



FEDERATION OF
**MASTER
BUILDERS**

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STATE OF TRADE SURVEY

Q3 2016



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Introduction from FMB Chief Executive Brian Berry

The FMB's latest State of Trade Survey - the only survey of its kind to focus exclusively on small and medium-sized (SME) construction firms - is also the first to cover the period following Britain's decision to leave the European Union.

The results give a snapshot of a sector reporting positive results, in contrast with some of the gloomier expectations that surrounded a "vote leave" scenario. Indeed, the greatest challenge facing SMEs at present relate not to any serious dip in demand, but a continuing skills shortage and more generally, the growing cost of doing business. The number of businesses predicting rising workloads has softened however, underlining the importance of neither the Government nor the industry taking the state of the construction sector for granted as we move towards Brexit.

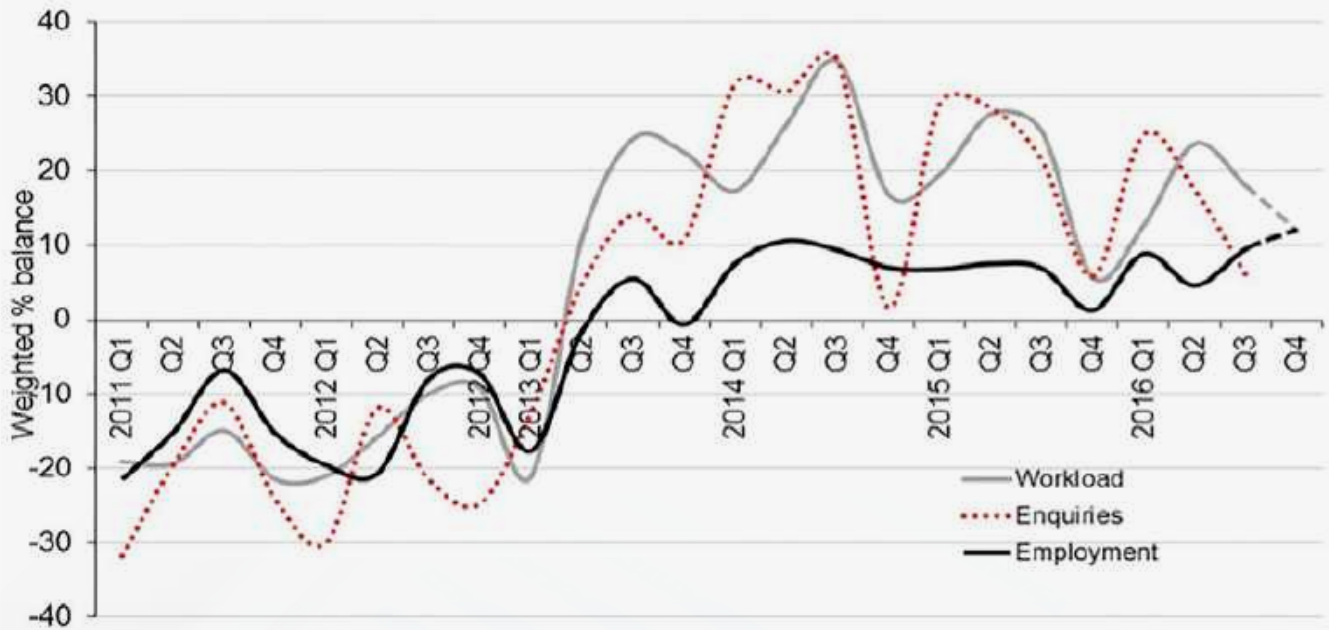


Key statistics from Q3 of 2016:

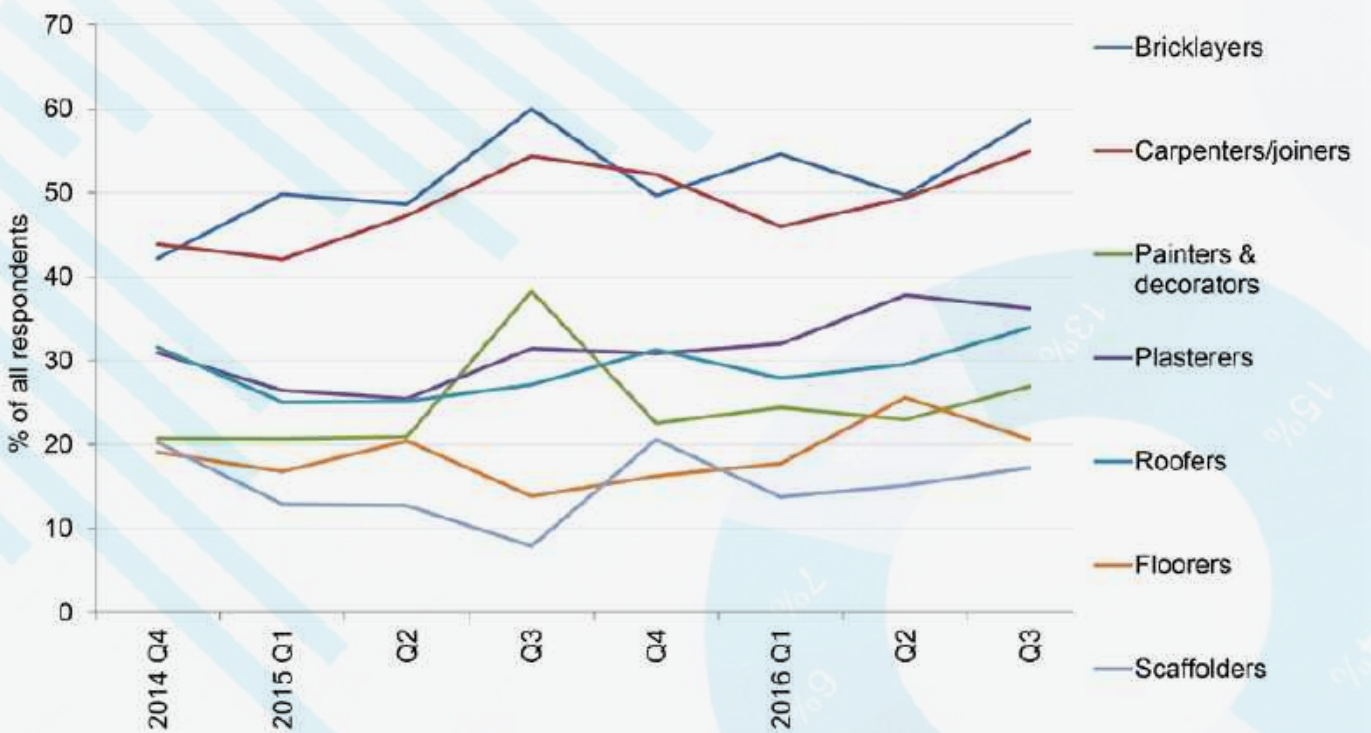
- Overall workloads showed steady, albeit slower, growth in the first quarterly assessment of the overall SME construction sector since the EU referendum;
- Employment rose at a faster pace compared with three months earlier;
- 59% of SME construction firms struggled to hire bricklayers and 55% found it difficult to hire carpenters and joiners;
- Over the next six months, output prices, material costs, wages and salaries are all projected to increase;
- Looking ahead to the next three months, businesses are forecasting rising activity levels, though at a much slower rate compared with the quarter.

"The greatest challenge facing SMEs at present relate not to any serious dip in demand, but a continuing skills shortage"

Key indicators



% of respondents reporting difficulty recruiting selected tradespeople or occupations chart 1



WORKLOADS

In Q3 2016, the net balance for overall workloads remained in positive territory for the fourteenth successive quarter, despite falling by 6% to +18. A third of firms reported higher workloads, down from 37%, while marginally more businesses stated lower workloads (14% vs. 13%) compared with the previous quarter.

The net balance for the industrial sector moved back into positive territory, as it experienced the greatest jump of 20% to +3. Just under a fifth of businesses (24%)

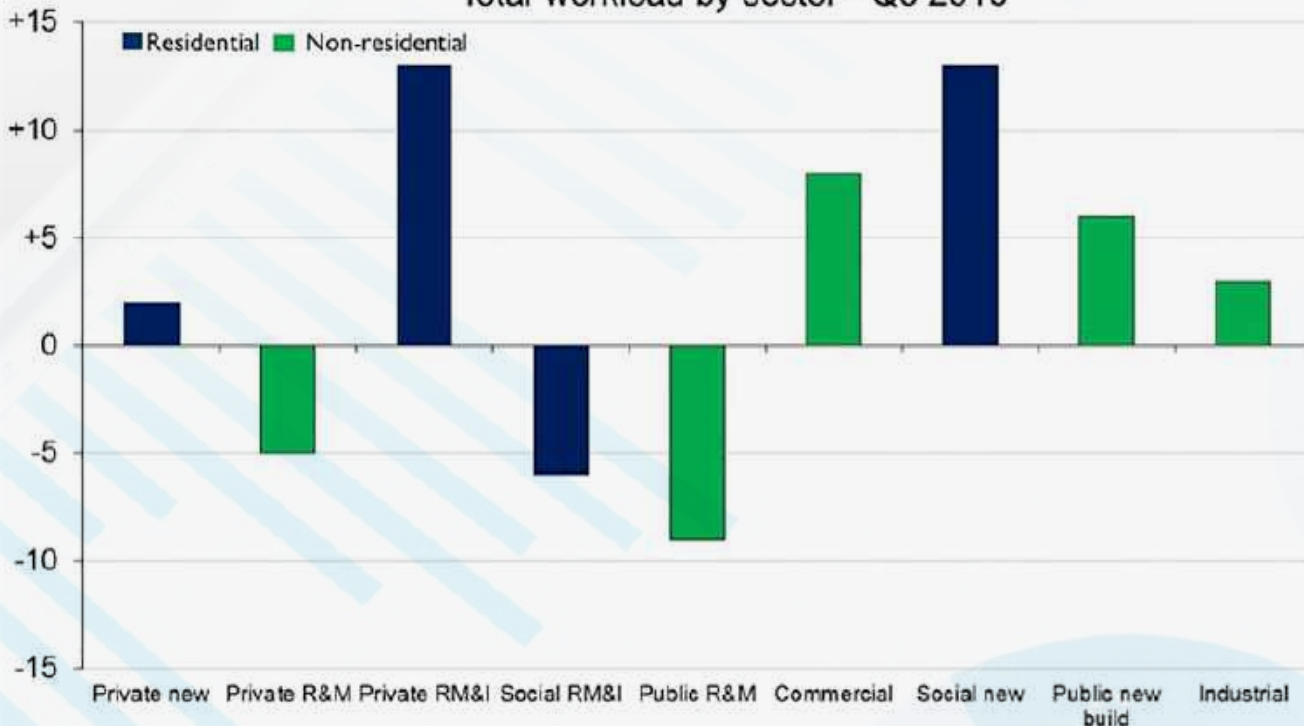
stated higher workloads, up from a tenth, while those reporting lower levels decreased to 21% from 26%. The majority of firms (55%) stated no change in workloads.

At +6, the net balance for the public new build sector also saw a double digit improvement (17), taking it into positive territory for the first time since Q2 2015. The share of firms reporting lower workloads dropped to 16% from 25%, whereas those stating higher workloads grew to 22% from 14%.

The overall housing sector's net balance fell by 4% to +18. Around 14% of respondents stated lower workloads, up from 9% in Q2 2016. Most firms (54%) reported no change in workloads.

The net balance for the non-residential sector increased by 7% to +7. Approximately 10% of firms stated lower workloads, down from 16%, while those stating higher workloads edged up (17% vs. 16%). The majority (73%) of respondents stated no change in workloads.

Total workload by sector - Q3 2016



“In Q3 2016, the net balance for overall workloads remained in positive territory for the fourteenth successive quarter”

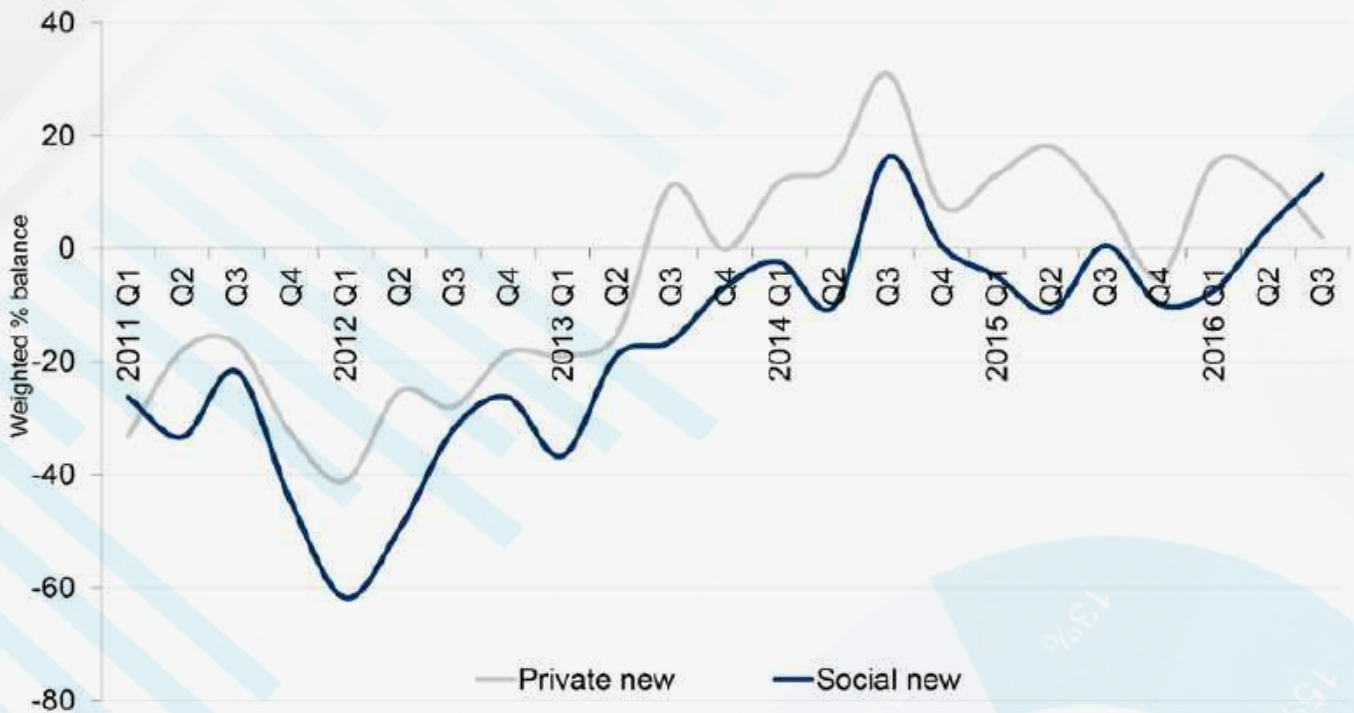
RESIDENTIAL WORKLOAD

Workload	Weighted % balances							
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
Private new	+8	+13	+18	+8	-5	+15	+13	+2
Private RM&I	+9	+18	+22	+19	+7	+14	+17	+13
Social new	0	-5	-11	+1	-10	-7	+4	+13
Social RM&I	-10	-9	-9	-7	-11	0	-8	-6
Total Residential						+22	+22	+18

The net balance for the **private new** housing sector remained in positive territory, despite falling by 11%, to +2. Just over a quarter of businesses (26%) reported higher workloads, down from 28%, while approximately 23% of firms indicated lower workloads, up from 15%.

At +13, the **social new** housing sector's net balance improved by 9%. Approximately 26% of businesses stated higher workloads, up from 19% in the previous quarter, while fewer respondents (13% vs 15%) stated lower workloads. However, the vast majority of firms (61%) experienced no change in workloads.

Residential historical weighted % balance - new build

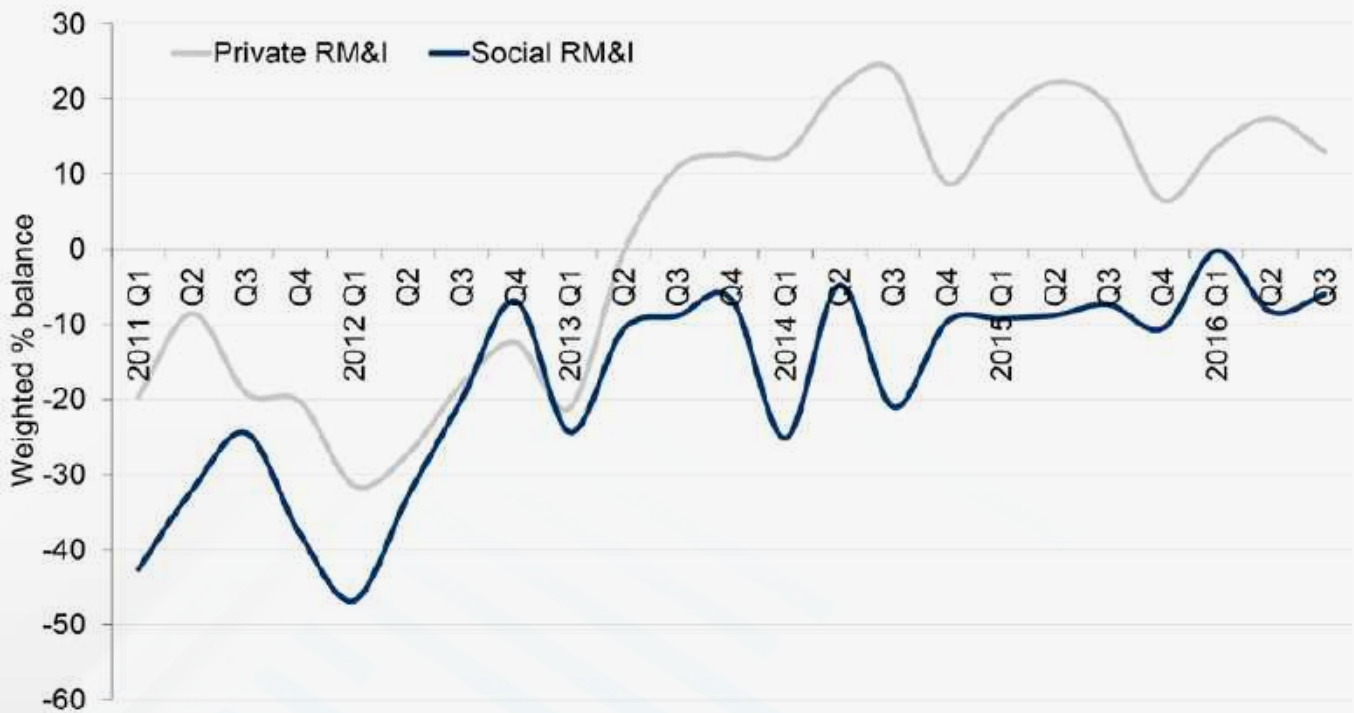


The net balance for the **social RM&I** sector edged up by 2% to -6. Approximately 18% of firms stated lower workloads, down from 24%, whereas 71% of respondents reported no change in workloads, up from 60% in Q2 2016.

Despite falling by 4%, the net balance (+13) for the **private RM&I** sector remained in positive territory for the thirteenth consecutive quarter. Approximately 18% of firms reported lower levels of workloads, up from 14% three months earlier, while most firms (52%) stated no change in workload.

RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



NON-RESIDENTIAL WORKLOAD

Workload	<i>Weighted % balances</i>								
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3	
Public new build	-7	-14	+15	0	-10	-26	-11	+6	
Public R&M	-19	-9	+1	+1	-15	-13	-13	-9	
Industrial	+1	-8	-1	-2	-11	-15	-17	+3	
Commercial	+13	+2	+2	+6	-4	+2	+4	+8	
Private R&M	+6	-1	+3	+11	+5	-11	0	0	
Total Non-Residential						+5	0	0	

The net balance for the **public new-build** sector moved back into positive territory as it increased by 17% to +6. Around 16% of respondents stated lower workloads down from 25%, while 22% of firms indicated higher workloads, up from 14%.

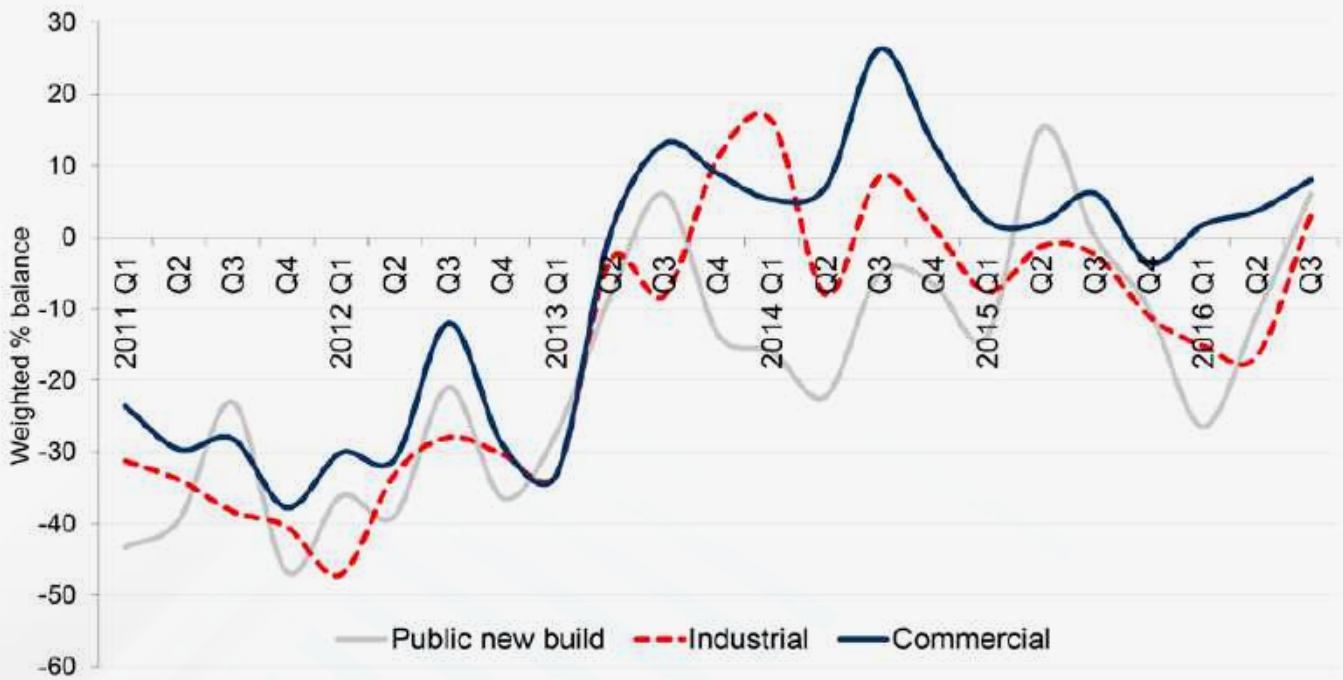
The net balance for the **commercial** sector remained in positive territory for the third quarter running, as it rose by 4% to +8. Firms registering higher workloads increased to 30% from 26%, while just under half of respondents (48%) indicated no change in workloads.

The net balance for the **industrial** sector moved back into positive territory for the first time since Q4 2014, as it improved by 20% to +3. Just under a quarter of firms (24%) posted higher workloads, up from 10%, while fewer businesses (21% vs. 26%) indicated lower workloads.

“The net balance for the public new-build sector moved back into positive territory for the first time since 2015 Q2”

NON-RESIDENTIAL WORKLOADS

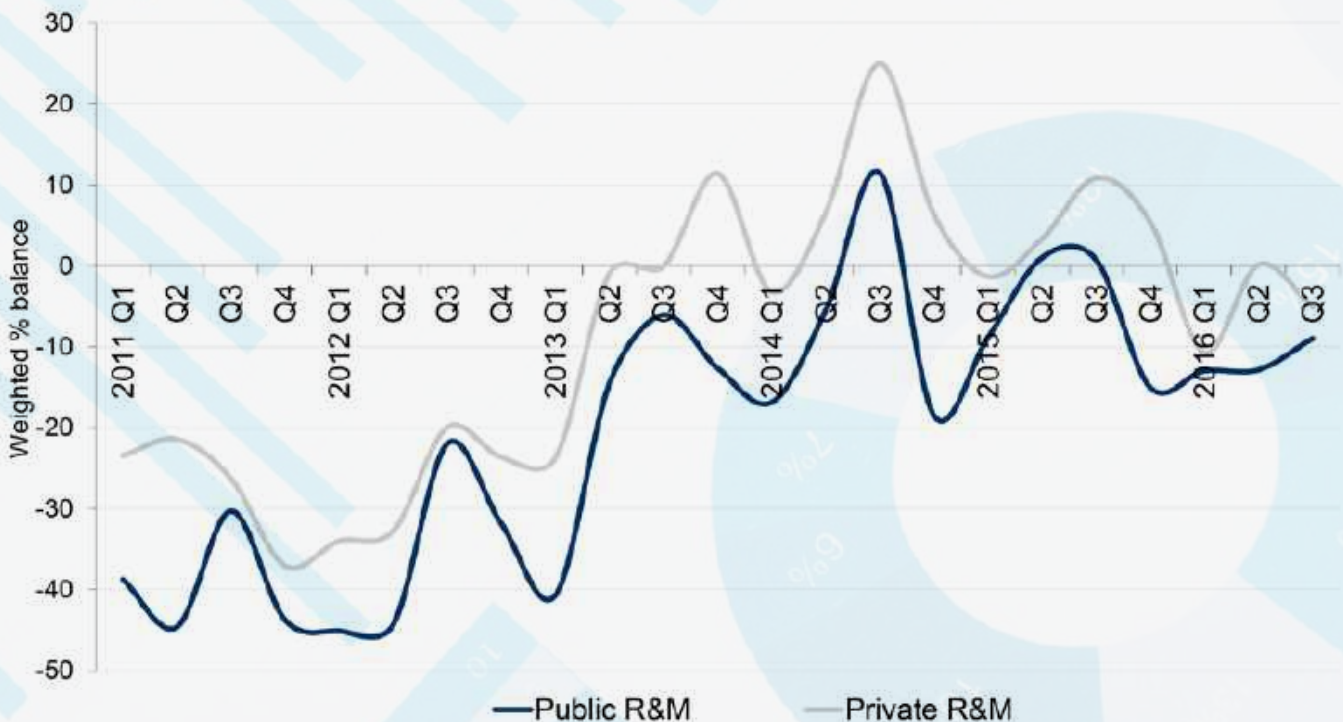
Non-residential historical weighted % balance chart - new work



A rise of 4% took the **public R&M** sector's net balance to -9. A higher share of businesses reported higher workloads (13% vs. 10%), while most firms (64%) reported no change in workloads.

The **private R&M** sectors net balance moved back into negative territory as it declined by 5% to -5. Around 18% of respondents stated higher workloads compared with 21% three months earlier, whereas more firms (23% vs. 21%) registered lower workloads.

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



EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

The net balance for total enquiries dropped by 11% to +6. However, it remained in positive territory for the fourteenth successive quarter. Around 23% of firms stated lower levels of enquiries, up from 18%, while businesses recording higher level of enquiries shrank to 29% from 35%.

A fall of 7% for the second quarter running took the total expected workload's net balance to +12. The proportion of businesses with negative expectations rose to 18% from 11%, while over half (52%) predict no change in workloads over the next three months.

NON-RESIDENTIAL WORKLOAD

Despite falling by 15% to +7, the net balance for residential expected workloads remained in positive territory. Just under a quarter of firms (24%) predict higher workloads over the next three months, down from 30%, while more businesses (17% vs. 8%) expect lower workloads.

The **private new** housing market's net balance went down by 12% to +2. The proportion of firms with positive expectations for workloads decreased to 20% from 30%, while those anticipating falls in workloads experienced a marginal rise from 17% to 18%.

The net balance for the **social new** housing sector remained in positive territory for the third consecutive quarter, despite falling by 4% to +8.

Around 19% of respondents predict higher workloads, down from 22% in Q2 2016, while those forecasting lower workloads edged up to 11% from 10%.

The net balance for the **social RM&I** sector moved back into negative territory as it deteriorated by 11% to -8. A larger share of respondents (18% vs. 10%) expect workloads to fall over the coming three months, while around a tenth of firms anticipate higher workloads, down from 13%.

A fall of 9% took the **private RM&I** sector's net balance to +8. The share of respondents predicting lower workloads doubled to 16% from 8%, while the bulk of firms (59%) anticipate no change in workloads.



“Despite falling by 15% to +7, the net balance for residential expected workloads remained in positive territory”

Expected Workload	<i>Weighted % balances</i>							
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
Private new	+6	+30	+16	+6	0	+10	+14	+2
Private RM&I	-1	+24	+21	+17	-4	+19	+17	+8
Social new	-6	+7	-6	-12	-5	+6	+12	+8
Social RM&I	-22	-2	+3	+2	-3	-17	+3	-8
Total Residential						+25	+22	+7
Enquiries								
Private new	-4	+20	+16	+14	-4	+6	+16	+1
Private RM&I	+4	+24	+25	+16	+1	+15	+13	+1
Social new	-5	-5	-3	-1	-9	+12	-11	0
Social RM&I	-14	-14	+2	+8	-1	+1	-3	-11
Total Residential						+30	+22	+21

NON-RESIDENTIAL EXPECTED WORKLOAD

The net balance for non-residential expected workloads deteriorated by 15% to -4. Around 11% of respondents have positive expectations, down from 13% in the previous quarter, but at 75% most firms forecast no change in workloads.

A decrease of 29% to -16 took the **public R&M** sector's net balance back into negative territory. Just 7% of firms envisage higher workloads over the next three months, down from 19%, while around 23% expect lower workloads, up from 6%.

The net balance for the **private R&M** sector moved into negative territory as it dropped by 20% to -7. Approximately 11% of firms forecast higher workloads, down from 22%, while more firms (18% vs. 9%) anticipate a fall in workloads.

The **industrial** sector's net balance fell by 6% to -6. The share of firms expecting higher workloads decreased (14% vs. 20%), while around two thirds of respondents predict no change in workloads. A fall of 27% took the net balance for expected workloads in the **public new build** sector (-10) back into negative territory. Around 12% of businesses reported higher workload expectations for the coming three months, down from 28%, while the share of firms anticipating lower workloads grew to 22% from 11%.

The **commercial** sector's net balance went down by 7% to -5. A quarter of respondents anticipate lower workloads, up from 21%, whereas those forecasting higher workloads went down to 19% from 22%. More than half of businesses (56%) predict no change in workloads.



“A fall of 27% took the net balance for expected workloads in the public new build sector back into negative territory”

Weighted % balances

Expected Workload	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
Public new build	-13	+3	+9	-3	-12	-6	+17	-10
Public R&M	-25	+2	+9	+9	-14	-11	+13	-16
Industrial	-2	-1	-2	-1	-6	-10	0	+1
Commercial	-1	+7	+3	+5	-4	+18	+2	-5
Private R&M	-6	+12	+20	+13	-4	+6	+13	-7
Total Non-Residential						+14	+11	-4
Enquiries								
Public new build	-21	+8	-5	-12	-14	-6	-1	-7
Public R&M	-20	-5	0	-4	-23	-3	-12	-10
Industrial	+1	+7	-3	0	0	+1	+2	+3
Commercial	-5	+8	-8	+2	+2	+4	+3	-4
Private R&M	-3	+12	+9	+7	-5	-1	-3	-4
Total Non-Residential						+8	+5	+1

PRICES AND COSTS

	<i>Weighted % balances</i>							
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
Output prices	+32	+30	+29	+37	+23	+29	+26	+33
Wages & salaries	+41	+44	+43	+56	+44	+44	+45	+52
Materials costs	+72	+77	+73	+68	+60	+64	+65	+65

	<i>Weighted % balances</i>							
Expected	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
Output prices	+47	+47	+42	+44	+42	+43	+42	+33
Wages & salaries	+43	+51	+55	+44	+46	+51	+53	+41
Materials costs	+75	+70	+67	+63	+69	+63	+63	+65

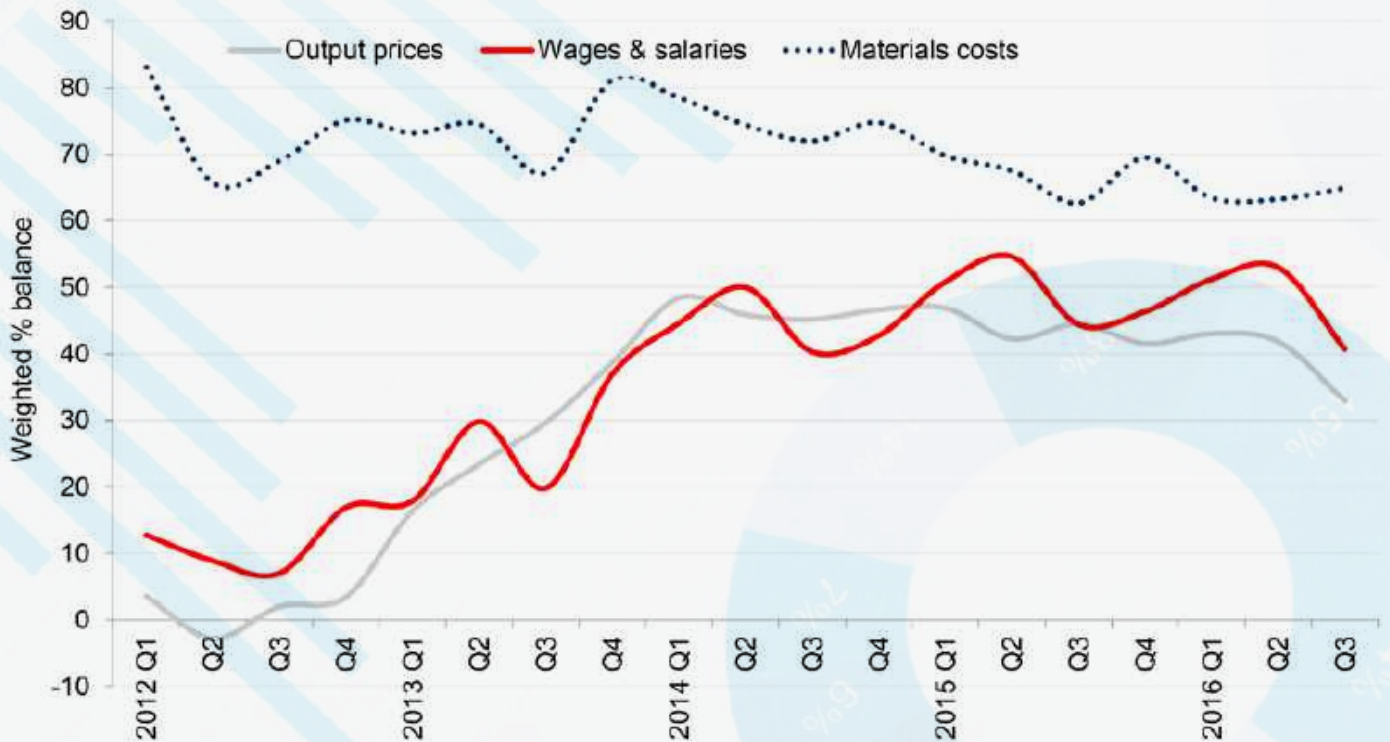
The net balance for expected output prices went down by 9% to +33. Approximately 39% of firms expect an increase in output prices over the next six months, down from 44%, while over half of businesses (55%) anticipate no change in prices.

A drop of 12% took the net balance for expected wages and salaries to +41, the lowest reading since Q3 2014. Around 42% of respondents anticipate increasing wages and salaries, down from 56% in the previous quarter.

More than half of firms (57%) forecast no change in wages and salaries over the next six months, up from 41%.

The net balance for expected materials costs edged up by 2% to +65. While firms expecting material costs to increase over the coming six months was unchanged at 65%, no respondents predicted a decrease in material costs, down from 2% in Q2 2016.

Prices & costs weighted % balance chart



“No respondents predicted a decrease in material costs”

EMPLOYMENT AND LABOUR

Employment	Weighted % balances							
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
All builders	+8	+8	+8	+9	0	+9	+7	+12
All specialists	-1	0	+12	-3	+6	+8	+2	+6
Total Employment	+7	+7	+8	+7	+1	+9	+5	+10

Expected employment	Weighted % balances							
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
All builders	+11	+23	+23	+19	+18	+26	+17	+14
All specialists	+32	+24	-5	+24	-2	+14	+14	+10
Total Employment	+13	+23	+19	+20	+16	+20	+16	+12

The total employment net balance remained in positive territory for the eleventh successive quarter, as it increased by 5% to +10, the highest reading since Q2 2014. Fewer firms indicated that staffing levels had decreased (9% vs. 11%), while more respondents identified a rise in employment levels (18% vs. 16%).

The net balance for all builders went up by 5% to +12. Around 22% of firms indicated an increase in their workforce, up from 19% three months earlier. In contrast, the share of businesses stating a decline in staffing levels shrank to 9% from 12%.

An increase of 4% took the all specialists' net balance to +6. The share of businesses stating that their workforce had decreased fell from 10% to 7%, while approximately 14% of respondents indicated a rise in their labour force, up from 12%.

The net balance for overall employment expectations (+12) decreased by 4% for the second quarter running. Approximately 22% of businesses indicated that their staffing levels are likely to increase over the next six months, up from 19%. Nonetheless, the majority of respondents (68%) foresee no change in staffing levels.

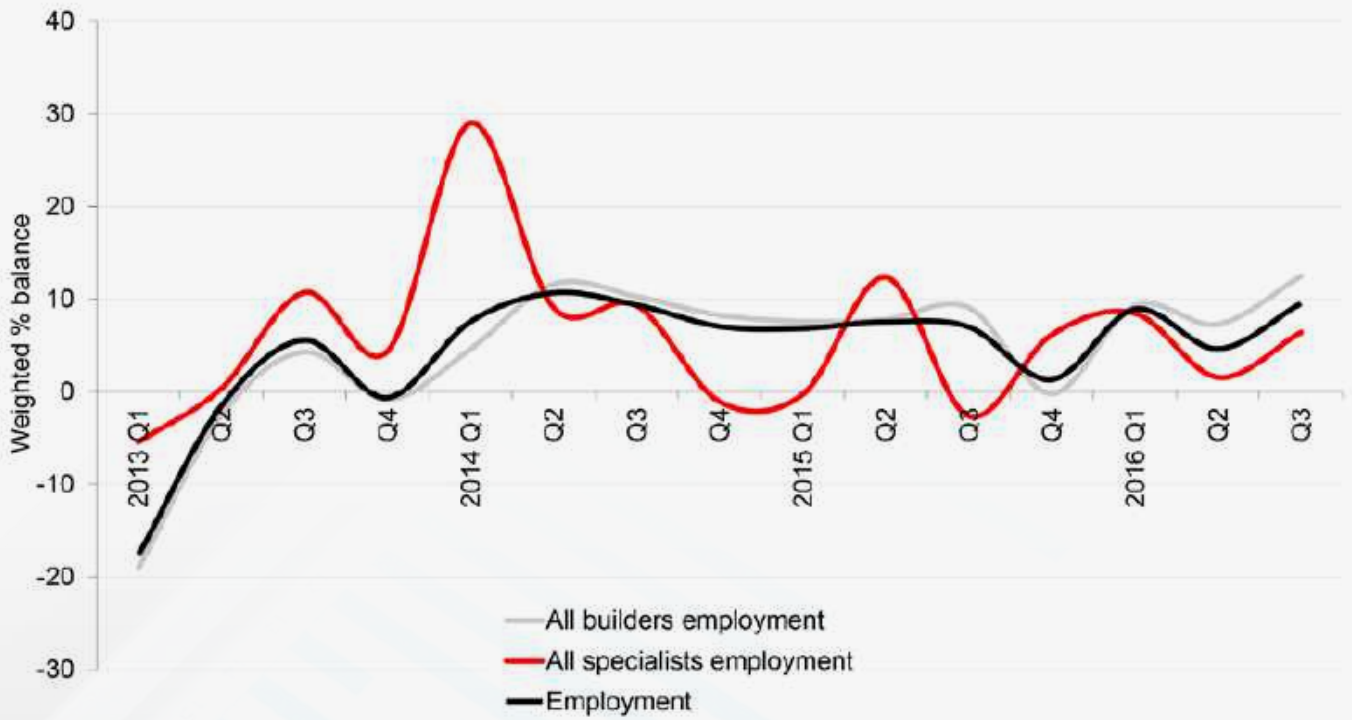
The all builders' expected employment net balance declined by 3% to +14. Around 22% of respondents reported a positive outlook, up from the 20% reported in Q2 2016. However, the majority of firms (69%) predict no change in their labour force.

At +10, the specialists' expected employment net balance fell by 4%. More respondents anticipate an increase in staffing levels (21% vs. 18%), while around 12% of firms predict a fall in their workforce, up from 3%.



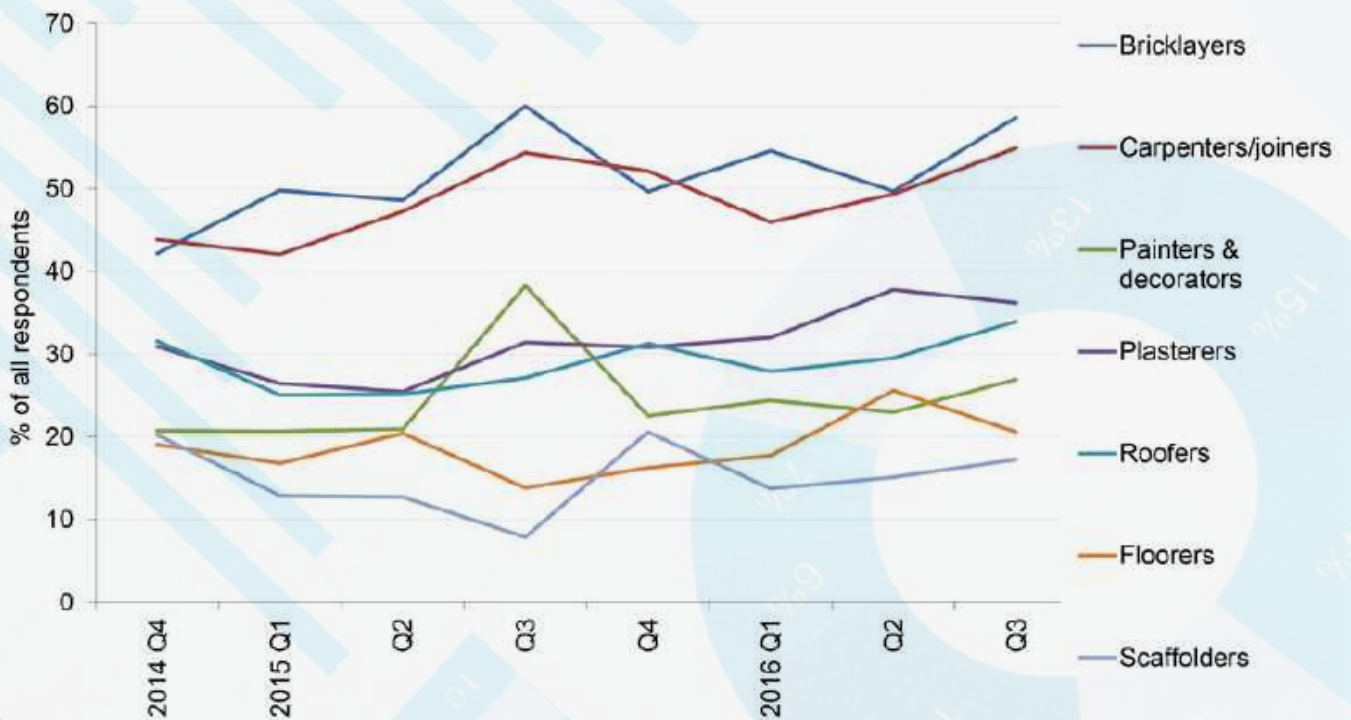
EMPLOYMENT AND LABOUR

Employment weighted % balance chart



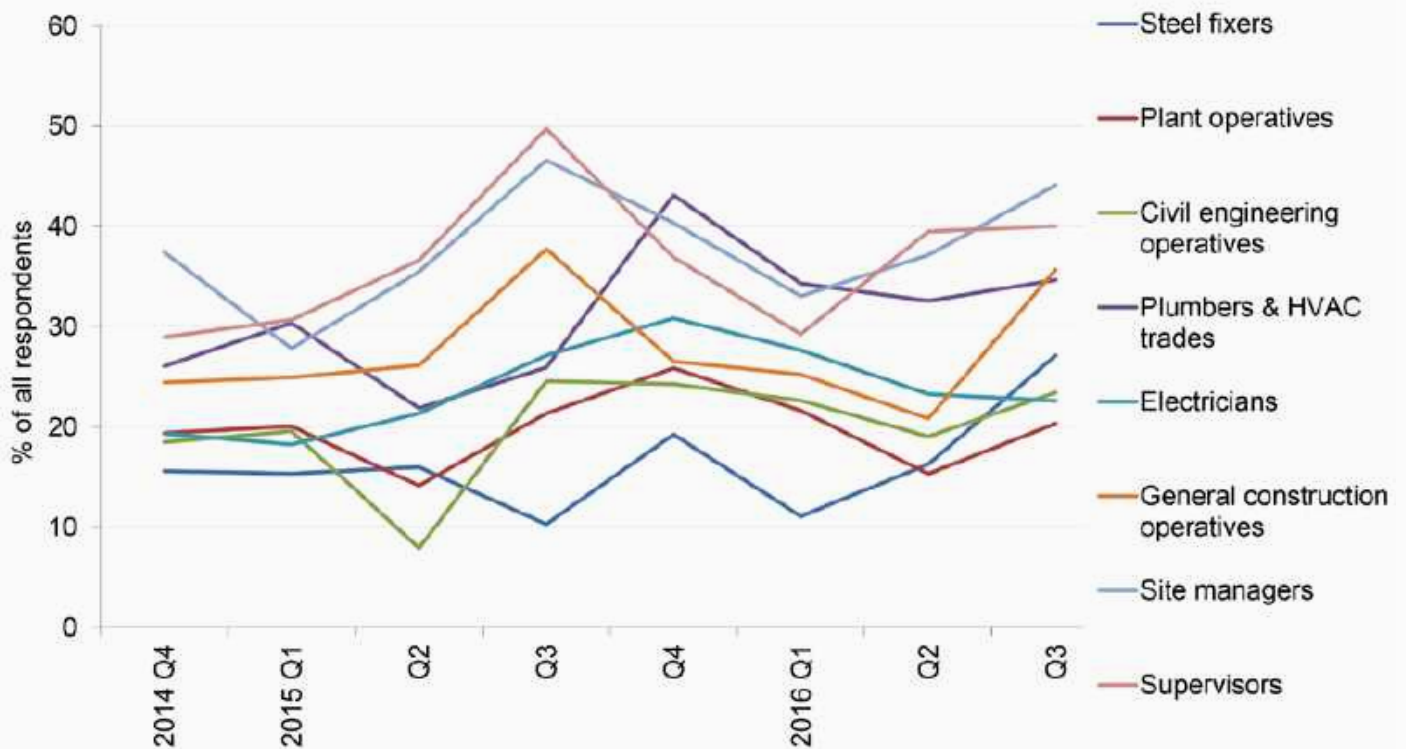
Once again, bricklayers were the most difficult trade to recruit in Q3 2016. Carpenters and joiners, supervisors, and plasterers were also hard to come by, whereas respondents found scaffolders and plant operatives the easiest to hire.

% of respondents reporting difficulty recruiting selected tradespeople or occupations chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected tradespeople or occupations chart 2



Trades	% reporting difficulty								
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3	
Bricklayers	42	50	49	60	50	55	50	59	
Carpenters/joiners	44	42	47	54	52	46	49	55	
Painters & decorators	21	21	21	38	23	24	23	27	
Plasterers	31	26	25	31	31	32	38	36	
Roofers	32	25	25	27	31	28	30	34	
Floorers	19	17	20	14	16	18	26	21	
Scaffolders	20	13	13	8	21	14	15	17	
Steel fixers	16	15	16	10	19	11	16	27	
Plant operatives	19	20	14	21	26	22	15	20	
Civil engineering operatives	18	20	8	25	24	23	19	23	
Plumbers & HVAC trades	26	30	22	26	43	34	33	35	
Electricians	19	18	21	27	31	28	23	23	
General construction operatives	24	25	26	38	27	25	21	36	
Site managers	37	28	35	47	40	33	37	44	
Supervisors	29	31	37	50	37	29	40	40	

“Once again bricklayers were the most difficult trade to recruit in Q3 2016”

REGIONAL PERSPECTIVE

Regional figures are based on a composite indicator combining workload, expected workload and enquiries questions, weighted by the 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 decreased by 8% to +6. Nonetheless, it remained in positive territory for the fourteenth consecutive quarter. The proportion of weighted responses which were negative increased to 17% from 12%, while around 23% of weighted responses were positive, down from the 26% posted in Q2 2016. The bulk of weighted responses (60%) were neutral, down from 62%.

A drop of 13% took **Scotland's** net balance to +8. Around 21% of weighted responses were positive, down from 33%. In contrast, the share of weighted responses which were negative edged up to 13% from 12%. Two thirds of weighted responses were neutral, up from 55%.

The net balance for **England** remained in positive territory for the fourteenth successive quarter, despite falling by 6% to +6. The share of weighted responses which were

positive edged down to 24% from 25%, while those which were negative increased (18% vs. 13%). 58% of weighted responses were neutral, down from 62%.

Northern Ireland's net balance decreased by 12% to +15. Just over a fifth (21%) of weighted responses were positive, down from 30%, while the share of weighted responses which were negative grew to 6% from 3% three months earlier. Around 73% of weighted responses were neutral, up from 67%.

Wales's net balance moved back into negative territory as it experienced the greatest drop of 23% to -7. The proportion of weighted responses which were negative went up to 26% from 10%, while those weighted responses which were positive decreased, to 19% from 26%. The bulk of weighted responses (55%) were neutral, down from 64%.

Weighted % balances



	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
East Midlands	-6	+13	+27	+32	+19	+4	+3	-12
Eastern	+8	+28	+38	+9	-9	+18	+16	+7
London	+24	+34	+4	+27	+24	+25	-17	0
North East	-13	-2	-2	+3	+2	+22	+28	+30
North West	+7	+17	+13	+7	+3	-2	+11	0
South East	+11	+22	+30	+16	+10	+17	+15	-3
South West	+29	+18	+26	+8	-10	+19	+11	+4
West Midlands	+6	+18	+30	+40	-1	+9	+7	+1
Yorks & Humber	+8	+38	+16	+38	+13	+26	+13	+30

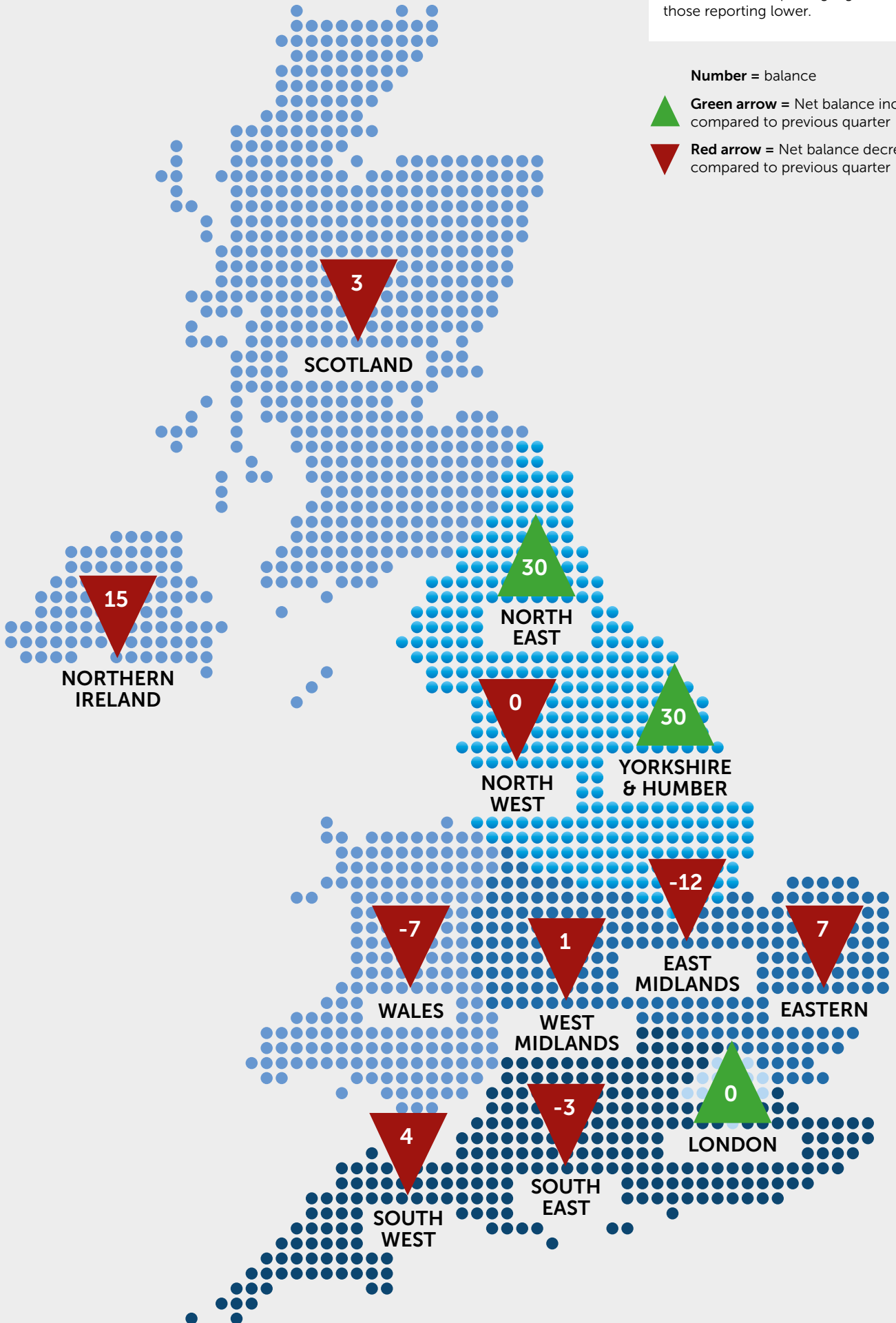
	2014 Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3
England	+10	+20	+22	+17	+5	+16	+12	+6
Northern Ireland	-12	+5	+28	+35	+18	+34	+27	+15
Scotland	+4	+4	+14	+14	-13	+6	+21	+8
Wales	+15	+26	+16	+9	+7	-6	+16	-7
UK	+8	+18	+21	+17	+4	+15	+14	+6



REGIONAL PERSPECTIVE

The net balance incorporates recent workloads, expected workloads and enquiries. It shows the difference between those reporting higher and those reporting lower.

- Number** = balance
-  **Green arrow** = Net balance increase compared to previous quarter
-  **Red arrow** = Net balance decrease compared to previous quarter



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 industry. The survey is dispatched to a rolling stratified sample of 2,000 FMB members each quarter. Over 300 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 building industry. Established in 1941 to protect the interests of SME building firms, the FMB is independent and non-profit-making, lobbying continuously for members' interests at both national and local levels. The FMB is a source of knowledge, professional advice and support for its members, providing a range of modern and relevant business services to save them time and money. The FMB also offers practical advice and support to the general public on choosing and working with 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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