

Build UK State of Trade Survey

Q4 2016

Executive Summary

Results of the fourth State of Trade survey for 2016 show that whilst Build UK members' enquiries and output slowed during the winter period, contractors anticipate growth in 2017.

The survey, which was undertaken with Glenigan, shows that output growth slowed during the fourth quarter of 2016. Contractors reported fewer enquiries, especially for new private housing, commercial and industrial projects, both against the preceding three months and the corresponding period in 2015.

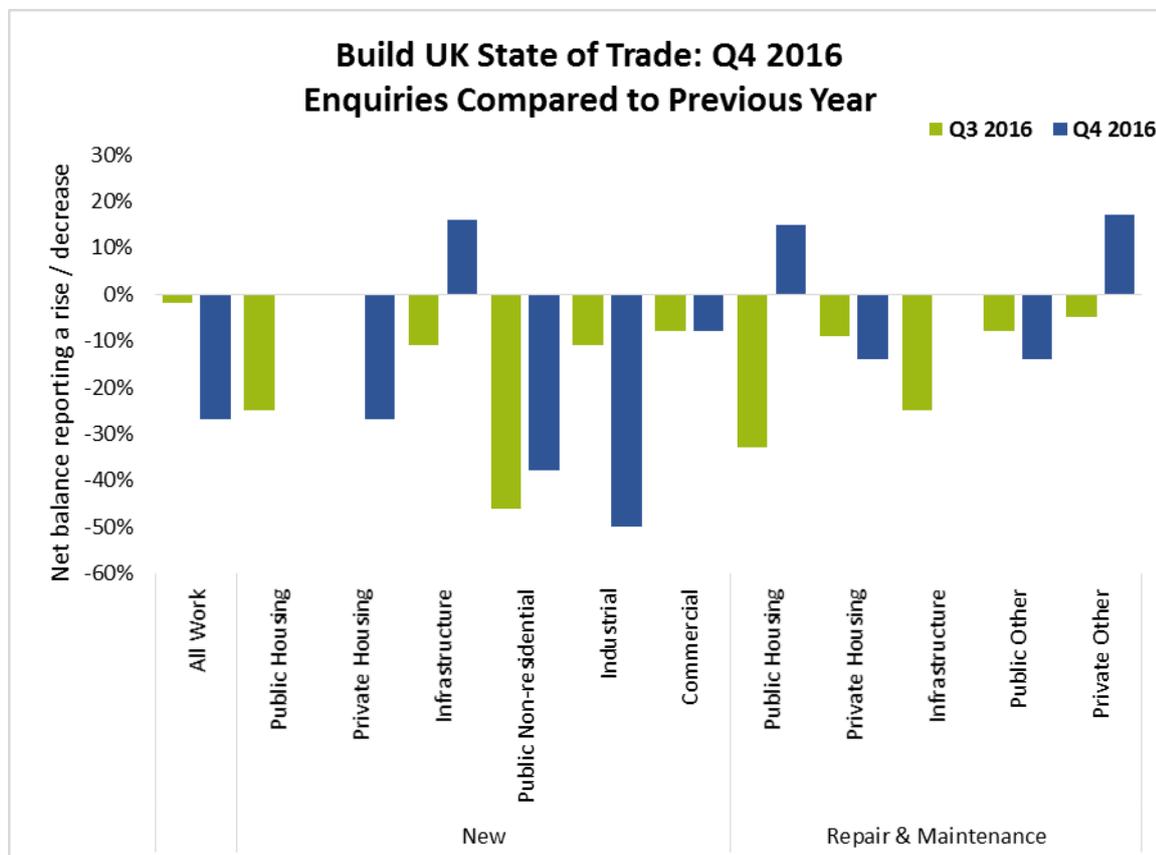
Despite weakening enquiry levels, contractors expect their workloads to increase during the current quarter and throughout 2017. Overall, 8% of contractors expect their workloads to rise next quarter and 33% of firms expect their output to rise over the next 12 months.

Recruitment difficulties are still impacting upon labour costs, with 30% reporting an increase in labour costs compared to the previous quarter and just over half (53%) reporting their labour costs to be higher than a year ago. These recruitment difficulties are affecting contractors' business performance; 13% said that labour shortages had resulted in the late completion of work, while 21% had been unable to bid for work during the last quarter.

Cost pressures are not just limited to labour costs. 66% of firms reported an increase in their material costs during the fourth quarter of 2016. Higher labour and material costs have increased overall building costs, however the higher cost base is not being reflected in tender prices with a balance of 4% reporting a fall in tender prices during the fourth quarter. This has inevitably increased pressure on margins, with a balance of 12% of firms experiencing lower margins against both the previous quarter and a year earlier.

Enquiries

Contractors reported weaker enquiry levels during the final quarter of 2016. A balance of 27% reported fewer enquires than during the previous three months and the same number reported that enquiries were down against the fourth quarter of 2015.



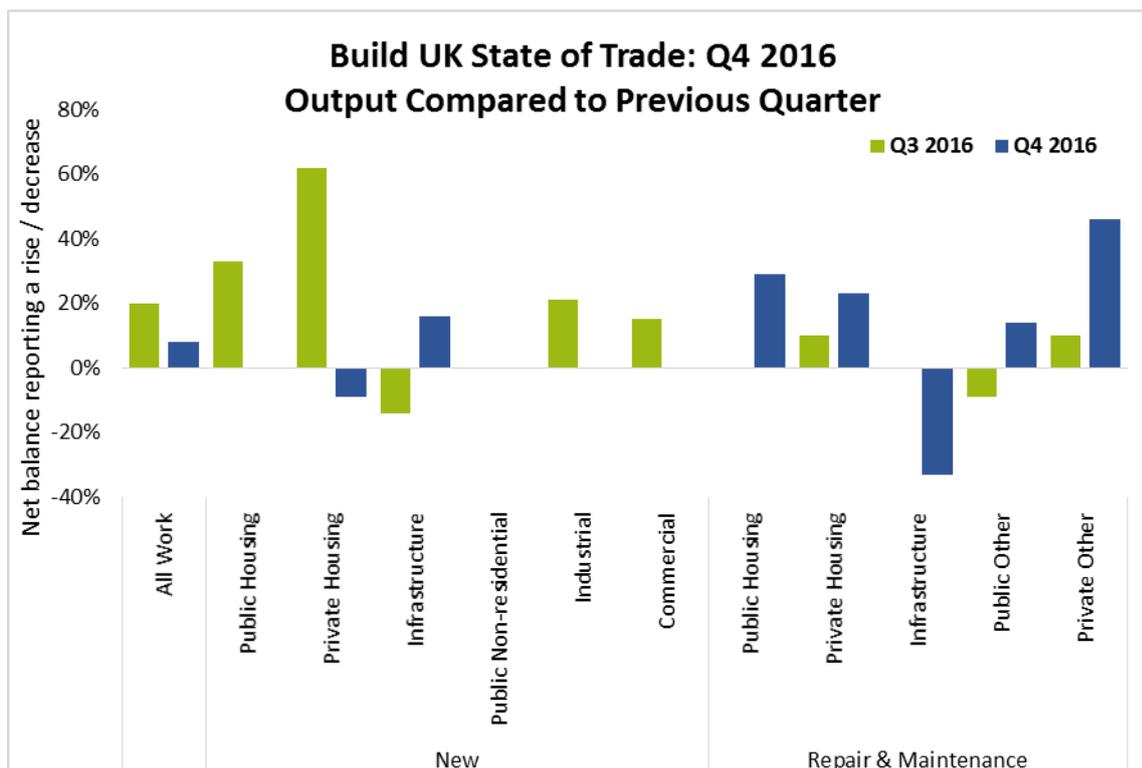
The deterioration in enquiry levels follows a smaller decline during the third quarter and is in contrast to the rise in enquiry levels seen during the first half of 2016. A high proportion of contractors reported fewer enquiries for industrial, public non-residential and new private housing work. Commercial sector enquires were also lower, especially compared to the third quarter of the year.

In contrast new build infrastructure work was a notable bright spot, with a net balance of 16% of contractors reporting that enquiries were up on both the previous quarter and the final quarter of 2015.

Enquires for every repair and maintenance sector either increased or were unchanged on the previous quarter. Public housing RM&I and private other R&M work were particularly positive; a net balance of 15% of Contractors reported public housing RM&I enquiries were up on both the previous quarter and a year earlier. A balance of 33% saw an increase in private other R&M against the previous quarter with 17% recording an increase against the fourth quarter of 2015. Less encouragingly a net balance of contractors reported that enquiries for private housing RM&I and public other R&M were down compared to a year ago.

Output

A quarter of contractors reported an increase in output compared to the previous quarter. This compares with 17% recording a decline, giving a final balance of +8%. This is a marked weakening on the +22% and +20% balances seen in the second and third quarters of 2016. The new build sectors contributed to the slowing in overall growth, with infrastructure being the only sector where the overall balance of contractors reported a rise in output against the previous quarter. The repair and maintenance sectors fared better, with all sectors bar infrastructure R&M, seeing a rise in workload.



Nevertheless despite the apparent slowing in growth during the quarter, a net balance of +27% of contractors reported that their output was up on a year earlier, compared to a balance of +20% in the previous survey. The new non-residential sectors have all seen year on year growth, including the industrial and commercial sectors, with a net balance of +20% and +27% of contractors respectively reporting their output increasing compared to a year earlier.

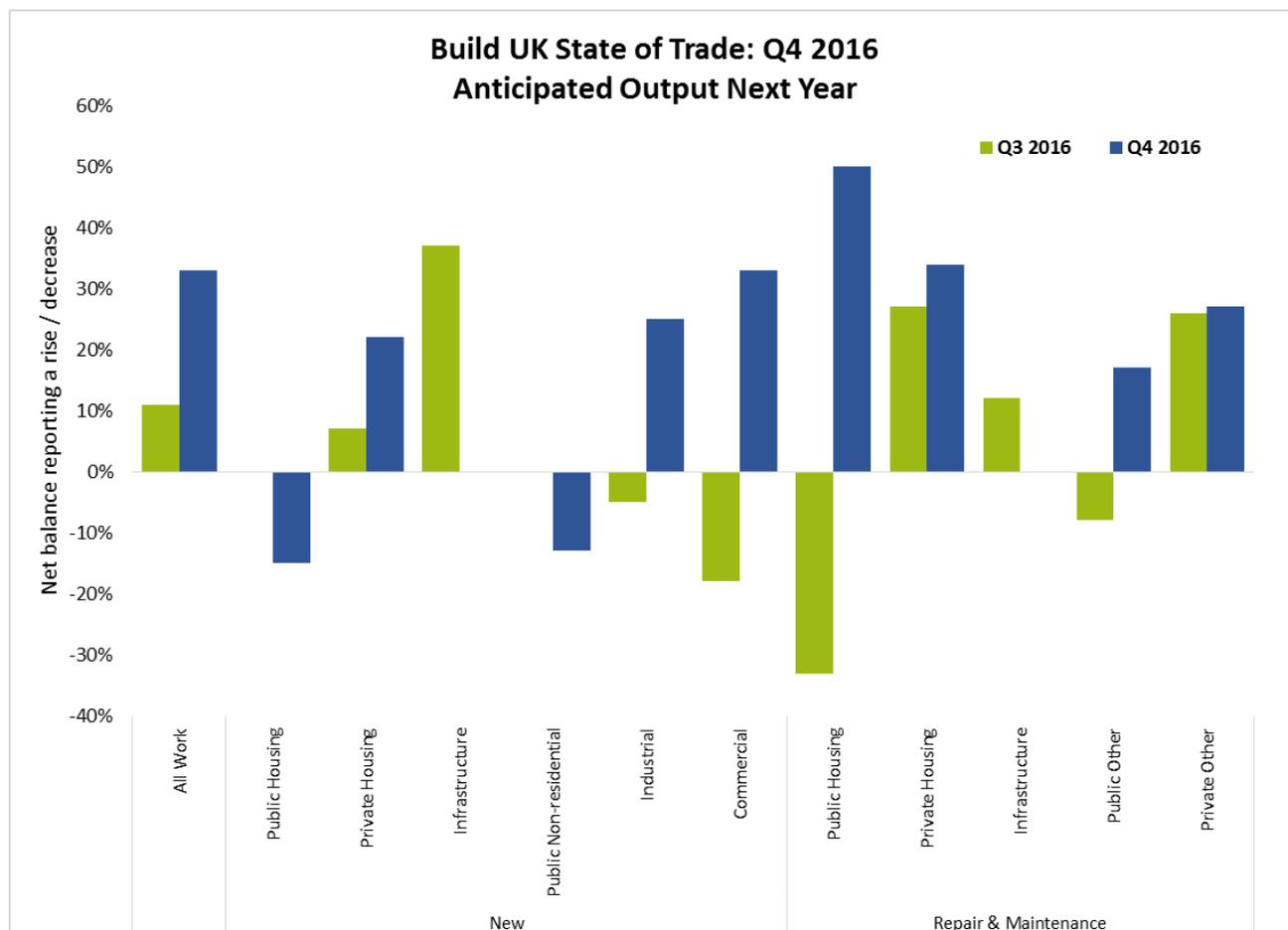
Work in Hand

64% of contractors regard their current levels of work in hand as normal. 27% of contractors currently have higher than normal levels and 9% currently have lower than normal levels, giving a final balance of +18%.

Anticipated Workload

A balance of +8% of contractors expect workloads to rise in 2017 Q1 compared to 2016 Q4.

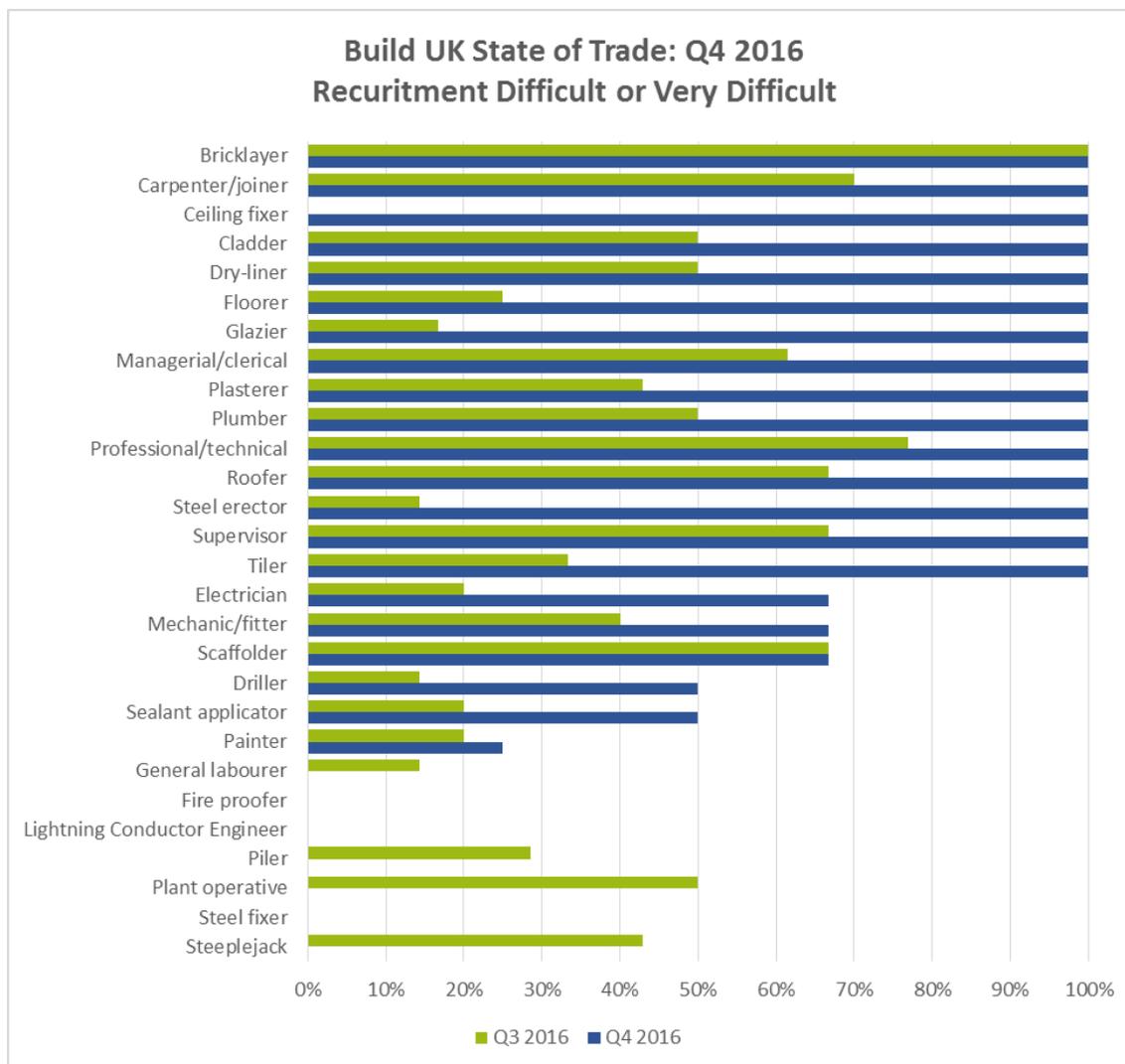
The new private and social housing sectors are expected to be areas of growth in the next quarter, with a balance of +14%, and +27% of contractors respectively anticipating a rise in their volume of work in these sectors. The public housing RM&I sector is also anticipated to be strong, with a balance of +43% of contractors expecting to increase their output. In contrast, contractors were cautious about prospects for the new public housing RM sector with -22% of firms anticipating the volume of their work to decline.



Looking further ahead, contractors remain positive about their overall workload during the next 12 months. Half of contractors expect workloads to rise during the next 12 months, while 17% anticipate their work volumes will decline. The resultant balance of +33% compares to a +11% balance in the previous survey and is also the strongest result for a year, pointing to improving growth expectations for 2017.

Recruitment

Overall labour availability appears to have become scarcer during the fourth quarter, with 20% of contractors reporting 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 has remained problematic with all contractors reporting their recruitment as either ‘difficult’ or ‘very difficult’. Similarly there were widespread problems in the recruitment of professional/technical employees, carpenters/joiners, supervisors and roofers. In addition, contractors reported difficulty recruiting internal trades including dry liners, plasterers and plumbers.

Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills and experience as being factors in 42% and 33% of cases respectively. Lack of qualifications was cited as a factor in 36% of cases. Other reasons identified by contractors related to the general supply of skilled labour, lack of commitment from applicants and poor spoken English. These recruitment difficulties have affected contractors’ performance with over a fifth (21%) of contractors indicating that they were unable to bid for work due to labour shortages and 13% indicating that labour shortages had resulted in late completion of work.

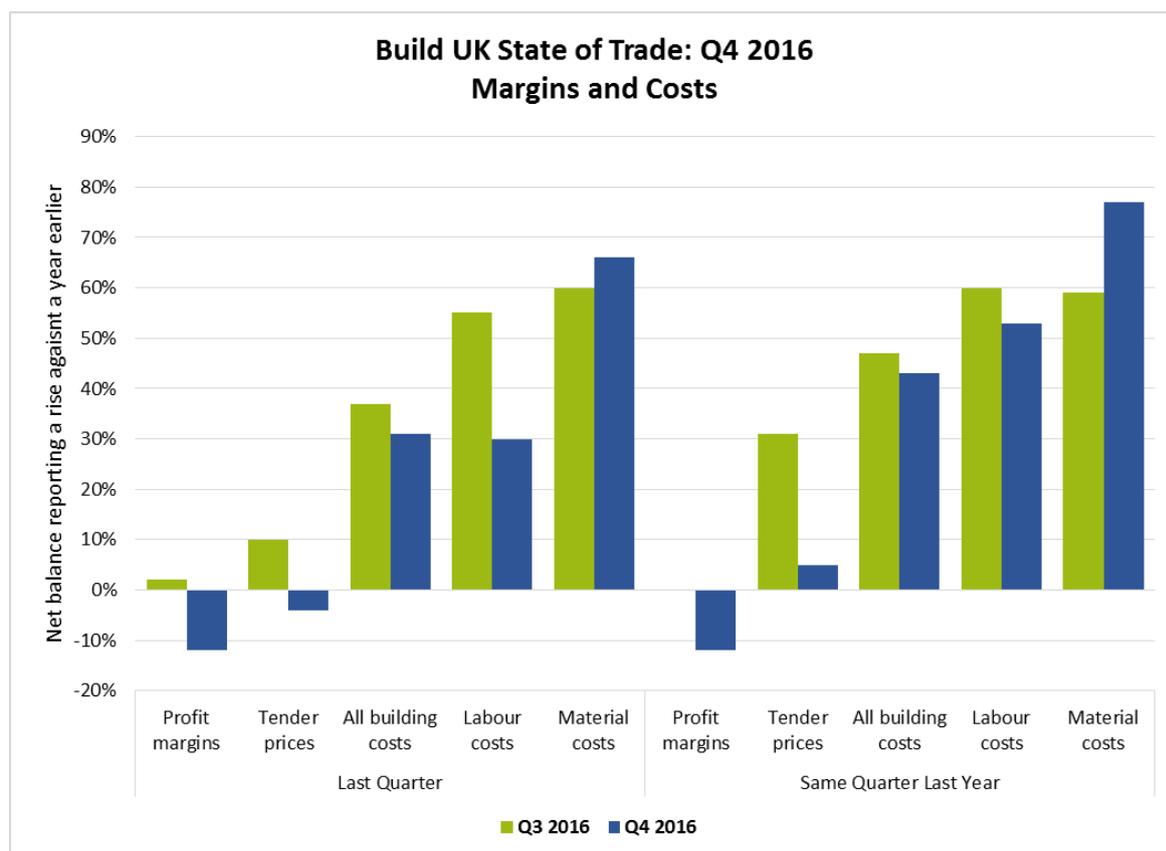
Capacity, Costs and Prices

Almost two thirds (62%) 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% capacity. Over the 12 months up to December 2016, 57% of firms were operating at over 75% of their capacity and 30% were operating at over 90% capacity.

On balance, contractors' profit margins deteriorated during the fourth quarter of 2016, reversing the improvement in margins reported during the third quarter. Compared to the previous quarter, 8% saw margins rise compared to 20% who saw them fall. Furthermore, profit margins during the fourth quarter were also weaker than a year ago, with the 21% of firms reporting an increase in margins overshadowed by 33% reporting tighter margins than in the fourth quarter of 2015.

Contractors reported a dip in tender prices during the fourth quarter. A balance of -4% of contractors reported tender prices were down on the previous quarter, although a balance of +5% reported that they were still up compared a year earlier.

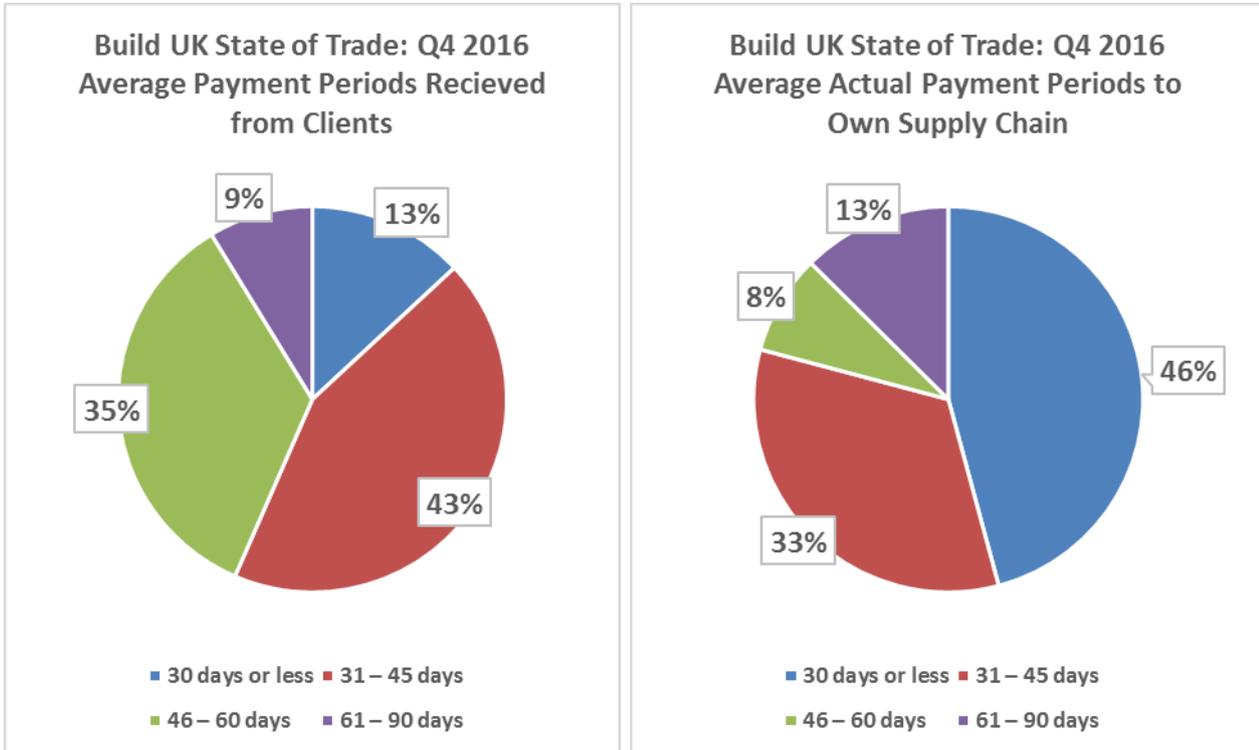
Over the last quarter, a net balance of +30% respondents judged that labour costs had risen while 66% reported higher material costs. A balance of +31% of contractors reported a rise in all building costs over the last quarter; 36% had seen costs rise, 54% said they were unchanged and 8% reported a fall.



Just under half (48%) of contractors have seen their overall building costs rise over the last 12 months, with a similar proportion reporting that their building costs were unchanged and 5% seeing a fall. A net balance of +53% of contractors reported a rise in their labour costs compared to the fourth quarter of 2015, with +77% of firms seeing material costs rise.

Payments and Disputes

Over a third of contractors (35%) were waiting between 46 and 60 days on average to receive payments from their clients and 9% waited between 61 and 90 days. This is despite only 4% having average contract terms which include payment periods of 46 days or more. Almost half of contractors (43%) were waiting between 31 to 45 days on average to receive payment, with 13% receiving payment within 30 days.



A fifth (20%) of contractors had been involved in a contract dispute during the fourth quarter of 2016. The most common cause of disputes was payment (80%), with disputes over variations accounting for the remainder.

**Build UK State of Trade: Q4 2016
Construction Disputes**

