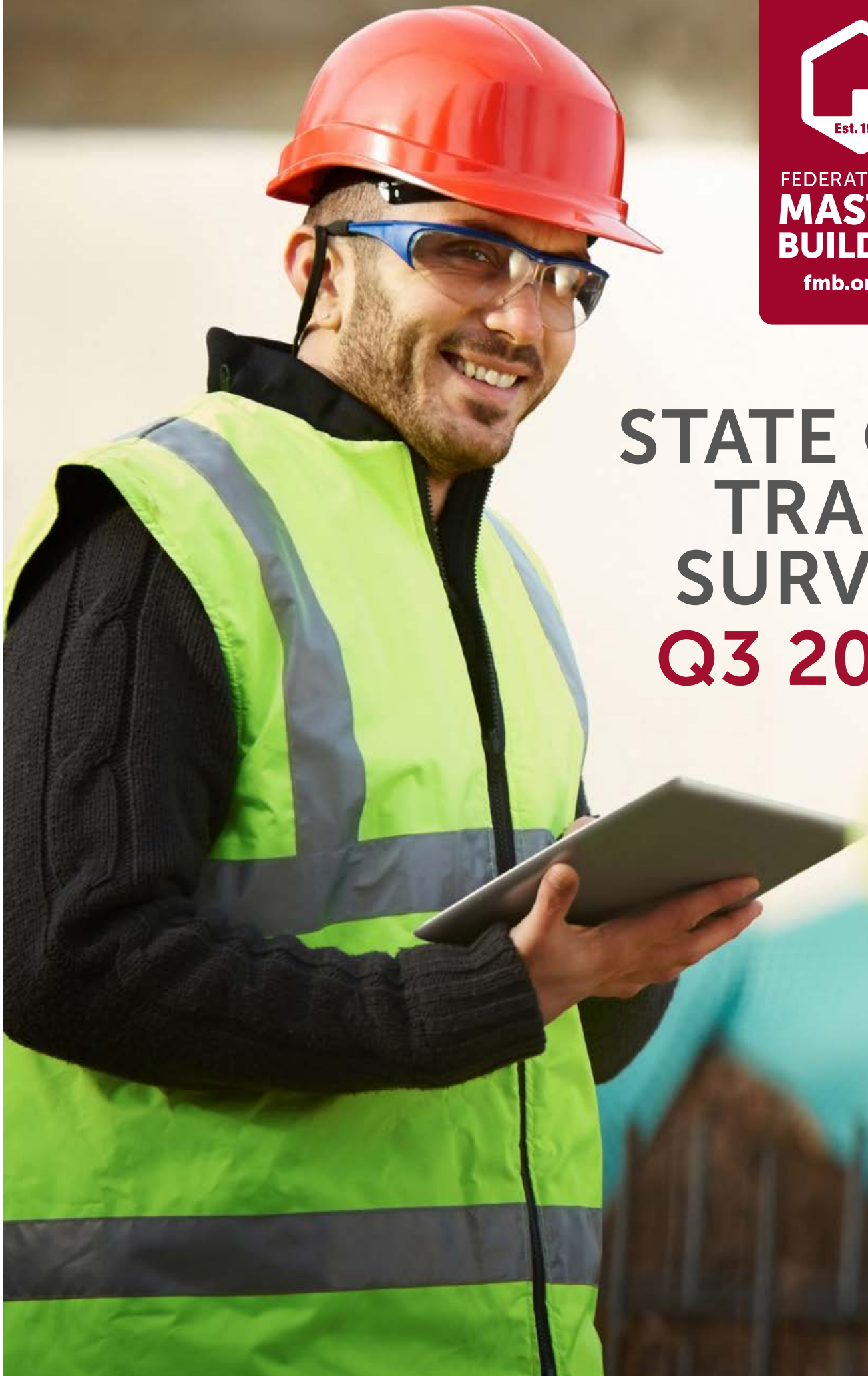




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# STATE OF TRADE SURVEY Q3 2018





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# Introduction from FMB Chief Executive Brian Berry

The third quarter of 2018 saw a slowdown in growth within the UK's small and medium-sized (SME) construction sector. With fewer than six months until Brexit, expectations for the future have also become slightly more pessimistic in comparison to the previous quarter.

Skills shortages in Q3 2018 have matched their peak seen at the end of last year with record numbers of firms reporting difficulties hiring bricklayers. Naturally, these shortages are putting upwards pressure on wages and salaries with well over half of firms predicting these to increase over the next six months. Added to this, material prices are still a cause for concern with almost 90% of construction SMEs expecting them to increase in the coming months.

However, despite Brexit nerves and rising costs, the construction SME sector is still growing, which demonstrates the resilience of our industry.



**"68% of builders are struggling to hire bricklayers"**

## Key statistics:

- At the UK level, growth slowed with 32% of members reporting rising workloads, compared with 41% in Q2 2018;
- Across the home nations, activity rose at a slower pace compared with the previous quarter in England, Scotland and Northern Ireland, with Wales being the only home nation to experience activity increasing at a faster rate;
- These results represent 22 consecutive quarters of positive growth, which means that construction SME workloads have now been on the rise for more than 5½ years;
- 86% of builders believe that material prices will rise in the next six months;
- 58% of construction SMEs foresee wage increases over the next six months, up from 54% in the previous quarter;
- Skills shortages matched their peak in Q4 2017 with 68% of firms struggling to hire bricklayers.

## 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 third quarter of 2018, SME workloads grew at a slower pace quarter-on-quarter. Fewer respondents indicated rising activity (32% vs 41%), while just over half of firms (52%) stated no change in workloads, up from 41%.

Expectations for the future have become weaker with 36% of respondents forecasting higher workloads, down from 46% in the previous quarter. In contrast, those predicting no change to workloads grew, to 51% from 41%.

**The latest regional composite indicators showed activity rising at a slower pace compared with the previous quarter for three out of the four home nations:**

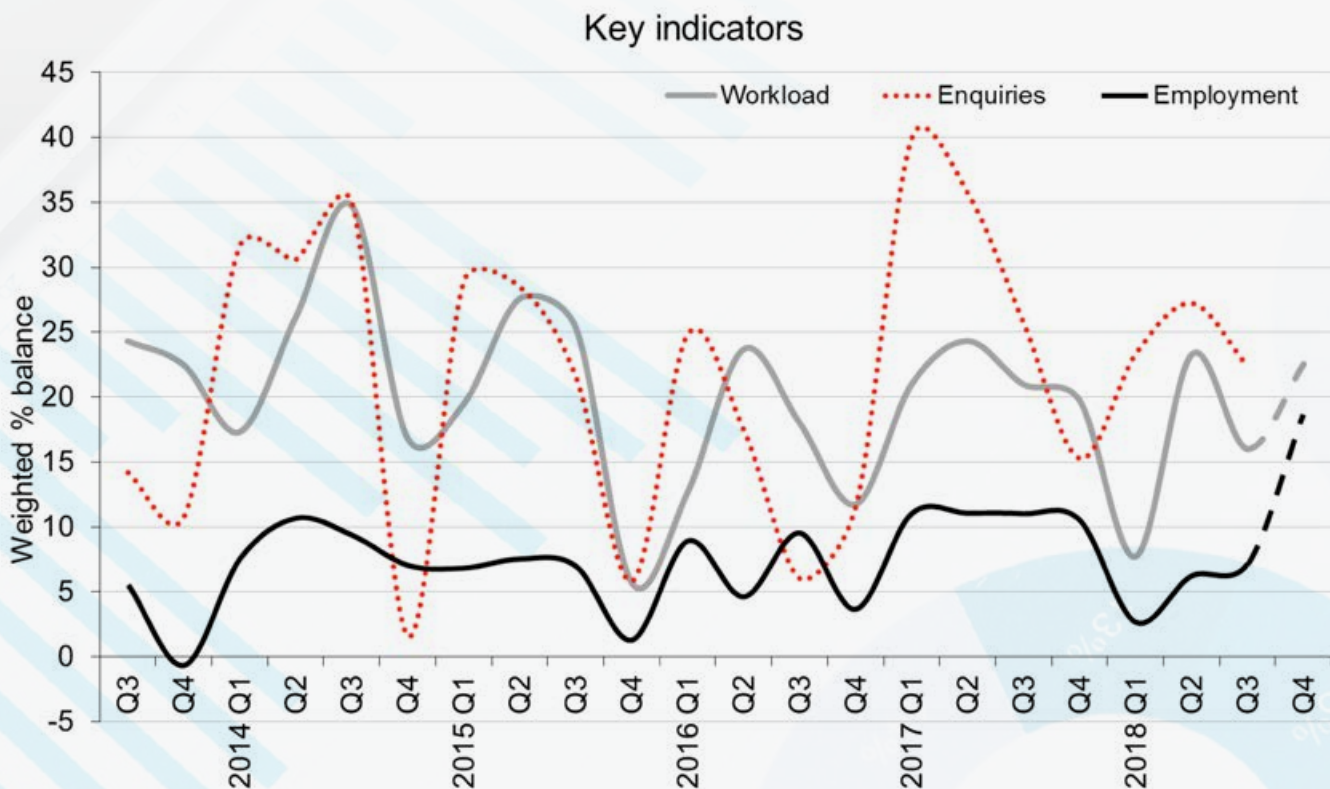
Wales was the only home nation to experience activity increasing at a faster rate as its net balance improved by 14 percentage points to +28.

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

Material costs are projected to see the steepest rise as 86% of members envisage higher costs, up from 76% three months earlier.

**Employment rose at a faster pace compared with the previous quarter:**

The share of members reporting that their workforce went up rose to 24% from 21% while more than half of firms (60%) indicated no change in employment levels.



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

## WORKLOADS

In the three months to June this year the net balance for overall workloads remained in positive territory for the twenty second successive quarter despite falling by 7 percentage points to +16. The proportion of members reporting rising workloads declined to 32% from 41%, while the majority (52%) of businesses stated no change to workloads, up from 41% in the previous quarter.

The net balance for the commercial sector jumped by 12 percentage points to +15. Around 30% of businesses stated higher workloads, up from 21%, while those suggesting lower levels declined (15% vs. 18%). Most firms (56%) stated no change in workloads.

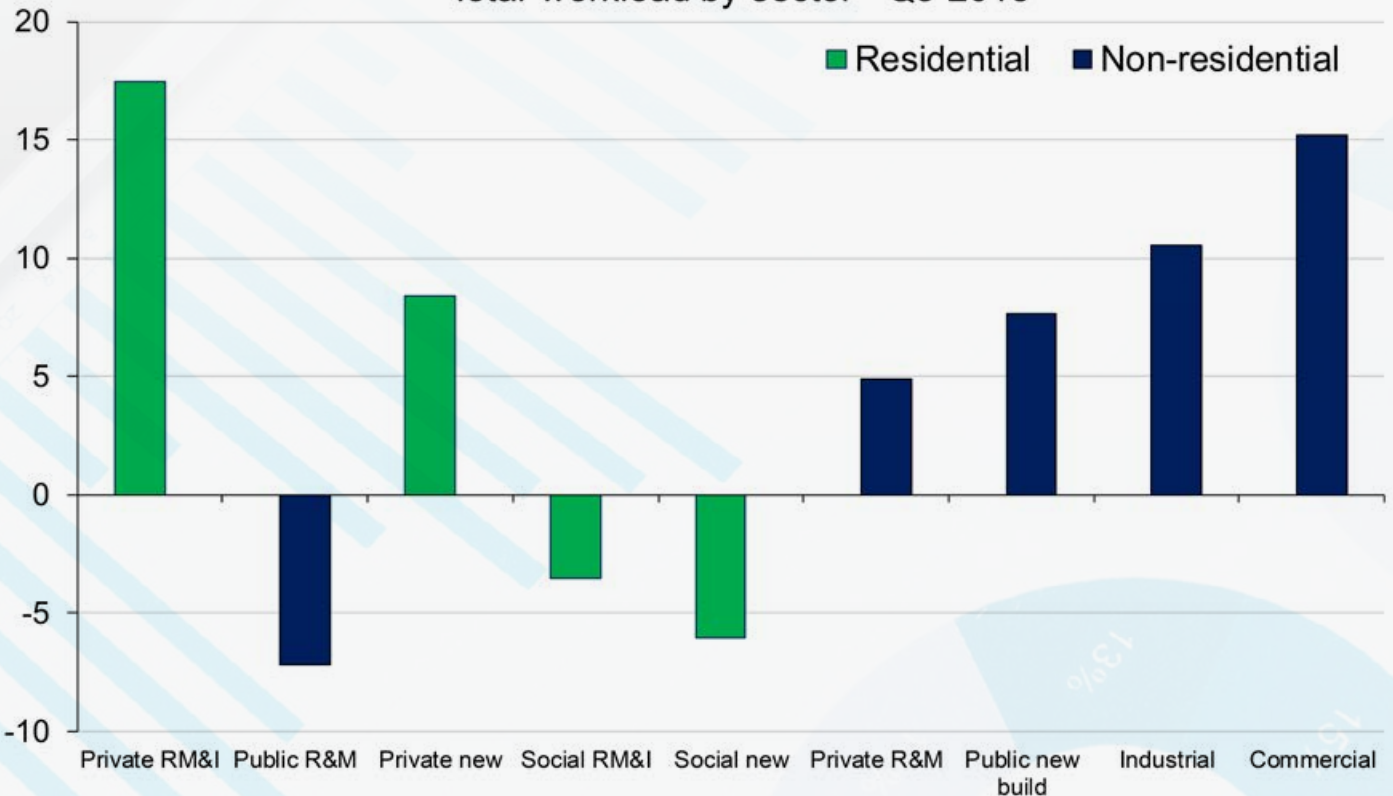
At +11, the industrial sector's net balance saw the second largest increase, of 8 percentage points to +11.

Fewer businesses reported lower workloads (7% vs. 13%) whereas just over three quarters (76%) of respondents stated no change in workloads, up from 70%.

Despite decreasing by 7 percentage points to +5, the overall housing sector's net balance remained in positive territory for the second consecutive quarter. Just over a fifth (21%) of firms stated higher workloads, down from 28%, while over half of businesses (62%) registered no change to workloads.

An increase of 13 percentage points took the non-residential sector's net balance to +22. The share of firms reporting higher workloads grew to 32% from 21%. However, those stating lower workloads edged down, to 11% from 12% in Q3 2018.

Total workload by sector - Q3 2018





# RESIDENTIAL WORKLOADS

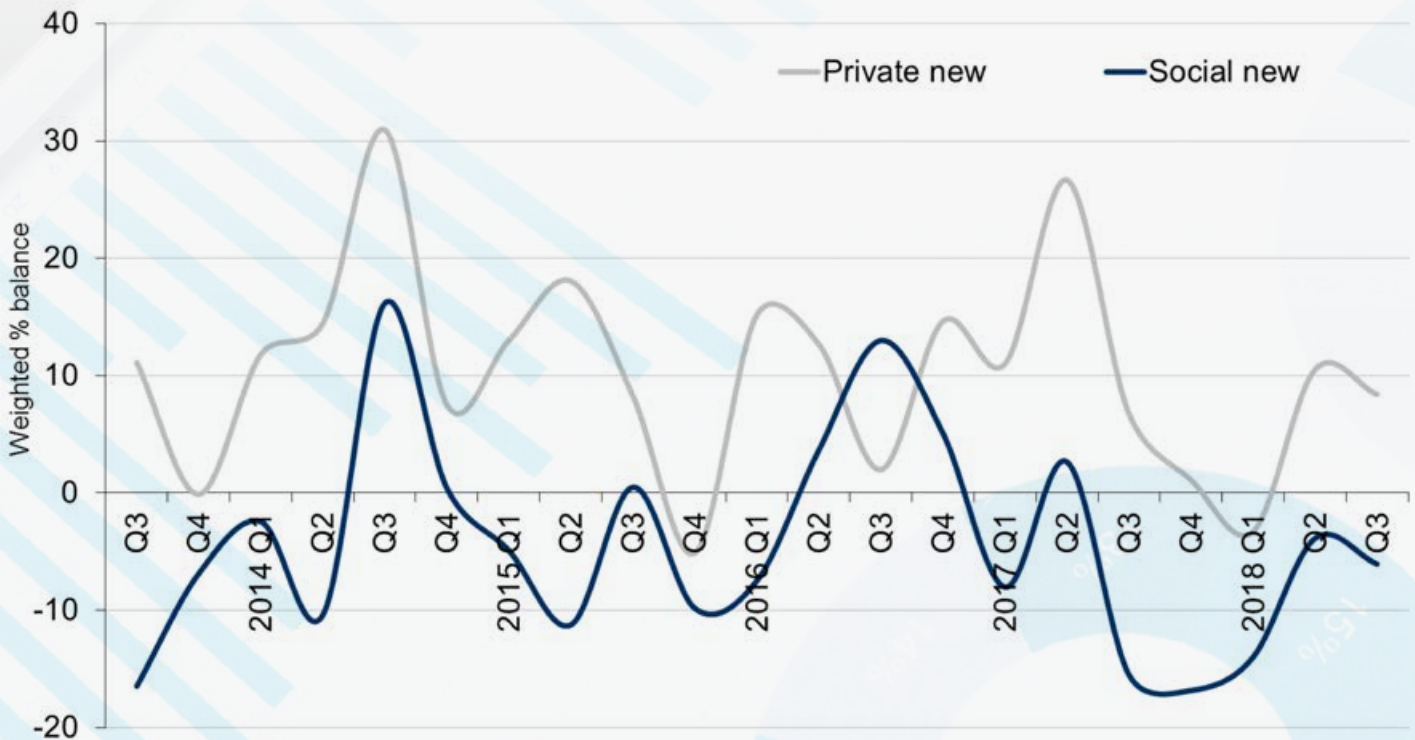
Weighted % balances

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

The net balance for the **private new** housing sector stayed in positive territory for the second quarter running despite decreasing by 3 percentage points to +8. The percentage of firms reporting a decrease in workloads grew to 19% from 16%, whereas most respondents (53%) stated no change to workloads.

A fall of 2 percentage points took the net balance for the **social new** housing sector to -6. Just 5% of firms indicated higher workloads, slightly down from 6%, while the majority of businesses (84%) reported no change in workloads, up from 83%.

Residential historical weighted % balance - new build

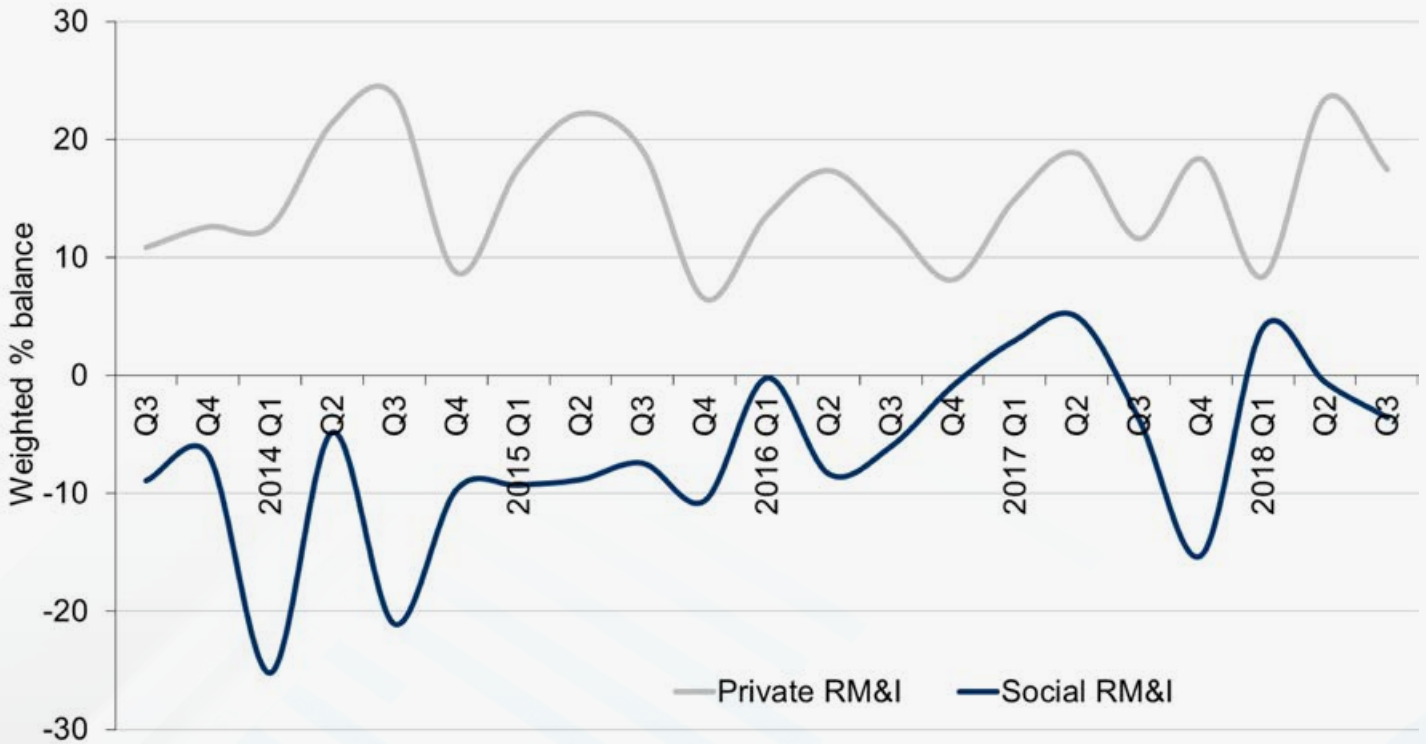


The net balance for the **social RM&I** sector went down by 3 percentage points to -4. Around a fifth of respondents indicated a decline in workloads, up from 14%, while at 64% most businesses reported no change in workloads, down from 72% three months earlier.

Despite a drop of 8 percentage points to +17, the net balance for the **private RM&I** sector remained in positive territory for the twenty first consecutive quarter. Just under a third (32%) of respondents reported higher workloads, down from 35%, while those registering lower workloads grew to 14% from 12%.

## RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



## NON-RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
Public new build	-15	-1	+3	-5	-7	-5	+1	+8
Public R&M	-17	+5	-11	-18	-3	-3	-2	-7
Industrial	-20	0	+2	+1	+7	0	+3	+11
Commercial	-8	+4	+14	+2	+19	+6	+3	+15
Private R&M	-10	+8	0	+6	+6	+2	+7	+5
<b>Total Non-Residential</b>	<b>0</b>	<b>-3</b>	<b>+8</b>	<b>+8</b>	<b>+16</b>	<b>-2</b>	<b>+9</b>	<b>+22</b>

A rise of 7 percentage points allowed the net balance for the **public new build** (+8) sector to remain in positive territory for the second consecutive quarter. The share of firms reporting higher workloads edged up (18% vs 17%), whereas those businesses stating lower workloads fell, to 10% from 17%.

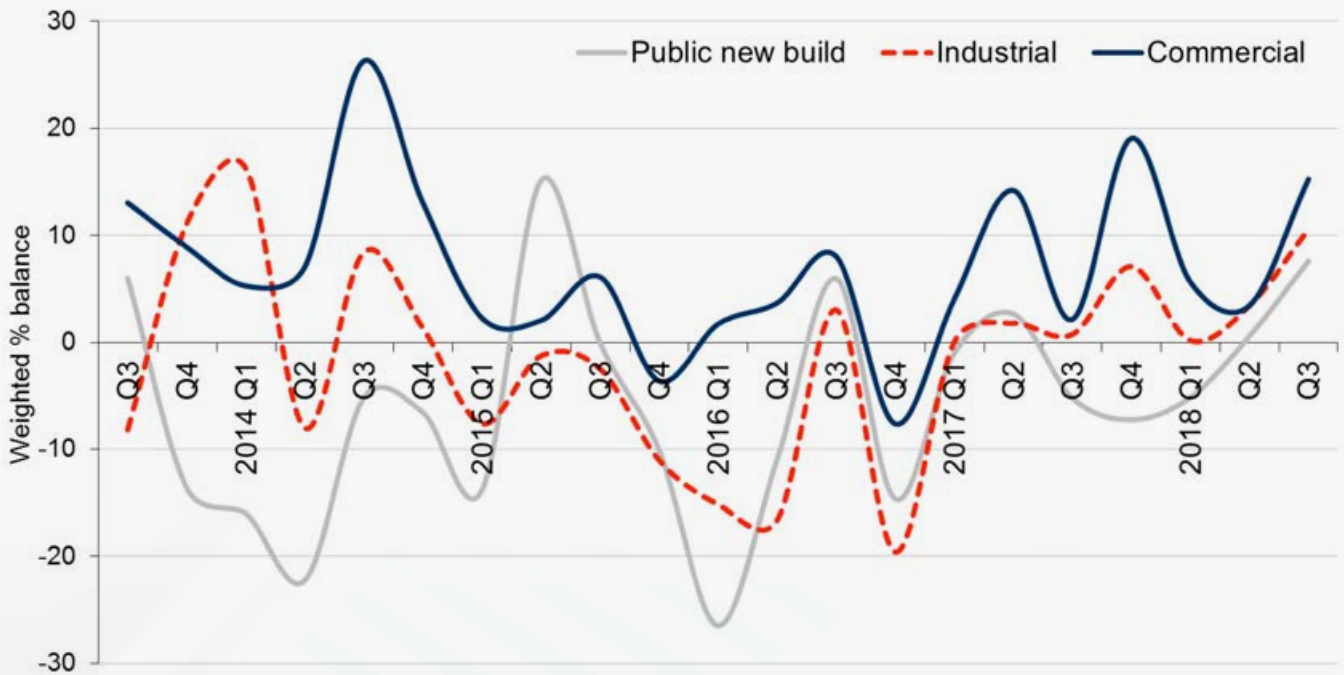
The **commercial** sector's net balance stayed in positive territory for the seventh successive quarter as it rose by

12 percentage points to +15. Around 30% of respondents stated higher workloads, up from 21% in Q2 2018, while fewer respondents (15% vs. 18%) reported lower workloads.

The net balance for the **industrial** sector went up by 8 percentage points to +11. The proportion of members indicating lower workloads fell to 7% from 13%, while just over three quarters of firms (76%) registered no change to workloads, up from 70% in the previous quarter.

# NON-RESIDENTIAL WORKLOADS

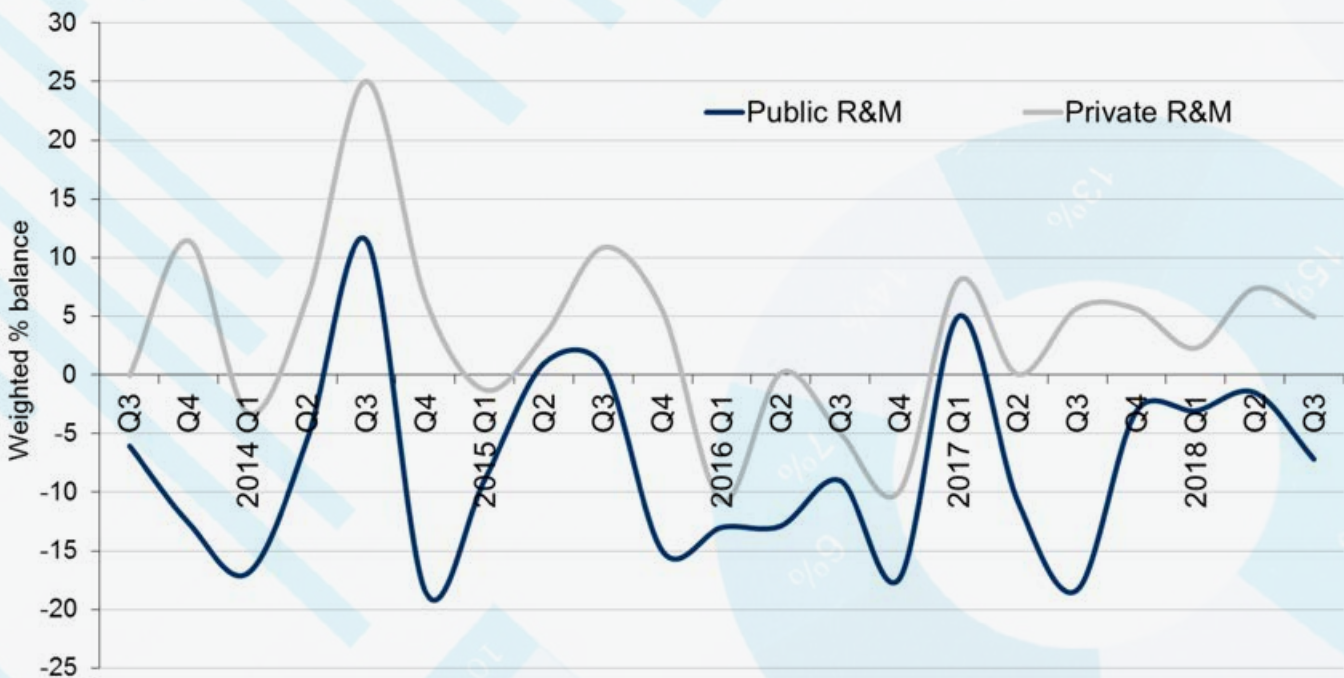
Non-residential historical weighted % balance chart - new work



The **public R&M** sector's net balance deteriorated by 5 percentage points to -7. Just 7% of firms recorded higher workloads, down from 14%. At 78%, the majority of firms stated no change in workloads, up from 71% in the previous quarter.

The **private R&M** sector's net balance remained in positive territory for the fifth successive quarter despite decreasing by 2 percentage points to +5. Less firms reported higher workloads (17% vs. 19%), while those stating no change in workloads edged up, to 70% from 69%.

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





## EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

Despite falling by 5 percentage points, at +22, the net balance for total enquiries remained in positive territory for twenty-two consecutive quarters. The proportion of respondents reporting higher levels of enquiries fell to 36% from 43%,

whilst half of businesses indicated no change in enquiries, up from 41%.

The net balance for total expected workloads also remained in positive territory for the twenty second successive quarter, even though

it dropped by 10 percentage points to +23. The share of members forecasting higher workloads declined to 36% from 46%, while just over half (51%) of respondents anticipate no change to workloads.

## RESIDENTIAL EXPECTED WORKLOADS

A fall of 9 percentage points to +11 was registered for the residential sector's net balance. Approximately 26% of members are envisaging higher workloads over the next three months, down from 36%, while slightly more firms (16% vs.15%) expect lower workloads.

Even though the **private new** housing market's net balance (+10) fell by 10 percentage points, it remained in positive territory for the third consecutive quarter. The share of respondents with positive expectations for workloads went down to 26% from 35%, while those expecting no change to workloads increased to 59% from 49%.

The net balance for the **social new** housing sector moved back into negative territory as it fell by 10 percentage points to -2. Just

13% of respondents expect higher workloads, down from 22%. Nearly three quarters of firms (73%) forecast no change to workloads, up from 65%.

The net balance for the **social RM&I** sector was unchanged at +4. More respondents (17% vs. 13%) predict higher workloads over the next three months, while a greater share also expect lower workloads (13% vs. 9%). More than half (70%) of businesses envisage no change to workloads.

The **private RM&I** sector's net balance (+18) remained in positive territory for the eleventh consecutive quarter despite falling by 18 percentage points. Those respondents predicting lower workloads rose to 14% from 7%, whilst firms anticipating higher



workloads declined to 32% from 43%. At 54%, the majority of members expect no change to workloads, up from 50% in the previous quarter.

### Weighted % balances

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

## NON-RESIDENTIAL EXPECTED WORKLOADS

The net balance for non-residential expected workloads dropped by 12 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. Approximately 17% of respondents predict higher workloads, down from 25%, while around 17% of respondents forecast lower workloads, up from 13%. Just under two thirds (65%) of firms anticipate no change to workloads, up from 62%.

The **Public R&M** sector's net balance moved back into negative territory as it deteriorated by 17 percentage points to -9. Around 15% of firms envisage lower workloads, up from 11%, while just 6% of businesses foresee higher workloads, down from 19% in the previous quarter. At 78%, most members predict no change to workloads, up from 69%.

The net balance for the **private R&M** sector went down by 9 percentage points to +6. Despite this, it remained in positive territory for the seventh consecutive quarter. Just over a fifth (21%) of respondents foresee higher workloads, down from 25%, while more businesses (15% vs. 10%) anticipate lower workloads. Around 64% of members forecast no change to workloads, slightly down from 65% three months earlier.

A rise of 8 percentage points took the **industrial** sector's net balance (+5) back into positive territory. The share of firms anticipating lower workloads fell (13% vs. 19%), while 18% of respondents predict higher workloads, slightly up from 17%. Respondents expecting no change in workloads rose to 70% from 64%.

The **public new build** sector's net balance moved into negative territory as it plummeted by 18 percentage points to -10, a reading last seen two years ago. A tenth of firms predict higher workloads, down from a fifth. In contrast, around 20% of businesses expect lower workloads, up from 12% in the previous quarter.

Even though the **commercial** sector's net balance (+2) declined by 9 percentage points, it remained in positive territory for the eighth consecutive quarter. The share of respondents anticipating higher workloads declined to 21% from 27% while just under a fifth (19%) of members forecast lower workloads, up from 16%. The majority (61%) of businesses envisage no change to their workloads, up from 57%.



### Weighted % balances

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



# PRICES AND COSTS

## Weighted % balances

Actual	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
Output prices	+25	+49	+48	+36	+43	+40	+45	+43
Wages & salaries	+44	+52	+59	+61	+63	+52	+62	+62
Materials costs	+73	+87	+89	+81	+87	+90	+89	+85

## Weighted % balances

Expected	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
Output prices	+41	+68	+65	+61	+64	+60	+54	+62
Wages & salaries	+40	+66	+62	+58	+61	+66	+53	+56
Materials costs	+78	+85	+82	+82	+87	+83	+76	+86

The net balance for expected output prices grew by 8 percentage points to +62. Approximately 65% of firms predict higher output prices over the next six months, up from 56%, whereas 32% of businesses forecast no change to output prices, down from 42%.

The net balance for expected wages and salaries rose by 3 percentage points to +56. Approximately 58% of firms predict wage increases, up from 54% three months

earlier, while around 41% of members forecast no change in wages and salaries, down from 46%.

An increase of 10 percentage points took the net balance for expected material costs to +86. Approximately 86% of businesses predict a rise in material costs over the coming six months, up from 76%, while 13% of respondents anticipate no change to material costs, down from 23%.

Prices and costs weighted % balance chart





## EMPLOYMENT AND LABOUR

Weighted % balances

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

Weighted % balances

Expected employment	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
All builders	+7	+32	+29	+26	+28	+32	+23	+19
All specialists	+5	+30	+29	+21	+22	+19	+15	+18
<b>Total Employment</b>	<b>+6</b>	<b>+31</b>	<b>+29</b>	<b>+23</b>	<b>+25</b>	<b>+26</b>	<b>+19</b>	<b>+19</b>

The total employment net balance edged up by 1 percentage point to +7. Just under a quarter of firms (24%) stated a rise in staffing levels, up from 21%, whereas those reporting no change in employment fell, to 60% from 64%.

The employment net balance for all builders is unchanged at +7. Approximately 57% of firms reported no change to staffing levels, slightly down from the 58% reported three months earlier.

A rise of 3 percentage points took the net balance for all specialists to +8. Approximately 23% of respondents registered higher staffing levels, up from 17% in the previous quarter, while firms indicating no change in their workforce fell to 63% from 71%.

The net balance for expected total employment remained at +19 for the second consecutive quarter. While the proportion of respondents predicting a rise in staffing levels edged up (29% vs. 28%), those firms anticipating a fall in employment also went up, to 10% from 9%.

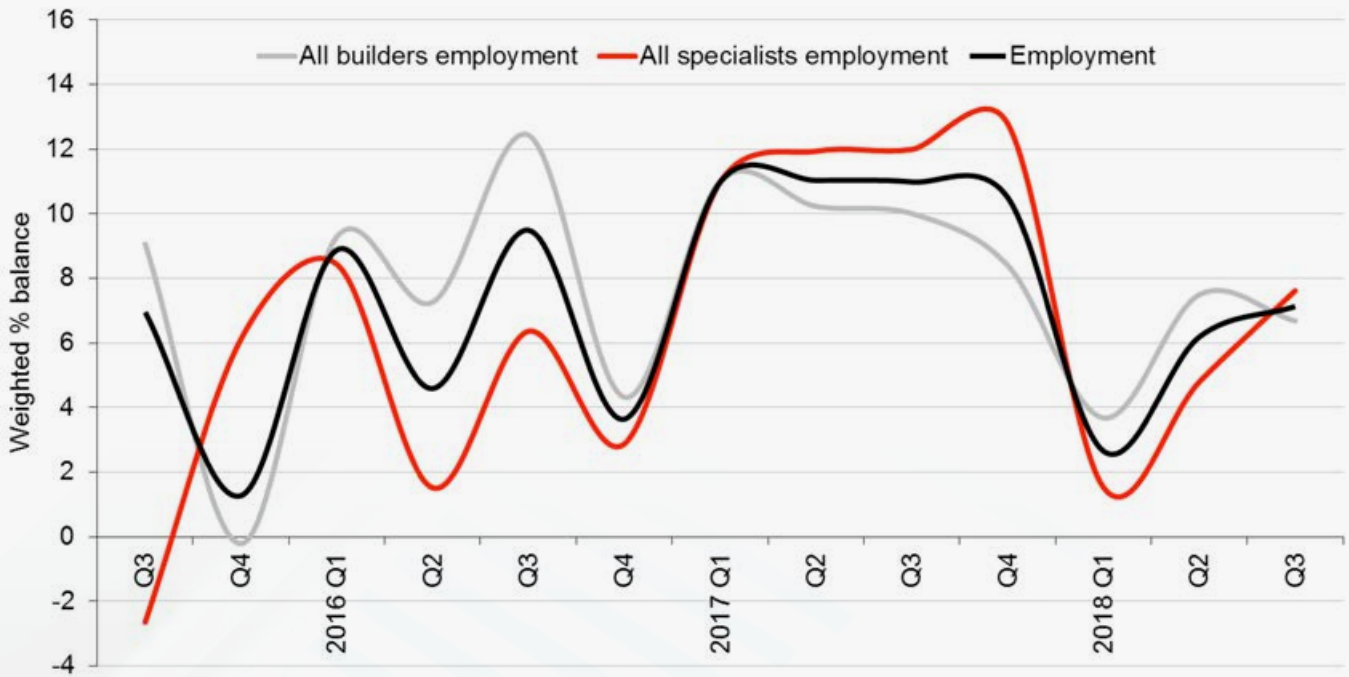
The all builders expected employment net balance decreased by 4 percentage points to +19, the lowest reading since Q4 2016. The proportion of members looking to hire more staff went down to 29% from 31%, while around 10% of businesses forecast a fall in their workforce, up from 8%.

In contrast, the specialists' expected employment net balance grew by 3 percentage points to +18. Around 29% of respondents predict a rise in employment, up from 25%, while the majority (60%) of firms expect no change to workloads, down from 66%.



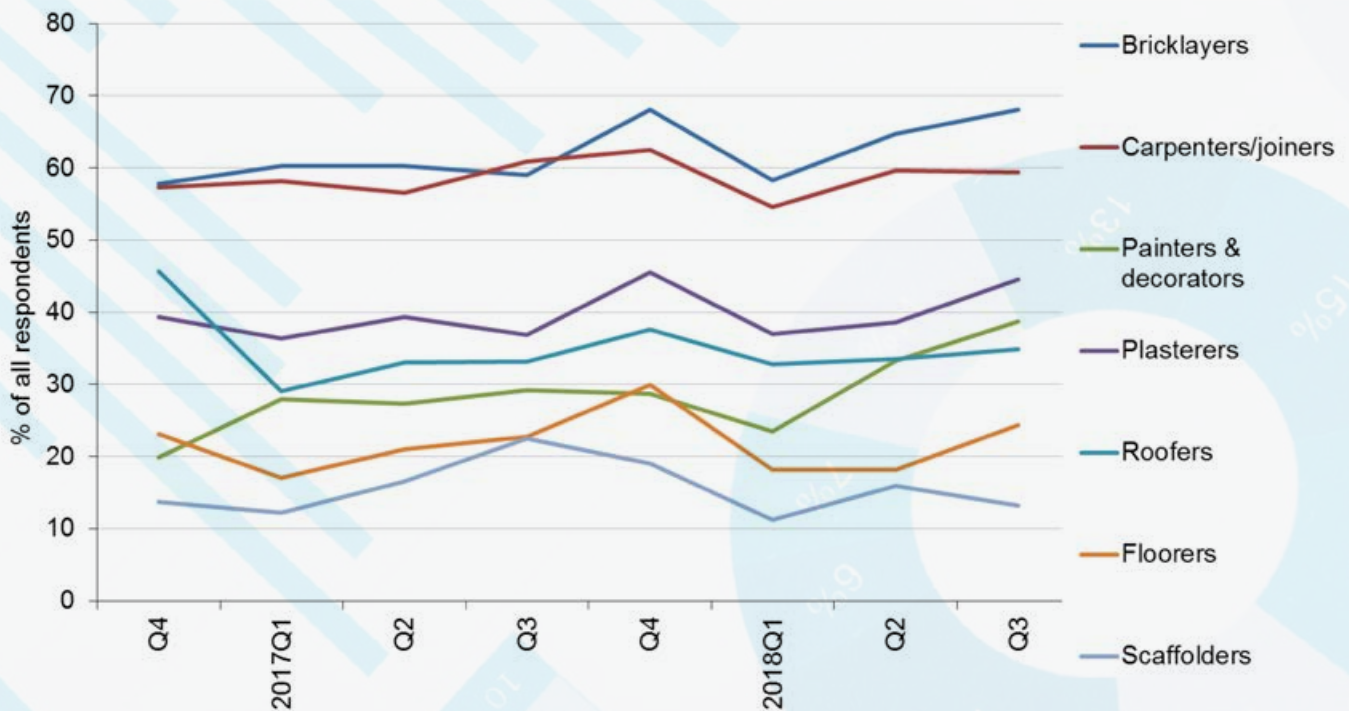
# EMPLOYMENT AND LABOUR

Employment weighted % balance chart



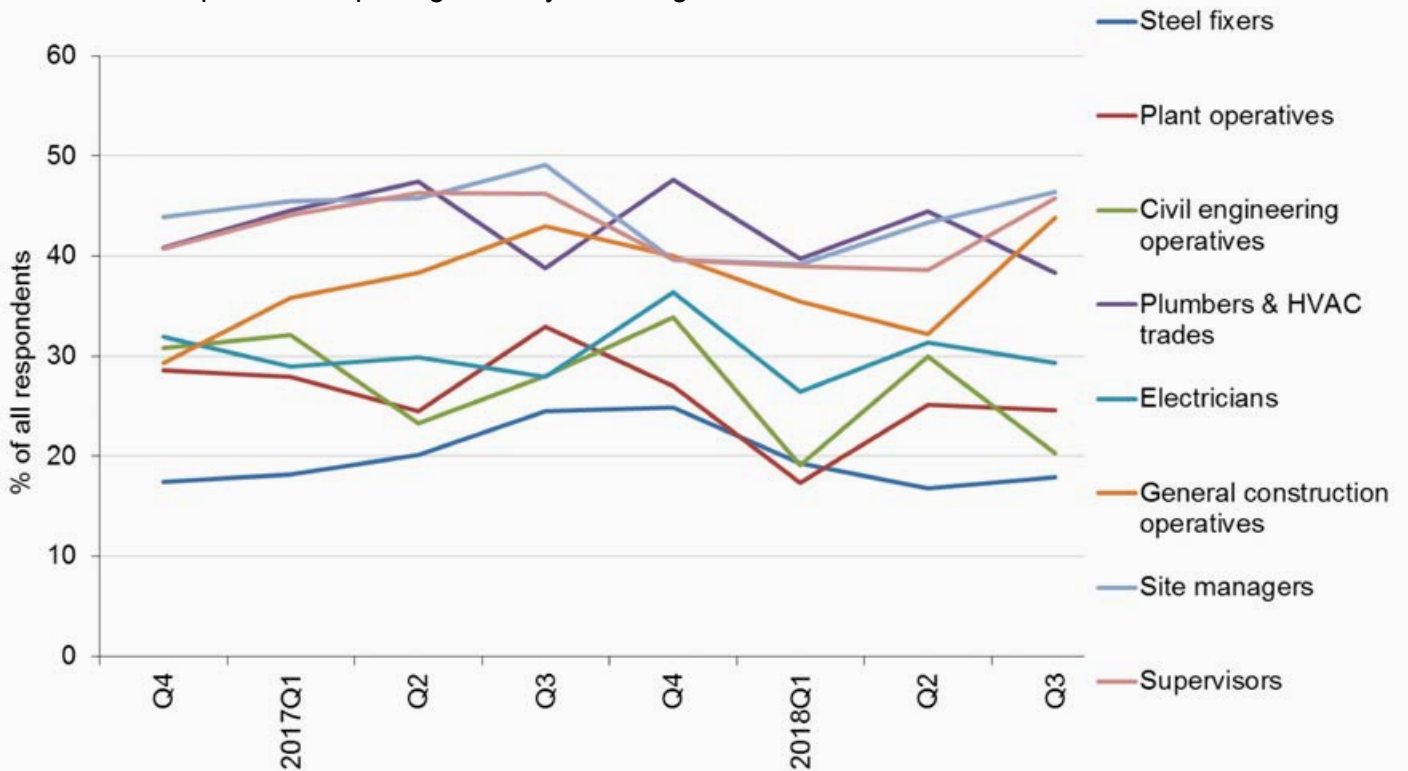
As usual bricklayers were the most difficult to recruit. Carpenters/joiners, site managers and plumbers were also hard to come by. On the other end of the spectrum, scaffolders were the easiest to hire.

% of respondents reporting difficulty recruiting selected skills chart 1



# EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

Trades	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
Bricklayers	58	60	60	59	68	58	65	68
Carpenters/joiners	57	58	57	61	63	55	60	59
Site managers	44	45	46	49	40	39	43	46
Supervisors	41	44	46	46	40	39	39	46
Plasterers	39	36	39	37	46	37	39	45
General construction operatives	29	36	38	43	40	35	32	44
Painters & decorators	20	28	27	29	29	24	33	39
Plumbers & HVAC trades	41	45	47	39	48	40	45	38
Roofers	46	29	33	33	38	33	34	35
Electricians	32	29	30	28	36	26	31	29
Plant operatives	29	28	25	33	27	17	25	25
Floorers	23	17	21	23	30	18	18	24
Civil engineering operatives	31	32	23	28	34	19	30	20
Steel fixers	17	18	20	24	25	19	17	18
Scaffolders	14	12	17	22	19	11	16	13



## 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 declined by 5 percentage points to +17. The share of positive weighted responses decreased to 29% from 37% while the proportion of negative weighted responses also went down, to 12% from 15%. The share of neutral weighted responses grew to 59% from 48% in the previous quarter.

**Scotland's** net balance decreased by 5 percentage points to +19. Around 36% of weighted responses were positive, down from 43% in Q2 2018. Around 17% of firms indicated negative weighted responses, down

from 19%, while 47% of weighted responses were neutral, up from 38%.

The net balance for **England** dropped by 4 percentage points to +17. The share of positive weighted responses fell to 29% from 36% while the share of negative weighted responses also went down to 12% from 15%. The majority (59%) of weighted responses were neutral, up from 49%.

**Northern Ireland's** net balance (+22) experienced the greatest drop of 25 percentage points. Despite this, it remained in positive territory for the third consecutive quarter.

Approximately 35% of weighted responses were positive, down from 54% while 13% of weighted responses were negative, up from 7%. Over half (52%) of weighted responses were neutral, up from 39%.

**Wales** was the only home nation to see an increase in its net balance as it rose by 14 percentage points to +28. The share of negative weighted responses fell to just 2% from 18% in the previous quarter, while the share of positive weighted responses edged down to 30% from 32%. Most (68%) weighted responses were neutral, up from 50%.

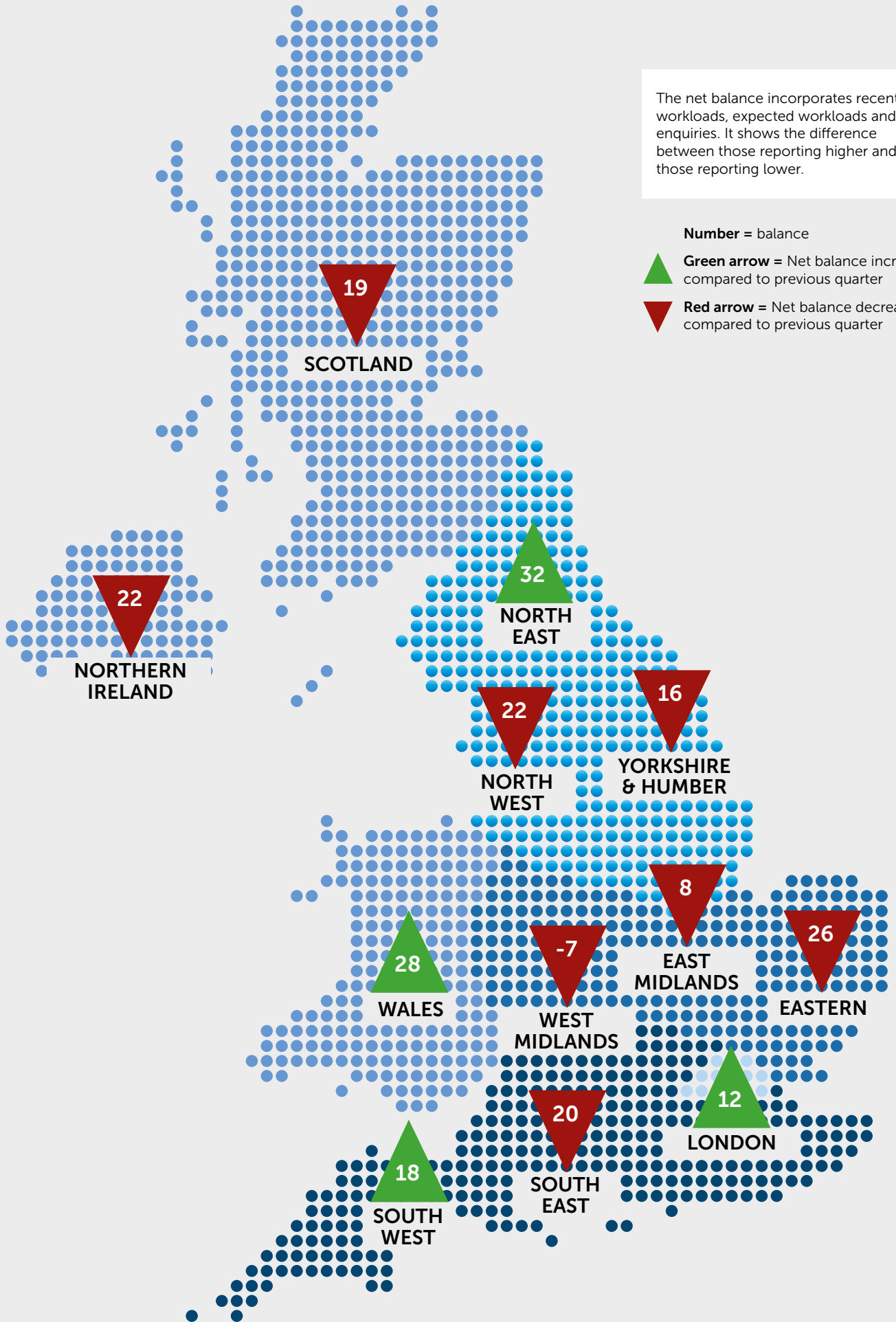
### Weighted % balances

English Region	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
East Midlands	+16	+12	+39	+46	+37	+26	+15	+8
Eastern	+4	+37	+42	+34	+11	+7	+33	+26
London	+14	+29	+23	+19	+15	+10	+12	+12
North East	-3	+36	+28	+23	+25	+12	+28	+32
North West	+10	+28	+19	+25	+6	+20	+28	+22
South East	-8	+23	+32	+26	+23	+17	+25	+20
South West	-14	+18	+24	+14	+4	+20	+17	+18
West Midlands	-9	+18	+8	+36	-4	+31	+25	-7
Yorks & Humber	+19	+28	+8	+28	-9	+19	+20	+16

Nation	2016 Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3
England	+3	+25	+25	+22	+14	+17	+21	+17
Northern Ireland	+10	+27	+4	+12	-7	+26	+47	+22
Scotland	+10	+35	+13	+7	-12	+7	+24	+19
Wales	+15	+35	+26	+6	+19	+39	+14	+28
UK	+4	+26	+24	+23	+12	+18	+22	+17



# 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](http://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](mailto:SarahMcMonagle@fmb.org.uk).



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