

Q1
2023

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BUILDERS**

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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 **January to March 2023**. It also casts ahead to **April to June 2023**.



BRIAN BERRY, Chief Executive,
Federation of Master Builders

“Still an uncertain market, although active, but people unsure whether to commit to having work done or waiting.”

– FMB member

View from the Chief Executive

This quarter we introduce some new data to paint a richer picture of FMB members’ activity. The idea is to get a good grasp of what our membership is working on and, in the context of persistent inflation, what impacts rising costs are having. For the first time we can see what type of work our members in the repair, maintenance and improvement (RMI) sector are doing. Many members are focussed on mainstays of the industry such as large-scale projects such as extensions and renovations, while others are also focussing on home improvements. It’s interesting to note that 20% of our RMI members working are on energy efficiency improvements. This will be a big part of future workloads for members and I’m sure that over the coming years we’ll see this move up the rankings.

We also wanted to start tracking the quarterly output of our house builders. Most are delivering one to five units, which is consistent with the data we report in our annual House Builders’ Survey. Over the months and years, we’ll be able to see what ‘normal’ delivery looks like in this category and use it as a barometer for the health of the sector.

Costs up, profits down

We’ve started to track the consequences of rising prices on our members’ businesses. This quarter we can see that it has resulted in members putting up their prices. This is one metric that we previously tracked and was always high and unsurprisingly it’s the top outcome. But more worryingly, just under half of members who had noted that their costs were up have said that their bottom lines are being squeezed and are falling below their expected margins as a result. One in five members with rising costs say this will impact whether they can take on new staff. This clearly shows the industry is feeling the effects of inflation, and despite the RMI sector doing relatively well, with a bounce back in enquiries this quarter, companies are certainly feeling the pinch.

“The increase in the cost of living has prevented many jobs from progressing, which will affect the running of my business and may mean having to close if this doesn’t change by middle of the year.”

– FMB member





BRIAN BERRY, Chief Executive,
Federation of Master Builders

View from the Chief Executive

House building still struggling

Unfortunately, this survey matches up with others, such as the Office of National Statistics (ONS), in showing that the housing market is struggling. While those reporting an increase in workload have increased on the previous quarter, it's still sitting in negative figures, with enquiries moderately improved, but still very poor. We have started to track how many starts per quarter are being made in this survey and this will continue, so that we can build a picture of our members' output. All this data, along with the annual House Builders' Survey later in the year, help to build a picture of market conditions for SME house builders – a sector we know is embattled, delivering only 10% of new homes compared to 40% just over 30 years ago.

The FMB is working hard to put forward a voice for our housebuilding members and is in regular contact with those responsible for housing at national and devolved government level. I would strongly encourage those that are regular house builders to contact our policy team to join the FMB's House Building Group, so that your voice and experience can be fed directly to those who set policy and spending decisions.



"Housing market has stagnated due to terrible Autumn Budget."

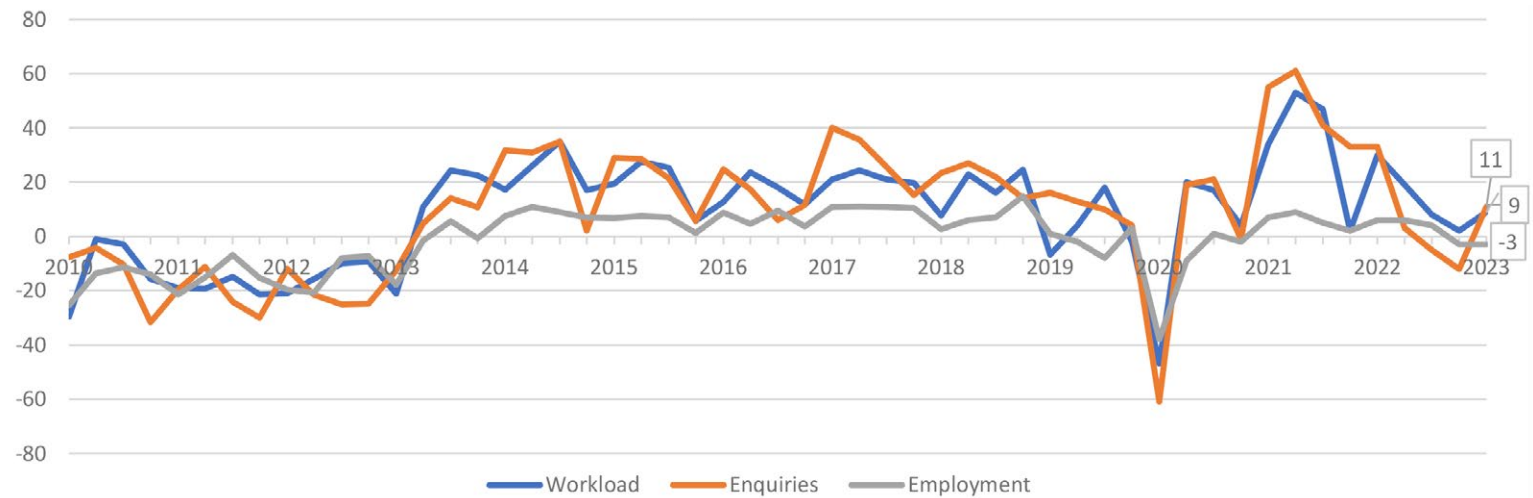
– FMB member

Key indicators

The first quarter of 2023 is more buoyant than the end of 2022, with a net increase in workload and enquiries. However, there has been a slight decrease in the net balance of employment since Q4 2022. Both workload and enquiries are in positive figures with workload at 9% and enquiries at 11%. Employment is in negative figures at -3%.

Around one in three FMB members report a higher workload in Q1 2023 (33%) compared to Q4 2022, while conversely a quarter (24%) state that their workload is lower. In addition to this, there has been a significant uptake in the net balance of enquiries in Q1 2023 compared to Q4 2022, with two in five (40%) reporting an increase in enquires on the previous quarter. In terms of employment, nearly two thirds (65%) of FMB members report that there has been no change in the number of employees in their company since Q4 2022.

Key indicators



Graph 1 – Q3. Looking back, how does your company’s workload in the period January – March 2023, compare to that in October – December 2022? Base: Total excl N/A (n=185) Q6. Looking back, how has the level of enquiries regarding future work changed in the period January – March 2023 compared to October – December 2022? Base: Total excl N/A (n= 185) Q8. How has the number of employees within your company’s workforce changed during January – March 2023 compared to October – December 2022? Base: Total excl N/A (n= 185) Net balance of change



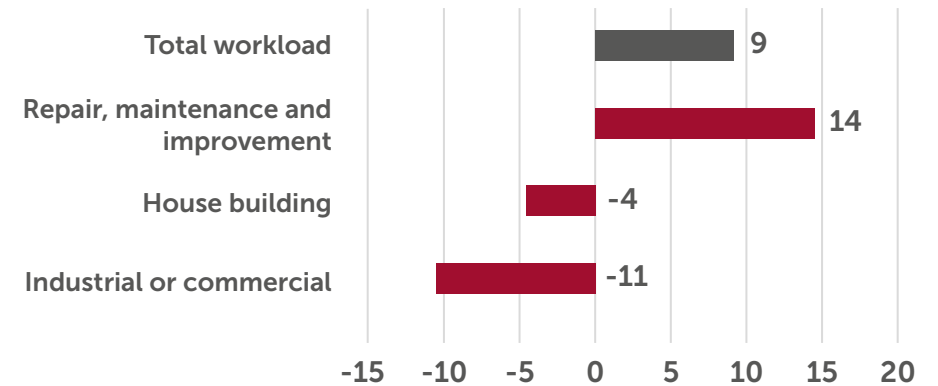
Workload and enquiries by sector

The increase in total workload and enquires is primarily driven by strong rebound in the repair, maintenance and improvement sector compared to Q4 2022. On balance, 14% of members in this sector report an increase in workload and enquires respectively. Members working in the industrial and commercial sector report a net decrease in workload (-11% on balance) and enquires (-12% on balance) for another quarter. The decline in activity in the house building sector has improved, which was reported at -18% in Q4 2022, now stands at -4% which means marginally more members are reporting less work than more. However, enquiries in this sector continue to be in decline, with more members reporting a decrease on balance than increase, but slightly improved on -19% in Q4 2022.

The data presented in this survey appears to correlate with other measures of the industry that have indicated that house building is struggling compared to the RMI sector. To some extent, RMI can act as a barometer for public confidence in the economy as it's often the first expense cut out of people's budgets. So, this suggests a positive start to Q1 as it had been unclear what the economic picture would look like. However, house building while improved on the previous quarter continues to struggle.

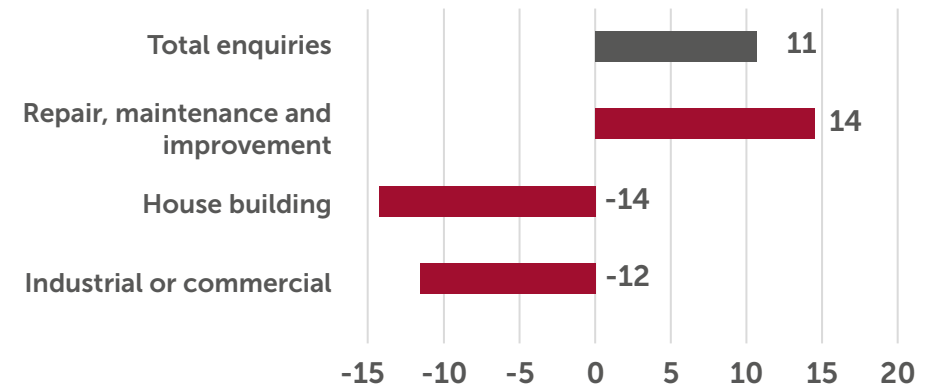


Workload by sector



Graph 2 – Q3. Looking back, how does your company's workload in the period January – March 2023, compare to that in October - December 2022, thinking about total workload, and in the specific sectors of the industry that you work in? Base: Total workload (n=185); House building (n=79); Repair, maintenance and improvement (n=178); Industrial or commercial (n=84). Excluding N/As Net balance of change.

Enquiries by sector



Graph 3 - Q6 Looking back, how has the level of enquiries regarding future work changed in the period January – March 2023 compared to October – December 2022, thinking about total enquiries, and in the specific sectors of the industry that you work in? Base: Total enquiries (n=185); House building (n=79); Repair, maintenance and improvement (n=178); Industrial or commercial (n=84). Excluding N/As. Net balance of change.

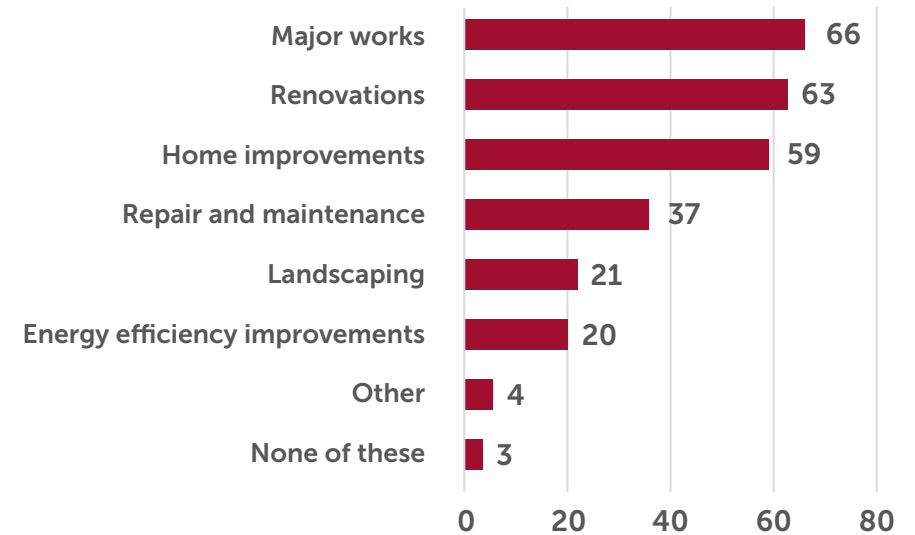
Type of activity by sector

Among FMB members who work in the repair, maintenance and improvement sector, major works (66%) and renovations (63%) are the most common types of work that have been delivered, such as extensions and whole house refits, followed closely by home improvements (59%). Interestingly, given the lack of clear consumer incentives, 20% of members are working on energy efficiency projects. There will need to be a significant consumer focussed campaign to raise awareness of this type of work, especially to support the Government's new 'Great British Insulation Scheme'. This is the first time this question has been asked so there is no comparative historic data to compare it to.



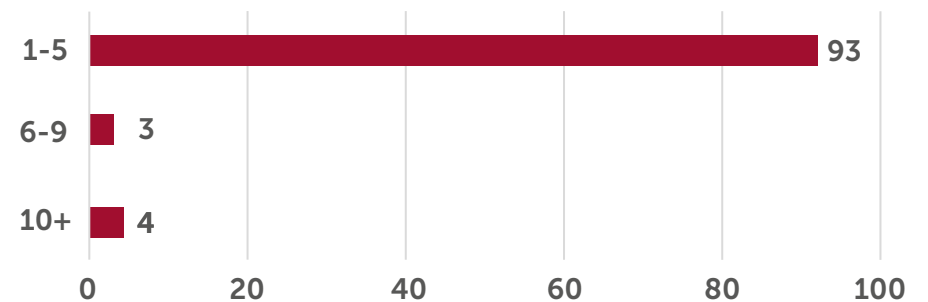
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Types of repairs, maintenance and improvement works that has been delivered in the period of January-March 2023



Graph 4 - Q4 W13. Which of the following repair, maintenance and improvement works has your company delivered for existing domestic dwellings in the period January - March 2023? Base: Total (n=178), Excluding DKs

Number of new house starts from the period of January-March 2023



Graph 5 - Q5 W13 2. How many housing starts has your company done in the period January - March 2023? Base: Total (n=67), Excluding N/As

Employment and skills shortages

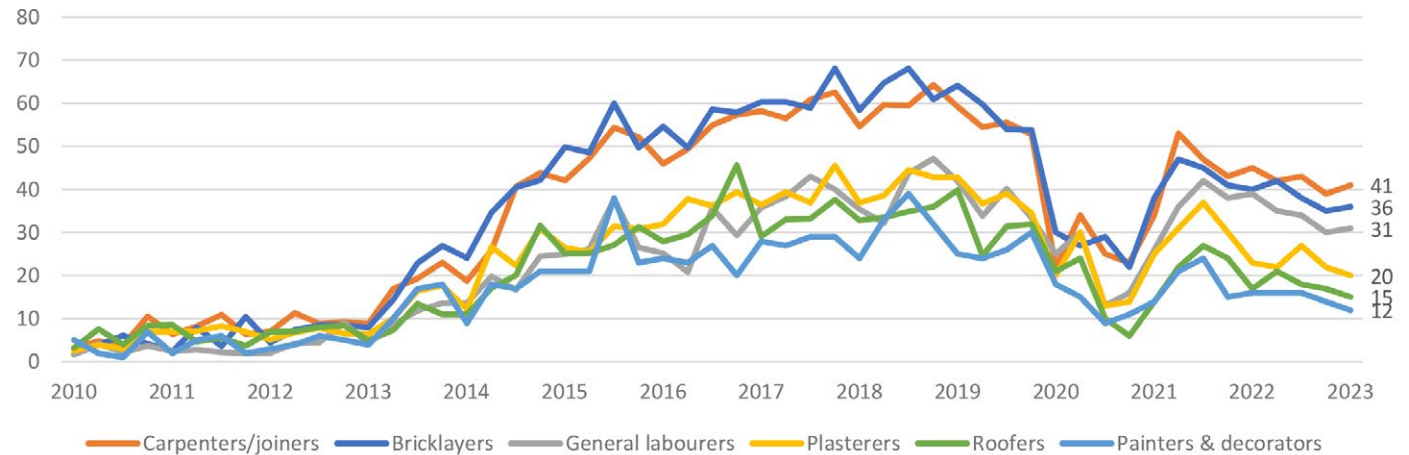
On balance, 3% of members report a net decrease in employment levels in Q1 2023 compared to Q4 2022, the same as the previous quarter. 65% of FMB members report having the same number of employees during January - March 2023, when compared with October - December 2022. 19% state that the number has decreased, while 16% report an increase.

Difficulties recruiting for each of the occupations below continue to ease overall, but carpenters/joiners, bricklayers and general labourers are still difficult occupations to recruit, with at least one in three FMB members struggling to fill vacancies for each of these (41%, 36%, and 31% respectively) in Q1 2023, which are higher compared to the last quarter. Following the call by members in the last State of Trade Survey to allow for more skilled immigration, this information was fed back to the Government who went on to add vital skill sets, like carpenters, onto the Shortage Occupation List (SOL). The SOL dictates what occupations are in short supply and makes it easier for companies to hire them from abroad if they are listed.

“The lack of skilled trades is driving the costs of building up and the quality down sadly.”

– FMB member

Difficulty in recruiting for each of the following occupations



Graphs 6 - Q10. For which of the following trades has your company found it difficult to recruit skilled staff over the period of January - March 2023? Base: Total (n=185) - Net balance of change

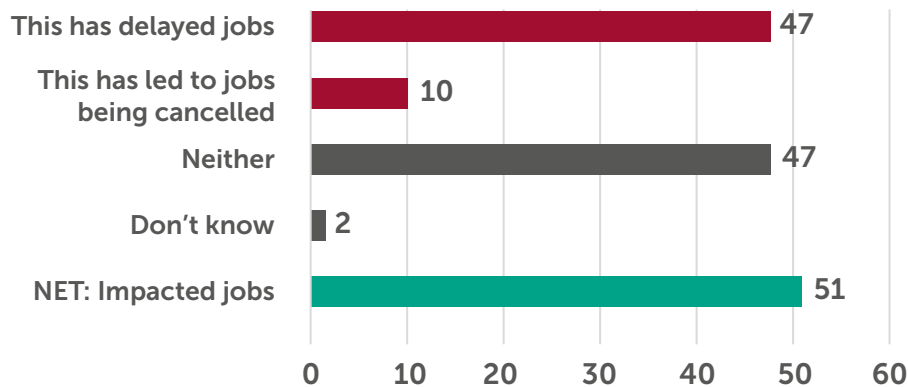


Impact of lack of available skilled tradespeople

Reflecting the easing of difficulties in hiring skilled trades people, just over half (51%) of FMB members reported that a lack of skilled tradespeople has impacted jobs in Q1 2023, down from 64% who said the same in Q4 2022. Just under half (47%) stated that the lack of skilled tradespeople has delayed jobs, down from 58% in Q4 2022, but the proportion reporting that this has led to jobs being cancelled (10%) remains in line with Q4 2022 (12%).

We're seeing an easing off from the pressures that plagued the industry through the years of the COVID-19 pandemic. With workloads significantly down on where they were earlier in 2022 and late 2021. The demand for staff has lowered, which has seemingly resulted in fewer jobs being affected by a lack of skilled workers. However, it's certainly not healthy that near half of small builders are having to delay jobs because of a lack of tradespeople. The industry has long-term skills issues that need resolving with a proper skills plan for the sector. The FMB will be continuing to push the Government to put more focus on skills in the construction industry.

Impact of lack of skilled tradespeople January – March 2023



Graph 7 - Q13. How, if at all, has the lack of skilled trades people impacted your company's work over the period of January - March 2023? Base: Total (n=185)



"I feel there is a major lack of young trades coming through and the industry needs more of an incentive to help with this."

– FMB member

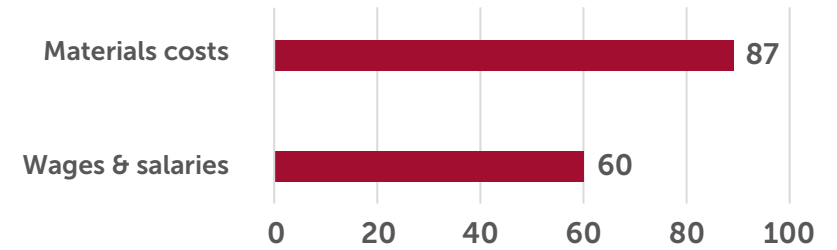
Prices and costs

In Q1 2023, most FMB members continue to report an overall rise in prices that they charge for work and their outgoing costs. Almost nine in ten (87%) FMB members report an increase in material costs on balance (compared to 89% in Q4 2022). Also, six in ten (60%) report an increase in wages and salaries on balance (compared to 67% in Q3 2022 and 61% in Q4 2023).

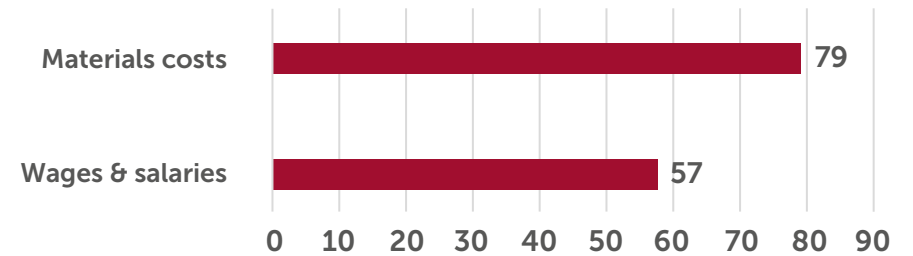
The majority of FMB members expect materials and wages and salaries to increase next quarter (April – June 2023). Despite the proportion expecting an increase in materials costs falling back compared to Q4 2022 on balance - when 85% predicted an increase - these pressures are still set to feed through to the consumer, with 70% of members anticipating that the prices they charge for work to increase in Q2 2023.



Past quarter prices and costs
January – March 2023



Expected Prices and cost
April – June 2023



Graph 8 - Q11. How have both the prices that you charge for work, and your outgoing costs changed over the period of January – March 2023? Base: The prices you charge for work (n=182); Wages & salaries (n=183); Materials costs (n=185) 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 April – June 2023? (n=178); Wages & salaries (n=176); Materials costs (n=179) Excl N/As. Net balance of change

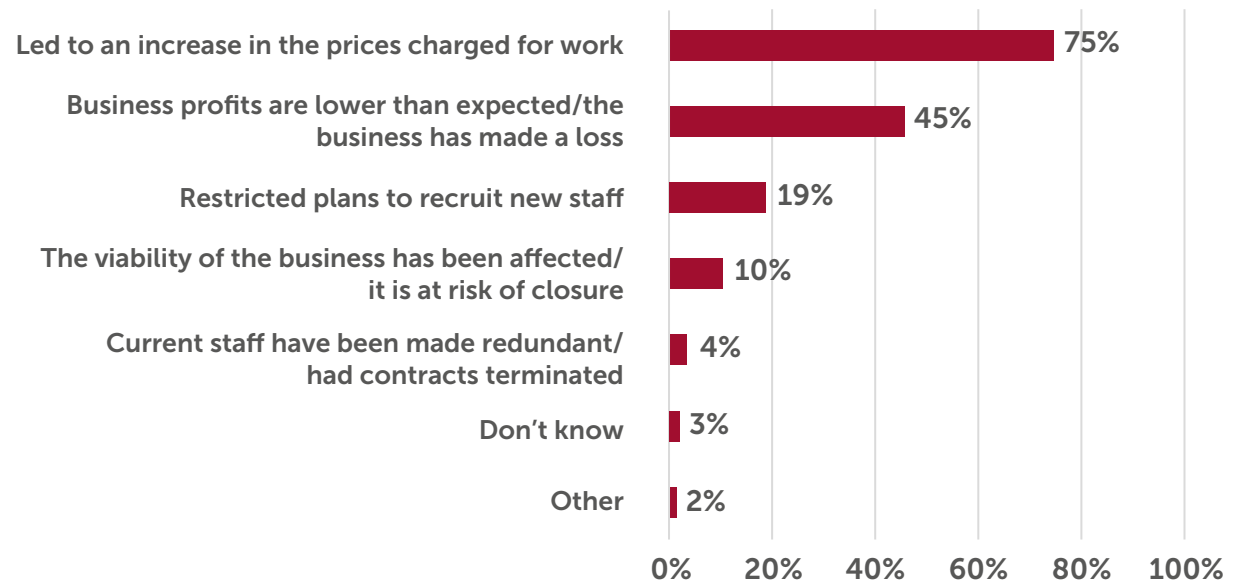
“I hope that material prices will begin to fall or level out.”
– FMB member

Impact of changes in prices and costs

For the first time, we wanted to see the effect of rising costs on members. From this quarter onwards we will ask what impact rising costs have on small builders' businesses. This quarter showed of those FMB members experiencing an increase in outgoing costs in Q1 2023, three quarters (75%) say this led to an increase in the prices they charged for work. Just under half (45%) say that business profits are lower than expected or that the business has made a loss, while one in ten (10%) say the viability of their business has been affected and/or it is at risk of closure. For a notable minority, cost pressures have restricted plans to recruit new staff (19%), and 4% have made staff redundant or terminated staff contracts as a result.



Impact of increase in outgoing costs (materials and/or wages)

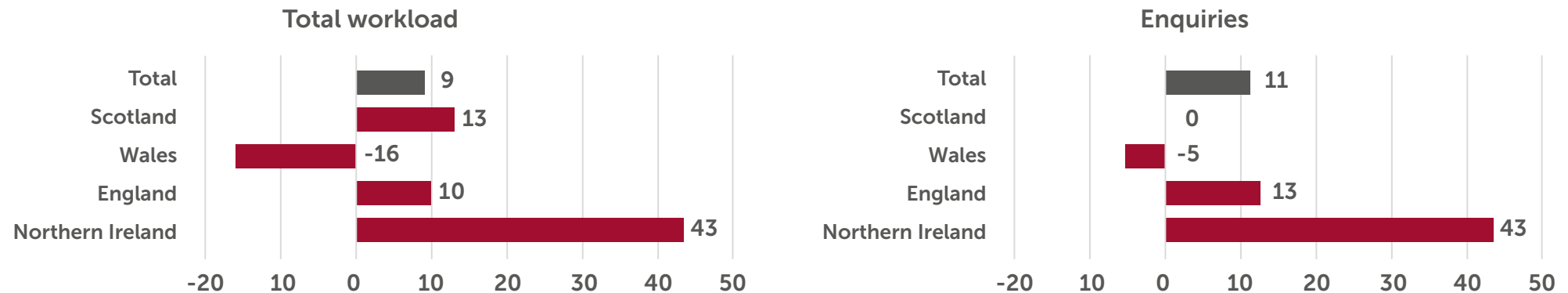


Graph 9 - Q11a. You said that your outgoing costs (wages & salaries and/or material costs) have increased over the period of January - March 2023. How, if at all, has this impacted your company? Base: all who report an increase in outgoing costs this quarter (n=175)



Key indicators in the home nations

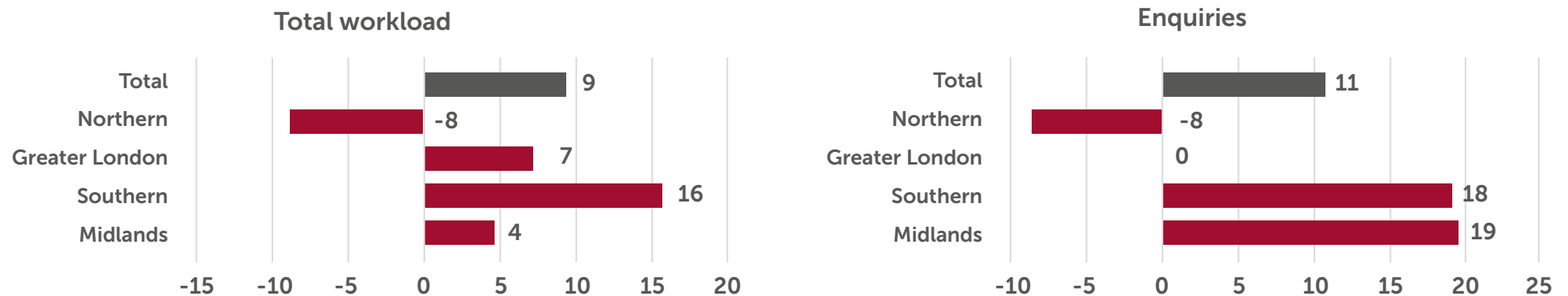
In this quarter there has been a substantial increase in England in workload (from 0% to 10% on balance). Workload levels have decreased in Wales and Scotland (-8% to -16%, and 21% to 13% respectively on balance). Enquiries within England have increased on balance since Q4 2022 (from -13% to 13%). Enquiries in Scotland continue to hold steady with no change on balance for two consecutive quarters, while Wales has seen a net decrease in enquiries for two quarters (-8% in Q4 2022 and -5% in Q1 2023). Caution must be taken with Northern Ireland as responses were very low, however they may be indicative of strong workload and enquiries compared to last quarter, particularly enquires which in Q4 2022 were reported at -21%.



Graphs 10 and 11 - Q3/Q6. Base: England (n=143); Wales* (n=19); Scotland* (n=16), Northern Ireland* (n=7) *Caution: Results for Wales, Scotland and Northern Ireland should be interpreted with caution due to very limited base size. Net balance of change

Key indicators in the English regions

Total workload has seen a net increase in most regions in Q1 2023 compared to Q4 2022. Most notably, the South has increased from 2% in Q4 on balance to 16% in Q1 2023, and Greater London has increased from -3% on balance in Q4 2022 to 7% in Q1 2023. By contrast, the North has seen a net decrease in workload for two quarters - 8% in Q1 2023 compared to -11% in Q4 2022. Overall the numbers of enquiries have dramatically improved on balance in the Midlands, South, North and Greater London since Q4 2022 (19% from -18%, 18% from -10%, -8% from -17% and 0% from -11% respectively). This suggest there has been a broad trend of improving workloads and enquiries across England.



Graphs 12 and 13 - Q3/Q6. Base: Northern* (n=26); Midlands* (n=26); Southern (n=91); Greater London* (n=29). *Caution: Results should be treated as indicative due to limited base size. Net balance of change.

For more information

This quarter, the survey was issued between 28th March and 17th April 2023 and received 185 completes. It was published in May 2023.

For more information about the FMB please visit

www.fmb.org.uk

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