

Q4
2022

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State of Trade Survey

For more than 30 years, the Federation of Master Builders (FMB) State of Trade Survey has monitored key indicators and predicted future short-term developments in the UK construction industry. It is the only survey of its kind to focus exclusively on small and medium-sized (SME) firms throughout the construction sector.

The report looks at activity from **October to December 2022** and it casts ahead to **January to March 2023**.





BRIAN BERRY, Chief Executive,
Federation of Master Builders

“The labour shortage is already a huge problem, and it gets worse with each year. The government needs to implement policies that encourage young men and women to pursue careers in construction. We also need easy access to foreign labour”

– FMB member

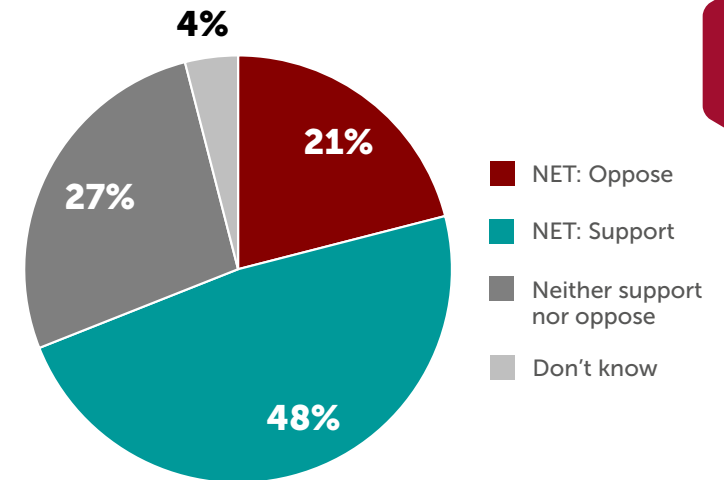
View from the Chief Executive

This quarter’s State of Trade data shows some potentially worrying signs for every part of the construction sector with workloads and enquiries down significantly. The drop in work and enquiries is likely to be reflective of consumers’ concerns about the economy, with suggestions that there will be an economic downturn in 2023. We’ll have to see if the troubling figures for Q4 2022 translate into reality as we progress through 2023. However, some trends, such as material costs, delays to work and availability of staff have fallen since the beginning of the year, providing some hope for Britain’s hard-working builders.

Workforce shortages

For many years the construction industry has suffered workforce shortages, a situation which was further exacerbated when the UK exited the European Union (EU). House building has been particularly affected as have certain parts of the country, most notably London and the south east of England. The availability of EU workers, who made up 9% of the overall construction workforce, is no longer a viable option. This coupled with the underinvestment in vocational skills has made a bad situation even worse. A roadmap about how the Government intends to address the skills gap is needed but in the short term there is a growing case to bring in more workers from outside the UK if we are to have enough labour to deliver the required construction activities. It is against this background we have asked FMB members if they believe the Government should introduce targeted immigration for the building sector, provided there was also investment in UK based training opportunities. The result is that 48% of FMB members are in favour with 21% opposed. We’ll have to see if the Government revisits the shortage occupation lists to include our sector.

FMB members were asked if they supported increased immigration to help fill skills gaps



Graph 1: Base: Total (n=266) To what extent would you support or oppose the UK Government encouraging increased immigration to the UK of people with trade skills to alleviate skills gaps in the construction industry? This would be used alongside investment from the UK Government and industry in improving UK based training opportunities (e.g., apprenticeships, college courses).



BRIAN BERRY, Chief Executive,
Federation of Master Builders

View from the Chief Executive

Small house builders under threat?

Worryingly, small local house builders had the worst level of workloads and enquiries at the end of 2022. This isn't unsurprising as the sector has been under siege for some time with a mountain of issues stopping homes being built. It's also a sector that's very susceptible to market headwinds and can suffer as consumers turn away from making large purchasing decisions. However, SME house builders can't afford these setbacks if we are to reverse recent decline. Only 10% of new homes are built by SME house builders as compared to 40% in the late 1980's. The UK needs more homes and the Government is right when it says homes need to be high quality, diverse, and built with the community in mind. This is bread and butter for SME house builders as they are part of their communities and consistently build quality homes for their local areas.

Planning departments are struggling, with staff being poached and resources stretched thin, they need investing in. But, more funding can't be an excuse for a blank cheque, planning departments would need to show they are unblocking the planning system. Planning teams should receive increased funding based on performance, which would incentivise better and faster planning decisions. Also, SMEs need that little bit more support, they are by no means technically less capable than their larger counterparts, but the administrative burden placed on small teams is substantial. A dedicated SME planning team in each local authority would not only help ease their way through the planning process, but also support new entrants into the market.

What do we need in the Spring Budget?

With a Budget coming in March, the survey sets out some clear objectives that need the Government's attention. Ambitious plans to unblock the planning system to get more homes built are a must. We also need to invest in greening our homes, with a long-term plan towards retrofitting the existing housing stock, as this would give business certainty to invest. The skills crises needs a plan, one which looks at how we fill the skills gaps and train up the next generation. What would be good to see is a roadmap so that industry in collaboration with the Government can work towards more vocational skills, especially as the workforce encroaches on retirement.

"It would greatly help our industry if they lower VAT and sort out planning applications. There are too many hurdles for planning"

– FMB Member

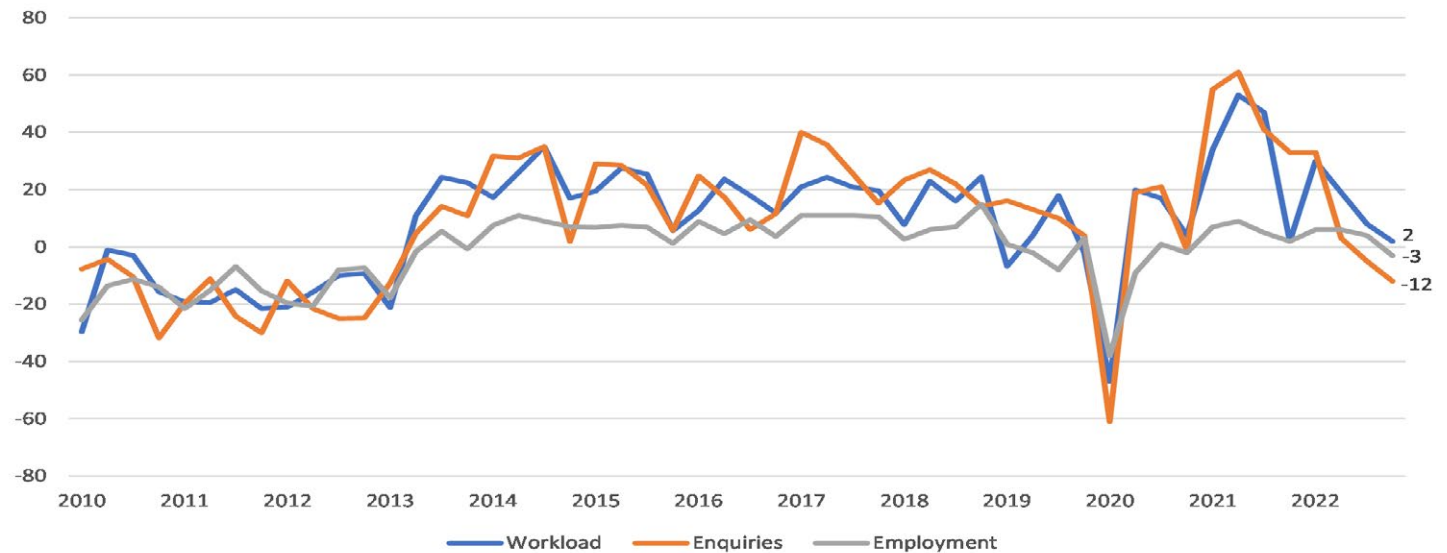
Key indicators

In the fourth quarter of 2022, the decline in workloads and enquiries has continued. Moreover, employment levels have also continued to decrease since Q2. This suggests that the post-Covid lockdowns boom in work is now over. What is worrying is that the numbers are falling to figures not seen since the aftermath of the recession in 2008 – with the current figures heading to those reported in 2010 to 2013.

Around a quarter (26%) of FMB members reported a higher workload in Q4 2022 on balance compared to Q3 (July-September 2022), while a quarter (25%) stated that their workloads are lower. In addition, around three in ten (29%) of FMB members reported that they had had an increase in total enquiries in Q4 2022 than in Q3 2022, while around four in ten (41%) reported a decrease. Unsurprisingly we are seeing the effects of a decline in enquiries, which has been the case since early 2022.

In terms of employment, 15% state that their workforce is bigger in Q4, while 19% report it has decreased. Unfortunately, a drop off in workload and enquiries will consequently result in fewer employment opportunities. This could also be reflective of general market head winds with companies not wanting to invest in expanding their workforces until they see the market stabilise. Clear direction from the Government on issues like retrofitting may help in this regard as it would highlight a direction for the industry to invest in.

Key indicators



Graph 2 - Q3. Looking back, how does your company's workload in the period October - December 2022, compare to that in July - September 2022? Base: Total excl N/A (n=266) Q6. Looking back, how has the level of enquiries regarding future work changed in the period October - December 2022 compared to July - September 2022? Base: Total excl N/A (n= 266) Q8. How has the number of employees within your company's workforce changed during October - December 2022 compared to July - September 2022? Base: Total excl N/A (n= 266). Net balance of change.

"Inflation is causing people to not proceed with their new projects"
– FMB Member



Workload and enquiries by sector

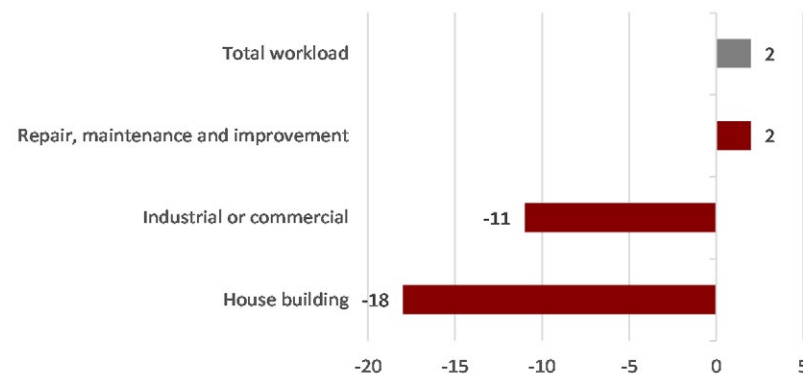
Both workload and enquiries have declined in Q4 2022 when compared to Q3 2022 in most sectors. Where declines have happened, they are significant, with housing showing a worrying slowdown. These declines were anticipated to some extent by a fall in enquiries in the last quarter.

Consistent with all quarters throughout 2022, the repair, maintenance and improvement (RMI) sector continues to have the highest net increase on balance for workload (2%), however, this remains 10% lower than what was observed in Q3 2022 (12%). Industrial and commercial, as well as the house building sector, have seen decreases on balance in workloads for the first time in 2022. The sharp decline in house building is concerning given the already turbulent market conditions faced by small, local house builders. 2023 and beyond will present significant challenges for house builders as multiple changes to regulations come into force which will affect costs. We also know the economic turbulence caused by the short-lived Truss Government caused mortgage products to be pulled, resulting in customers having fewer mortgage options to buy homes which was an issue picked up in our House Builders' Survey 2022.

In terms of enquiries, the RMI sector has remained fairly consistent since Q3 2022. Alternatively, both the industrial and commercial, as well as the house building sectors have observed even greater decreases on balance from -13% in Q3 to -19% in Q4, and -8% in Q3 compared to -19% in Q4 respectively. With enquiries across the sector in bad shape, the trend towards lower workloads looks set to continue.

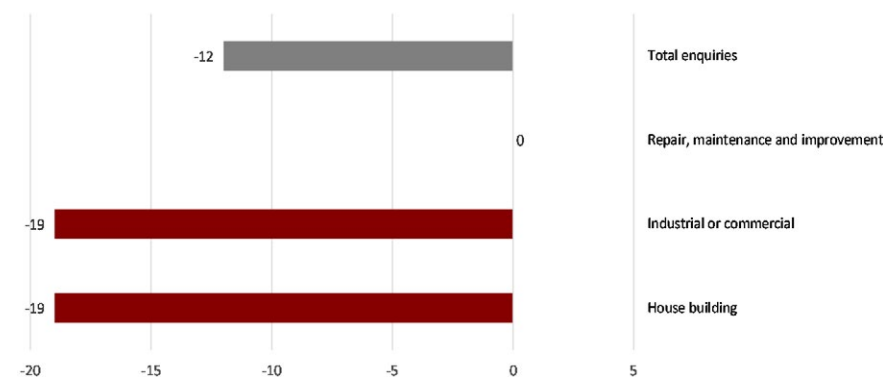


Workload by sector



Graph 3 - Q3. Looking back, how does your company's workload in the period October - December 2022, compare to that in July - September 2022, thinking about total workload, and in the specific sectors of the industry that you work in? Base: Total workload (n=266); House building (n=141); Repair, maintenance and improvement (n=253); Industrial or commercial (n=118). Excluding N/As. Net balance of change.

Enquiries by sector



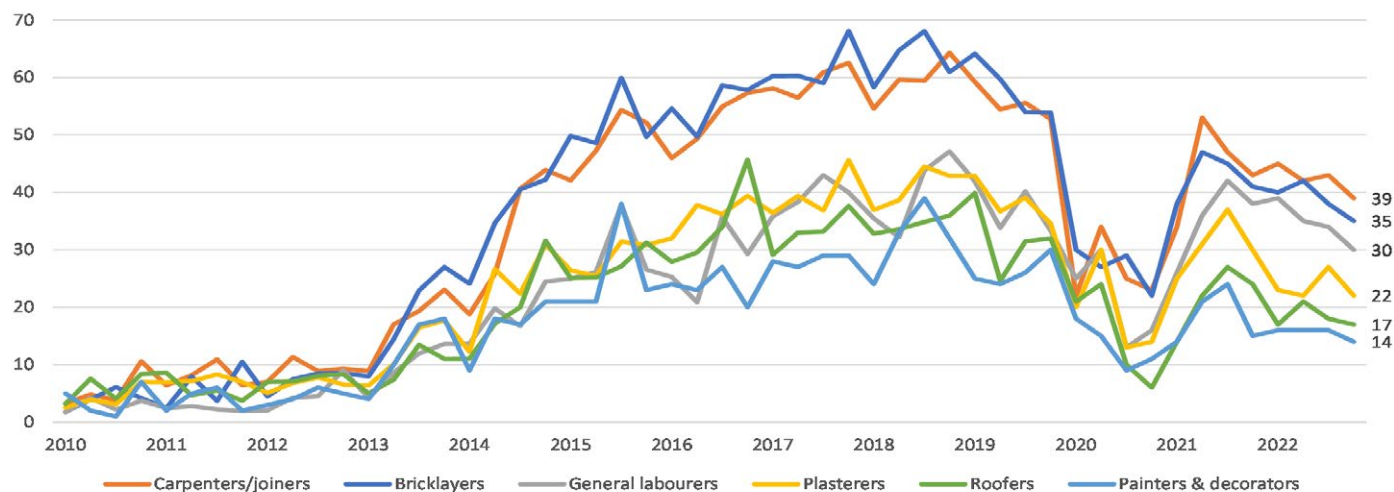
Graph 4 - Q6. Looking back, how has the level of enquiries regarding future work changed in the period October - December 2022 compared to July - September 2022? Base: Total enquiries (n=266); House building (n=142); Repair, maintenance and improvement (n=256); Industrial or commercial (n=125). Excluding N/As. Net balance of change.

Employment and skills shortages

FMB members report a net decrease of -3% on balance in employment levels in Q4 2022, compared to a net increase of 4% in Q3 2022. This is the first time in 2022 that there has been a net decrease reported in terms of workforce and these levels have continued to decline since Q2 2022. 15% of FMB members report having more employees during October – December 2022, compared to July – September 2022. However, 19% state that the number has decreased, while 66% report no change.

The proportion of members experiencing difficulties recruiting each core trade slightly decreased in Q4 2022 compared to Q3 2022. Carpenters/joiners, bricklayers and general labourers continue to be the most difficult occupations to recruit since Q1 2022, with at least three in ten FMB members struggling with each occupation (39%, 35%, and 30% respectively) in Q4. Ability to employ staff has become easier over 2022, with some spikes throughout the year. This is likely due to the lessening demand following the post-Covid boom in work where the market quickly heated up. While on the face it of skills issues are getting better there are still problems facing UK employment and the construction sector, namely an ageing workforce and a lack of a government-led skills plan to tackle this.

Difficulty in recruiting for each of the following occupations



Graphs 5 - Q10. For which of the following trades has your company found it difficult to recruit skilled staff over the period of October - December 2022? Base: Total (n=266). Net balance of change.



Prices and costs

Getting materials at a reasonable cost is affecting customers' decisions about whether or not to have a job done as it affects the quoted price. In Q4 2022, most FMB members continue to report a rise in prices that they charge for work, as well as their outgoing costs. Despite this, such pressures appear to have been easing slightly since Q2 2022. Around nine in ten (89%) FMB members report an increase in material costs on balance (compared to 90% in Q3). Some materials may be becoming more reasonably priced as availability issues lessened over 2022, however, there is an expectation that energy intensive materials will remain expensive in 2023. Around six in ten (61%) report an increase in wages and salaries on balance (compared to 67% in Q3). Finally, on balance, 70% state that the prices they charge for work have increased (compared to 76% in Q3). The drop in those upping prices for work could be reflective of falling costs of materials, but also reflective of the cost-of-living crises with customers having restricted budgets.

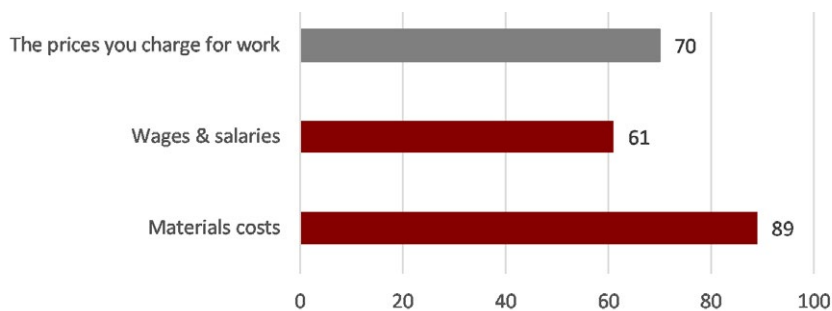
The majority of FMB members expect rises in both the prices they charge for work and wages to continue into the next quarter – this has stayed consistent throughout the four quarters in 2022. However, both the expected increases for material costs, as well as for wages and salaries, are slightly lower in Q4 2022 compared to Q3 (85% vs. 88% and 53% vs. 54% respectively). Anticipation of the expected increases for the prices they charge for work has slightly increased since Q3 (69% vs. 68% respectively).



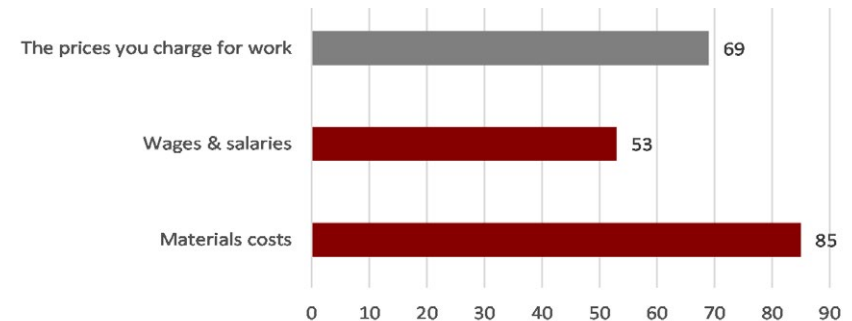
“Getting materials at a reasonable cost is affecting when customers make the decision to have a job done or not as this affects our quoted price”

– FMB member

**Past quarter prices and costs
October – December 2022**



**Expected Prices and cost
January – March 2023**



Graph 6 - Q11. How have both the prices that you charge for work, and your outgoing costs changed over the period of October – December 2022? Base: The prices you charge for work (n=265); Wages & salaries (n=265); Materials costs (n=265) Excl N/As. Net balance of change Graph 8 – Q12. And how do you expect both the prices that you charge for work, and your outgoing costs to change over the period of January – March 2023? Base: The prices you charge for work (n=261); Wages & salaries (n=259); Materials costs (n=258) Excl N/As. Net balance of change.

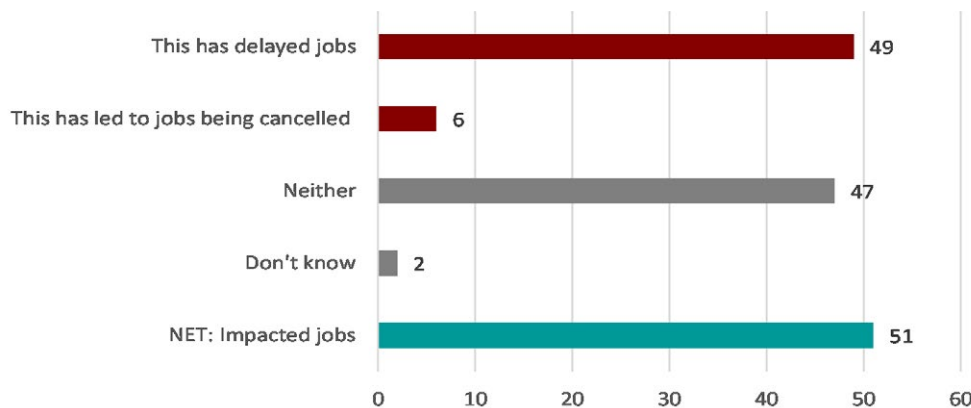
Impact of lack of materials and skilled tradespeople available

Around half (51%) of FMB members have had jobs impacted due to a lack of materials in Q4 2022, but positively, this has continued to decline each quarter since Q1 2022 when 77% had been impacted. 49% report that the lack of materials has delayed jobs, which is a decrease from last quarter (60%) and 6% state that it has led to jobs being cancelled. Throughout 2022 access to materials is clearly becoming less of an issue as supply chains start to rebalance themselves following the pandemic. However, the numbers of jobs affected still remain at significant levels.

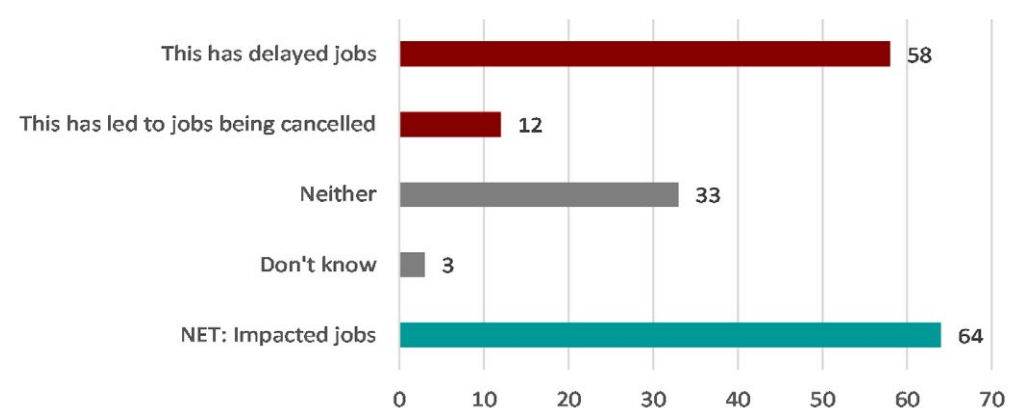
Around two thirds (64%) report that a lack of skilled tradespeople has impacted jobs in Q4 2022, which is slightly down from 66% who said the same in Q3. This has stayed fairly consistent throughout 2022. In line with Q3, 58% state that the lack of skilled tradespeople has delayed jobs, and 12% report that it has led to jobs being cancelled. We can see that a lack of skills is having a tangible impact on small, local builders and these numbers remain close to when this was asked as a one off back in Q3 2021 when the issue was reportedly at its worst.



Impact of lack of materials
October – December 2022



Impact of lack of skilled tradespeople
October – December 2022



Graph 7 - Q13. How, if at all, have each of the following impacted your company's work over the period of October – December 2022? Base: All respondents (n=266)

Key indicators in the home nations

The net balance for workload in Q4 2022 has increased substantially in Scotland since Q3 2022 (21% vs. -15% respectively). However, workload levels have decreased in Wales, England and Northern Ireland (-8% vs. 18%, 0% vs. 8% and 21% vs. 38% respectively). Enquiries in Q4 2022 have also decreased on balance in England and Wales compared to Q3 2022 (-7% and -13% vs. 27% and -8% respectively). While enquiries within Scotland and Northern Ireland have increased on balance since Q3 2022 (0% and -21% vs. -15% and -25% respectively), they still reflect more members saying enquiries have fallen than say have increased, reflecting a fairly negative picture.



Graphs 8 and 9 - Q3/Q6. Base: England (n=209); Wales* (n=24); Scotland* (n=19), Northern Ireland* (n=14) *Caution: Results should be treated as indicative due to limited base size. Net balance of change.

Key indicators in the English regions

Total workload has declined in most regions in Q4 2022 compared to Q3 2022. There has been a reversal in fortunes for the North which has decreased from 19% in Q3 to -11% in Q4, and Greater London has dropped from 21% in Q3 to -3% in Q4. The South has seen a slightly smaller decline of 10% in Q3 compared to 2% in Q4. By contrast, the Midlands have experienced an increase in total workload on balance from -12% in Q3 to 3% in Q4. All regions within England report a significant decrease in enquiries on balance in Q4 2022. Similarly to workload, the number of enquiries have dramatically decreased in the North and Greater London since Q3 (-17% vs. 17% and -11% vs. 0% respectively). The South has also slightly decreased since Q3 (-10% vs. -9%). The number of enquiries within the Midlands has decreased at a slightly less sharp rate, falling from -12% in Q3 2022 to -18 in Q4 2022. The dramatic drop off in enquiries could be reflective of the economic turmoil the country faced in the last quarter of 2022 and the run up to Christmas which is generally a quieter time, however it could be indicative that there will be a reduced workload at the start 2023.



Graphs 10 and 11 - Q3/Q6. Base: Northern (n=46); Midlands (n=38); Southern (n=125); Greater London (n=35). Net balance of change.

For more information

This quarter, the survey was issued between 3 January and 17 January 2023 and received 266 completes. It was published in February 2023.

For more information about the FMB please visit [**www.fmb.org.uk**](http://www.fmb.org.uk)

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