

## Build UK State of Trade Survey

Q4 2017

### Executive Summary

Contractors anticipate a strengthening in workload during the current quarter and over the next twelve months, according to the latest Build UK State of Trade Survey. The positive expectations are despite construction output growth stalling during the fourth quarter of 2017.

The survey, which was undertaken with Glenigan, found that a balance of 17% of contractors expect their workloads to rise in 2018 Q1 and a balance of 43% of firms expect their output to rise this year. This positive outlook is accompanied by pick up in new enquiries during the fourth quarter and a rise in work-in-hand.

Overall labour availability remains a concern with a balance of 35% of contractors reporting that the recruitment of skilled labour had been more difficult than during the previous three months. In addition the number of trades and professions where contractors reported widespread recruitment difficulties continues to grow; all of the surveyed contractors seeking to recruit 21 different trades or professions during the quarter described recruitment as difficult or extremely difficult.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills as being an issue in 45% of cases. Lack of experience and required qualifications were cited as factors in 42% and 33% of cases respectively.

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

Recruitment difficulties are also impacting upon labour costs, with a balance of 47% of firms reporting that their labour costs had risen during the quarter and 71% reporting that they were higher than a year ago.

In addition, firms have seen widespread increases in material costs. A balance of +76% of firms reported a rise in material costs during the fourth quarter of 2017. Rising labour and material costs have increased overall building costs, with a balance of +44% of firms reporting an overall increase in costs. Tender prices were unchanged on the previous quarter, although a balance of 21% of firms report tender prices were higher than a year earlier. Rising costs and flat tender prices resulted in a fall in profit margins during the quarter, with a balance of 23% of firms reporting margins were down on the previous quarter. However, a balance of 5% of firms reported that their margins were still up on a year earlier.

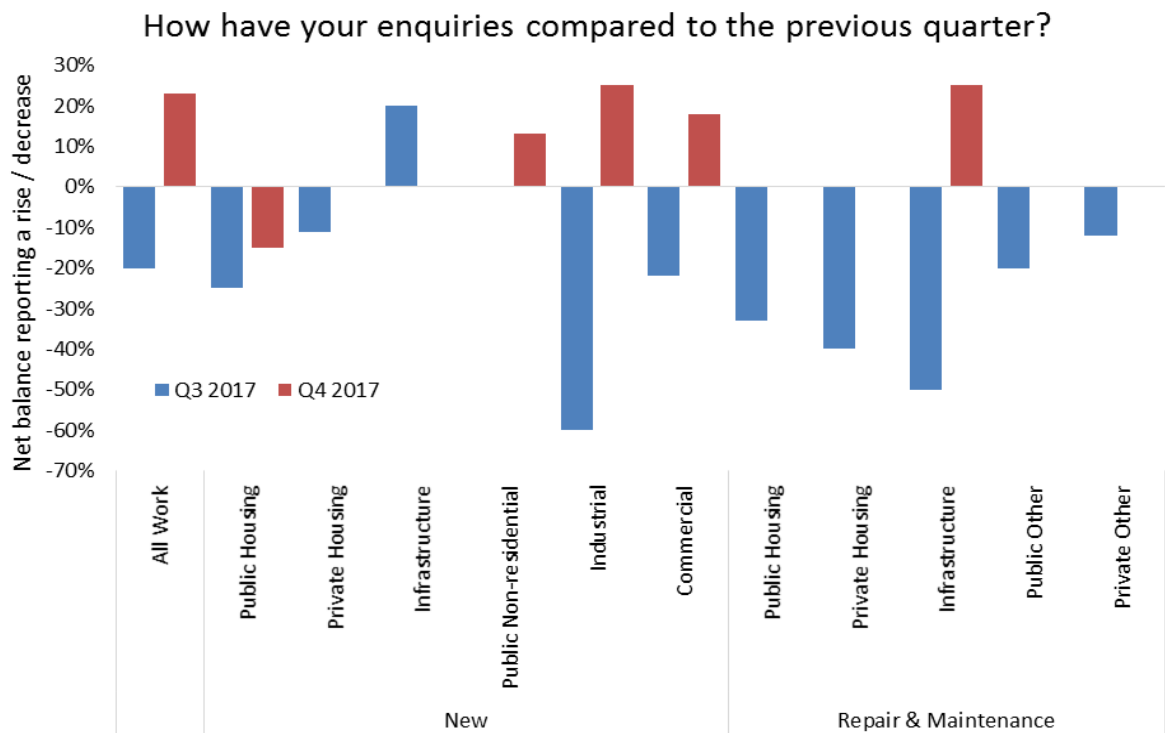
When it comes to payment, 38% of contractors reported that the average wait for payment was 46 days or more.

### Enquiries

Contractors reported an overall rise in enquiry levels during the fourth quarter of 2017 compared to the previous quarter, reversing the weakening seen in the previous survey. A balance of 23% of firms reported more enquires than during the previous three months, compared to 20% reporting a decline in the previous survey.

The majority of firms reported improved or unchanged enquiry levels across most sectors against the preceding three months. Firms working in the industrial, infrastructure R&M and private housing RM&I sectors reported a rise in sector enquiries in contrast to the falls seen in the third

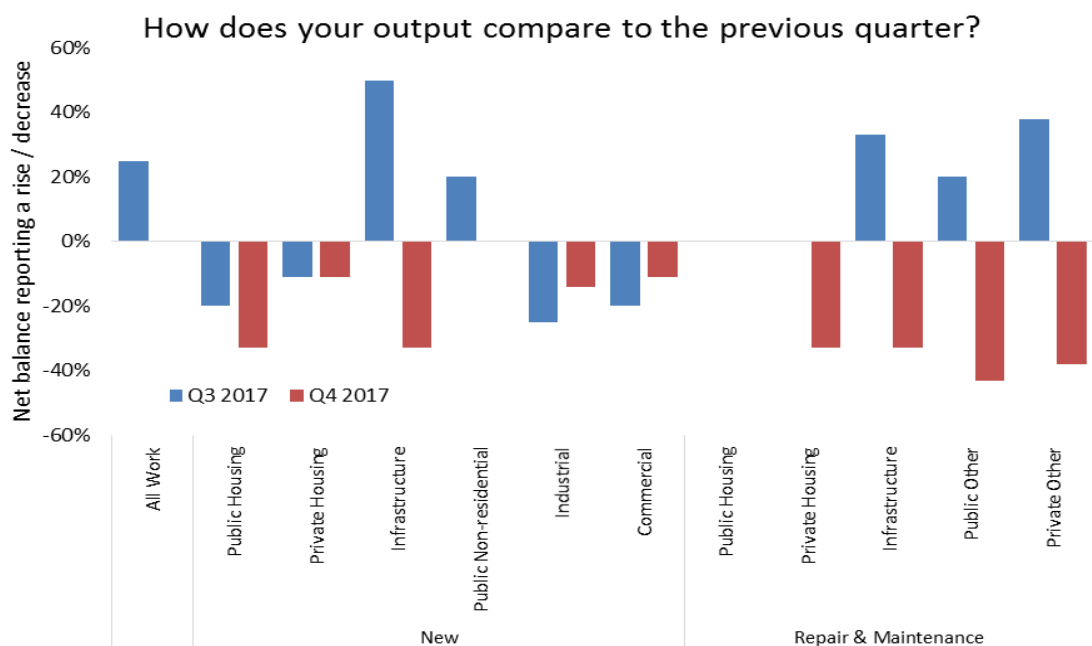
quarter. Enquiry levels also rose in the public non-residential and commercial sectors. However a 15% balance of firms reported a decline in enquires for public new housing work.



Enquiry levels were also stronger than in the final quarter of 2016; a balance of 18% of firms reported higher enquiry levels than a year earlier. A balance of 33% of firms working in the infrastructure sectors reported a year on year increase in enquiries.

Public non-residential and commercial sector enquiries were also ahead of a year ago; as was public new housing work despite the decline seen against the preceding three months.

## Output

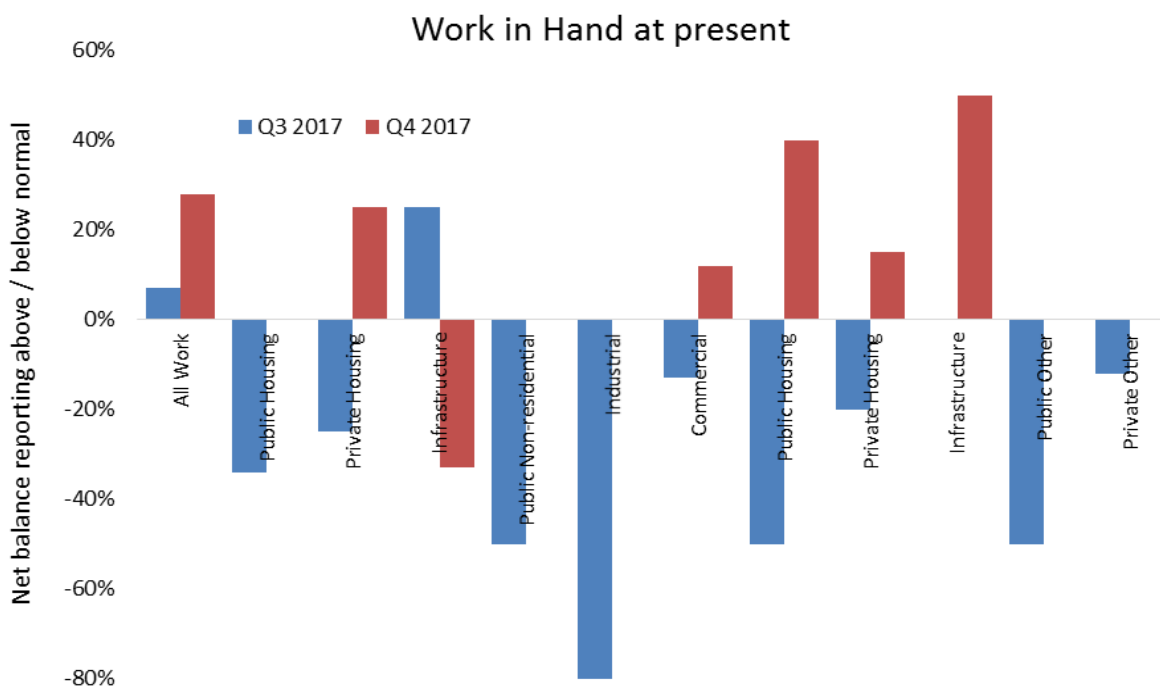


Growth in overall output volumes stalled during the fourth quarter of 2017, with the balance of firms reporting output unchanged on the third quarter. Firms reported a widespread weakening in output across most sectors. Repair & maintenance activity was especially weak, with a balance of firms reporting a decline in workload in each R&M sector, apart from public housing RM&I which was unchanged on the previous quarter. In addition a net balance of 33% of firms reported declines in public new housing and infrastructure sector output, after the strong growth in these two sectors during the third quarter.

However a net balance of 17% of firms reported that overall output volumes were still ahead of a year earlier. A strong balance of firms reported year on year output growth in the infrastructure (+33%), public non-residential (+43%) and industrial (+29%) sectors. Public housing RM&I (+33%) and infrastructure R&M (+25%) were also up on a year earlier.

## Work in Hand and Expected Output

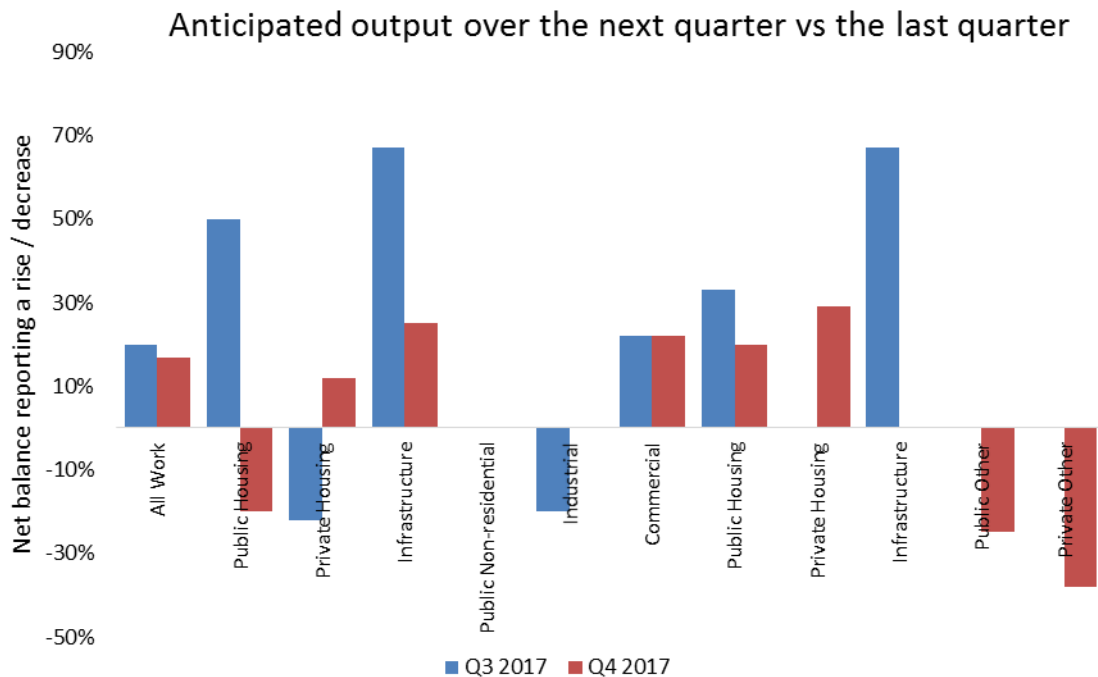
Half (50%) of contractors regard their current levels of work in hand as normal: 39% of contractors currently have higher than normal levels, while 11% of respondents had less work in hand than normal, giving a balance of +28%. This compares to a +7% balance reporting above normal levels of work in hand in the previous survey and a peak +38% balance in the first quarter of 2017.



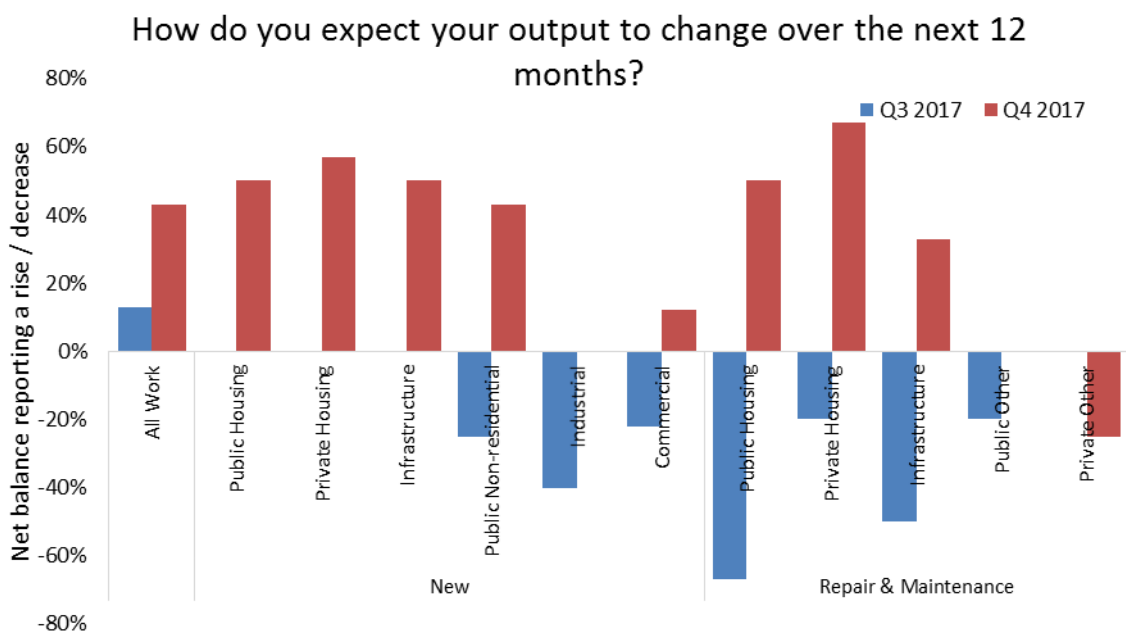
## Anticipated workload

A balance of +17% of contractors expect workloads to rise in 2018 Q1 compared to 2017 Q4.

Private new housing, commercial and infrastructure are anticipated to be growth areas during the first quarter, with a balance of +12%, +22% and +25% of contractors respectively anticipating a rise in their work volumes in these sectors. The public and private residential RM&I sectors are also predicted to be strong, with balances of +20% and +29% respectively of contractors expecting to increase their output. In contrast, contractors were cautious about prospects for the public new housing and public and private other R&M sectors with balances of -20%, -25% and -38% of firms anticipating that their work volumes would decline.



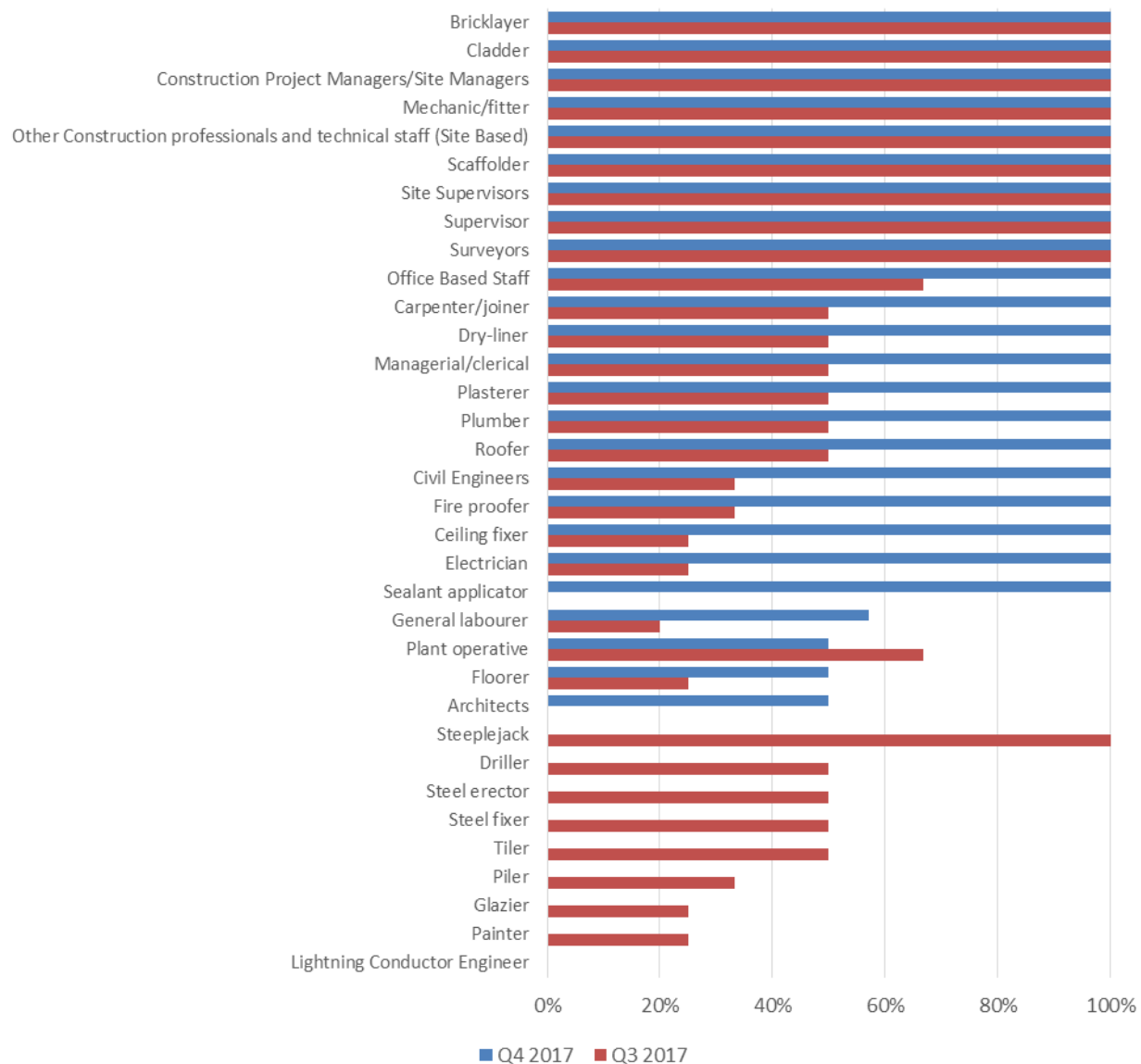
Construction output is also expected to rise over the next twelve months. A balance of +43% of firms expect their overall workload to rise. This compares to a balance of +13% in the previous survey anticipating a rise in workload during the following 12 months. The positive expectations were broadly based across the different construction sectors; private other R&M was the only sector where the balance of firms expected a decline in workload. Expectations were flat for industrial and public other R&M work.



## Recruitment

A balance of 23% of firms expected to increase their workforce during 2018 Q1 and 53% expected to increase their workforce over the course of 2018. However labour availability and recruitment remains difficult: 35% of contractors experienced greater difficulty finding skilled workers during the fourth quarter of 2017, while no firms reported that labour availability had improved.

### Recruitment Difficult or Very Difficult



Coverage has been extended in recent quarterly surveys to include a wider range of trades and professions, including questions on the availability of civil engineers, site supervisors, other construction professionals, construction project managers, surveyors, office based staff and architects.

There was a general deterioration in labour availability in the fourth quarter. The third quarter survey had identified ten areas where all firms seeking to recruit trades and professionals reported that recruitment was difficult or very difficult. Recruitment in all of these areas, except

steeplejacks, were again reported as difficult or very difficult by all responding firms in the fourth quarter.

In addition widespread difficulties were also reported in the recruitment of carpenters/joiners, dry-liners, plasterers, plumbers, roofers, civil engineers, fire proofers, ceiling fixers, electricians, sealer applicators, managerial/ clerical and other office based staff.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills as being an issue in 45% of cases. Lack of experience and required qualifications was cited as factors in 42% and 33% of cases respectively, with other issues stated as a factor in 37% of cases.

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

## Capacity, Costs and Prices

Almost all respondent firms reported operating at a high level of capacity utilisation: 93% of firms reported that they were operating at over 75% of their capacity during the latest quarter, with 53% of respondents operating at over 90% capacity. This compares with three-quarters of firms operating at over 75% capacity utilisation and 17% operating at over 90% utilisation during the third quarter.

Contractors have seen an increase in construction costs and flat tender prices during the fourth quarter, increasing pressure on margins.

Over the last quarter, a net balance of +47% respondents judged that labour costs had risen while +76% reported higher material costs. A balance of +44% of contractors reported a rise in overall building costs over the last quarter; 44% had seen costs rise, 56% said they were unchanged and none reported a fall.

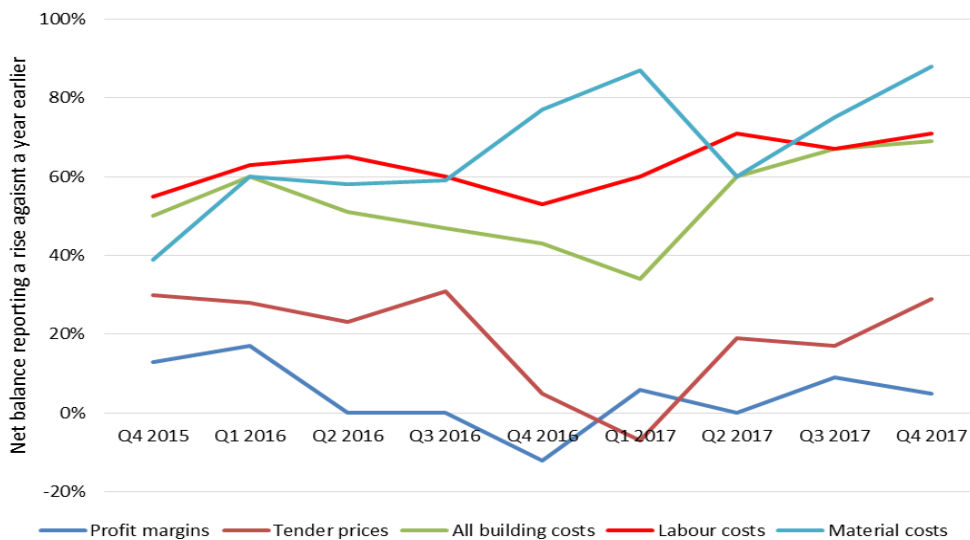
While costs had risen a balance of firms reported that tender prices were unchanged during the quarter. Against this background of rising costs and flat tender prices, a balance of 25% of firms reported a deterioration in margins during the quarter.

Over the last 12 months, 69% of contractors have seen their overall building costs rise, while 31% report their building costs were unchanged and none reported lower costs. A net balance of +71% of contractors reported a rise in their labour costs compared to the fourth quarter of 2016, with +88% of firms seeing material costs rise.

A +29% balance of contractors reported that tender prices were higher than a year ago.

Despite the decline against the third quarter, a balance of 5% of firms reported that their profit margins were improved compared to a year ago.

## Are costs and margins rising?

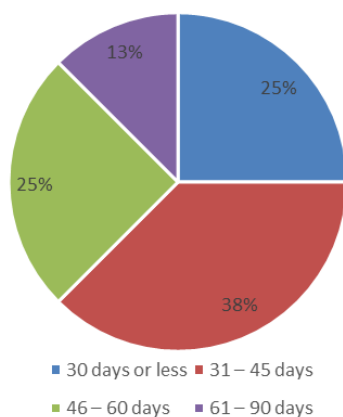


## Payments and Disputes

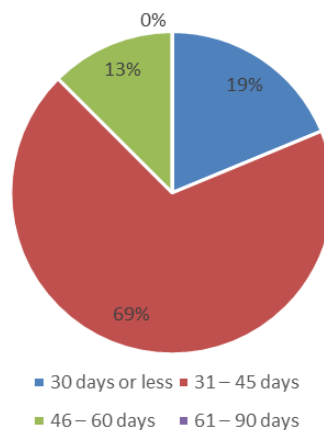
38% of contractors were waiting 46 days or more on average to receive payments from their clients, with 25% waiting for 46 to 60 days and 13% waiting between 61 and 90 days. This is despite no survey respondents having contract terms which include average payment periods of 46 days or more. 38% of firms were waiting between 31 to 45 days on average to receive payment, with 25% receiving payment within 30 days.

In contrast 19% of firms reported that they paid their own supply chain within 30 days, while 69% paid within 31 to 45 days and only 13% paid after more than 46 days.

On average what payment periods do you experience from your clients?



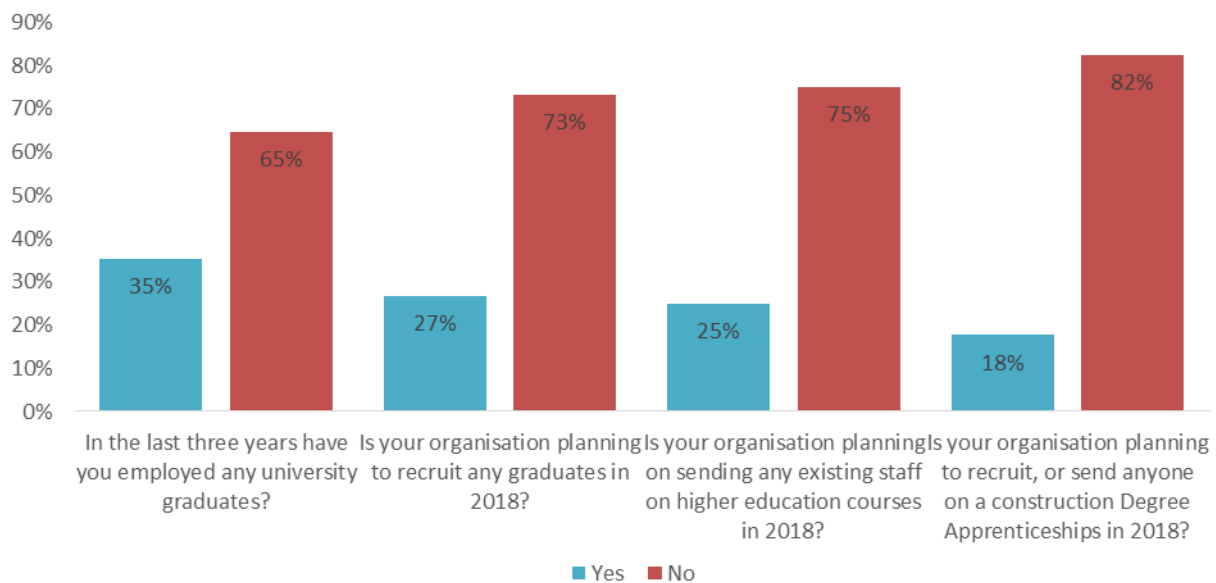
On average what are your actual payment periods to your own supply chain?



Thirteen per cent of contractors reported that they had been involved in a contract dispute during the fourth quarter of 2017: Half of the disputes during the quarter related to variations and the over half to payment.

## Higher Education

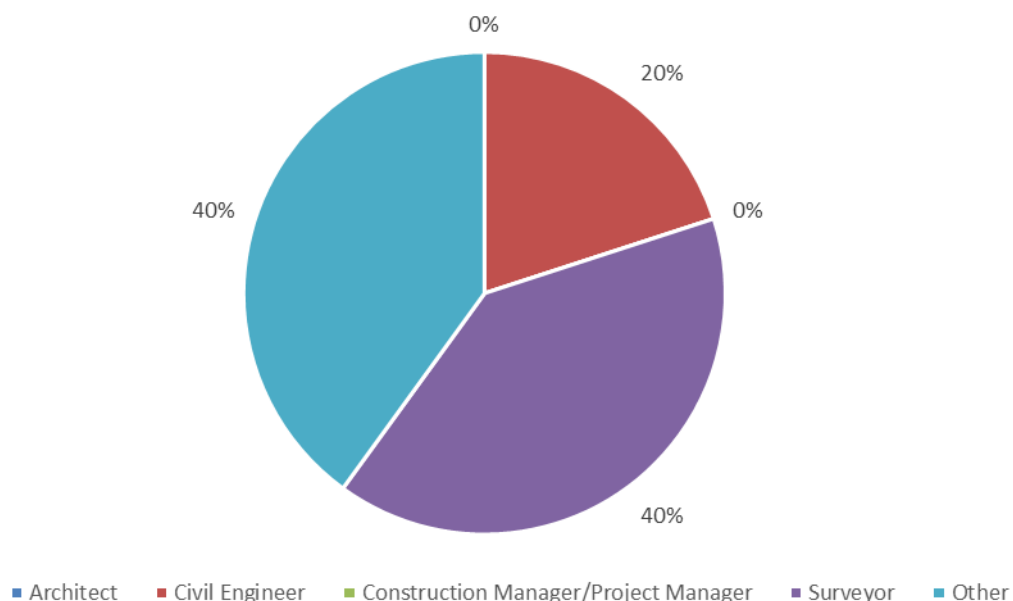
## Higher Education



The fourth quarter survey included supplementary questions on the recruitment and employment of graduates. 35% of surveyed firms have recruited graduates during the last three years, with a 27% planning to appoint graduates during 2018. A quarter of firms intended to send existing staff on higher education courses during 2018, while a 18% 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.

## Principal subject areas for firms recruiting graduates with construction degrees





Where firms had appointed graduates with a construction related degree, a half (50%) reported that construction/ project management was the main discipline that they had recruited. 17% of firms cited civil engineering as the main discipline they had recruited. The remaining 33% had mainly opted for graduates with other construction related degrees.