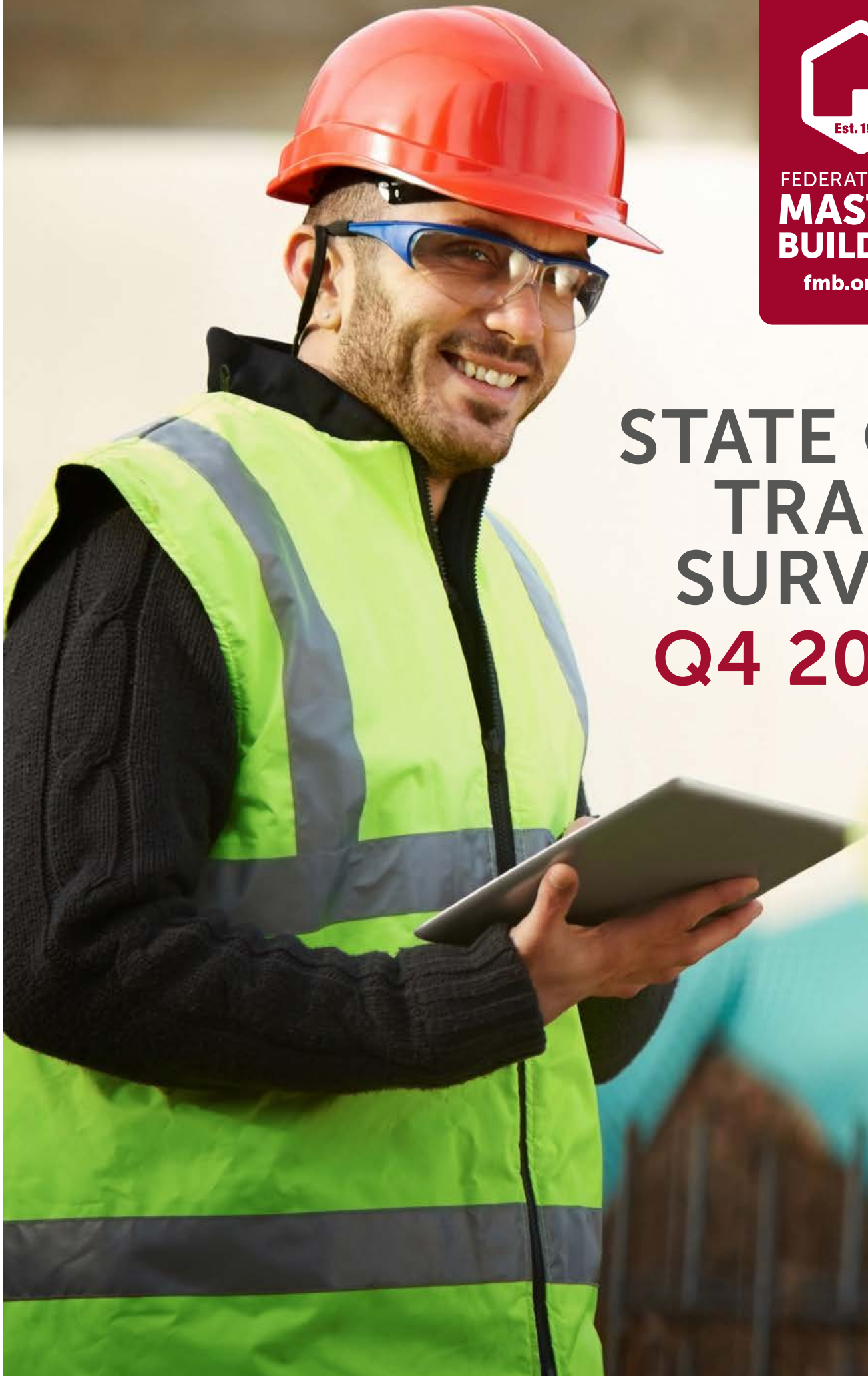




FEDERATION OF
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STATE OF TRADE SURVEY Q4 2018





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Introduction from FMB Chief Executive Brian Berry

The final quarter of 2018 proved to be a largely positive one for the UK's small and medium-sized (SME) construction firms. Workloads, enquiries and employment all remained in positive territory. Indeed, workloads have now remained positive for almost six years.

However, in these precarious times, there is no room for complacency. Brexit uncertainty is intensifying and as such, expectations for the future have become more pessimistic in comparison to the previous quarter. Firms are still reporting difficulties hiring key skills, with carpenters and joiners now replacing bricklayers as the occupation in most short supply. These shortages are putting upwards pressure on wages and salaries with two thirds of firms predicting wage increases over the next six months. Added to this, almost 90% of firms are expecting material prices to increase in the next six months.

Despite these challenges, we are still witnessing continued growth in our sector and that demonstrates the resilience of the SME construction sector.

Key statistics:

- At the UK level, growth increased with 37% of construction SMEs reporting rising workloads, compared with 32% in Q3 2018;
- These results represent 23 consecutive quarters of positive growth, which means that construction SME workloads have now been on the rise for nearly six years;
- Across the home nations, in England and Wales activity rose at a slower pace compared with the previous quarter. Scotland indicated no change to activity levels since the previous quarter and Northern Ireland was the only home nation to experience activity increasing at a faster rate;
- 87% of builders believe that material prices will rise in the next six months;
- Two-thirds (66%) of construction SMEs foresee wage increases over the next six months, up from 58% in the previous quarter; and
- Nearly two-thirds (64%) of construction SMEs are struggling to hire carpenters and joiners and 61% are struggling to hire bricklayers.



“Material prices and wages are predicted to rise over the next six months”

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.

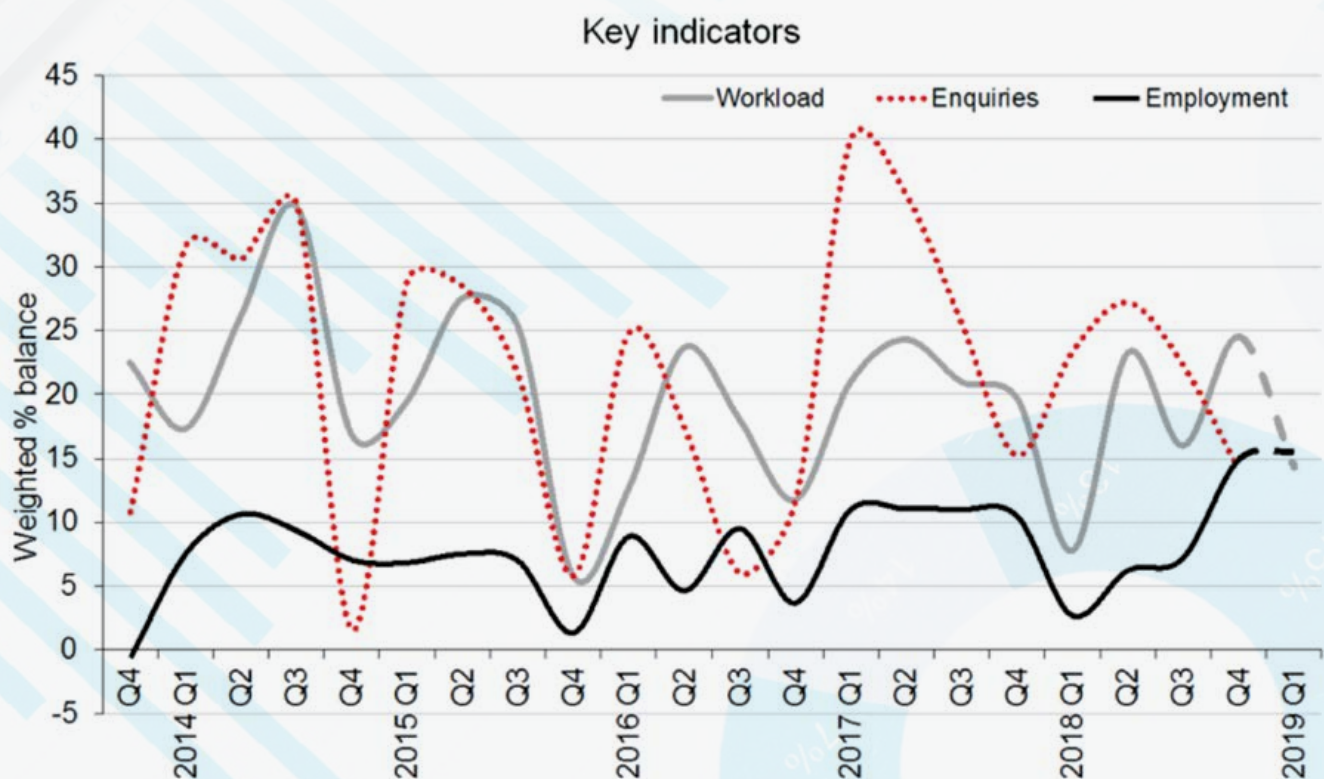
In the final three months of last year, SME workloads recorded rising activity. More respondents reported higher workloads (37% vs. 32%), while 13% of firms stated lower workloads, down from 16%.

Expectations for the future weakened for the third consecutive quarter with 33% of businesses anticipating higher workloads, down from 36% three months earlier. In contrast, those forecasting lower workloads went up, to 19% from 13%.

At the UK level activity rose at a slower pace however the picture was mixed for the home nations: Northern Ireland was the only home nation to experience activity increasing at a faster rate as its net balance went up by 10 percentage points to +32. England and Wales' net balances posted activity growing at a slower pace whereas Scotland's one indicated no change to activity levels since the previous quarter.

Over the next six months output prices, wages and salaries and material costs are all anticipated to rise: The net balance for wages & salaries saw the biggest increase as two thirds of respondents predict higher wages, up from 58% in Q3 2018.

Employment rose at a faster pace compared with three months earlier: The proportion of businesses stating a rise to their workforce went up to 26% from 24% while just over a tenth of respondents (11%) reported a cut to their staffing levels, down from 16%.



Please note: Q4 2018 reflects respondents' expectations for workload and employment

WORKLOADS

In the final quarter of 2018, the net balance for overall workloads remained in positive territory for the twenty third quarter running as it rose by 9 percentage points to +25, a reading last seen in Q3 2015. The share of members indicating a rise in workloads grew to 37% from 32%, while the proportion of businesses stating lower workloads fell to 13% from 16%.

The social RM&I net balance moved back into positive territory as it saw the biggest increase of 13 percentage points to +9. Around 8% of businesses stated lower workloads, down from 20%, while three quarters of respondents registered no change to workloads, up from 64% in the previous quarter.

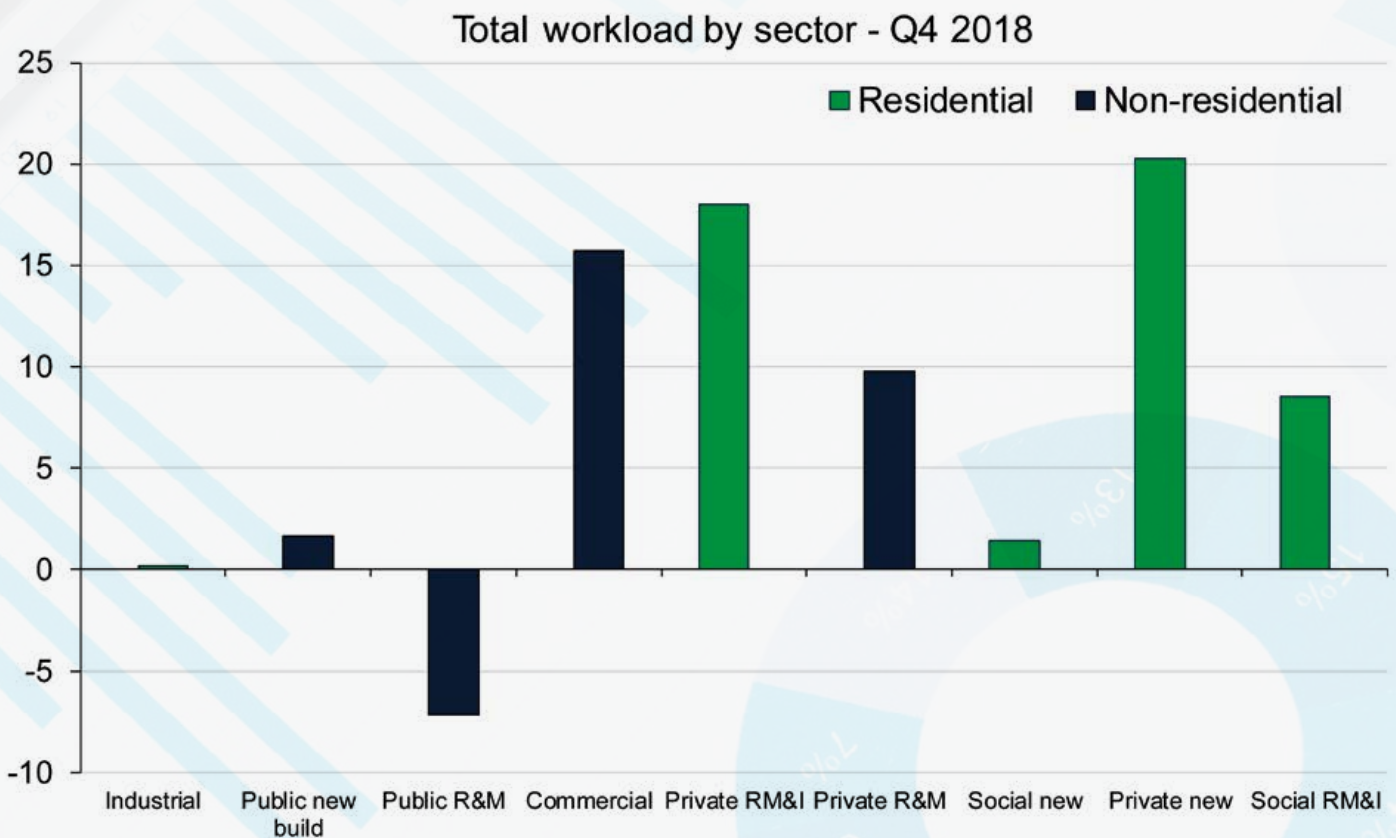
With a jump of 12 percentage points to +20, the private new housing sector's net balance remained in positive territory for the third consecutive quarter. Fewer

businesses reported lower workloads (15% vs. 19%) whereas more respondents stated higher workloads (36% vs. 28%). However, (49%) of firms indicated no change in workloads

The overall housing sector's net balance remained in positive territory for the third consecutive quarter as it went up by 17 percentage points to +22. Approximately 36% of firms stated higher workloads, up from 21%, while just under half of businesses (49%) registered no change to workloads.

Despite falling by 12 percentage points to +10, the non-residential sector's net balance also remained in positive territory for the third successive quarter. Just over a quarter (26%) of firms indicated higher workloads, down from a third in the previous quarter. In contrast, those stating lower workloads rose, to 16% from 11%.

“The sector has now enjoyed twenty-three quarters of consecutive growth”



RESIDENTIAL WORKLOADS

Weighted % balances

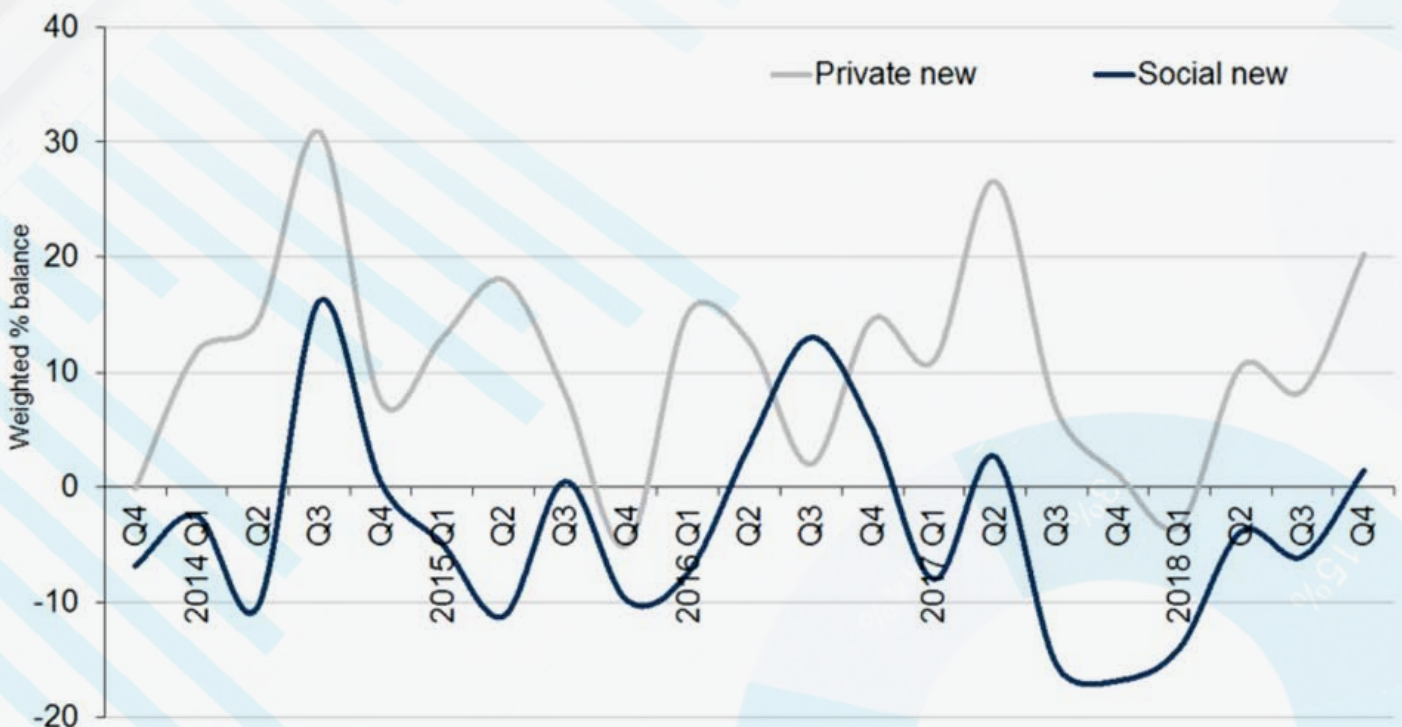
Workload	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
Private new	+11	+27	+7	+1	-3	+11	+8	+20
Private RM&I	+15	+19	+12	+18	+8	+24	+17	+18
Social new	-8	+3	-15	-17	-14	-4	-6	+1
Social RM&I	+3	+5	-4	-15	+4	-1	-4	+9
Total Residential	+11	+16	+10	+11	-1	+12	+5	+22

At +20, the net balance for the **private new** housing sector grew by 12 percentage points and stayed in positive territory for the third consecutive quarter. The proportion of firms reporting a decrease in workloads declined to 15% from 19%, whereas those stating higher workloads went up to 36%, from 28%.

“The net balance for the private new housing sector stayed in positive territory for the third consecutive quarter”

The net balance for the **social new** housing sector moved back into positive territory as it improved by 7 percentage points to +1. Around 13% of firms recorded higher workloads, up from 5%, while three quarters of businesses reported no change in workloads, down from 84%.

Residential historical weighted % balance - new build

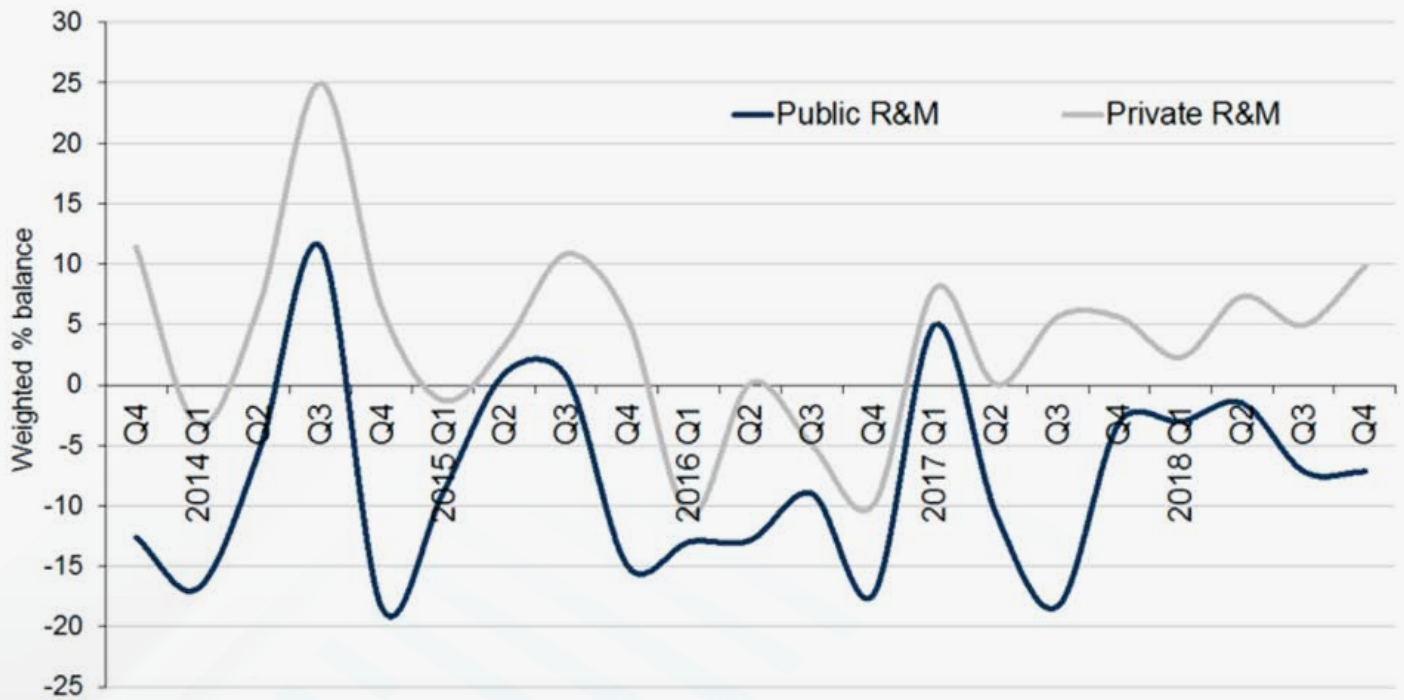


The net balance for the **social RM&I** sector moved into positive territory as it increased by 13 percentage points to +9. Approximately 8% of respondents indicated a decline in workloads, down from 20%, while those reporting higher workloads edged up, to 17% from 16%.

The **private RM&I** net balance remained in positive territory for the twenty second successive quarter as it went up by 1 percentage point to +18. There has been no change to those reporting higher (32%), no change (54%) and lower (14%) workloads since the previous quarter. However, there is a slight change in the overall net balance due to rounding errors.

RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

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



NON-RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
Public new build	-1	+3	-5	-7	-5	+1	+8	+2
Public R&M	+5	-11	-18	-3	-3	-2	-7	-7
Industrial	0	+2	+1	+7	0	+3	+11	0
Commercial	+4	+14	+2	+19	+6	+3	+15	+16
Private R&M	+8	0	+6	+6	+2	+7	+5	+10
Total Non-Residential	-3	+8	+8	+16	-2	+9	+22	+10

A fall of 6 percentage points took the net balance for the **public new build** sector to +2. The share of firms reporting higher workloads dropped to 16% from 18% while members stating lower workloads grew, to 14% from 10%.

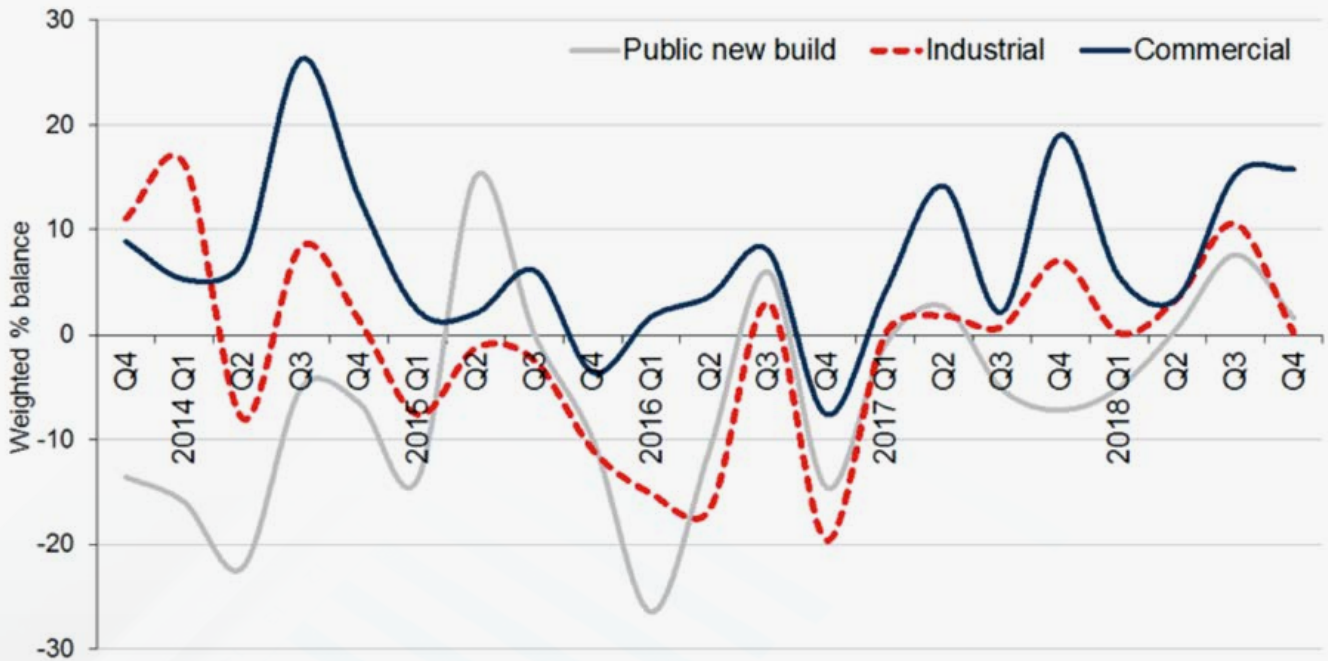
The **commercial** sector's net balance remained in positive territory for the eighth consecutive quarter as it edged up by 1 percentage point to +16. Approximately 31% of respondents stated higher workloads, slightly up from

30% whereas those registering lower workloads was unchanged at 15%.

The net balance for the **industrial** sector declined by 11 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. The percentage of firms indicating lower workloads increased to 16% from 7%, while those indicating higher workloads edged down to 16% from 17% in the previous quarter.

NON-RESIDENTIAL WORKLOADS

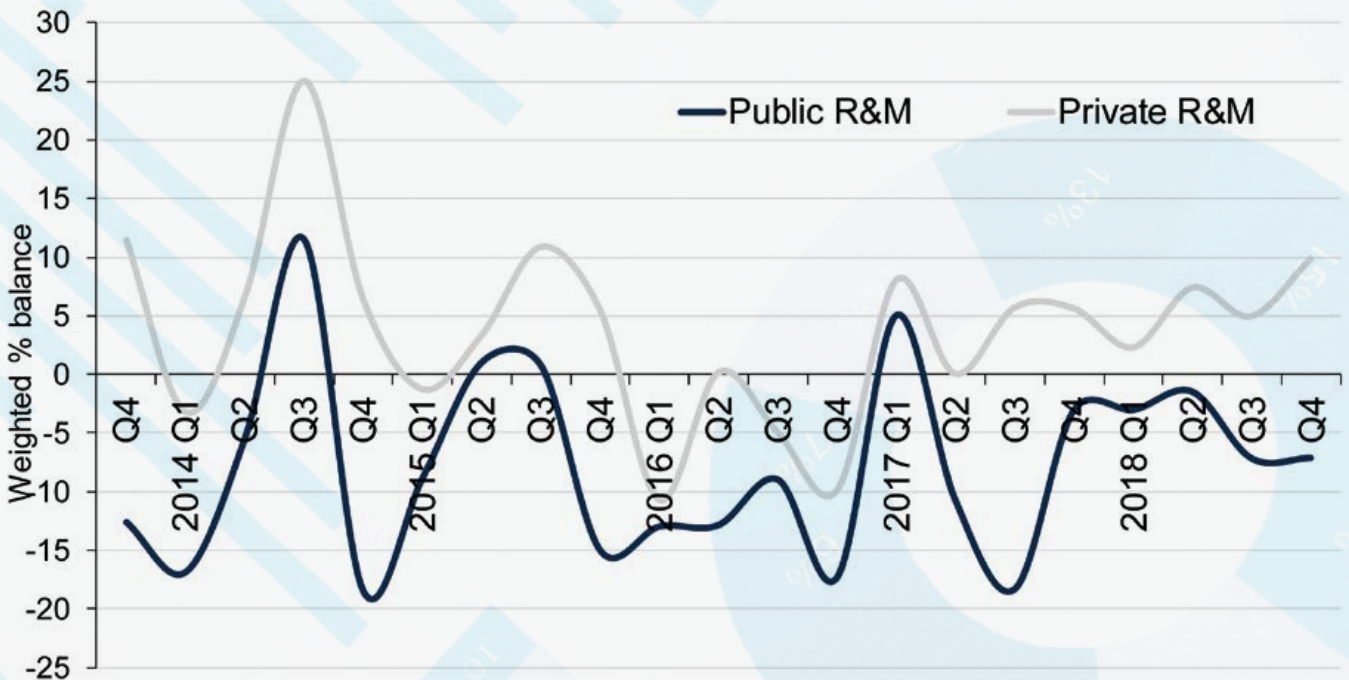
Non-residential historical weighted % balance chart - new work



At -7, the **public R&M** sector's net balance was unchanged. Just 6% of firms noted higher workloads, down from 7%, while 13% of businesses indicated lower workloads, down from 15%. At 81%, most firms stated no change in workloads, up from 78%.

The **private R&M** sector's net balance remained in positive territory for the sixth successive quarter as it went up by 5 percentage points to +10. More firms reported higher workloads (23% vs. 17%), while those stating no change in workloads fell, to 64% from 70%.

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



EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

In spite of an 8 percentage point decline to +14, the net balance for total enquiries remained in positive territory for the twenty third successive quarter. The share of respondents reporting higher levels of enquiries went down to 32%

from 36%, whilst around 18% of members indicated lower enquiries, up from 14%.

Even though the net balance for total expected workloads declined by 9 percentage points to +14, it

remained in positive territory for the twenty third consecutive quarter. The proportion of businesses foreseeing higher workloads dropped to a third, from 36% in Q3 2018, while respondents predicting lower workloads increased to 19% from 13%.

RESIDENTIAL EXPECTED WORKLOADS

A rise of 1 percentage point to +12 was recorded for the residential sector's net balance. Around 30% of firms forecast higher workloads over the next three months, up from 26%, while just over half (52%) of respondents expect no change to workloads, down from 58%.

Despite falling by 6 percentage points to +4, the **private new** housing market's net balance remained in positive territory for the fourth quarter running. The proportion of respondents with positive expectations for workloads was unchanged at 26%, while those anticipating lower workloads increased to 22% from 16%.

The net balance for the **social new** housing sector moved back into positive territory as it rose by 8 percentage points to +6. Approximately 15% of respondents envisage higher workloads, up from 13%. In contrast, those predicting lower workloads fell to 9% from 14%. Just over three quarters of firms (76%) foresee no change to workloads, up from 73%.

The net balance for the **social RM&I** sector moved back into negative territory as it declined by 5 percentage points to -1. Fewer respondents (13% vs. 17%) forecast higher workloads over the next three months, while a slightly bigger share also expect lower workloads (14% vs. 13%). The majority (73%) of members envisage no change to workloads.

The **private RM&I** sector's net balance dropped by 18 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. Firms foreseeing lower workloads rose to 20% from 14%, whereas those anticipating higher workloads dropped to 20% from 32%. However, most of the respondents (60%) envisage no change to workloads.

“30% of construction SMEs operating in the residential sector anticipate higher workloads over the next three months”

Weighted % balances

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

NON-RESIDENTIAL EXPECTED WORKLOADS

The net balance for non-residential expected workloads jumped by 12 percentage points to +12. A quarter of respondents foresee higher workloads, up from the 17% recorded in Q3 2018. Approximately 14% of respondents predict lower workloads, down from 18%, while around 61% of firms expect no change to workloads, down from 65%.

The **public R&M** sector's net balance stayed in negative territory for the second successive quarter, despite rising by 3 percentage points to -6. Approximately 17% of firms envisage lower workloads, up from 15%, while a tenth of members predict higher workloads, up from 6%. At 73%, the majority of businesses envisage no change to workloads, down from 78%.

Despite falling by 4 percentage points, the net balance (+2) for the **private R&M** sector remained in positive territory for the eighth quarter running. Around 18% of respondents foresee higher workloads, down from 21%, whereas those expecting lower workloads edged up (16% vs. 15%). Approximately two thirds of businesses forecast no change to workloads, up from 64% in the previous quarter.

The **industrial** sector's net balance increased by 6 percentage points to +11 and remained in positive territory for the second consecutive quarter. The percentage of firms anticipating lower workloads fell to 10% from 13%, while just over a fifth (21%) of respondents predict higher workloads, up from 18%. Around 69% of respondents anticipate no change in workloads, slightly up from 70%.

The **public new build** sector's net balance stayed in negative territory for the second successive quarter as it declined by 3 percentage points to -13. Just 8% of firms forecast higher workloads, down from a tenth, while around 21% of respondents expect lower workloads, up from 20%. However, at 71%, most members predict no change to workloads, up from 69%.

A rise of 8 percentage points took the **commercial** sector's net balance to +10. The percentage of respondents anticipating higher workloads increased (25% vs. 21%) while around 15% of members forecast lower workloads, down from 19%. Approximately 60% of firms envisage no change to their workloads, slightly down from 61% in the previous quarter.



“The net balance for non-residential expected workloads jumped by 12 percentage points to +12”

Weighted % balances

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

PRICES AND COSTS

Weighted % balances

Actual	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
Output prices	49	48	36	43	40	45	43	48
Wages & salaries	+52	+59	+61	+63	+52	+62	+62	+59
Materials costs	+87	+89	+81	+87	+90	+89	+85	+85

Weighted % balances

Expected	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
Output prices	68	65	61	64	60	54	62	67
Wages & salaries	+66	+62	+58	+61	+66	+53	+56	+66
Materials costs	+85	+82	+82	+87	+83	+76	+86	+87

Once again, the net balance for expected output prices went up, by 5 percentage points to +67. Around 69% of businesses predict higher output prices over the next six months, up from 65%, whereas 30% of firms anticipate no change to output prices, down from 32%.

The net balance for expected wages and salaries jumped by 10 percentage points to +66. Approximately two thirds of firms predict wage increases, up from 58% in

the previous quarter, while around 34% of respondents foresee no change in wages and salaries, down from 41%.

The net balance for expected material costs edged up by 1 percentage point to +87. Around 87% of members anticipate a rise in material costs over the coming six months, slightly up from 86%, while those forecasting no change to material costs, remained at 13%.

Prices and costs weighted % balance chart



EMPLOYMENT AND LABOUR

Weighted % balances

Employment	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
All builders	+11	+10	+10	+8	+4	+7	+7	+16
All specialists	+11	+12	+12	+13	+2	+5	+8	+14
Total Employment	+11	+11	+11	+11	+3	+6	+7	+15

Weighted % balances

Expected employment	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
All builders	+32	+29	+26	+28	+32	+23	+19	+18
All specialists	+30	+29	+21	+22	+19	+15	+18	+13
Total Employment	+31	+29	+23	+25	+26	+19	+19	+16

The total employment net balance increased by 8 percentage points to +15. Just over a quarter of firms (26%) stated a rise in staffing levels, up from 24% three months earlier, whereas those registering falls in employment declined to 11% from 16%.

An increase of 9 percentage points took the net balance for all builders to +16. Around 29% of firms recorded higher staffing levels, up from 25% while those stating a fall in their workforce dropped to 14% from 18%.

The net balance for all specialists went up by 6 percentage points to +14. Those reporting higher staffing levels was unchanged at 23%, while firms indicating a decline in their workforce fell to 9% from 15%.

With a decline of 3 percentage points, the net balance for expected total employment fell to +16. The share of respondents predicting a rise in staffing levels edged down (28% vs. 29%) whereas those firms predicting a fall in employment rose (12% vs. 10%).

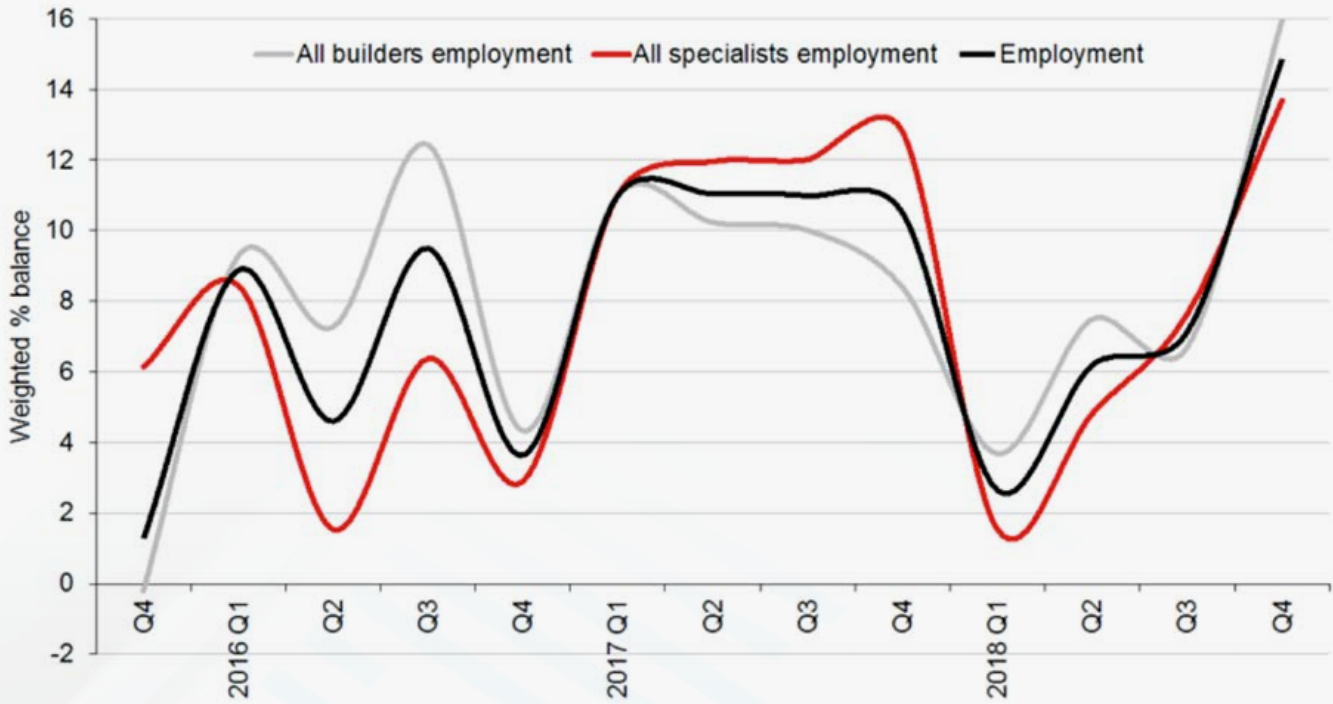
The all builders expected employment net balance fell by 1 percentage point to +18. While the percentage of firms wanting to cut staff went up to 13% from 10%, around 55% of respondents forecast no change to their workforce, down from 61% three months earlier.

The all specialists expected employment net balance saw the largest decline of 5 percentage points to +13. Just under a quarter (24%) of respondents predict a rise in employment, down from 29%, while most (65%) firms expect no change to workloads, up from 60%.



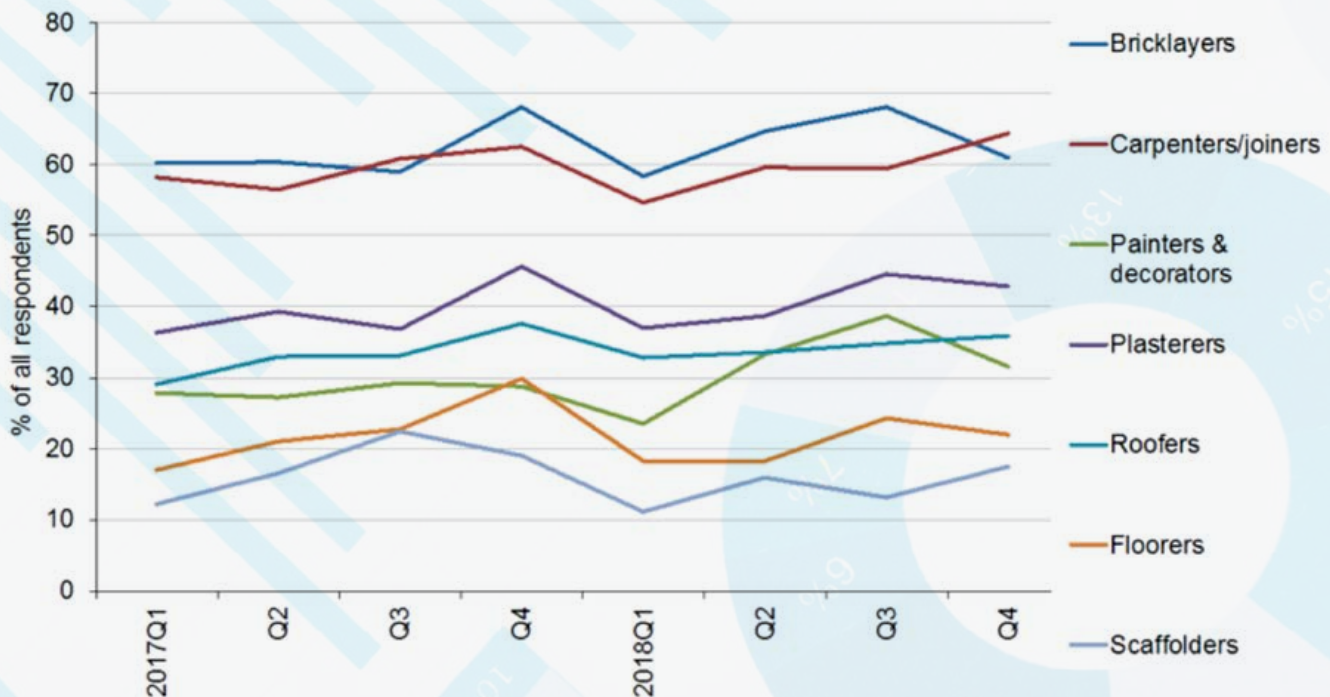
EMPLOYMENT AND LABOUR

Employment weighted % balance chart



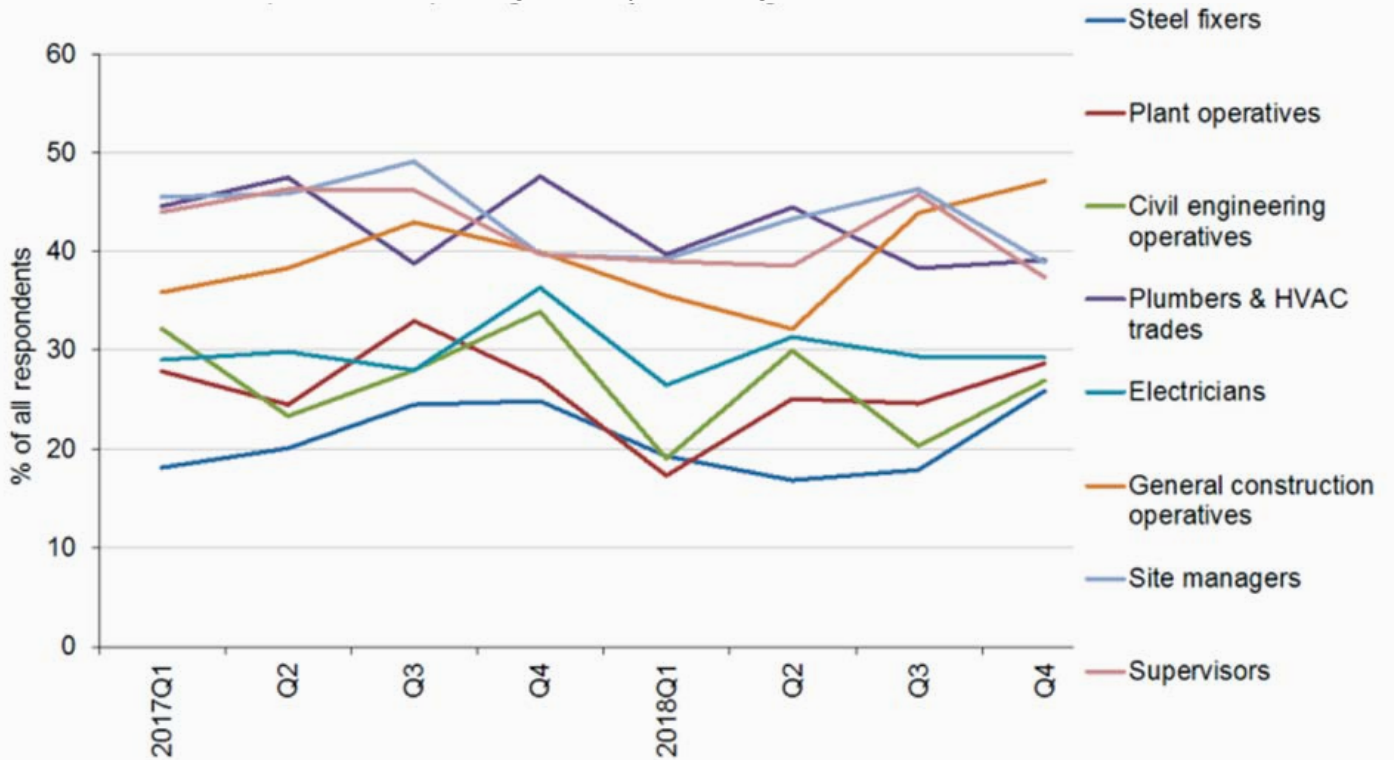
Carpenters/joiners were reported as being the most problematic to recruit in the final quarter of last year. Bricklayers and general construction operatives were also difficult to obtain. In contrast, scaffolders were the easiest to hire.

% of respondents reporting difficulty recruiting selected skills chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

Trades	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
Carpenters/joiners	58	57	61	63	55	60	59	64
Bricklayers	60	60	59	68	58	65	68	61
General construction operatives	36	38	43	40	35	32	44	47
Plasterers	36	39	37	46	37	39	45	43
Plumbers & HVAC trades	45	47	39	48	40	45	38	39
Site managers	45	46	49	40	39	43	46	39
Supervisors	44	46	46	40	39	39	46	37
Roofers	29	33	33	38	33	34	35	36
Painters & decorators	28	27	29	29	24	33	39	32
Electricians	29	30	28	36	26	31	29	29
Plant operatives	28	25	33	27	17	25	25	29
Civil engineering operatives	32	23	28	34	19	30	20	27
Steel fixers	18	20	24	25	19	17	18	26
Floorers	17	21	23	30	18	18	24	22
Scaffolders	12	17	22	19	11	16	13	17

“Carpenters/joiners have replaced bricklayers as the most in demand skill in Q4 2018”

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.

The **UK's** net balance dropped by 6 percentage points to +11. Around 27% of weighted responses were positive, down from 29%, whereas the percentage of negative weighted responses grew (16% vs. 12%). The proportion of neutral weighted responses edged down to 57% from 59% in Q3 2018.

Scotland's net balance experienced the greatest drop of 19 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. Approximately 20% of weighted responses were positive, down from 36% while 20% of weighted responses were negative, up from 17%. Over half (60%) of weighted responses were neutral, up from 47%.

The net balance for **England** declined by 7 percentage points to +10. The percentage of positive weighted responses fell (26% vs. 29%) while the share of negative weighted responses increased to 16% from 12%. Approximately 58% of weighted responses were neutral, slightly down from the 59% registered in the previous quarter.

Northern Ireland's net balance was the only one to see growth, as it increased by 10 percentage points to +32. Around 44% of weighted responses were positive, up from 35%, whereas approximately 12% of firms indicated negative weighted responses, marginally down from 13%. At 44%, the majority of weighted responses were neutral, down from 52%.

Wales's net balance decreased by 17 percentage points to +11. Negative weighted responses grew (21% vs. 2%), as did the share of positive weighted responses (32% vs. 30%). Approximately 47% of weighted responses were neutral, down from 68%.

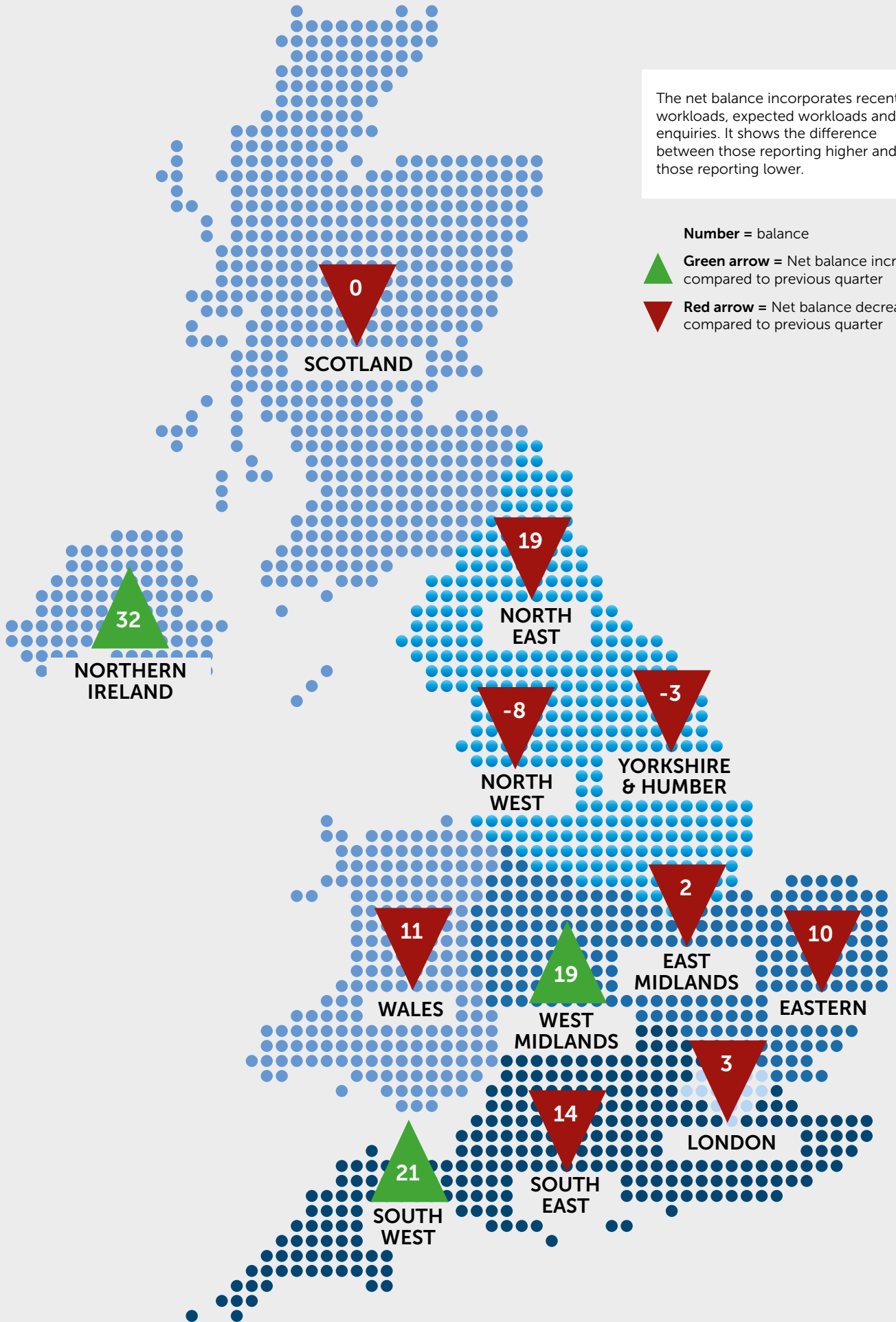
“At the UK level activity rose at a slower pace however, the picture was mixed for the home nations”

Weighted % balances

English Region	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
East Midlands	+12	+39	+46	+37	+26	+15	+8	+2
Eastern	+37	+42	+34	+11	+7	+33	+26	+10
London	+29	+23	+19	+15	+10	+12	+12	+3
North East	+36	+28	+23	+25	+12	+28	+32	+19
North West	+28	+19	+25	+6	+20	+28	+22	-8
South East	+23	+32	+26	+23	+17	+25	+20	+14
South West	+18	+24	+14	+4	+20	+17	+18	+21
West Midlands	+18	+8	+36	-4	+31	+25	-7	+19
Yorks & Humber	+28	+8	+28	-9	+19	+20	+16	-3

Nation	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4
England	+25	+25	+22	+14	+17	+21	+17	+10
Northern Ireland	+27	+4	+12	-7	+26	+47	+22	+32
Scotland	+35	+13	+7	-12	+7	+24	+19	0
Wales	+35	+26	+6	+19	+39	+14	+28	+11
UK	+26	+24	+23	+12	+18	+22	+17	+11

DEVOLVED NATION AND REGIONAL PERSPECTIVE



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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