



FEDERATION OF
**MASTER
BUILDERS**

fmb.org.uk

State of Trade Survey

**Q2
2019**

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Foreword

Brian Berry, Chief Executive, Federation of Master Builders

The second quarter of 2019 saw small and medium-sized (SME) construction firms return to positive growth after a very difficult start to the year. However, the fact that workloads are growing does not mask some other concerning, and telling, trends.

With Brexit uncertainty continuing to bite, there is evidence to suggest that small construction employers are bracing themselves for a downturn. Employment has fallen for the first time in more than five years, with construction SMEs employing a higher proportion of sub-contractors and a lower proportion of direct employees. This tells us that

some employers are putting measures in place that might allow them to reduce their costs more swiftly in the event of an economic slowdown later this year. All in all, this suggests a lack of confidence in future demand among small construction firms.



Added to that, skills shortages remain significant with almost two-thirds of construction SMEs reporting difficulties hiring bricklayers and more than half struggling to hire carpenters.



“There is evidence to suggest that small construction employers are bracing themselves for a downturn”

Key statistics



27%

of construction SMEs report increased workloads



77%

of builders believe that material prices will rise over the next six months



21%

of employers reported a reduced workforce

There was a decrease in employment levels among small construction firms for the first time in more than five years



60%

of SMEs are struggling to hire bricklayers



54%

of SMEs are struggling to hire carpenters/joiners



37%

of construction SMEs are forecasting higher workloads

down from 41% in Q1 2019

Summary

Balances only reflect the percentage of responses reporting higher workloads against those reporting lower workloads. In some cases, although 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 three months to June 2019, SME workloads moved back into positive territory as more respondents stated higher workloads (27% vs 22%). Around, 23% of firms reported lower workloads, slightly down from 29% in the previous quarter.

Overall expectations for the future are unchanged. Fewer firms (37%) forecasted higher workloads over the coming three months, down from 41%. Those predicting no change to workloads grew, to 51% from 43%.

For the third consecutive quarter, England's net balance was unchanged (+10). Scotland was the only home nation to experience an increase as its net balance improved by 23 percentage points to +33. In contrast, Wales and Northern Ireland saw significant decreases to their net balance.

Over the next six months, output prices, wages and salaries and material costs are all expected to fall:

Wages and salaries are expected to have the sharpest decline with 51% of firms envisaging higher wages and salaries, down from 71% three months earlier.

SME employment activity moved into negative territory for the first time after twenty-one successive quarters of growth.

The share of firms indicating a rise in their workforce went up to 19% from 17%, while around 21% of respondents stated lower staffing levels, up from 16%.

“Employment is decreasing for the first time in more than five years”



Key indicators



Please note: Q3 2019 reflects respondents' expectations for workload and employment

Residential workloads

In the second quarter of 2019, the net balance for overall workloads moved back into positive territory as they grew by 11 percentage points to +4. The share of business stating a rise in workloads increased to 27% from 22%, while the percentage of respondents indicating lower workloads dropped to 23% from 29%.

The net balance for the social new housing sector also returned to positive territory as it increased by 15 percentage points to +5. Around 16% of respondents stated higher workloads, up from 7%, while those indicating lower workloads decreased to 11% from 17% three months earlier. However, almost three quarters (73%) of businesses indicated no change in workloads.

A rise of 11 percentage points took the net balance (+2) for the private new housing sector back into positive territory. More firms reported higher workloads (19% vs 16%), whereas fewer respondents stated lower workloads (17% vs 25%).

The overall housing sector's net balance jumped by 15 percentage points to +6. Approximately 23% of firms indicated higher workloads, up from 14% in the previous quarter. In contrast, 17% of respondents stated lower workloads, down from 23%.

With an increase of 19 percentage points, the overall non-residential sector's net balance rose to -3. Those firms indicating higher workloads rose to 15% from 9%, while 18% of respondents reported lower workloads, down from 31%.

"Workloads are back in positive territory"



Total workload by sector for Q2 2019



Weighted % balances

Workload	2017Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Private new	+7	+1	-3	+11	+8	+20	-9	+2
Private RM&I	+12	+18	+8	+24	+17	+18	+2	-2
Social new	-15	-17	-14	-4	-6	+1	-10	+5
Social RM&I	-4	-15	+4	-1	-4	+9	-15	-2
Total Residential	+10	+11	-1	+12	+5	+22	-9	+6

The net balance for the **private new** housing sector increased by 11 percentage points to +2. At 19% more firms reported higher workloads, up from 16%, whereas 17% of respondents stated lower workloads, down from 25%.

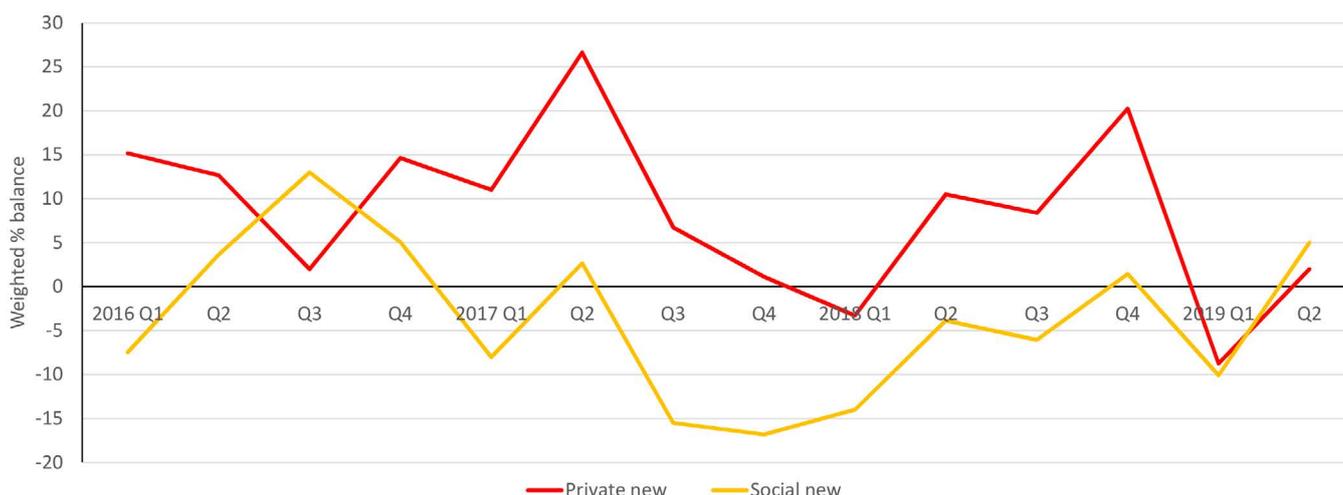
Despite jumping by 13 percentage points, the net balance for the **social RM&I** sector remained in negative territory for the second consecutive quarter. Just 10% of firms recorded higher workloads, up from 3%, while 12% of members reported lower workloads, down from 18% in the previous quarter.

The net balance for the **social new** housing sector increased by 15 percentage points to +5. More firms reported higher workloads (16% vs 7%) while those indicating lower workloads decreased (11% vs 17%).

The net balance for **private RM&I** declined by 4 percentage points to -2, moving into negative territory. The percentage of firms reporting higher workloads decreased (22% vs 25%), whereas those registering lower workloads edged up to 24%, from 23%.

“The repair and maintenance sector is in negative territory”

Residential weighted % balance for new build



Residential workloads

Residential historical weighted % balance for RM&I



Non-residential workloads

Weighted % balances

Workload	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Public new build	-5	-7	-5	+1	+8	+2	-23	-10
Public R&M	-18	-3	-3	-2	-7	-7	-27	-14
Industrial	+1	+7	0	+3	+11	0	-27	-10
Commercial	+2	+19	+6	+3	+15	+16	-27	-6
Private R&M	+6	+6	+2	+7	+5	+10	-8	-20
Total non-residential	+8	+16	-2	+9	+22	+10	-22	-3

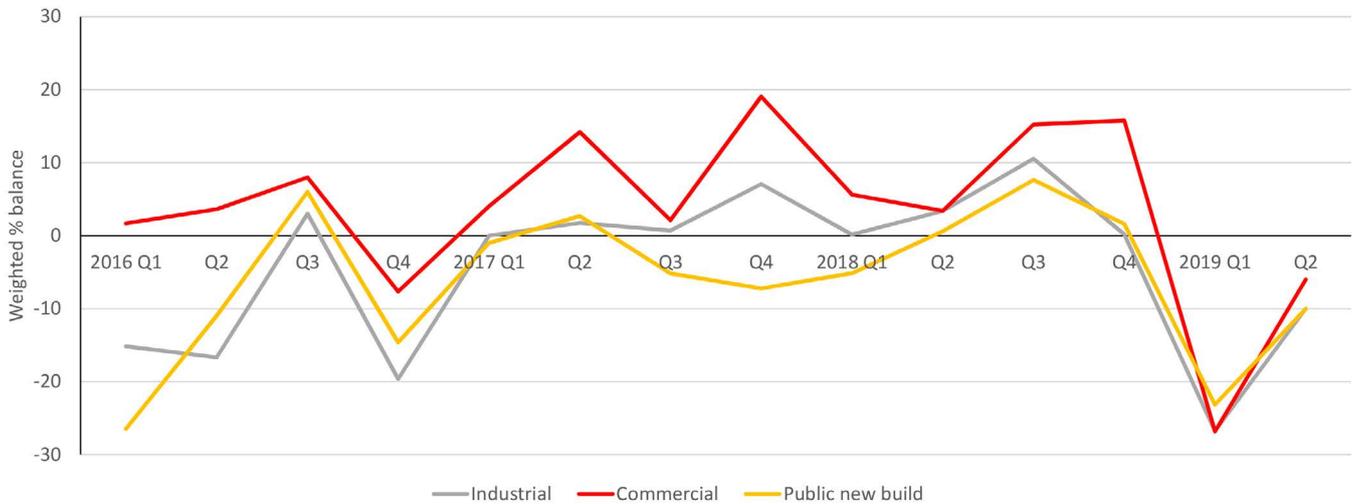
A negative reading remains for the **public new build** sector, despite a rise of 13 percentage points to -10. Just under a tenth of members (8%) stated higher workloads, down from 9% while members indicating lower workloads dropped to 18% from 32%.

The net balance for the **commercial** sector remains negative (-6) despite an increase of 21 percentage points. More firms reported higher workloads (19% vs 12%), whereas less firms stated lower workloads (25% vs 39%).

The **industrial** sector's net balance rose by 17 percentage points to -10. Those indicating higher workloads was unchanged at 7%, however 17% of respondents stated lower workloads, down from 34%. Around three quarters (76%) of businesses reported no change in workloads, up from 60%.

"The public new build sector is still contracting"

Non-residential historical weighted % balance for new work

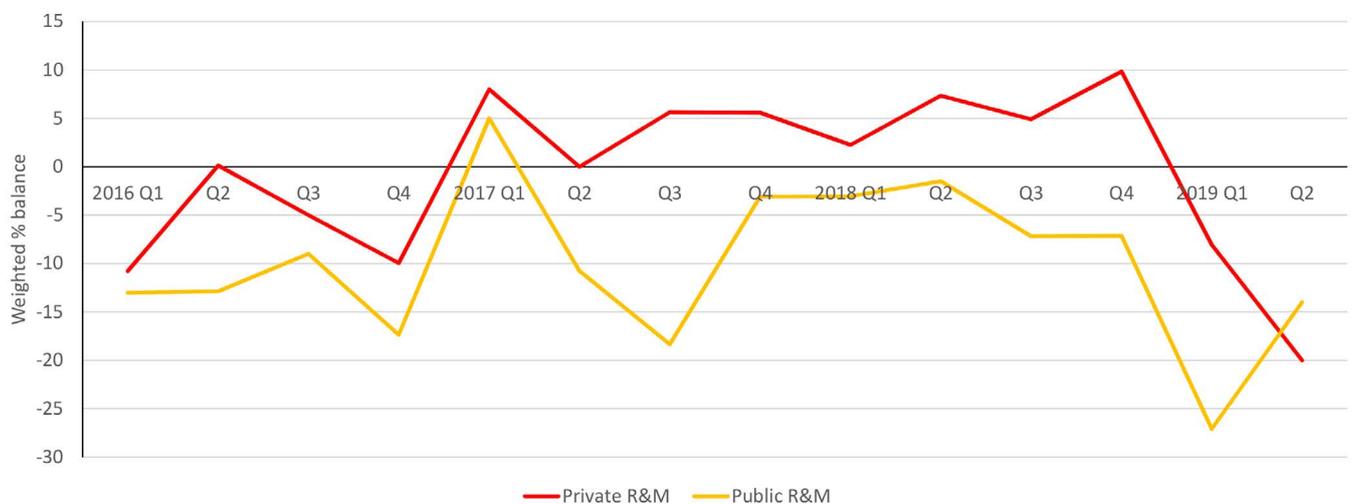


Despite a rise of 13 percentage points, the **public R&M** sector's net balance (-14) remains in negative territory. More firms indicated higher workloads (7% vs 5%). In contrast, 21% of businesses recorded lower workloads, down from 32%. At 72%, most firms stated no change in workloads, up from 63%.

The **private R&M** sector's net balance remains in negative territory as it decreased by 12 percentage points to -20. Approximately 8% of respondents stated higher workloads, down from 17%, while 28% of firms indicated lower workloads, up from 25%. Most businesses (64%) registered no change to workloads.



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



Expected workloads over the next three months and enquiries

The net balance for total enquiries dropped by 3 percentage points to 13, remaining in positive territory for the twenty fifth consecutive quarter. The proportions of businesses reporting higher levels of enquiries went down to 35% from 39%, while around 22% registered lower enquiries, down from 23%.

The total expected workloads' net balance saw no change from the last quarter remaining at +25. The share of respondents predicting higher workloads fell to 37% from 41%, and the share of respondents forecasting lower workloads also decreased, to 12% from 16%.



Residential expected workloads

With an increase of 7 percentage points the net balance for the residential sector rose to +18. Around 29% of businesses anticipate higher workloads over the following three months, unchanged from the last quarter. However, those expecting lower workloads dropped to 11%, from 18%.

A rise of 7 percentage points took the **private new** housing market's net balance to +18. Around 28% of members expect higher workloads, down from 33%, while those anticipating lower workloads reduced to a tenth, down from 22%. Approximately 62% of members foresee no change to workloads, up from 45%.

The net balance for the **social new** housing sector remained in positive territory despite edging down by 2 percentage points to +6. Fewer respondents predict higher workloads

(14% vs 22%) over the next three months, and businesses envisaging lower workloads also dropped to 8%, down from 14%. In contrast, those anticipating no change in workloads increased to 78%, up from 64%.

The net balance for the **social RM&I** sector remains in positive territory as it went up by 4 percentage points to +8. Fewer respondents (4% vs 15%) envisage lower workloads over the next three months, while 84% of businesses anticipate no change in workloads, up from 66%.

The **private RM&I** sector's net balance dropped by 13 percentage points to +10. Firms expecting lower workloads edged down to 15% from 16%, while the share of respondents forecasting higher workloads also dropped (25% vs 39%). However, around 61% of members envisage no change to workloads, up from 45% in the previous quarter.

"Workloads are increasing in the residential sector"

Weighted % balances

Expected Workload	2017Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Private new	+24	-3	+28	+20	+10	+4	+11	+18
Private RM&I	+23	+12	+31	+36	+18	0	+23	+10
Social new	0	-3	+5	+8	-2	+6	+8	+6
Social RM&I	+7	-2	+14	+4	+4	-1	+4	+8
Total residential	+24	+12	+28	+20	+11	+12	+11	+18
Enquiries								
Private new	+17	+4	+18	+24	+12	+7	-3	+6
Private RM&I	+19	+8	+18	+25	+20	+7	+11	+12
Social new	-3	-17	+13	-2	+6	+12	-3	-1
Social RM&I	+1	-9	+5	-1	+2	+8	+5	0
Total residential	+22	+10	+15	+16	+17	+12	-2	+9

Non-residential expected workloads

The net balance for non-residential expected workloads moved into positive territory as it rose by 13 percentage points to +6. Around 19% of respondents expect higher workloads, up from 18%, while fewer respondents foresee lower workloads (13% vs 25%). Over two thirds of firms (68%) expect no change to workloads, up from 57%.

A marginal rise of 1 percentage point took the **public R&M** sector's net balance to -2. Less firms also foresee lower workloads (12% vs 19%) while most firms envisage no change to workloads (78% vs 65%). One tenth of respondents predict higher workloads, down from 16%.

The **private R&M** sector's net balance declined by 8 percentage points to +3. Less firms (17% vs 27%) envisage higher workloads, while at 69% more respondents expect no change to workloads, up from 57%.

The **industrial** sector's net balance increased by 13 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. The proportion of businesses envisaging lower workloads fell to 10% from 24%, whereas those foreseeing higher workloads also edged down to 10%, from 11%. Around 80% of members



anticipate no change to workloads, up from 65%.

The net balance for the **public new build** sector decreased marginally by 1 percentage point to +2. Just over a tenth of firms (11%) forecast higher workloads, down from 24%. Those expecting lower workloads also dropped, to 9% from 21%. At 80%, most firms predict no change to workloads, down from the 56% reported in the last quarter.

A rise of 5 percentage points took the commercial sector's net balance to +9. The percentage of respondents anticipating higher workloads edged up to 25% from 24%, while 16% of businesses anticipate lower workloads, down from 20%. Most members (59%) expect no change to their workloads, up from the 56% registered three months earlier.

"Non-residential workloads are back in positive territory"

Weighted % balances

Expected Workload	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Public new build	-4	+2	+9	+8	-10	-13	+3	+2
Public R&M	+1	+3	+5	+8	-9	-6	-3	-2
Industrial	+16	+7	+15	-3	+5	+11	-13	0
Commercial	+17	+13	+32	+11	+2	+10	+4	+9
Private R&M	+13	+3	+16	+15	+6	+2	+11	+3
Total non-residential	+13	+10	+19	+12	0	+12	-7	+6
Enquiries								
Public new build	-5	-3	+7	+2	+3	-9	-18	-1
Public R&M	+4	-3	+6	+1	+4	0	-8	-11
Industrial	+13	+4	+6	0	+7	-1	-13	-12
Commercial	+16	+15	+12	+15	+6	+9	-7	-3
Private R&M	+10	+4	+10	+9	+1	+7	+9	-5
Total non-residential	+7	+14	+3	0	+13	+5	-5	-5

Prices and costs

Weighted % balances

Actual	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Output prices	+36	+43	+40	+45	+43	+48	+45	+35
Wages & salaries	+61	+63	+52	+62	+62	+59	+58	+51
Materials costs	+81	+87	+90	+89	+85	+85	+91	+81

Weighted % balances

Expected	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Output prices	+61	+64	+60	+54	+62	+67	+55	+48
Wages & salaries	+58	+61	+66	+53	+56	+66	+71	+50
Materials costs	+82	+87	+83	+76	+86	+87	+88	+77

The net balance for expected output prices dropped by 7 percentage points to +48. Half of firms expect higher output prices over the next six months, down from 61%. However, 49% of firms foresee no change to output prices, up from 32%.

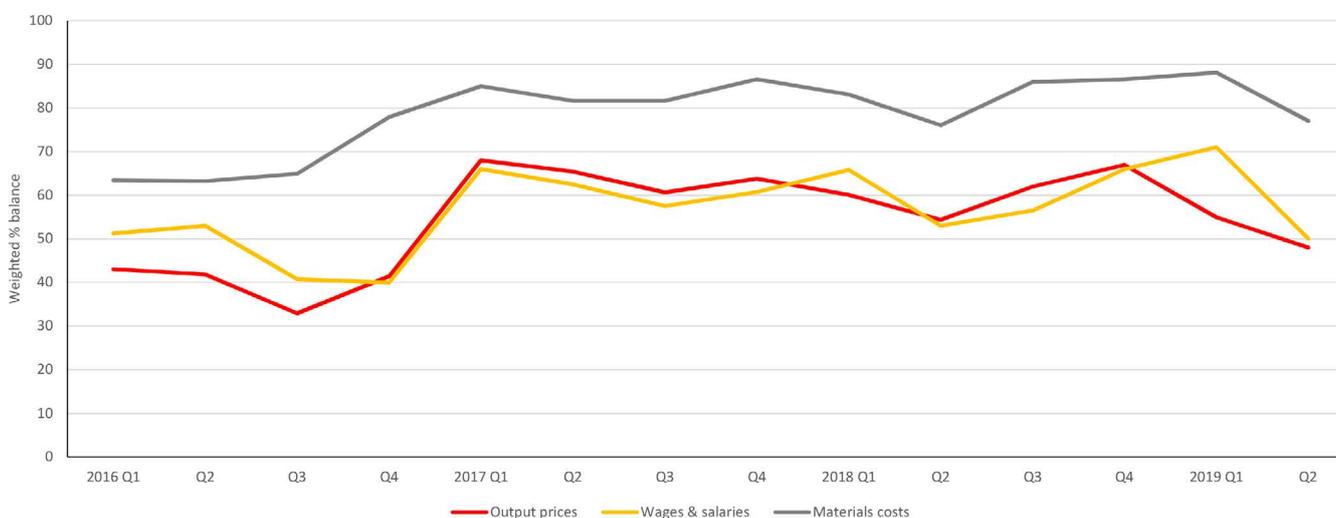
A fall of 21 percentage points took the net balance for expected wages and salaries to +50. Around 51% of firms envisage wage increases, down from 71% in the previous quarter, while

approximately 48% of members predict no change in wages and salaries, up from 29%.

The net balance for expected material costs fell by 11 percentage points to +77. Approximately 77% of respondents foresee higher material costs over the next six months, down from 88%. In contrast, those forecasting no change to material costs, increased to 23% from 12%.

“Four in five respondents foresee higher material costs over the next six months”

Prices and costs weighted % balance



Employment and labour

Weighted % balances

Employment	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
All builders	+10	+8	+4	+7	+7	+16	+3	-6
All specialists	+12	+13	+2	+5	+8	+14	-3	+3
Total employment	+11	+11	+3	+6	+7	+15	+1	-2

Weighted % balances

Expected employment	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
All builders	+26	+28	+32	+23	+19	+18	+20	+16
All specialists	+21	+22	+19	+15	+18	+13	+18	+19
Total employment	+23	+25	+26	+19	+19	+16	+19	+18

A decline of 3 percentage points took the net balance for total employment to -2. Approximately 19% of businesses recorded an increase in staffing levels, up from 17%, while those stating falls in employment also grew to 21%, up from 16%. At 61%, most firms indicated no change to the workforce.

With a decrease of 9 percentage points the net balance for all builders' employment fell to -6. Approximately 18% of firms indicated higher staffing levels, down from 20%, whilst those reporting a fall in their workforce grew to 24% from 17%. Most of the businesses (58%) registered no change to employment levels, down from 63%.

**"One in four
businesses
report a
reduction in
their workforce"**

The net balance for all specialists moved into positive territory as it grew by 6 percentage points to +3. Those reporting higher staffing levels rose (20% vs 13%), while firms indicating a decline in their workforce edged up to 17% from 16%.

A decrease of 1 percentage point took the net balance for expected total employment to +18. The share of firms foreseeing an increase in staffing levels went down to 28%, from 34% whereas almost two thirds (62%) of businesses expect no change to employment levels, up from 50%.

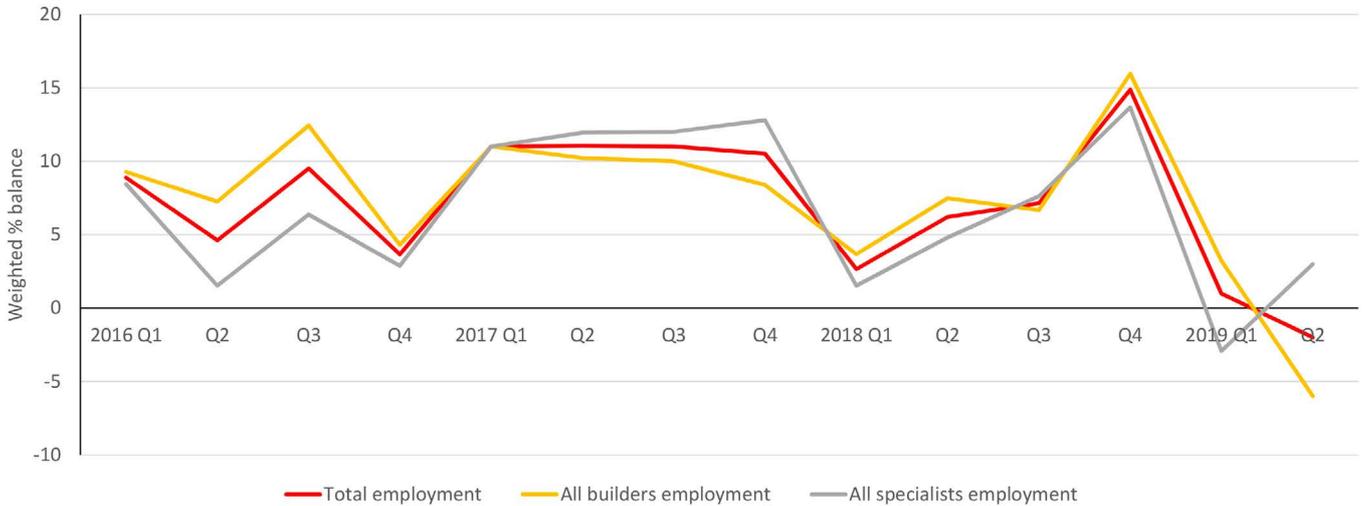
The builders' expected employment net balance dropped by 4 percentage points to +16. The percentage of respondents wanting to increase staff went down to 27% from 36%, whereas 62% of businesses forecast no change to their workforce, up from 49% in the last quarter.

The expected employment for all specialists increased slightly by 1 percentage point to +19. More respondents predict no change to workforce (63% vs 52%) over the coming six months, whereas less firms envisage a rise in workforce (28% vs 33%).



Employment and labour

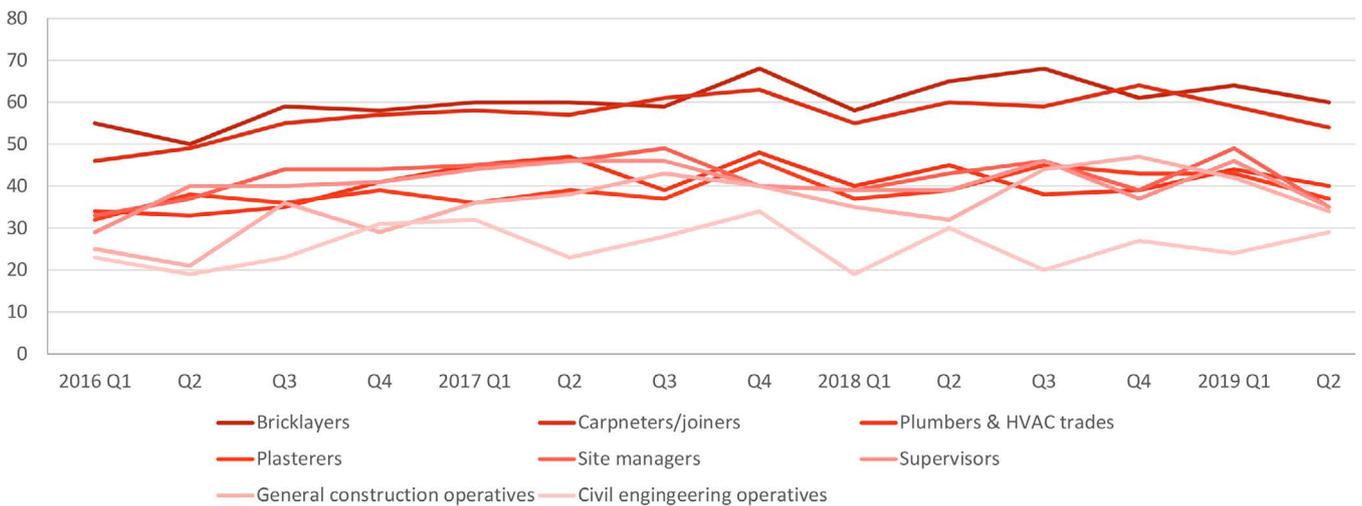
Employment weighted % balance



Bricklayers were reported as being the most difficult to recruit in the second quarter of 2019. Carpenters/joiners and plumbers & HVAC trades were also hard to hire. Scaffolders, as usual were the easiest to recruit.

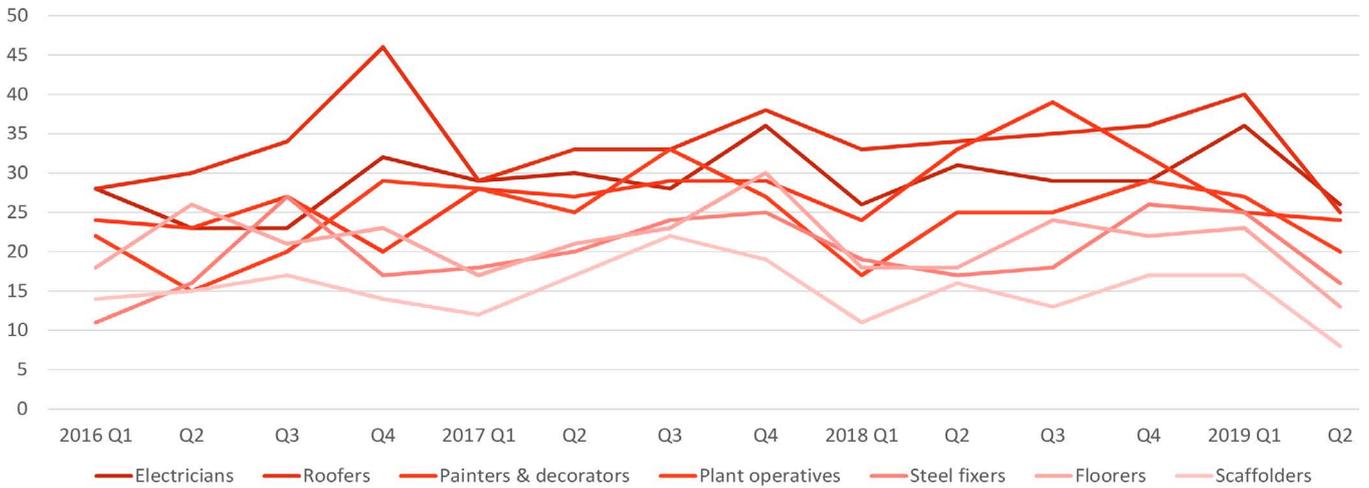
“Almost two-thirds of businesses are struggling to hire bricklayers”

% of respondents reporting difficulty recruiting selected skills - in most short supply



Employment and labour

% of respondents reporting difficulty recruiting selected skills (continued)



% reporting difficulty

Trades	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
Bricklayers	59	68	58	65	68	61	64	60
Carpenters/joiners	61	63	55	60	59	64	59	54
Plumbers & HVAC trades	39	48	40	45	38	39	44	40
Plasterers	37	46	37	39	45	43	43	37
Site managers	49	40	39	43	46	39	49	35
Supervisors	46	40	39	39	46	37	46	35
General construction operatives	43	40	35	32	44	47	42	34
Civil engineering operatives	28	34	19	30	20	27	24	29
Electricians	28	36	26	31	29	29	36	26
Roofers	33	38	33	34	35	36	40	25
Painters & decorators	29	29	24	33	39	32	25	24
Plant operatives	33	27	17	25	25	29	27	20
Steel fixers	24	25	19	17	18	26	25	16
Floorers	23	30	18	18	24	22	23	13
Scaffolders	22	19	11	16	13	17	17	8

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 went down by 2 percentage points to +11. Around 28% of weighted responses were positive, down from 30%, while the share of negative weighted responses remained unchanged, at 17%. The percentage of neutral weighted responses edged up to 55% from 53%.

Scotland's net balance soared by 23 percentage points to +33. Approximately 36% of weighted responses were positive, up from 30%, whereas 3% of the weighted responses were negative, down from 20%. Around 61% of the weighted responses were neutral, up from 50%.

At +10, the net balance for **England** was unchanged for the third consecutive quarter. The share of positive weighted responses edged up to 29% from 28%, while the share of negative weighted responses also increased, to 19%

from 18%. Most (52%) of the weighted responses were neutral, down from the 54%.

Northern Ireland's net balance moved into negative territory (-3) as it experienced the biggest drop of 44 percentage points. Just 5% of weighted responses were positive, down from 41%, while approximately 87% of weighted responses were neutral, up from 59%. At 8% there were more negative weighted responses, up from 0% recorded in the previous quarter.

Wales also saw a big drop in its net balance as it fell by 24 percentage points, to +12. The share of positive weighted responses declined to 23%, from 46%, while the share of negative weighted responses edged up slightly to 11% from 10%. Approximately two thirds (66%) of weighted responses were neutral, up from 44%.

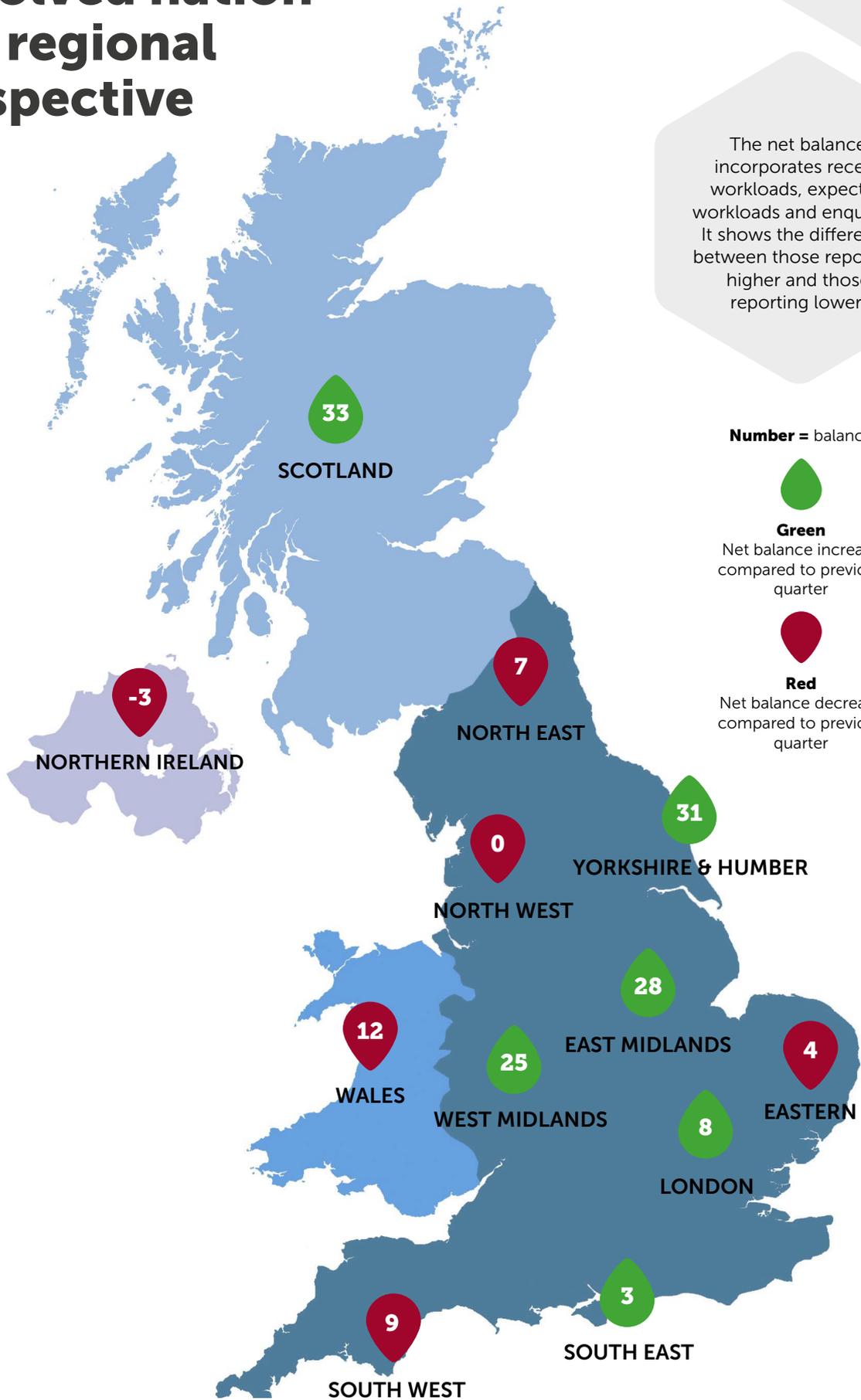
"Scotland was the only nation to see a faster rate of growth"

Weighted % balances

English region	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
East Midlands	+46	+37	+26	+15	+8	+2	+15	+28
Eastern	+34	+11	+7	+33	+26	+10	+31	+4
London	+19	+15	+10	+12	+12	+3	-15	+8
North East	+23	+25	+12	+28	+32	+19	+34	+7
North West	+25	+6	+20	+28	+22	-8	+30	0
South East	+26	+23	+17	+25	+20	+14	-12	+3
South West	+14	+4	+20	+17	+18	+21	+17	+9
West Midlands	+36	-4	+31	+25	-7	+19	+16	+25
Yorks & Humber	+28	-9	+19	+20	+16	-3	+25	+31

Nation	2017 Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2
England	+22	+14	+17	+21	+17	+10	+10	+10
Northern Ireland	+12	-7	+26	+47	+22	+32	+41	-3
Scotland	+7	-12	+7	+24	+19	0	+10	+33
Wales	+6	+19	+39	+14	+28	+11	+36	+12
UK	+23	+12	+18	+22	+17	+11	+13	+11

Devolved nation and regional perspective





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

For more than 25 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. Around 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 the Policy and Public Affairs team at the Federation of Master Builders via publicaffairs@fmb.org.uk or **020 7025 2947**.