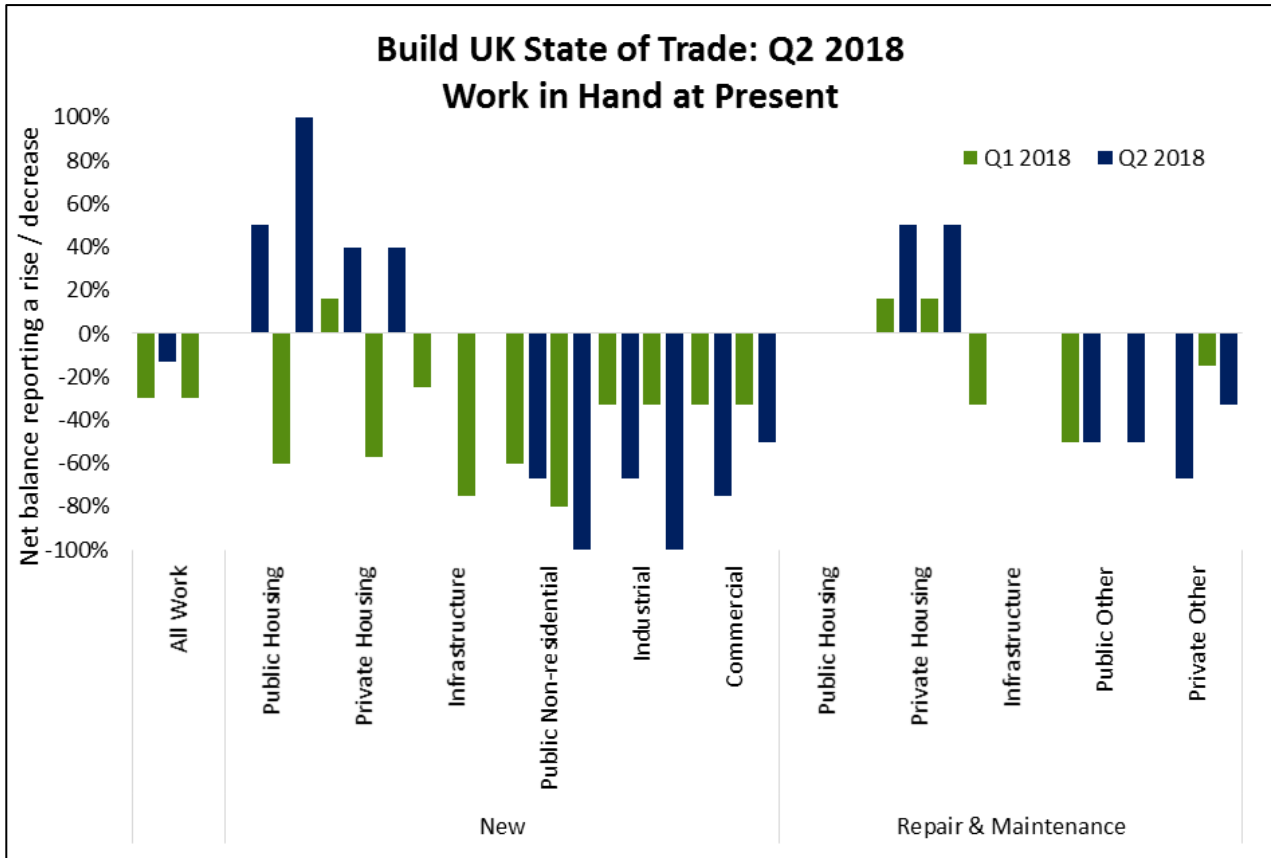
Overall output volumes were unchanged during the second quarter of 2018 compared to the preceding three months. Firms reported a marked weakening in output across all non-residential new work sectors (commercial, industrial and public buildings) and in non-residential R&M work. In contrast, firms reported an increase in private and social housing output which may partially reflect a recovery from the adverse weather disruption experienced during the first quarter.

Firms reported that overall output volumes were down on a year ago, with 13% of firms seeing a decline. The decline was again centred on the non-residential building sectors. In contrast a balance of firms reported an increase in public new housing and private housing RM&I work.



Work in Hand

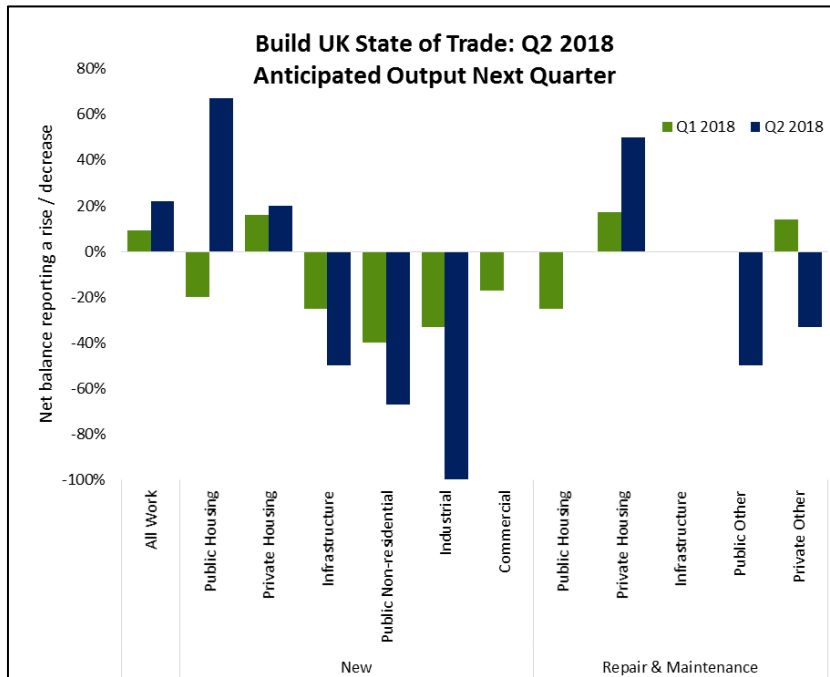
38% of contractors regard their current levels of work-in-hand during the second quarter as normal: 25% of contractors currently had higher than normal levels of work, while 38% of respondents had less work in hand than normal, giving a net balance of -13%. This compares to a -30% balance reporting below normal levels of work-in-hand in the previous survey.



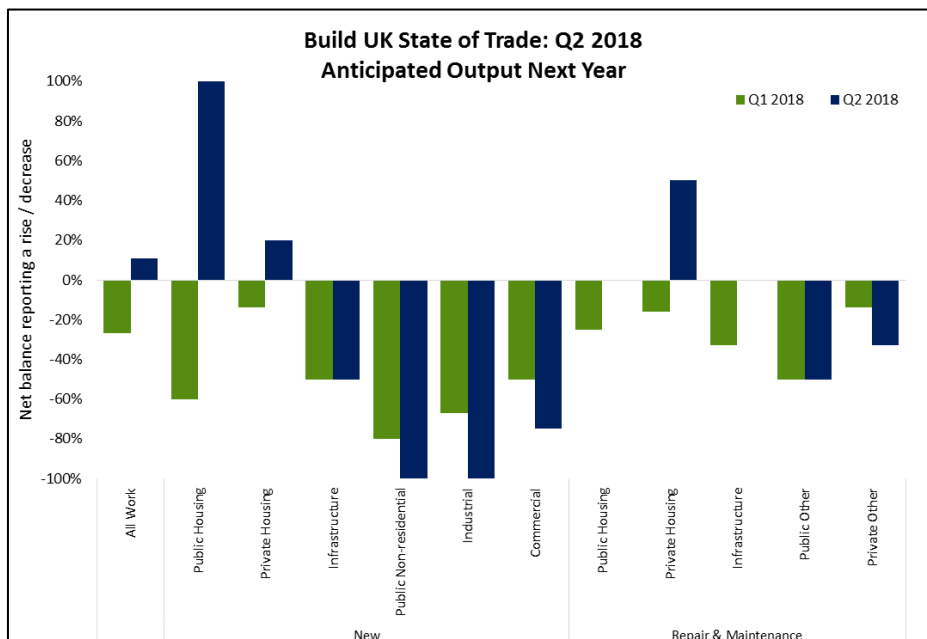
Anticipated Workload

Firms' expectations remained positive overall for the third quarter, despite the fall in work-in-hand during the first and second quarters of 2018.

Public and private new housing and private housing RM&I were expected to remain growth areas during the third quarter, with a balance of 67%, 20% and 50% of contractors respectively anticipating a rise in their work volumes in these sectors. In contrast, contractors were cautious about prospects for the industrial and public non-residential new work and non-residential R&M sectors.



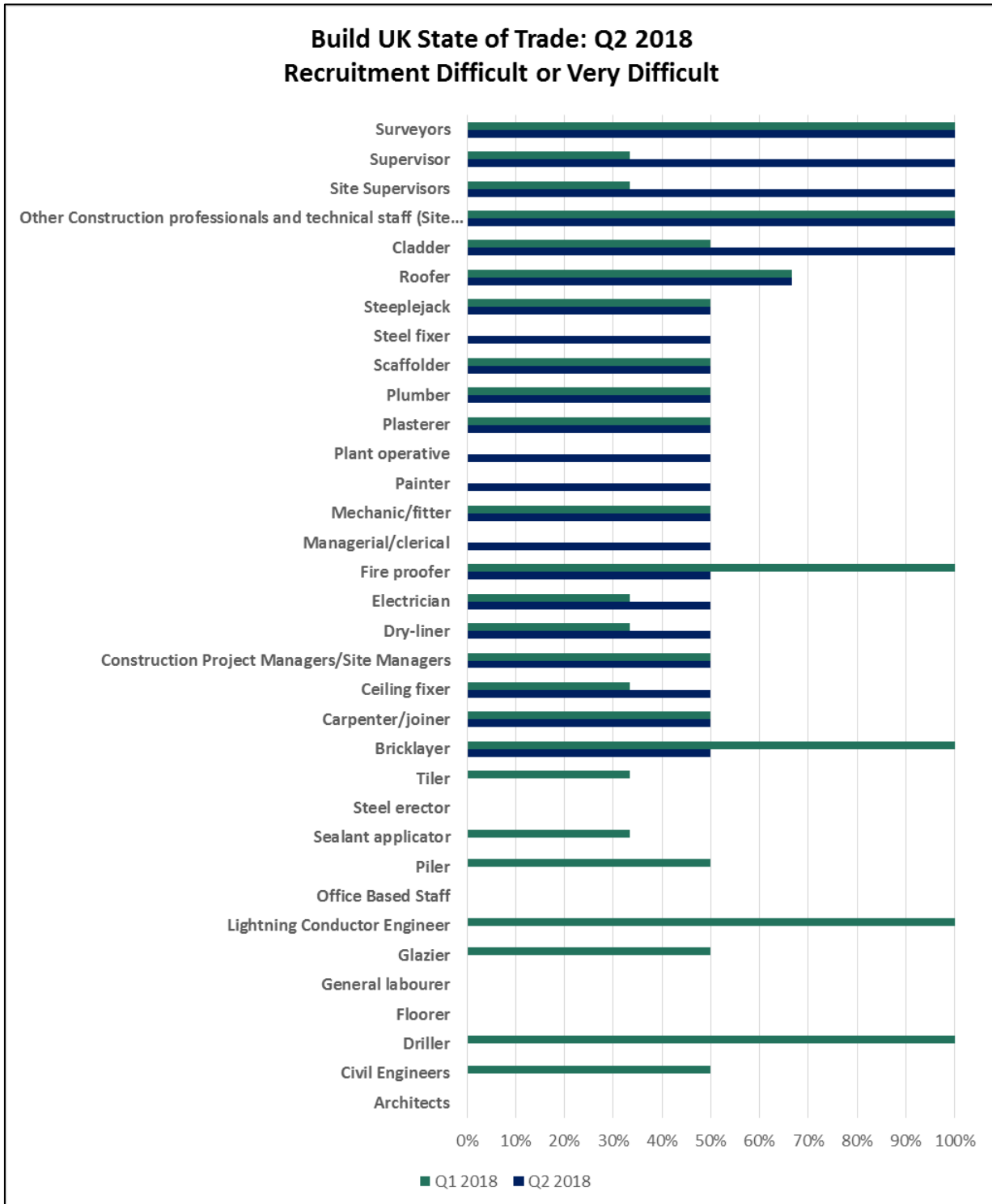
Firms were also positive about their overall prospects for the next twelve months. 11% of firms expect their overall workload to rise. This compares to a balance of -27% in the previous survey anticipating a decline in workload during the following 12 months. Growth expectations were again centred on the residential sectors, while the balance of contractors anticipate a weakening in their infrastructure and non-residential building workload over the next twelve months.



Recruitment

On balance contractors anticipate that they will maintain current staffing levels during the third quarter: 29% of firms expected to increase their workforce during the quarter with a matching proportion expecting to cut their staffing levels. Similarly, a third (33%) of firms expected their workforce to rise over the next twelve months and a third expected to reduce their workforce.

Labour availability and recruitment remains difficult: 14% of contractors experienced greater difficulty finding skilled workers than during the first quarter, while no firms reported that labour availability had improved.



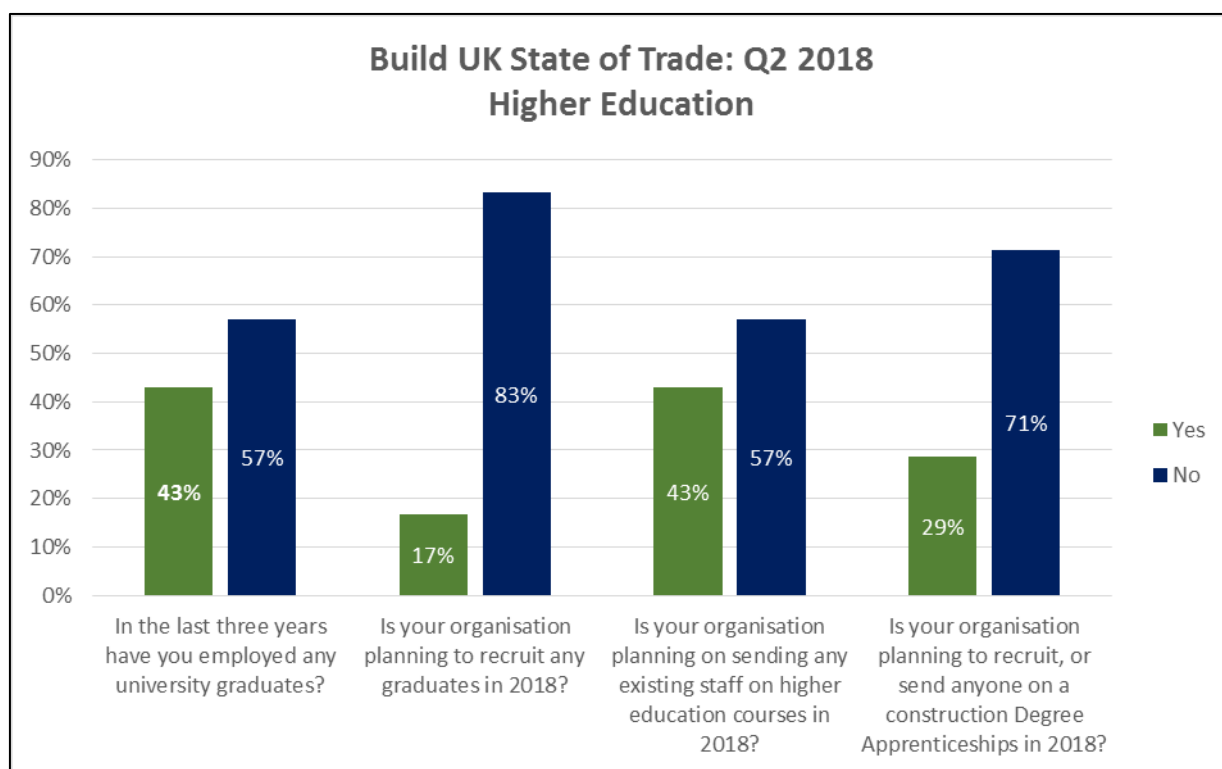
Firms reported widespread difficulties recruiting cladders, supervisors, surveyors and other construction professional and technical staff during the second quarter, with all respondents seeking to hire staff in these areas describing recruitment as difficult or very difficult.

In addition, significant difficulties were also reported in the recruitment of a wide range of other trades and professions including, roofers, bricklayers, carpenters/ joiners, fire proofers, project managers, mechanics/fitters, plasterers, plumbers, scaffolders, plant operatives and steeple jacks.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of experience as being an issue in over half (52%) of cases. Lack of skills and required qualifications was cited as factors in 47% and 33% of cases respectively.

Recruitment difficulties have disrupted firm’s development programmes: 43% reported that labour shortages had resulted in the late completion of work and 29% indicated it had prevented them bidding for work.

Higher Education



The second quarter survey included supplementary questions on the recruitment and the employment of graduates. 43% of surveyed firms have recruited graduates during the last three years, with 17% planning to appoint graduates during 2018. Forty-three percent of firms intended to send existing staff on higher education courses during 2018, while 29% 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 construction disciplines, a third had only recruited graduates with non-construction related degrees, such as architecture, civil engineering, construction management or surveying. The remaining third had recruited both construction and non-construction graduates.

Where firms had appointed graduates with a construction related degree, two-thirds (67%) reported that surveyors was the main discipline that they had recruited. The remaining 33% had mainly opted for graduates with ‘other’ construction related degrees.

Capacity, Costs and Prices

Capacity utilisation is high: (88%) of firms reported that they were operating at over 75% of their capacity during the latest quarter, with 63% of respondents operating at over 90% capacity. This compares with 67% of firms operating at over 75% capacity utilisation and 11% operating at over 90% utilisation during the first quarter.

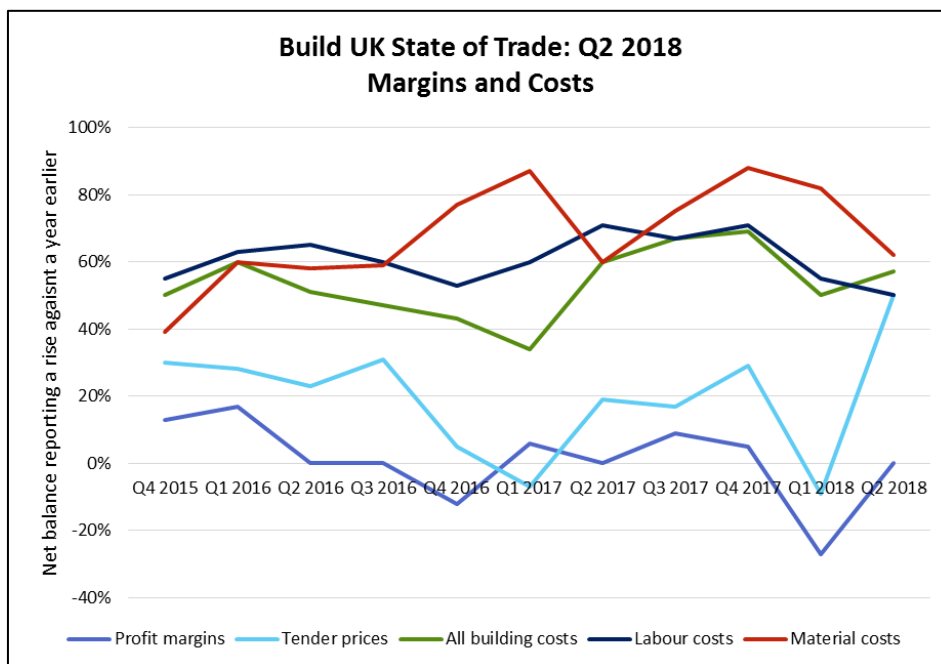
Contractors report a continued rise in construction costs during the second quarter. Tender prices have also increased, helping to maintain margins after the squeeze recorded in the previous two surveys.

Over the last quarter, 75% respondents judged that labour costs had risen while +88% reported higher material costs. 75% of contractors reported a rise in overall building costs over the last quarter; 75% had seen costs rise, 25% said they were unchanged and none reported a fall.

On balance half of contractors saw tender prices rise during the second quarter: Almost two thirds (63%) of firms reported a rise in tender prices against the previous quarter, while 13% reported a weakening in tender prices. On balance profit margins were unchanged during the quarter, with 13% of contractors reporting an increase in margins and a matching proportion reporting a decline.

A balance of 57% of firms reported that their building costs have increased over the last 12 months; 71% of contractors have seen their overall building costs rise, while a quarter report that their building costs were unchanged and 14% reported lower costs. 50% of contractors reported a rise in their labour costs compared to the second quarter of 2017, with 62% of firms seeing material costs rise.

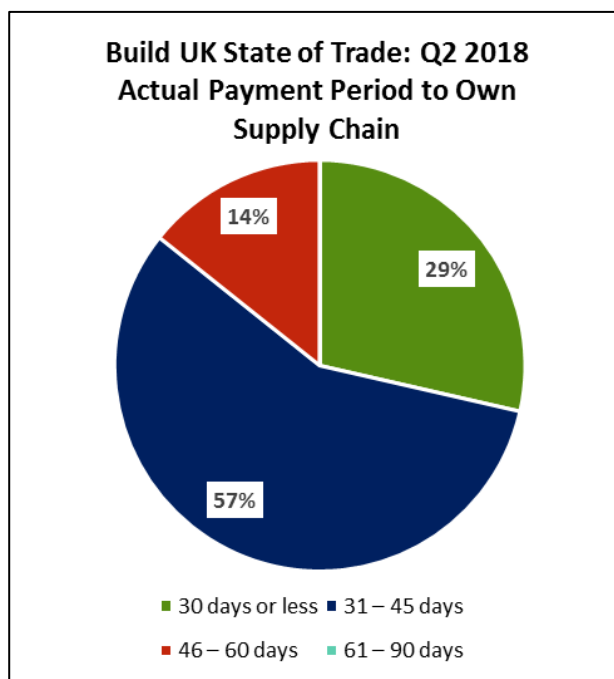
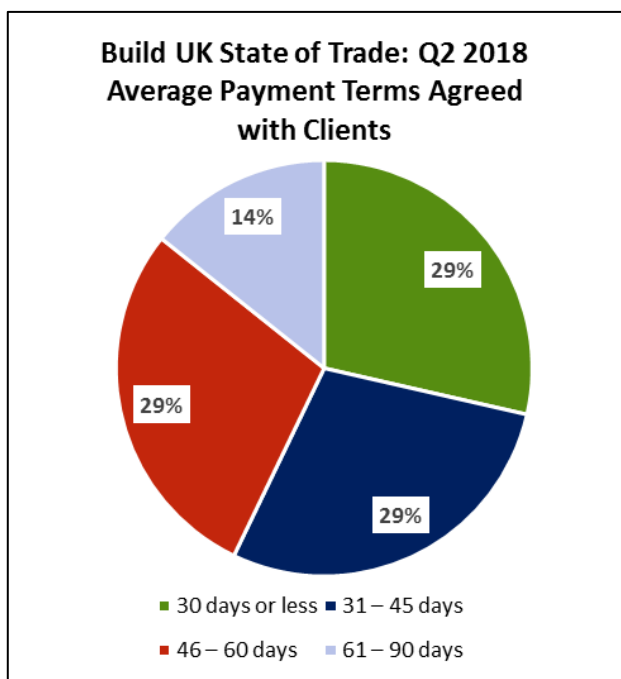
50% balance of contractors reported that tender prices were higher than a year ago. Profit margins were unchanged against a year ago, with 13% of firms seeing an increase and 13% reporting tighter margins than in the second quarter of 2017.



Payments and Disputes

43% of contractors were waiting 46 days or more on average to receive payments from their clients, with 29% waiting for 46 to 60 days and 14% waiting between 61 and 90 days. 29% of firms were waiting between 31 to 45 days on average to receive payment and 29% received payment within 30 days.

In contrast 29% of firms reported that they paid their own supply chain within 30 days, while 57% paid within 31 to 45 days.



Forty-three per cent of survey respondents said that they had been involved in a contract dispute during the second quarter of 2018, with reported disputes during the quarter relating to delays and payment.