



FEDERATION OF
**MASTER
BUILDERS**

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STATE OF TRADE SURVEY

Q2 2017



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Introduction from FMB Chief Executive Brian Berry

Despite the snap General Election, and the resulting hung Parliament, Q2 2017 proved to be a positive one for the UK's construction SMEs. The second quarter of this year saw growing workloads in every devolved nation and English region albeit at a slightly slower rate than the first three months of this year. This is encouraging given that the construction SME sector is particularly vulnerable to dips in consumer confidence that usually stem from periods of political uncertainty.

However, these results shine a light on the ever-increasing material costs for construction SMEs. These, combined with upwards pressure on salaries caused by long-term skills shortages, mean that builders' margins are narrower than ever. Firms may be forced to pass these increases onto the client or consumer as the cost of building work rises. In the medium to longer-term, this could serve to dampen demand for construction work as inflation rises and consumer spending is hampered.

Key statistics from Q2 2017:

- Workloads grew in every region and nation of the UK albeit at a slower rate than the first quarter of this year
- These results represent the 17th consecutive quarter of positive growth which means that the construction SME sector has been on the rise for more than four years
- Almost one in two construction SMEs predict rising workloads in the coming months, with just 9% predicting a decrease in activity
- 83% of builders believe that material prices will rise in the next six months
- 60% of construction SMEs are struggling to hire bricklayers; 57% are struggling to hire carpenters and joiners; and 47% are struggling to hire plumbers



“Workloads grew in every region and nation of the UK albeit at a slower rate than the first quarter of this year”

Balances only reflect the percentage of responses reporting higher workloads against those reporting lower workloads. In some cases, though the total workload chart may suggest that activity has risen or fallen strongly, a large proportion of respondents indicated there had been no change in workloads compared with the previous quarter.

In the second quarter of this year, SME workloads recorded rising activity. The proportion of firms that reported higher workloads grew (39% vs 35%), while those reporting no change in workloads fell to 46% from 51%.

For the next quarter businesses are projecting rising activity levels, albeit at a much slower rate compared with Q1 2017. The share of firms expecting higher workloads dropped, to 48% from 50% while 9% of respondents anticipate lower workloads, up from 5%.

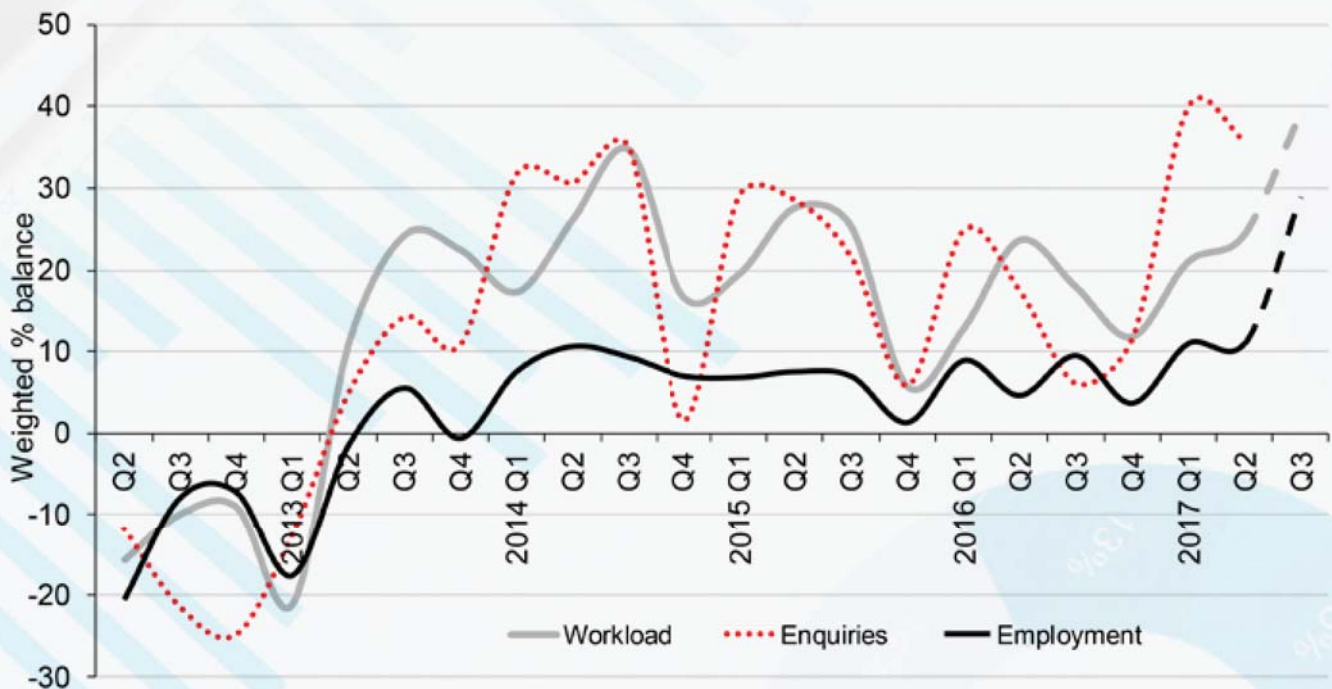
The latest regional composite indicators showed activity rising at a slower pace compared with Q1 2017 for three out of the four home nations: England was the only

home nation to experience activity increasing at the same rate as the previous quarter, as its net balance remained unchanged at +25.

Over the next six months output prices, wages and salaries and material costs are all projected to increase: This is in spite of a deterioration in all three net balances with wages & salaries seeing the greatest decline of 4 percentage points to +62.

SME employment increased for the fourteenth quarter running: The proportion of firms reporting that their workforce had risen went up, to 24% from 21% while around 64% of businesses recorded no change in staffing levels, down from 70% in the previous quarter.

Key indicators



Please note: Q3 2017 reflects respondents' expectations for workload and employment

WORKLOADS

In the second quarter of 2017, the net balance for overall workloads remained in positive territory for the seventeenth consecutive quarter as it went up by 3 percentage points to +24. The share of businesses stating rising workloads went up (39% vs 35%), while the proportion of those reporting no change in workloads fell to 46% from 51%.

The net balance for the private new housing sector experienced the greatest jump of 16 percentage points to +27, the highest reading since Q3 2014. Around 39% of businesses indicated higher workloads, up from 25%, while

those reporting lower levels edged down to 13% from 14%. However, just under half of respondents (48%) stated no change in workloads.

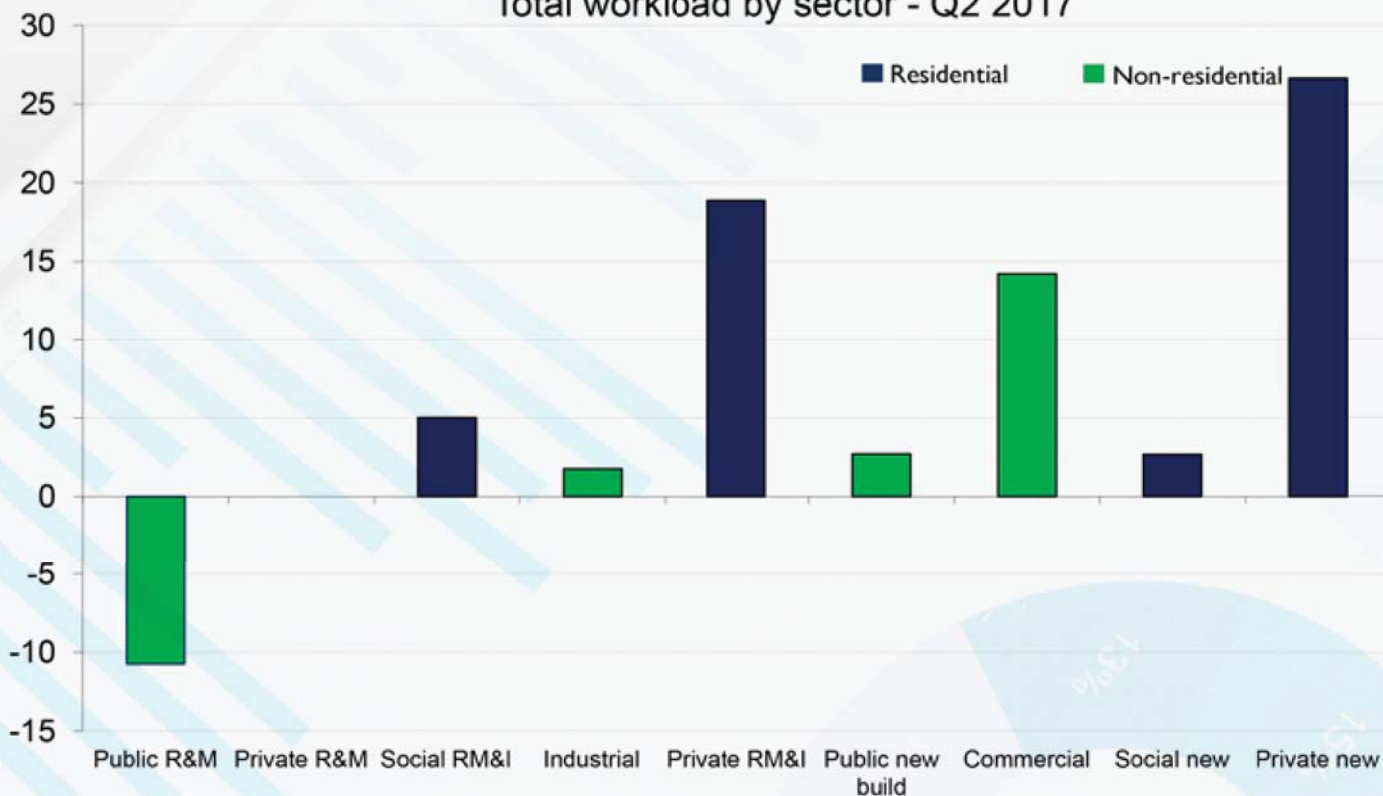
An improvement of 11 percentage points took the social new net balance to +3 and back into positive territory. Firms stating lower workloads declined to 13% from 17%, while those stating higher workloads went up (16% vs 9%). However, the majority of respondents (71%) saw no change in workloads.

An increase of 5 percentage points took the overall housing sector's net balance to +16. More businesses

reported higher workloads (29% vs 23%) while around 58% of respondents stated no change in workloads, down from 66% in the previous quarter.

The non-residential net balance moved into positive territory as it rose by 11 percentage points to +8. Around a quarter of firms reported higher workloads, up from 18% in the previous quarter while those registering lower workloads fell (16% vs 21%). Over half of firms (59%) stated no change in workloads.

Total workload by sector - Q2 2017



RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Private new	+8	-5	+15	+13	+2	+15	+11	+27
Private RM&I	+19	+7	+14	+17	+13	+8	+15	+19
Social new	+1	-10	-7	+4	+13	+5	-8	+3
Social RM&I	-7	-11	0	-8	-6	-1	+3	+5
Total Residential			+22	+22	+18	+30	+11	+16

The net balance for the **private new** housing sector remained in positive territory, since the beginning of last year as it jumped by 16 percentage points to +27. The share of firms reporting a rise in workloads increased (39% vs 25%) while just under half of respondents (48%) experienced no change in workloads.

At +3, the net balance for the **social new** housing sector moved into positive territory as it rose by 11 percentage points. Approximately 16% of firms indicated higher workloads, up from 9%, while around 71% of businesses reported no change in workloads, down from 74%.

The net balance for the **social RM&I** sector increased by 2 percentage points to +5. Around 22% of respondents indicated a rise in workloads, up from 11% while most businesses (61%) reported no change in workloads, down from 82% in Q1 2017.

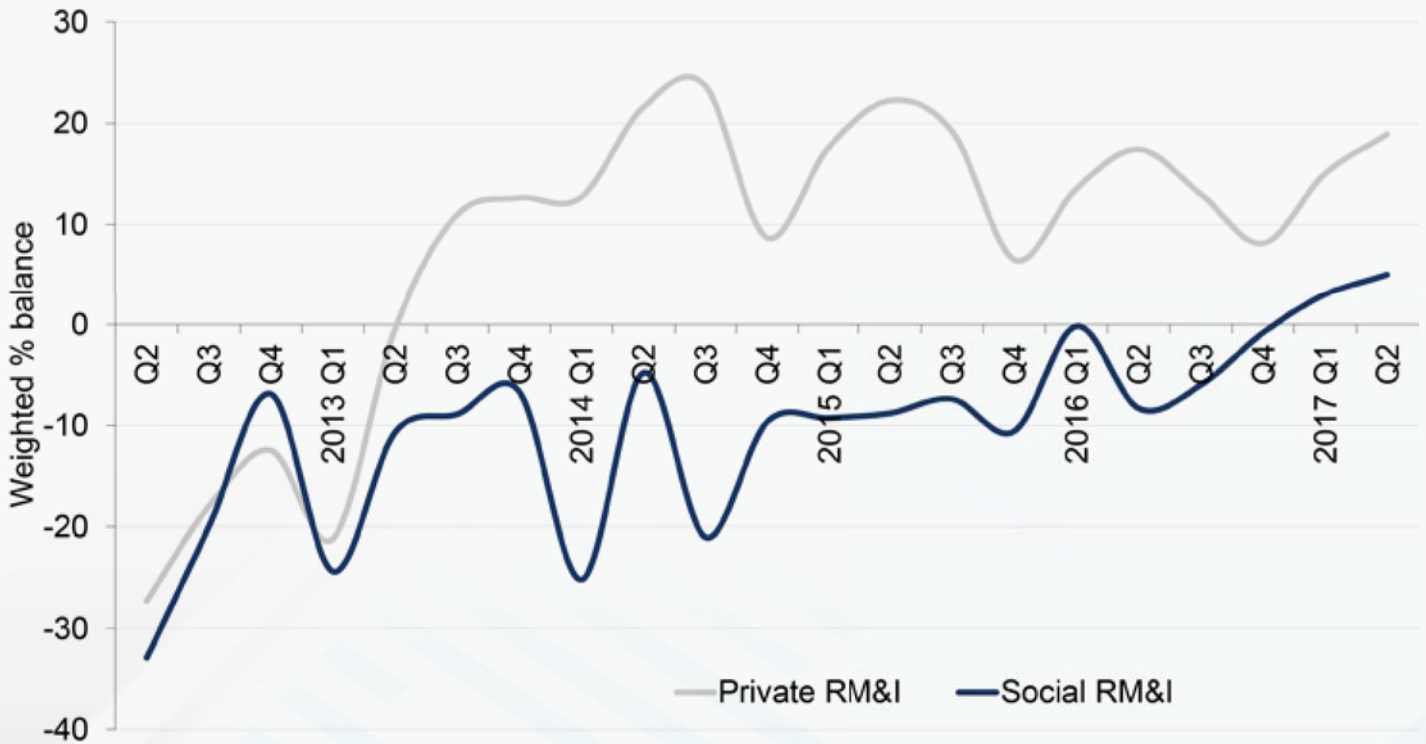
The net balance for the **private RM&I** sector remained in positive territory for the sixteenth quarter running as it rose by 4 percentage points to +19. Approximately a third of respondents experienced higher workloads, up from 31%, while those registering lower workloads declined to 14% from 16%.

Residential historical weighted % balance - new build



RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



NON-RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Public new build	0	-10	-26	-11	+6	-15	-1	+3
Public R&M	+1	-15	-13	-13	-9	-17	+5	-11
Industrial	-2	-11	-15	-17	+3	-20	0	+2
Commercial	+6	-4	+2	+4	+8	-8	+4	+14
Private R&M	+11	+5	-11	+0	-5	-10	+8	0
Total Non-Residential			+5	+0	+7	0	-3	+8

The net balance for the **public new build** sector moved back into positive territory as it improved by 4 percentage points to +3. Just over a fifth (21%) of respondents indicated higher workloads, up from 10% whereas most (61%) firms stated no change in workloads, down from 79%.

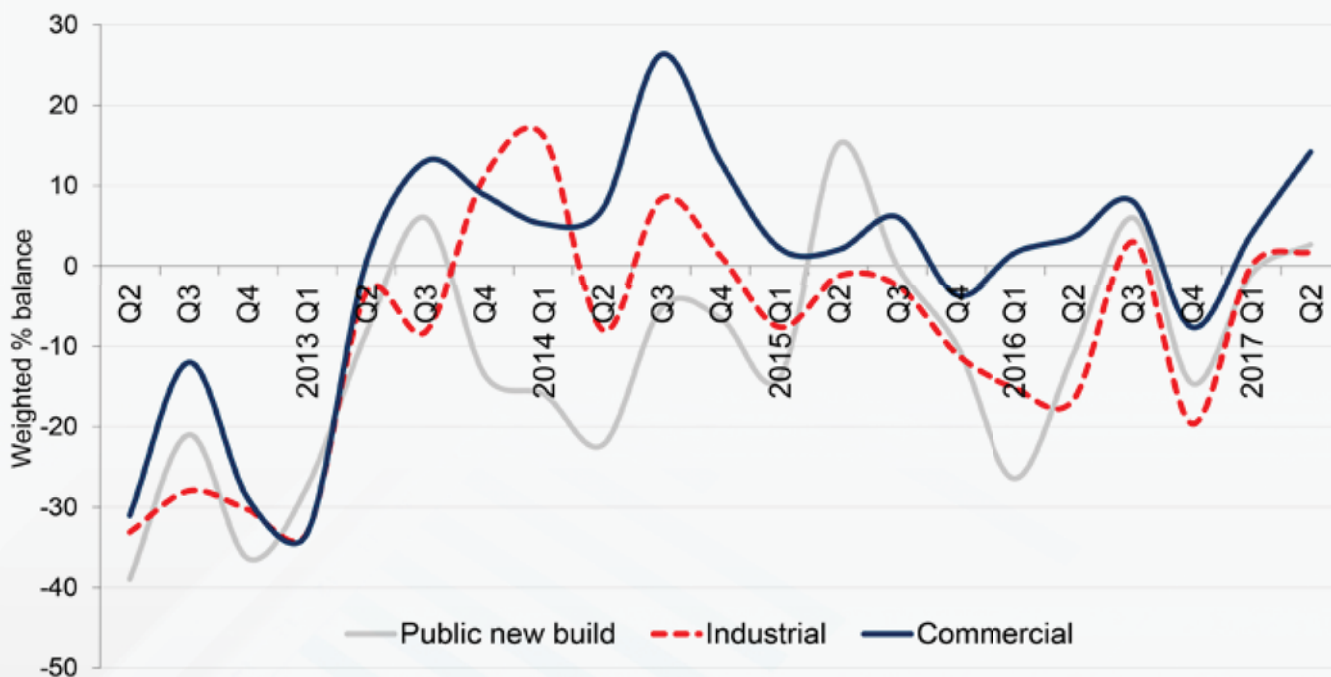
A rise of 10 percentage points took the **commercial** sector's net balance to +14. Approximately 28% of firms

reported higher workloads, up from 25% while those stating lower workloads dropped to 14% from 21%.

The net balance for the **industrial** sector moved back into positive territory as it went up by 2 percentage points to +2. Around 14% of businesses reported lower workloads, down from 18% while the bulk of respondents (71%) stated no change in workloads.

NON-RESIDENTIAL WORKLOADS

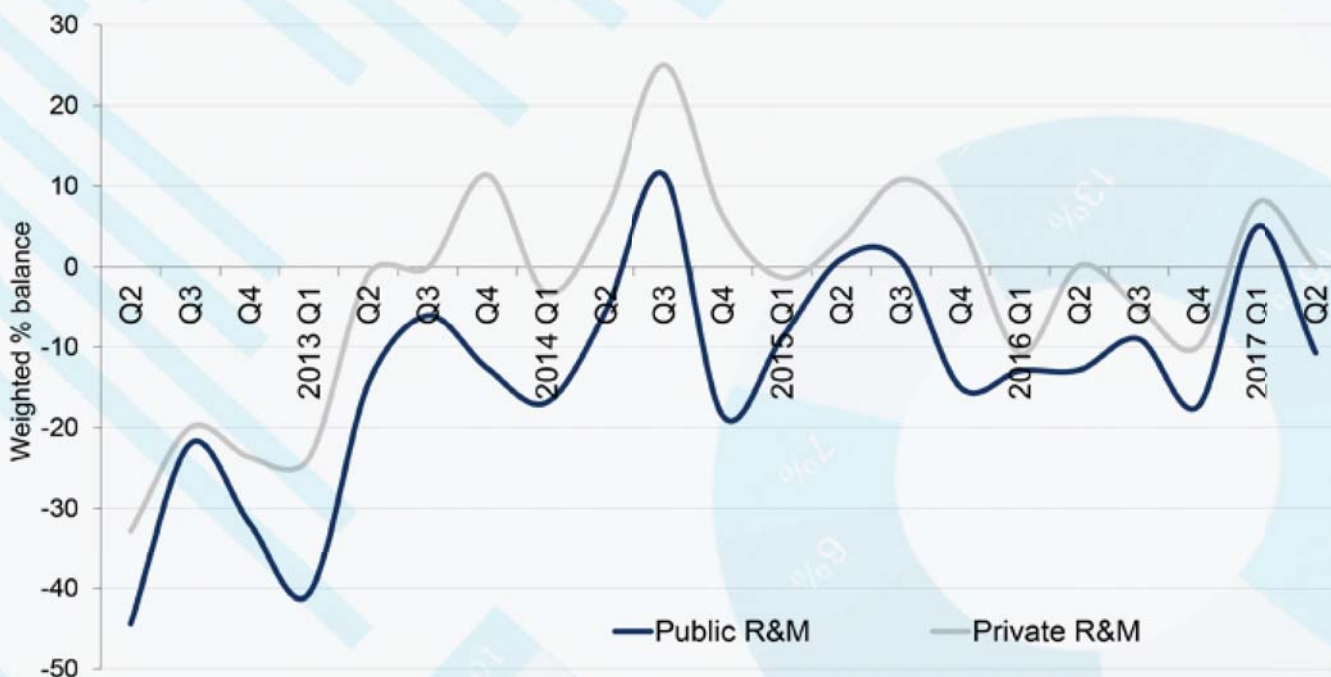
Non-residential historical weighted % balance chart - new work



A drop of 16 percentage points to -11 took the **public R&M** sector's net balance back into negative territory. Just 8% of firms indicated higher workloads, down from 14% in the previous quarter while those stating lower workloads jumped to 19%, up from 9%.

The private R&M sector's net balance decreased by 8 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. Approximately a fifth of firms reported higher workloads, down from 25%, while more businesses stated lower workloads (20% vs 16%).

Non-residential historical weighted % balance chart - R&M



EXPECTED WORKLOADS AND ENQUIRIES

Despite falling by 4 percentage points to +36, the net balance for total enquiries remained in positive territory for the seventeenth successive quarter. Just under half of respondents (48%) reported higher enquiries, down from 50%, while around 13% of firms stated lower enquiries, up from 11% in the previous quarter.

A fall of 7 percentage points took the total expected workload's net balance to +39. 48% of respondents anticipate higher workloads over the next three months, slightly down on the 50% registered in the previous quarter. In contrast, the share of firms forecasting lower workloads, rose to 9% from 5%.

RESIDENTIAL EXPECTED WORKLOADS

The residential expected workload net balance edged down by 1 percentage point to +33. Approximately 8% of firms have a negative outlook, up from 3% in Q1 2017. Around 52% of respondents predict lower workloads over the next three months, down from 59%.

A fall of 3 percentage points took the net balance for expected workloads in the **private new** housing sector to +32. Approximately 47% of firms expect no change to workloads, down from 57% in the previous quarter while those forecasting lower workloads rose to 11% from 4%.

The net balance for the **social new** housing sector increased by 3 percentage points to +8. The proportion of respondents anticipating higher workloads went

up (16% vs 10%) while the share of businesses envisaging no change to workloads declined to 76% from 85%.

The **social RM&I** sector remained in positive territory for the third successive quarter as its net balance rose by 5 percentage points to +9. The share of firms forecasting higher workloads increased to 18% from 8%, while the percentage of those predicting no change in workloads declined to 73% from 88%.

The net balance for the **private RM&I** sector dropped by 8 percentage points to +28. Around 37% of firms forecast an increase in workloads, down from 40% whereas just under a tenth (9%) of respondents expect lower workloads, up from 4%.



“Almost half of construction SMEs anticipate higher workloads over the next three months”

Weighted % balances

Expected Workload	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Private new	+6	0	+10	+14	+2	+13	+35	+32
Private RM&I	+17	-4	+19	+17	+8	+6	+36	+28
Social new	-12	-5	+6	+12	+8	+19	+5	+8
Social RM&I	+2	-3	-17	+3	-8	+5	+4	+9
Total Residential			+25	+22	+7	+4	+34	+33
Enquiries								
Private new	+14	-4	+6	+16	+1	+8	+31	+25
Private RM&I	+16	+1	+15	+13	+1	+6	+33	+32
Social new	-1	-9	+12	-11	0	-4	0	0
Social RM&I	+8	-1	+1	-3	-11	+7	+1	+11
Total Residential			+30	+22	+21	+3	+26	+23

NON-RESIDENTIAL EXPECTED WORKLOADS

The net balance for non-residential expected workloads remained in positive territory for the second quarter running despite falling by 13 percentage points to +3. Just under a fifth (19%) of businesses predict higher workloads, down from 23%, while more firms expect lower workloads (15% vs 7%). Around two thirds of respondents envisage no change in workloads, down from 70% in Q1 2017.

A fall of 9 percentage points took the **Public R&M** sector's net balance to 0, indicating overall expected activity is unchanged from the previous quarter. Just over a tenth (11%) of firms expect higher workloads, down from 14% while the share of businesses projecting lower workloads went up (12% vs 5%).

The net balance for the **private R&M** sector fell by 14 percentage points to +15. Around 27% of respondents project higher workloads, down from 34%, while 12% of companies expect lower workloads, up from the 4%. However, the bulk of firms (60%) forecast no change in workloads.

The **industrial** sector's net balance fell by 5 percentage points to +13. Around 16% of firms anticipate lower workloads, up from 7% while 55% of respondents predict no change to their workloads, down from 69% in the previous quarter.

An increase of 2 percentage points took the **public new build** sector's net balance to +11. Around 23% of businesses have a positive outlook, up from 17% while approximately 65% of respondents expect no change in workloads, down from 75%.

The commercial sector's net balance went up by 2 percentage points to +16, remaining in positive territory for the third consecutive quarter. Just under a third of respondents (32%) anticipate higher workloads, up from 25%, whereas those forecasting no change to workloads fell to 51% from 64%.



“An increase of 2 percentage points took the public new build sector’s net balance to +11”

Weighted % balances

Expected Workload	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Public new build	-3	-12	-6	+17	-10	+5	+9	+11
Public R&M	+9	-14	-11	+13	-16	-8	+9	0
Industrial	-1	-6	-10	0	-6	0	+18	+13
Commercial	+5	-4	+18	+2	-5	+3	+14	+16
Private R&M	+13	-4	+6	+13	-7	-14	+29	+15
Total Non-Residential			+14	+11	-4	-3	+16	+3
Enquiries								
Public new build	-12	-14	-6	-1	-7	-14	+6	+7
Public R&M	-4	-23	-3	-12	-10	-20	-8	+4
Industrial	0	0	-15	+3	-7	-6	+5	-2
Commercial	+2	+2	+4	+3	-4	-9	+13	+14
Private R&M	+7	-5	-1	-3	-4	-19	+21	+6
Total Non-Residential			+8	+5	+1	-1	+12	+10

PRICES AND COSTS

Weighted % balances

	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Output prices	+37	+23	+29	+26	+33	+25	+49	+48
Wages & salaries	+56	+44	+44	+45	+52	+44	+52	+59
Materials costs	+68	+60	+64	+65	+65	+73	+87	+89

Weighted % balances

Expected	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
Output prices	+44	+42	+43	+42	+33	+41	+68	+65
Wages & salaries	+44	+46	+51	+53	+41	+40	+66	+62
Materials costs	+63	+69	+63	+63	+65	+78	+85	+82

In the three months to June 2017, the net balance for expected output prices fell by 3 percentage points to +65. Just 3% of firms predict output prices will fall over the next six months, up from 1% in the previous quarter. Around 28% of respondents anticipate no change to output prices, down from 31%.

A decline of 4 percentage points took the net balance for expected wages and salaries to +62. Fewer firms envisage wage increases (63% vs 67%) while approximately 37% of

respondents forecast no changes in wages and salaries, up from a third.

The net balance for expected material costs decreased by 3 percentage points to +82. The bulk of businesses (83%) envisage a rise in material costs, while 16% of respondents predict no change to material costs over the coming six months, slightly higher than the 15% reported in the previous quarter.

Prices & costs weighted % balance chart



“83% of firms expect a rise in material costs over the next six months”

EMPLOYMENT AND LABOUR

Weighted % balances

Employment	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
All builders	+9	0	+9	+7	+12	+4	+11	+10
All specialists	-3	+6	+8	+2	+6	+3	+11	+12
Total	+7	+1	+9	+5	+10	+4	+11	+11
Total Employment	+7	+1	+9	+5	+10	+4	+11	+11

Weighted % balances

Expected employment	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
All builders	+19	+18	+26	+17	+14	+7	+32	+29
All specialists	+24	-2	+14	+14	+10	+5	+30	+29
Total	+20	+16	+20	+16	+12	+6	+31	+29
Total Employment	+20	+16	+20	+16	+12	+6	+31	+29

In the three months to June 2017, the total-employment net balance was unchanged at +11. More firms stated a rise in staffing levels (24% vs 21%). In contrast, those reporting a fall in employment grew to 13% from 10% in the previous quarter.

A marginal fall of 1 percentage point took the employment net balance for all builders to +10. 14% of firms reported a fall in staffing levels, up from 11%, while those stating no change in employment decreased to 61% from 66%.

The net balance for all specialists edged up by 1 percentage point to +12. 23% of respondents reported higher staffing levels, up from 18% while approximately two thirds of firms stated no change to employment, down from 74%.

The net balance for expected total employment declined by 2 percentage points to +29. 9% of firms predict a drop in staffing levels, up from 6%, while approximately 52% of respondents foresee no changes to staffing levels, down from 56%.

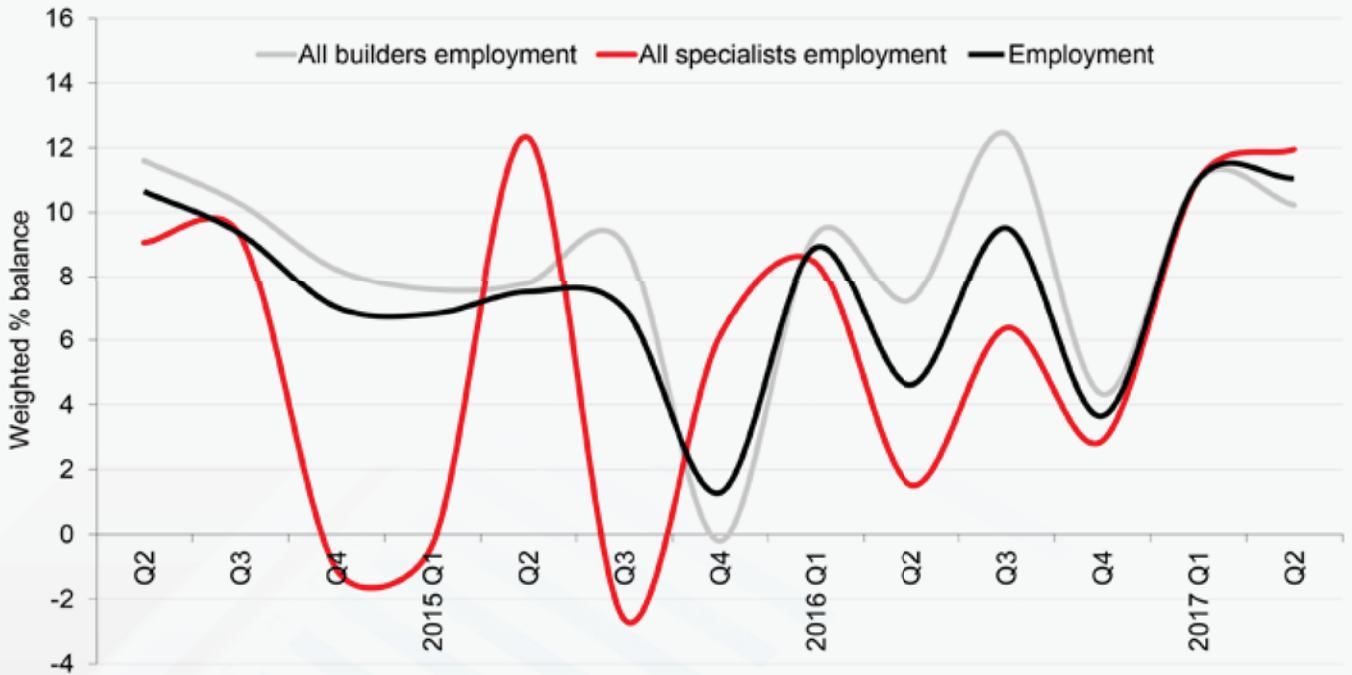
The all builders expected employment net balance decreased by 3 percentage points to +29. More businesses expect to cut staff (10% vs 6%), while around 52% of respondents anticipate no change to their workforce, down from 56%.

A fall of 1 percentage point took the expected specialists net balance to +29. Just under a tenth of firms (9%) predict declines in employment, up from 7% in the previous quarter, while most businesses (54%) expect no change in staffing levels.



EMPLOYMENT AND LABOUR

Employment weighted % balance chart



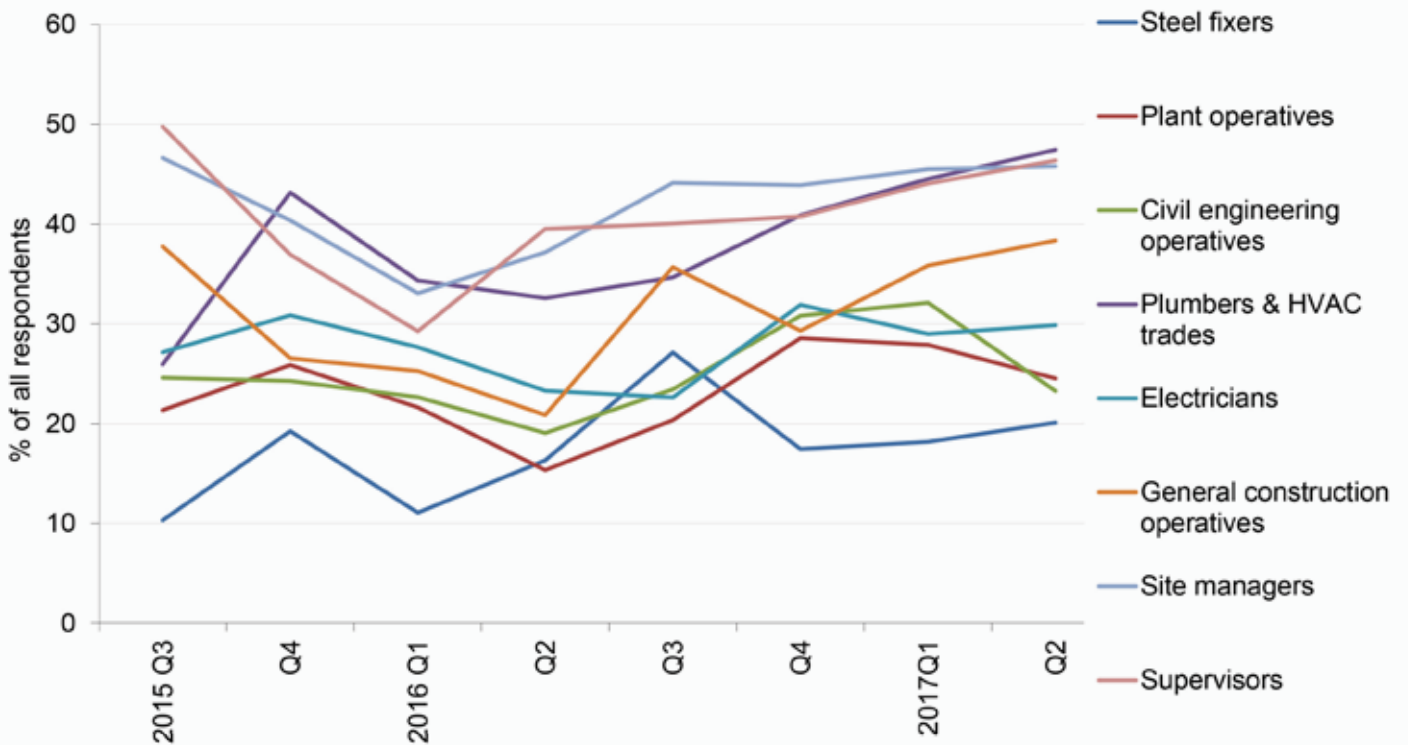
Over the past six quarters, bricklayers have been reported as being the most difficult to recruit. In Q2 2017 carpenters/joiners, plumbers and HVAC trades, site managers and supervisors were also difficult to obtain. In contrast, scaffolders and steel fixers were the least difficult to employ.

% of respondents reporting difficulty recruiting selected skills chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017Q1	Q2
Bricklayers	60	+50	+55	+50	+59	+58	+60	60
Carpenters/joiners	54	52	46	49	55	57	58	57
Plumbers & HVAC trades	26	43	34	33	35	41	45	47
Site managers	47	40	33	37	44	44	45	46
Supervisors	50	37	29	40	40	41	44	46
Plasterers	31	31	32	38	36	39	36	39
General construction operatives	38	27	25	21	36	29	36	38
Roofers	27	31	28	30	34	46	29	33
Electricians	27	31	28	23	23	32	29	30
Painters & decorators	38	23	24	23	27	20	28	27
Plant operatives	21	26	22	15	20	29	28	25
Civil engineering operatives	25	24	23	19	23	31	32	23
Floorers	14	16	18	26	21	23	17	21
Steel fixers	10	19	11	16	27	17	18	20
Scaffolders	8	21	14	15	17	14	12	17

“Over the past 18 months, bricklayers have been the most difficult to recruit”

REGIONAL PERSPECTIVE

Regional figures are based on a composite indicator combining workload, expected workload and enquiries questions, weighted by a firm's size. The net balance shows the difference between those saying higher and those saying lower for the three questions.

The **UK's** net balance edged down by 2 percentage points to +24 in Q2 2017. The proportion of positive weighted responses experienced a marginal fall from 37% to 36% while the share of negative weighted responses edged up to 12% from 11%. The proportion of neutral weighted responses was unchanged at 52%.

Scotland's net balance saw a double-digit decline of 22 percentage points to +13. Around 27% of weighted responses were positive, well down from 53% reported in the previous quarter.

Approximately 14% of firms reported negative weighted responses, down from 18% while at 59%, the bulk of weighted responses were neutral, up from 29%.

England's net balance remained unchanged at +25. While the percentage of positive weighted responses rose to 37% from 36%, the percentage of negative weighted responses also edged up to 12% from 11%. Around 51% of responses were neutral, down from 53%.

Northern Ireland's net balance registered the largest decrease

of 23 percentage points to +4. Approximately a fifth of weighted responses were positive, down from 40%, whereas 16% of weighted responses were negative, down from 13% in Q1 2017. Around 64% of weighted responses were neutral, up from 47%.

The net balance for **Wales** declined by 9 percentage points to +26. The share of positive weighted responses dropped to 34% from 39% while the proportion of negative weighted responses doubled (8% vs 4%). However, neutral weighted responses edged up to 58% from 57%.

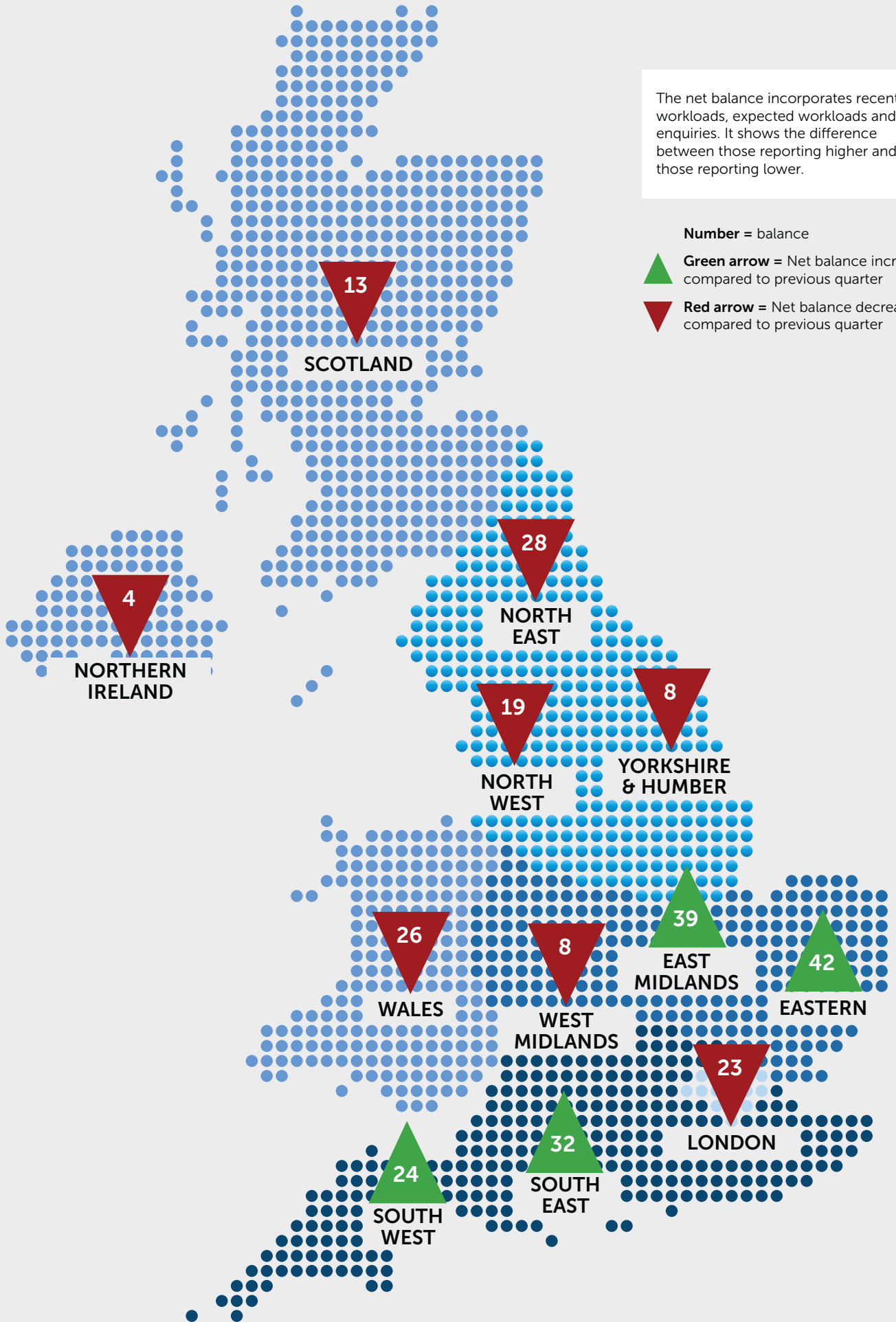
Weighted % balances

	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
East Midlands	+32	+19	+4	+3	-12	+16	+12	+39
Eastern	+9	-9	+18	+16	+7	+4	+37	+42
London	+27	+24	+25	-17	0	+14	+29	+23
North East	+3	+2	+22	+28	+30	-3	+36	+28
North West	+7	+3	-2	+11	0	+10	+28	+19
South East	+16	+10	+17	+15	-3	-8	+23	+32
South West	+8	-10	+19	+11	+4	-14	+18	+24
West Midlands	+40	-1	+9	+7	+1	-9	+18	+8
Yorks & Humber	+38	+13	+26	+13	+30	+19	+28	+8

	2015 Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2
England	+17	+5	+16	+12	+6	+3	+25	+25
Northern Ireland	+35	+18	+34	+27	+15	+10	+27	+4
Scotland	+14	-13	+6	+21	+8	+10	+35	+13
Wales	+9	+7	-6	+16	-7	+15	+35	+26
UK	+17	+4	+15	+14	+6	+4	+26	+24



DEVOLVED COUNTRY AND REGIONAL PERSPECTIVE



About the Federation of Master Builders (FMB) and the State of Trade Survey

For more than 20 years, the FMB State of Trade Survey has monitored key indicators and predicted future short-term developments in the UK construction industry. It is the only survey of its kind to focus exclusively on small and medium-sized (SME) firms throughout the construction sector. The survey is dispatched to the entire membership every quarter. Around 400 responses are received and they are weighted according to turnover.

The typical firm responding is either a general builder or building contractor directly employing ten or fewer people and turning over between £100,000 and £500,000 per annum. Results are generally reported as percentage balances, as results from qualitative surveys traditionally are. This is the difference between the percentage of respondents stating 'higher' and those replying 'lower' to questions. The magnitude of the balance does not indicate the scale of the change. Instead, the larger the balance, the greater the number of respondents stating either 'higher' or 'lower'.

The FMB is the largest trade association in the UK construction industry representing thousands of firms in England, Scotland, Wales and Northern Ireland. Established in 1941 to protect the interests of SME construction firms, the FMB is independent and non-profit making, lobbying for members' interests at both the national and local level. The FMB is a source of knowledge, professional advice and support for its members, providing a range of modern and relevant business building services to help them succeed. The FMB is committed to raising quality in the construction industry and offers a free service to consumers called 'Find a Builder'.

For more information about the FMB please visit: www.fmb.org.uk.

For more information about the FMB State of Trade Survey please contact Sarah McMonagle at the Federation of Master Builders via **020 7025 2901** or SarahMcMonagle@fmb.org.uk.



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