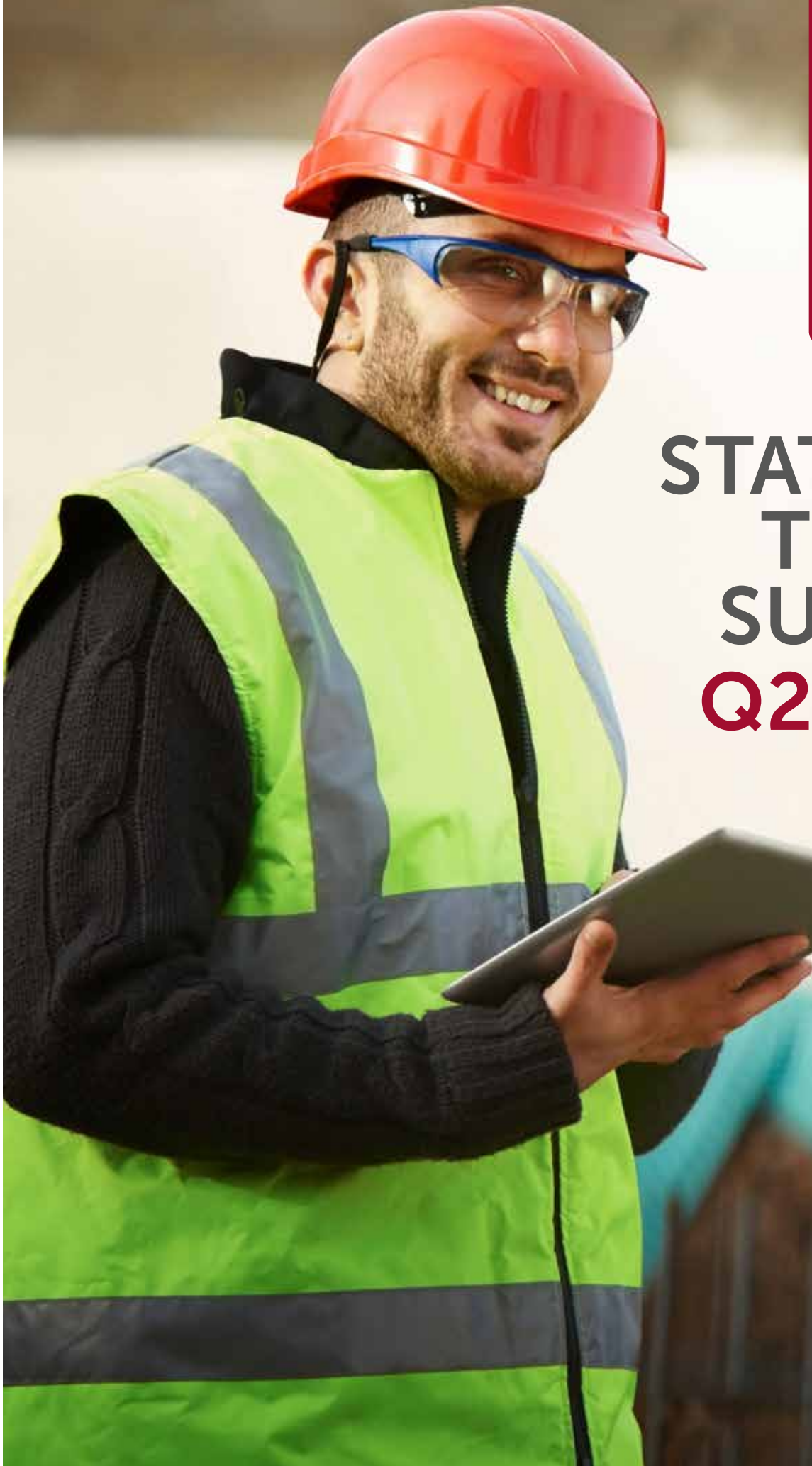




FEDERATION OF
**MASTER
BUILDERS**

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STATE OF TRADE SURVEY Q2 2018





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Introduction from FMB Chief Executive Brian Berry

The second quarter of 2018 has proven to be a largely positive one for the UK's small and medium-sized (SME) construction firms. All of the key metrics of growth – workloads, enquiries, employment and expectations – were positive. Indeed, workloads have now remained in positive territory for twenty-one consecutive quarters, more than five years.

However, this positivity is dampened by the fact that over the next six months, output prices, material costs, wages and salaries are all expected to rise. Moreover, the results for the second quarter of this year show that the difficulties firms face when trying to hire tradespeople are on the rise once again. Nearly all the key occupations have become harder to recruit in the second quarter compared with the first three months of the year, and bricklayers continue to top the list. With Brexit just eight months away, and our future access to EU labour uncertain, there is a pressing need for the Government and industry to address the skills crisis we face.



“More than 3/4 of builders believe material prices will rise in the next six months.”

Key statistics:

- At the UK-wide level, activity rose at a slightly quicker pace in Q2 2018 compared with Q1 2018;
- Every region and home nation of the UK, except Wales, saw better results for workloads, enquiries and expected workloads;
- These results represent 21 consecutive quarters of positive growth, which means that construction SME workloads have now been on the rise for more than five years;
- 76% of builders believe that material prices will rise in the next six months;
- 54% of construction SMEs foresee wage increases over the next six months, down from 66% in the previous quarter;
- 65% of firms are struggling to hire bricklayers, up from 58% in the previous quarter and 60% are struggling to hire carpenters and joiners, up from 55% in the previous quarter.

SUMMARY

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 (41% vs. 32%), while those reporting lower workloads fell to 18% from 24%.

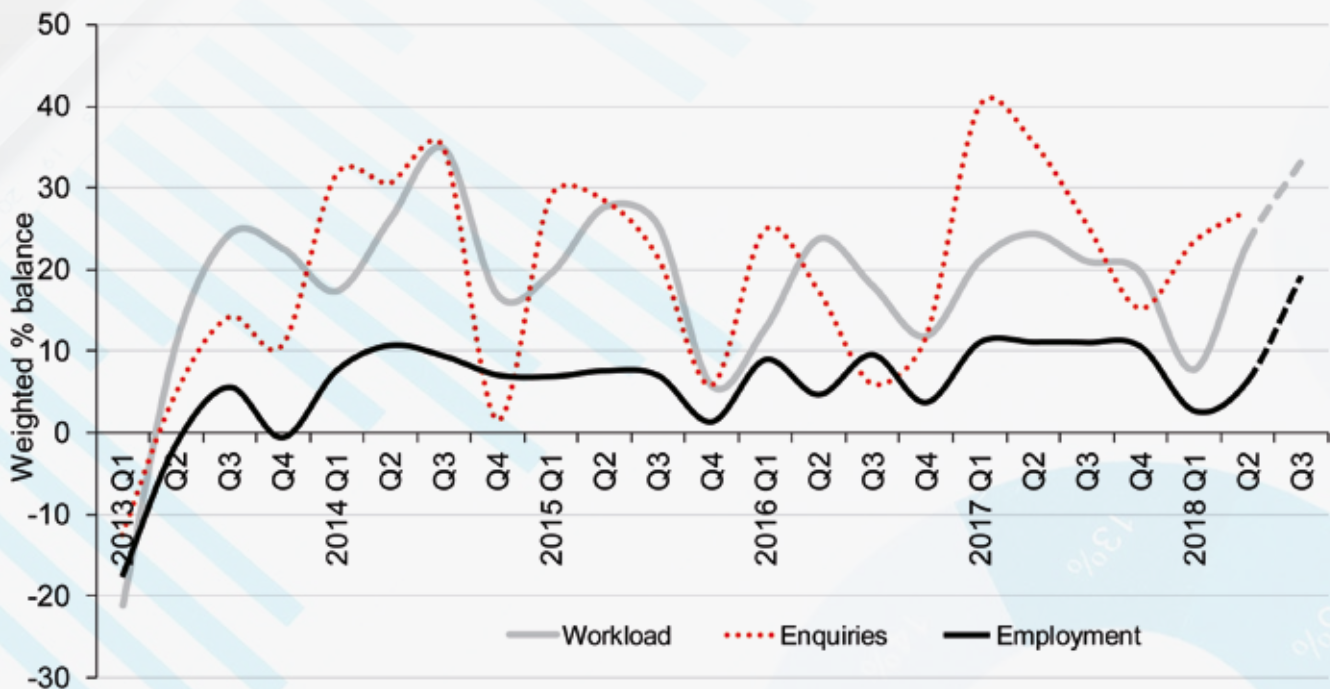
Businesses are projecting rising activity levels over the next three months, albeit at a slower rate compared with the previous quarter. The share of firms expecting higher workloads dropped to 46% from 49%, while 13% of respondents anticipate lower workloads, up from 10%.

The UK and all home nations bar Wales experienced a rise in activity: Despite falling by 25 percentage points, Wales' net balance remained in positive territory for the seventh consecutive quarter.

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 and salaries seeing the greatest decline of 13 percentage points to +53.

Employment rose at a faster pace compared with three months earlier: The proportion of businesses reporting that their workforce went up rose to 21% from 18% while most firms (64%) reported no change in employment.

Key indicators



Please note: Q3 2018 reflects respondents' expectations for workloads and employment

WORKLOADS

In the second quarter of 2018, the net balance for overall workloads remained in positive territory for twenty-one consecutive quarters as it went up by 15 percentage points to +23. The share of businesses stating rising workloads went up (41% vs. 32%), while the proportion of those reporting lower workloads fell to 18% from 24%.

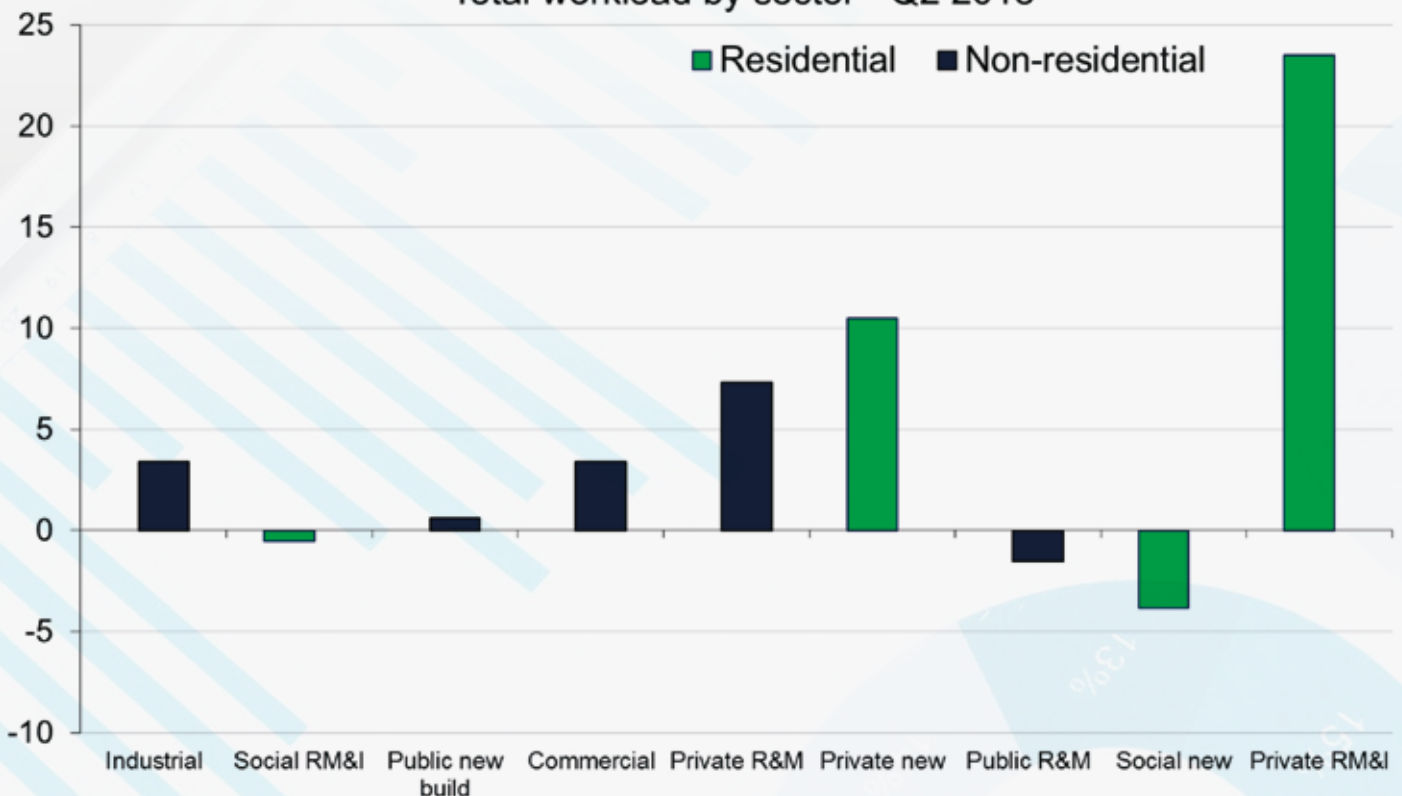
The net balance for the private repair, maintenance and improvement (RM&I) sector increased by 16 percentage points to +24, a reading last seen in Q3 2014. Around 35% of businesses stated higher workloads, up from 29%, while those experiencing lower levels dropped to 12% from 20%. Over half of firms (53%) stated no change in workloads.

With an improvement of 14 percentage points to +11 the net balance for the private new housing sector moved back into positive territory. Just over a quarter (26%) of businesses reported higher workloads, up from 21%, and those stating lower workloads fell to 16% from 25%.

The overall housing sector's net balance entered positive territory as it rose by 13 percentage points to +12. Around 28% of firms stated higher workloads, up from 22%, while most businesses (56%) registered no change to workloads.

A jump of 11 percentage points to +9 took the non-residential sector's net balance back into positive territory. The proportion of firms reporting higher workloads increased to 21% from 18%. In contrast, those stating lower workloads declined to 12% from 20% three months earlier.

Total workload by sector - Q2 2018



RESIDENTIAL WORKLOADS

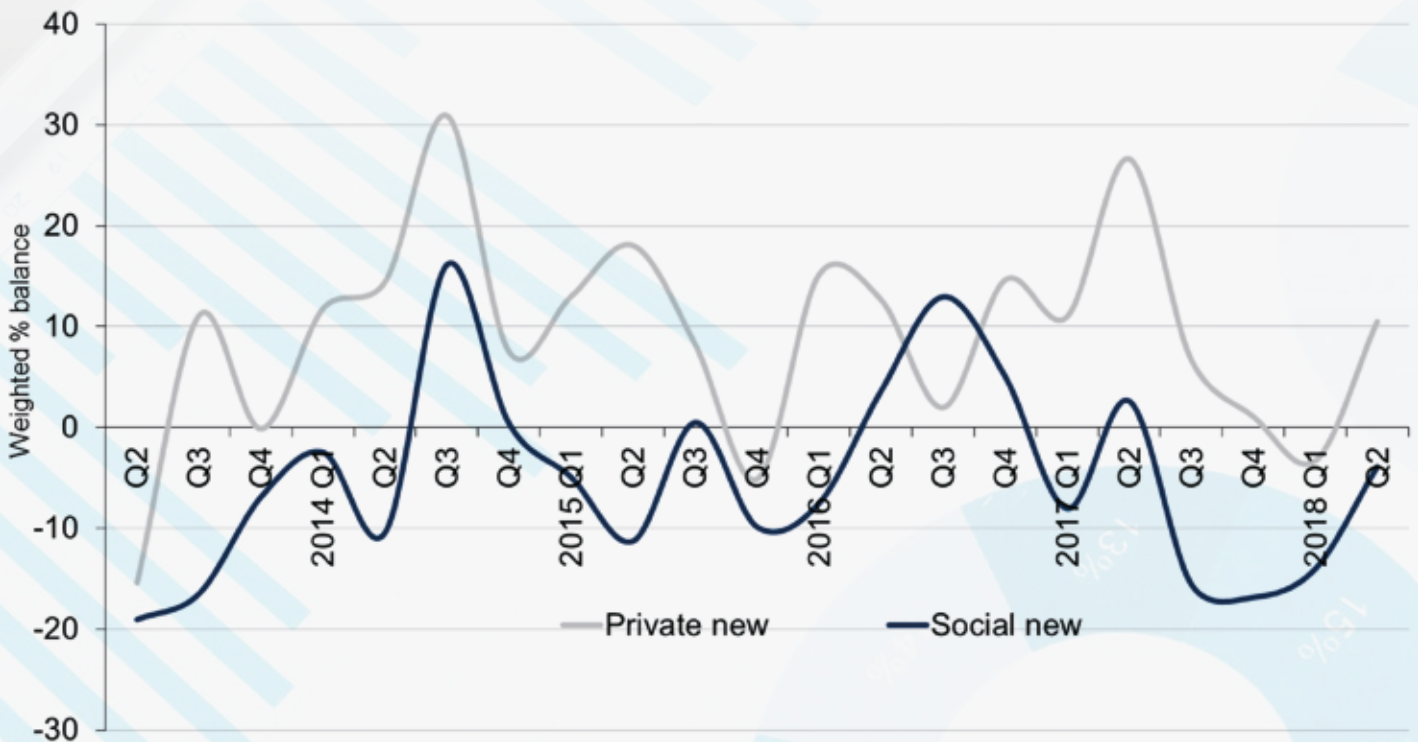
Weighted % balances

Workload	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Private new	+2	+15	+11	+27	+7	+1	-3	+11
Private RM&I	+13	+8	+15	+19	+12	+18	+8	+24
Social new	+13	+5	-8	+3	-15	-17	-14	-4
Social RM&I	-6	-1	+3	+5	-4	-15	+4	-1
Total Residential	+18	+30	+11	+16	+10	+11	-1	+12

The net balance for the **private new** housing sector moved back into positive territory as it increased by 14 percentage points to +11. The share of firms reporting a decrease in workloads went down to 16% from 25%, while 26% of respondents indicated higher workloads, up from 21% in the previous quarter.

Despite rising by 10 percentage points, at -4, the net balance for the **social new** housing sector remained in negative territory for the fourth successive quarter. Approximately a tenth of firms indicated lower workloads, down from 20%, while around 83% of businesses reported no change in workloads, up from 74%.

Residential historical weighted % balance - new build

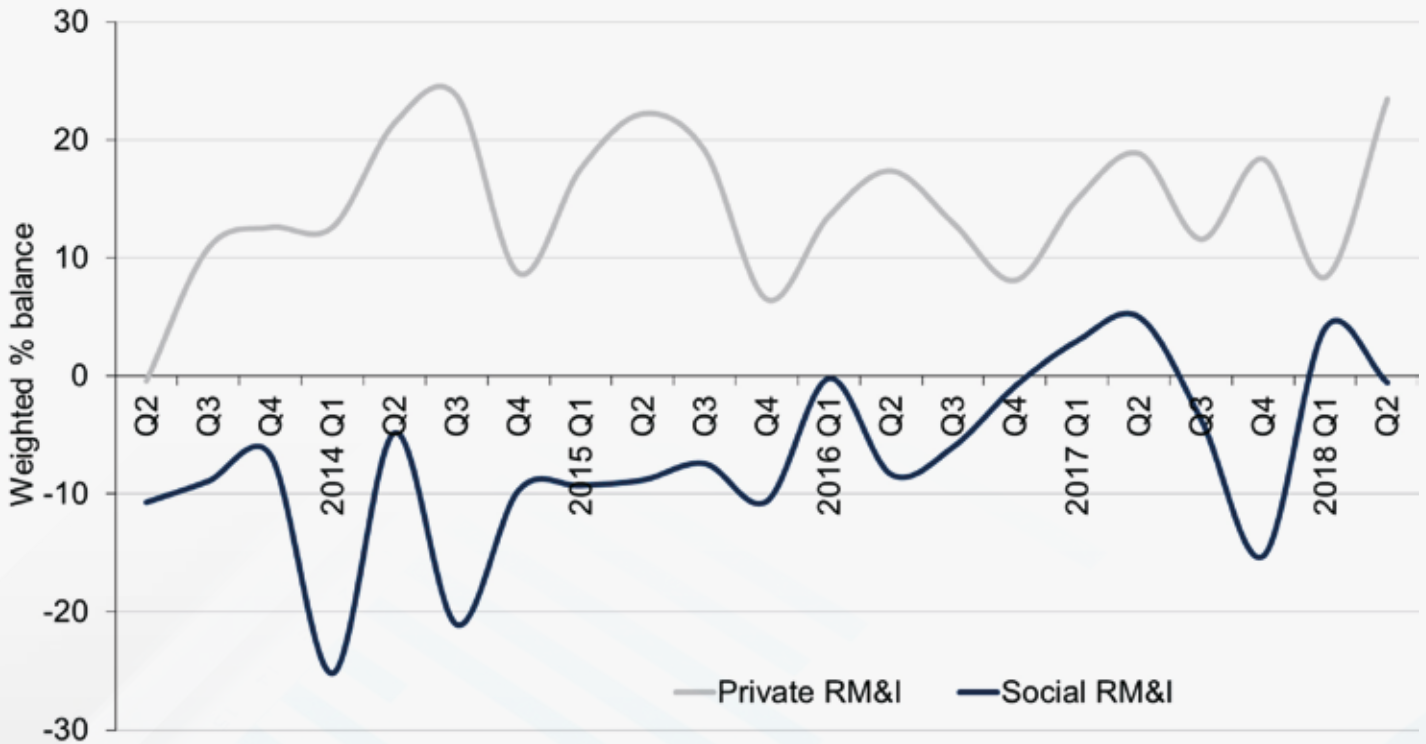


The net balance for the **social RM&I** sector fell back into negative territory as it decreased by 5 percentage points to -1. Around 14% of respondents indicated a rise in workloads, down from 17%, while most businesses (72%) reported no change in workloads, up from 70% in Q1 2018.

The net balance for the **private RM&I** sector remained in positive territory for the twentieth quarter running, as it saw the greatest jump of 16 percentage points to +24. Approximately 35% of respondents experienced higher workloads, up from 29%, while those registering lower workloads declined to 12% from 20%.

RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



NON-RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Public new build	+6	-15	-1	+3	-5	-7	-5	+1
Public R&M	-9	-17	+5	-11	-18	-3	-3	-2
Industrial	+3	-20	0	+2	+1	+7	0	+3
Commercial	+8	-8	+4	+14	+2	+19	+6	+3
Private R&M	-5	-10	+8	0	+6	+6	+2	+7
Total Non-Residential	+7	0	-3	+8	+8	+16	-2	+9

An improvement of 6 percentage points took the net balance for the **public new build** (+1) sector back into positive territory. More firms reported higher workloads (17% vs. 15%), and fewer businesses stated lower workloads (17% vs. 20%).

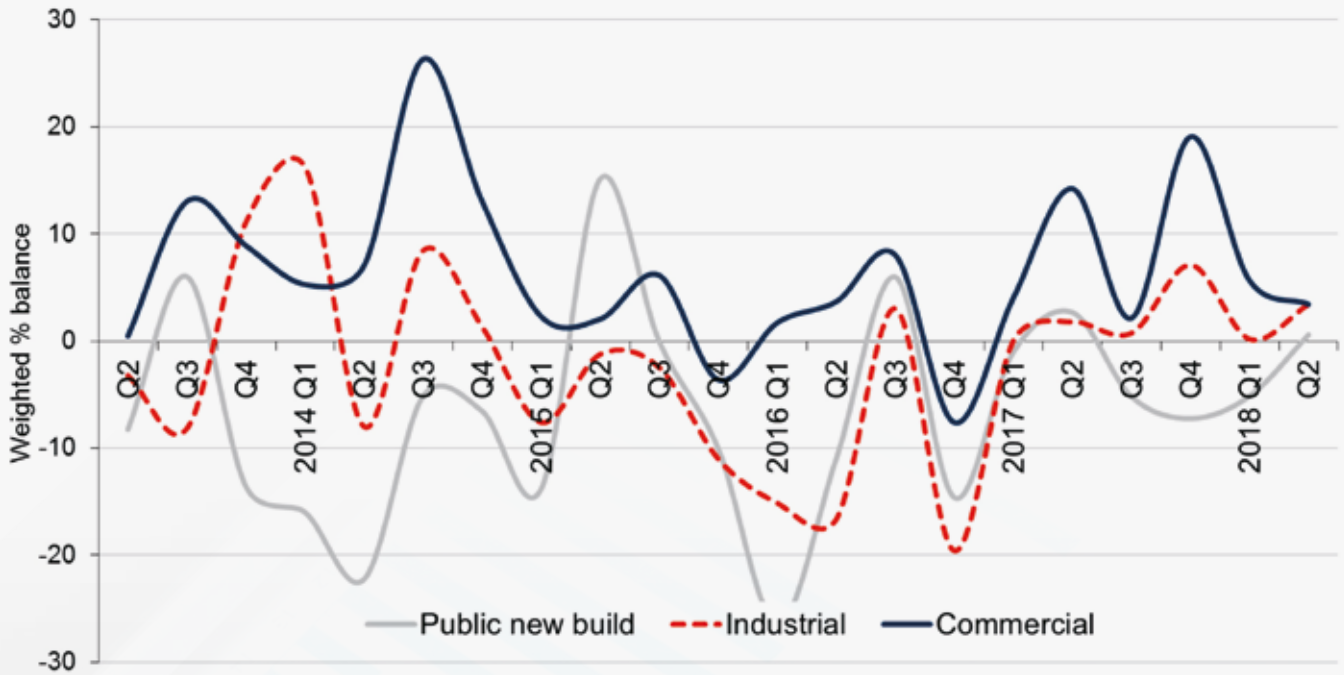
The **commercial** sector's net balance fell by 3 percentage points to +3. Just over a fifth (21%) of respondents

reported increasing workloads, down from 25%, while around 61% of respondents reported no change to workloads.

The net balance for the **industrial** sector increased by 3 percentage points to +3. Approximately 13% of firms reported lower workloads, down from 24%, while the majority of firms (70%) registered no change to workloads.

NON-RESIDENTIAL WORKLOADS

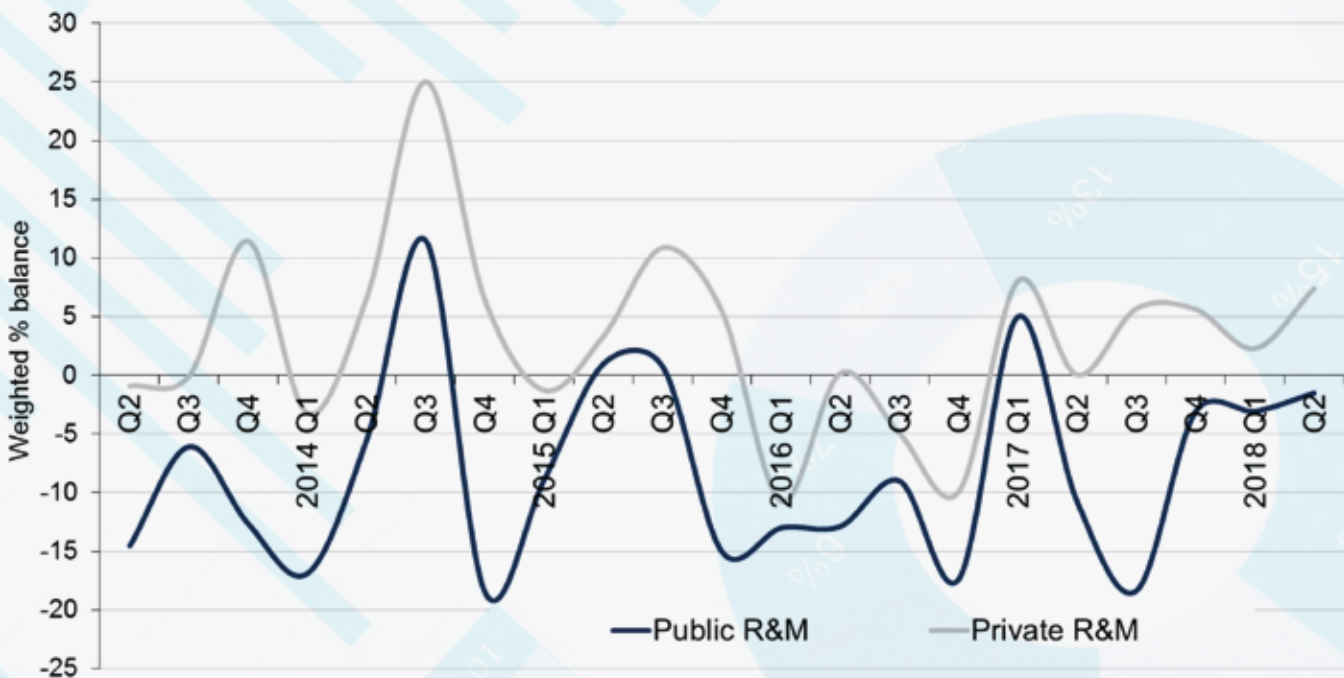
Non-residential historical weighted % balance chart - new work



The **public R&M** sector's net balance edged up by 1 percentage point to -2. Around 15% of firms recorded lower workloads, down from 17%, however, most firms (71%) stated no change in workloads, up from 69% in the previous quarter.

The **private R&M** sector's net balance increased by 5 percentage points to +7. Fewer firms reported lower workloads (12% vs. 18%), while those stating no change in workloads went up, to 69% from 61%.

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



EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

The net balance for total enquiries went up by 4 percentage points to +27, remaining in positive territory for the twenty-first successive quarter. More firms (43% vs. 39%) indicated higher levels of enquiries, while businesses registering no change in enquiries decreased to 41% from 44%.

Despite falling by 7 percentage points to +33, the net balance for total expected workloads also remained in positive territory for the twenty-first consecutive quarter. The proportion of businesses with positive expectations declined to 46% from 49%, while those predicting lower workloads grew, to 13% from 10%.

RESIDENTIAL EXPECTED WORKLOADS

A decline of 8 percentage points to +20 was seen for the residential sector's net balance. Around 36% of businesses are forecasting higher workloads over the next three months, down from 39%, while a larger share of firms (15% vs. 11%) expect lower workloads.

The **private new** housing market's net balance also fell by 8 percentage points to +20. Nonetheless, it remained in positive territory for the second consecutive quarter. The proportion of respondents with positive expectations for workloads went down to 35% from 40%, while those expecting lower workloads grew to 15% from 12%.

A rise of 3 percentage points took the net balance for the **social new** housing sector to +8, a reading last seen a year ago. Around 22% of respondents predict higher

workloads, up from 13%, however the proportion of firms forecasting no change to workloads fell to 65% from 79%.

The net balance for the **social RM&I** sector dropped by 10 percentage points to +4. Despite this it remained in positive territory for the second quarter running. Fewer respondents (13% vs. 24%) expect workloads to rise over the coming three months, while those anticipating no change in workloads increased to 78% from 65%.

The **private RM&I** sector's net balance increased by 5 percentage points to +36, a reading last seen in Q1 2017. Those respondents predicting lower workloads fell to 7% from 13%, while half of firms anticipate no change to workloads, up from 43% in the previous quarter.



“More than 2/3 of construction SMEs operating in the residential sector anticipate higher workloads over the next three months.”

Weighted % balances

Expected Workload	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Private new	+2	+13	+35	+32	+24	-3	+28	+20
Private RM&I	+8	+6	+36	+28	+23	+12	+31	+36
Social new	+8	+19	+5	+8	0	-3	+5	+8
Social RM&I	-8	+5	+4	+9	+7	-2	+14	+4
Total Residential	+7	+4	+34	+33	+24	+12	+28	+20
Enquiries								
Private new	+1	+8	+31	+25	+17	+4	+18	+24
Private RM&I	+1	+6	+33	+32	+19	+8	+18	+25
Social new	0	-4	0	0	-3	-17	+13	-2
Social RM&I	-11	+7	+1	+11	+1	-9	+5	-1
Total Residential	+21	+3	+26	+23	+22	+10	+15	+16

NON-RESIDENTIAL EXPECTED WORKLOADS

Despite declining by 7 percentage points to +12, the net balance for non-residential expected workloads remained in positive territory for the sixth successive quarter. Around a quarter of respondents predict higher workloads, down from 36%, while approximately 62% of respondents predict no change to workloads, up from 46%.

The **Public R&M** sector's net balance increased by 3 percentage points to +8, the highest reading since Q1 2017. Approximately 11% of firms expect lower workloads, down from 15%, while at 69% the majority of businesses foresee no change to workloads, up from 65% in the three months to March this year.

The net balance for the **private R&M** sector went down by 1 percentage point to +15. Nevertheless, it remained in positive territory for the sixth quarter running. Approximately 25% of respondents foresee higher workloads, down from 29%, while just under two thirds (65%) of businesses anticipate no change to workloads, up from 59%.

After remaining in positive territory for five consecutive quarters, the

industrial sector's net balance moved into negative territory as it decreased by 18 percentage points to -3. The share of firms anticipating lower workloads grew (19% vs. 15%), while 17% of respondents predict higher workloads, down from 31%. Respondents expecting no change in workloads rose to 64% from 54%.

In spite of the **public new build** sector's net balance falling by 1 percentage point to +8, it remained in positive territory for the third successive quarter. A fifth of firms predict higher workloads, down from 23%. In contrast, approximately 68% of businesses expect no change to workloads, up from the 62% registered between January and March 2018.

The **commercial** sector's net balance remained in positive territory for the seventh consecutive quarter, despite plummeting by 21 percentage points to +11. The share of respondents anticipating higher workloads declined to 27% from 45%, while around 16% forecast lower workloads, up from 13%. Over half (57%) of firms envisage no change to their workloads, up from 42%.



Weighted % balances

Expected Workload	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Public new build	-10	+5	+9	+11	-4	+2	+9	+8
Public R&M	-16	-8	+9	0	+1	+3	+5	+8
Industrial	-6	0	+18	+13	+16	+7	+15	-3
Commercial	-5	+3	+14	+16	+17	+13	+32	+11
Private R&M	-7	-14	+29	+15	+13	+3	+16	+15
Total Non-Residential	-4	-3	+16	+3	+13	+10	+19	+12
Enquiries								
Public new build	-7	-14	+6	+7	-5	-3	+7	+2
Public R&M	-10	-20	-8	+4	+4	-3	+6	+1
Industrial	-7	-6	+5	-2	+13	+4	+6	0
Commercial	-4	-9	+13	+14	+16	+15	+12	+15
Private R&M	-4	-19	+21	+6	+10	+4	+10	+9
Total Non-Residential	+1	-1	+12	+10	+7	+14	+3	0

PRICES AND COSTS

Weighted % balances

Actual	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Output prices	+33	+25	+49	+48	+36	+43	+40	+45
Wages & salaries	+52	+44	+52	+59	+61	+63	+52	+62
Materials costs	+65	+73	+87	+89	+81	+87	+90	+89

Weighted % balances

Expected	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Output prices	+33	+41	+68	+65	+61	+64	+60	+54
Wages & salaries	+41	+40	+66	+62	+58	+61	+66	+53
Materials costs	+65	+78	+85	+82	+82	+87	+83	+76

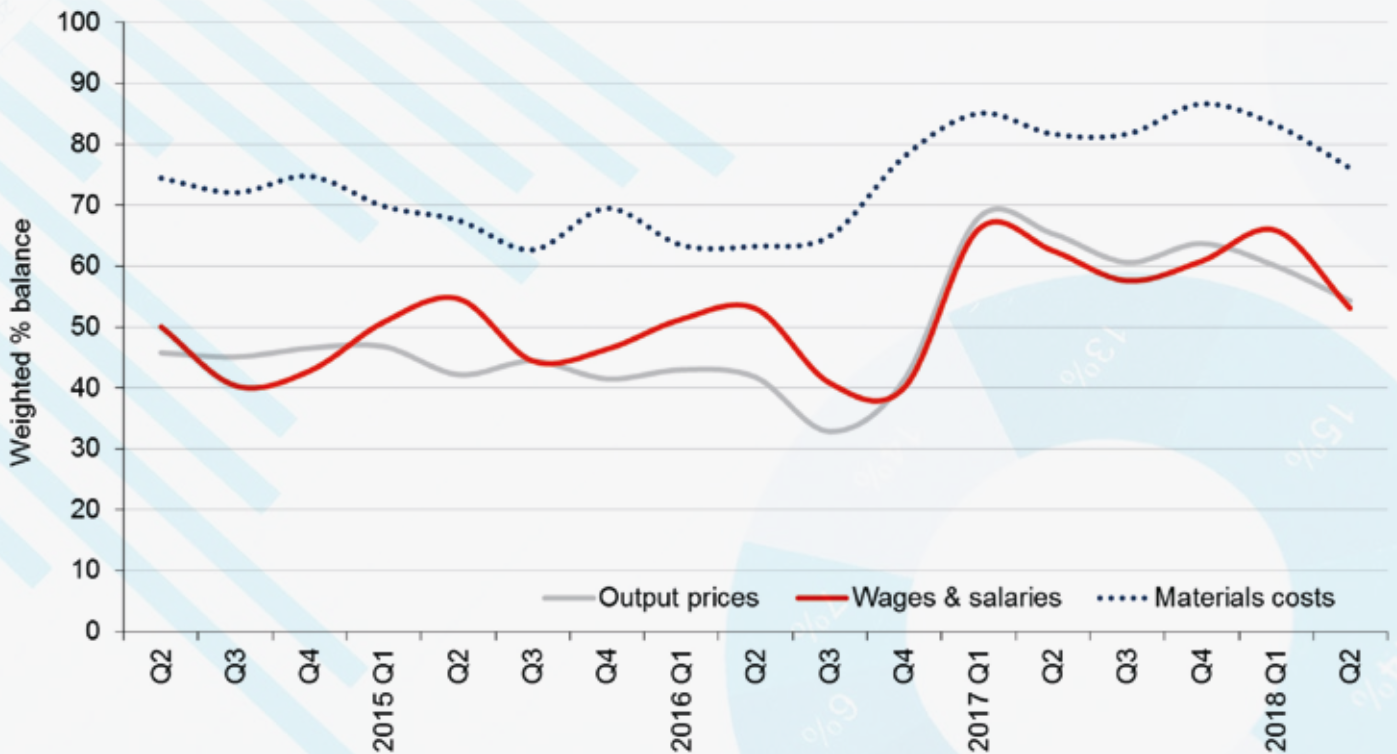
The net balance for expected output prices fell by 6 percentage points to +54, the lowest reading since Q4 2016. Around 56% of firms predict higher output prices over the next six months, down from 63%. Approximately 42% of businesses forecast no change to output prices, up from 34%.

The net balance for expected wages and salaries saw a greater decline of 13 percentage points to +53. Approximately 54% of firms predict wage increases,

down from 66%, while around 46% of respondents expect no change in wages and salaries, up from 34%.

A decrease of 7 percentage points took the net balance for expected material costs to +76, the lowest reading since Q3 2016. At 76%, most businesses expect a rise in material costs, down from 84%, while 23% of respondents anticipate no change to material costs over the coming six months.

Prices and costs weighted % balance chart



EMPLOYMENT AND LABOUR

Weighted % balances

Employment	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
All builders	+12	+4	+11	+10	+10	+8	+4	+7
All specialists	+6	+3	+11	+12	+12	+13	+2	+5
Total	+10	+4	+11	+11	+11	+11	+3	+6
Total Employment	+10	+4	+11	+11	+11	+11	+3	+6

Weighted % balances

Expected employment	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
All builders	+14	+7	+32	+29	+26	+28	+32	+23
All specialists	+10	+5	+30	+29	+21	+22	+19	+15
Total	+12	+6	+31	+29	+23	+25	+26	+19
Total Employment	+12	+6	+31	+29	+23	+25	+26	+19

In Q2 2018, the total employment net balance picked up by 3 percentage points to +6. Just over a fifth of firms (21%) predicted a rise in staffing levels, up from 18%, whereas firms registering no change in employment edged down, to 64% from 66%.

The employment net balance for all builders increased by 3 percentage points to +7. A quarter of firms reported a rise in staffing levels, up from 20%, while those stating no change to their workforce decreased, to 58% from 64%.

The net balance for all specialists went up by 3 percentage points to +5. Around 17% of respondents registered higher staffing levels, slightly up from the 16% reported three months earlier, while firms indicating a reduction in their workforce fell to 12% from 15%.

A decline of 7 percentage points took the net balance for expected total employment to +19, the lowest reading since Q4 2016. The proportion of respondents predicting a rise in staffing levels declined (28% vs. 34%) while most firms (63%) anticipate no change to employment levels.

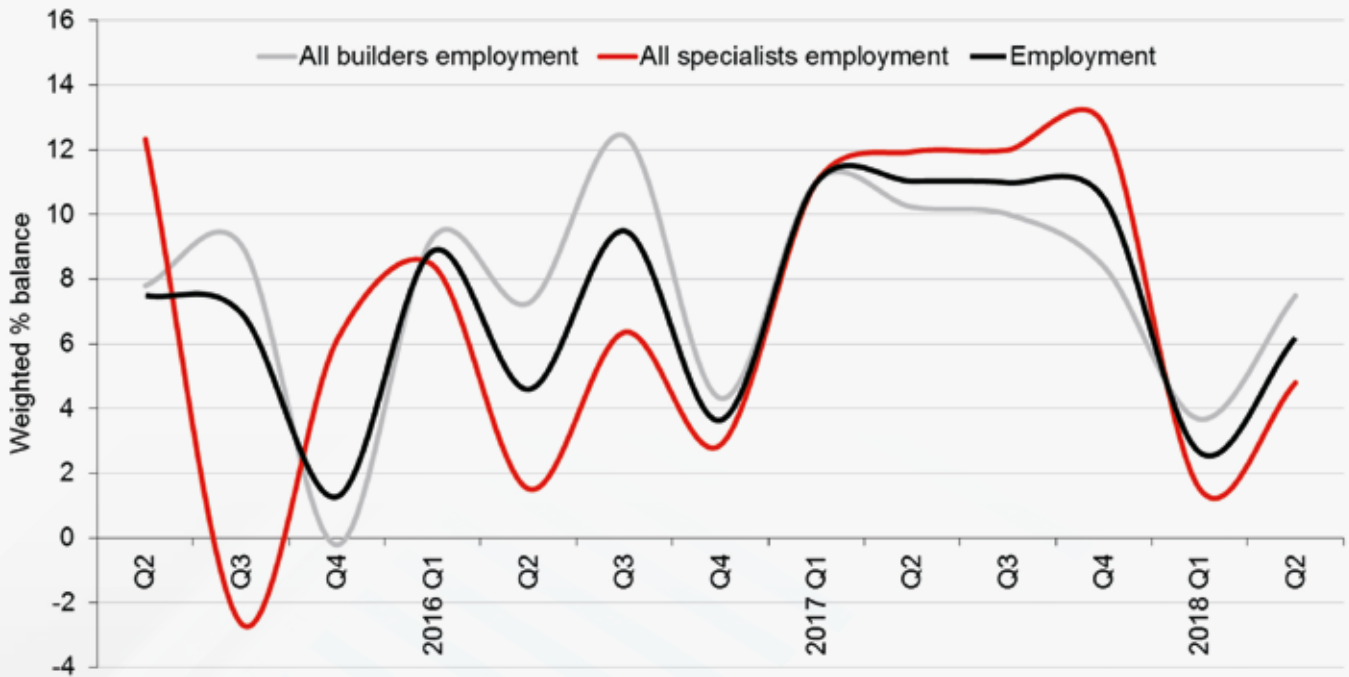
The 'all builders' expected employment net balance decreased by 9 percentage points to +23. The share of firms expecting to hire more staff fell to 31% from 40%, while around 60% of businesses forecast no change to their workforce, up from 51%.

A decline of 4 percentage points took the expected 'specialists employment' net balance to +15. Approximately a quarter of respondents foresee a rise in employment, down from 28%, while those expecting lower workloads edged up to 10% from 9%.



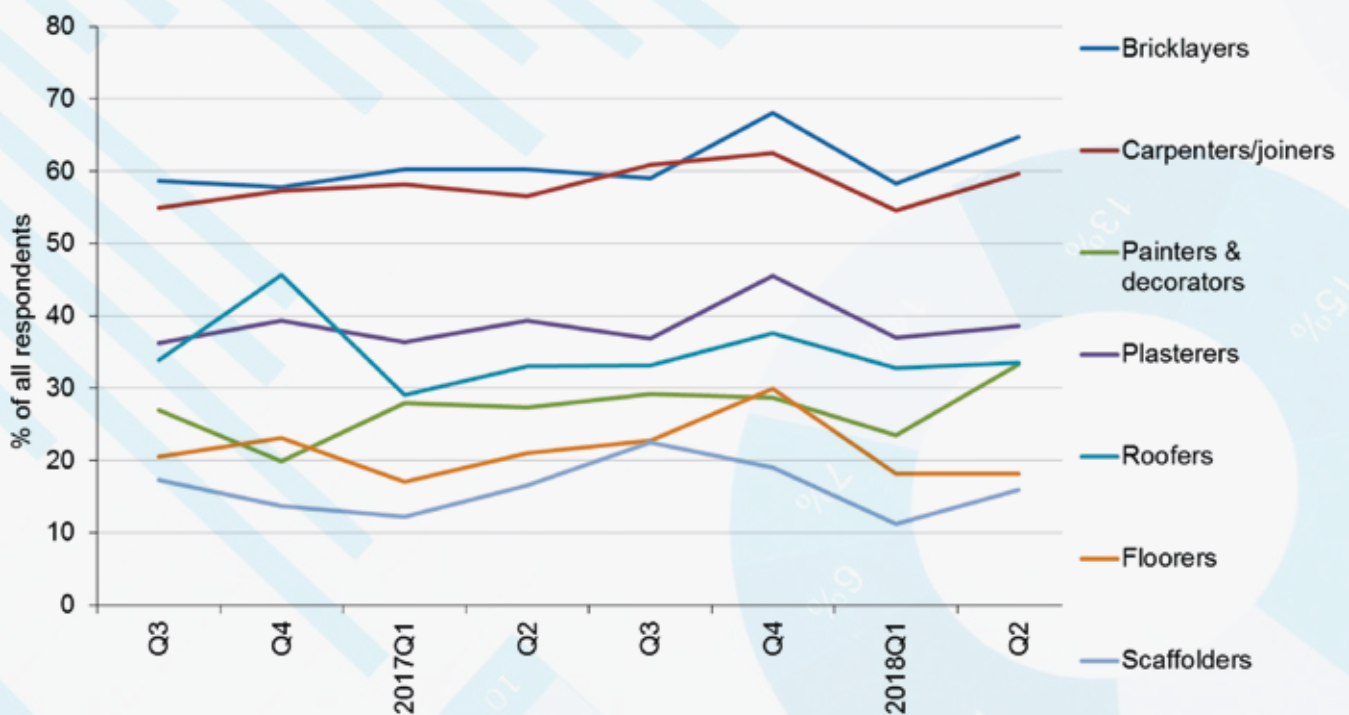
EMPLOYMENT AND LABOUR

Employment weighted % balance chart



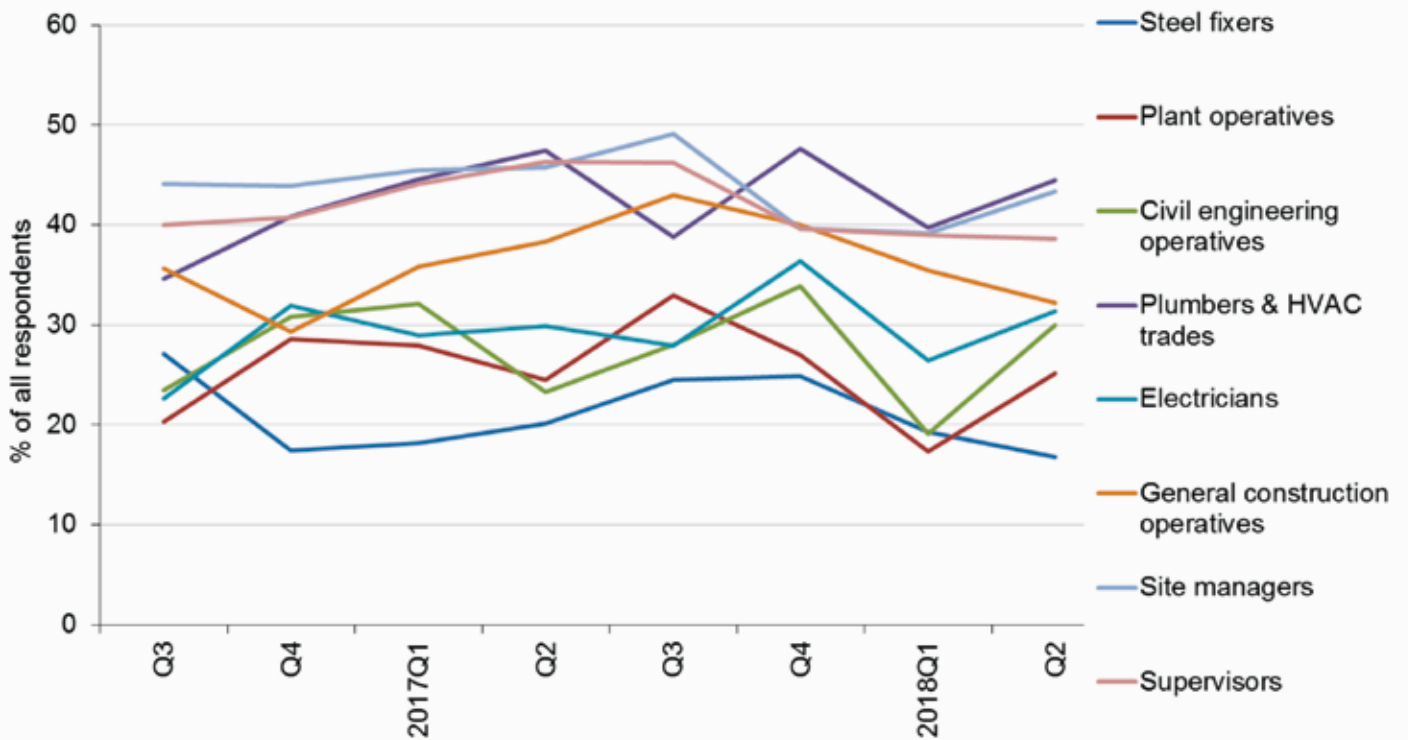
Once again, bricklayers were reported as being the most difficult to recruit. Carpenters, joiners and plumbers were also hard to come by. In contrast, scaffolders were the least difficult to hire.

% of respondents reporting difficulty recruiting selected skills chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

Trades	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
Bricklayers	59	58	60	60	59	68	58	65
Carpenters/joiners	55	57	58	57	61	63	55	60
Plumbers & HVAC trades	35	41	45	47	39	48	40	45
Site managers	44	44	45	46	49	40	39	43
Plasterers	36	39	36	39	37	46	37	39
Supervisors	40	41	44	46	46	40	39	39
Roofers	34	46	29	33	33	38	33	34
Painters & decorators	27	20	28	27	29	29	24	33
General construction operatives	36	29	36	38	43	40	35	32
Electricians	23	32	29	30	28	36	26	31
Civil engineering operatives	23	31	32	23	28	34	19	30
Plant operatives	20	29	28	25	33	27	17	25
Floorers	21	23	17	21	23	30	18	18
Steel fixers	27	17	18	20	24	25	19	17
Scaffolders	17	14	12	17	22	19	11	16

“Almost 2/3 of firms have reported difficulties recruiting bricklayers.”

REGIONAL PERSPECTIVE

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

A rise of 4 percentage points took the **UK's** net balance to +22. The percentage of positive weighted responses went up to 37% from 34%, while the proportion of negative weighted responses edged down to 15% from 16%. The share of neutral weighted responses fell to 48% from 50%.

Scotland's net balance jumped by 17 percentage points to +24, the highest reading since Q1 2017. Approximately 43% of weighted responses were positive, up from 25% stated three months earlier. Around 19% of firms reported negative weighted

responses, slightly up from 18%, while 38% of weighted responses were neutral, down from 57%.

England's net balance increased by 4 percentage points to +21. The percentage of positive weighted responses went up to 36% from 33%, whereas the share of negative weighted responses edged down to 15% from 16%. Just under half (49%) of weighted responses were neutral, down from 51%.

Northern Ireland's net balance recorded the biggest rise of 21 percentage points to +47. More than

half (54%) of weighted responses were positive, up from 41%, while just 7% of weighted responses were negative, down from 15%. Around 39% of weighted responses were neutral, down from 44%.

Wales was the only home nation to see a decline in its net balance as it fell by 25 percentage points to +14. The share of positive weighted responses decreased to 32% from 47% while the share of negative weighted responses grew (18% vs. 8%). Half of weighted responses were neutral, up from 45%.

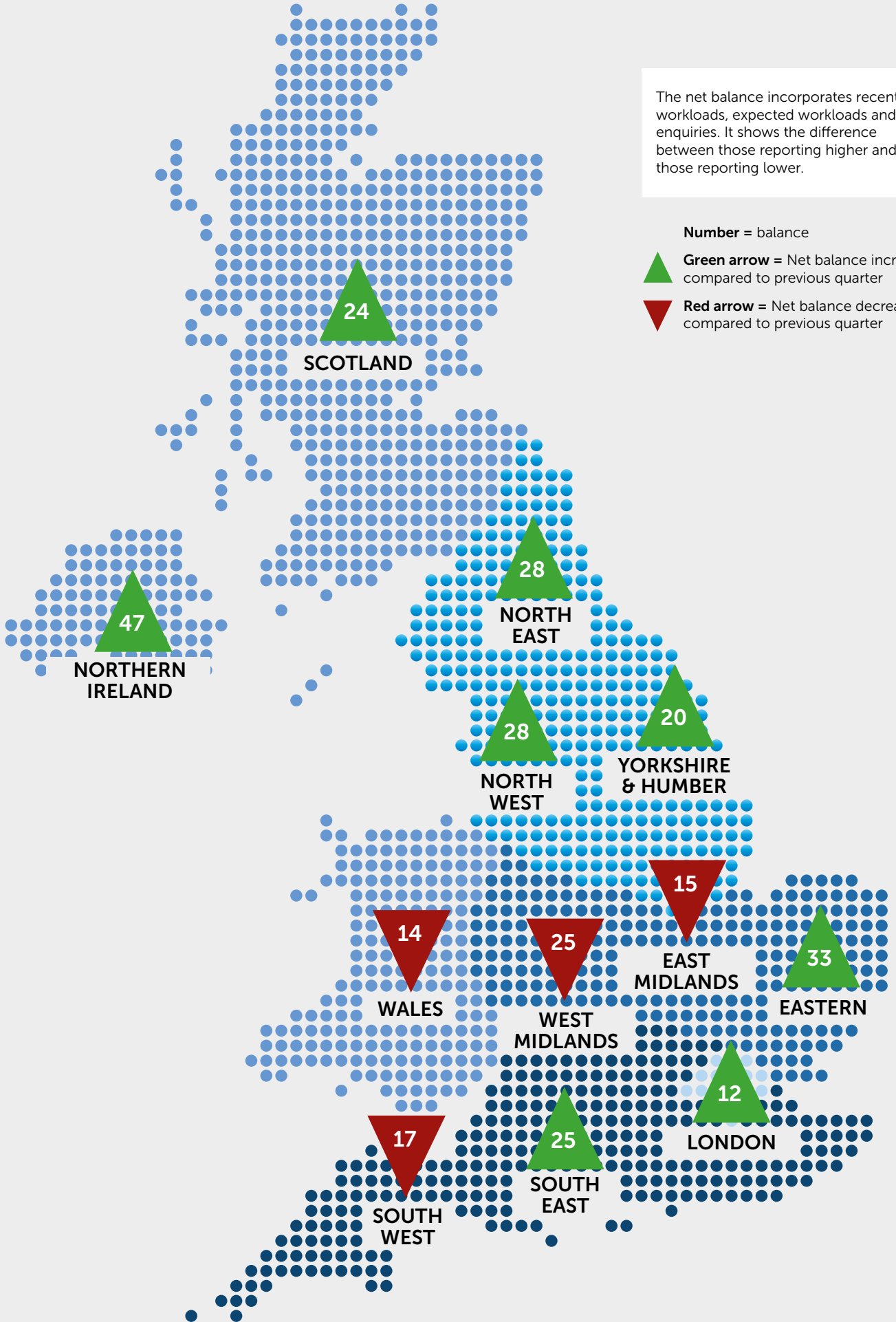
Weighted % balances

English Region	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
East Midlands	-12	+16	+12	+39	+46	+37	+26	+15
Eastern	+7	+4	+37	+42	+34	+11	+7	+33
London	0	+14	+29	+23	+19	+15	+10	+12
North East	+30	-3	+36	+28	+23	+25	+12	+28
North West	0	+10	+28	+19	+25	+6	+20	+28
South East	-3	-8	+23	+32	+26	+23	+17	+25
South West	+4	-14	+18	+24	+14	+4	+20	+17
West Midlands	+1	-9	+18	+8	+36	-4	+31	+25
Yorks & Humber	+30	+19	+28	+8	+28	-9	+19	+20

Nation	2016 Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2
England	+6	+3	+25	+25	+22	+14	+17	+21
Northern Ireland	+15	+10	+27	+4	+12	-7	+26	+47
Scotland	+8	+10	+35	+13	+7	-12	+7	+24
Wales	-7	+15	+35	+26	+6	+19	+39	+14
UK	+6	+4	+26	+24	+23	+12	+18	+22



DEVOLVED NATION AND 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's 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. Between 300 and 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 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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