



FEDERATION OF
**MASTER
BUILDERS**

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STATE OF TRADE SURVEY

Q1 2017



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Introduction from FMB Chief Executive Brian Berry

The start to 2017 proved to be a positive one for the UK's construction SMEs. The first quarter of this year saw growing workloads in every devolved nation and English region, with particularly strong results in Wales, Scotland and Northern Ireland.

Against a background of significant political uncertainty, including Brexit and now the impending General Election, this demonstrates a resilience in our sector that can sometimes go underappreciated. All of the key metrics of growth – workloads, enquiries, employment and expectations – were positive. However, these encouraging findings are dampened somewhat by continuing price inflation, with material and wage increases being widely reported. The remainder of the year will undoubtedly provide its challenges, but in the short term at least, builders are confident about their prospects.

Key statistics from Q1 2017:

- Workloads grew markedly in every region and nation of the UK
- Scottish construction SMEs reported the highest levels of growth since the financial crisis unfolded in Q4 2007
- One in two construction SMEs predict rising workloads in the coming months, with just 5% predicting a decrease in activity
- 85% of builders believe that material prices will rise in the next three months
- 60% of construction SMEs are struggling to hire bricklayers; 58% are struggling to hire carpenters and joiners; and 45% are struggling to hire plumbers.



“The first quarter of this year saw growing workloads in every devolved nation and English region, with particularly strong results in Wales, Scotland and Northern Ireland”

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 three months to March 2017, SME workloads showed rising levels of activity. More firms reported higher workloads compared with the previous quarter (35% vs 32%), while fewer businesses reported lower workloads (14% vs 20%).

Over the next three months businesses are predicting an increase in activity levels. The share of respondents forecasting higher workloads went up to 50% from 26%. In contrast, firms anticipating lower workloads declined to just 5% from 21% in Q4 2016

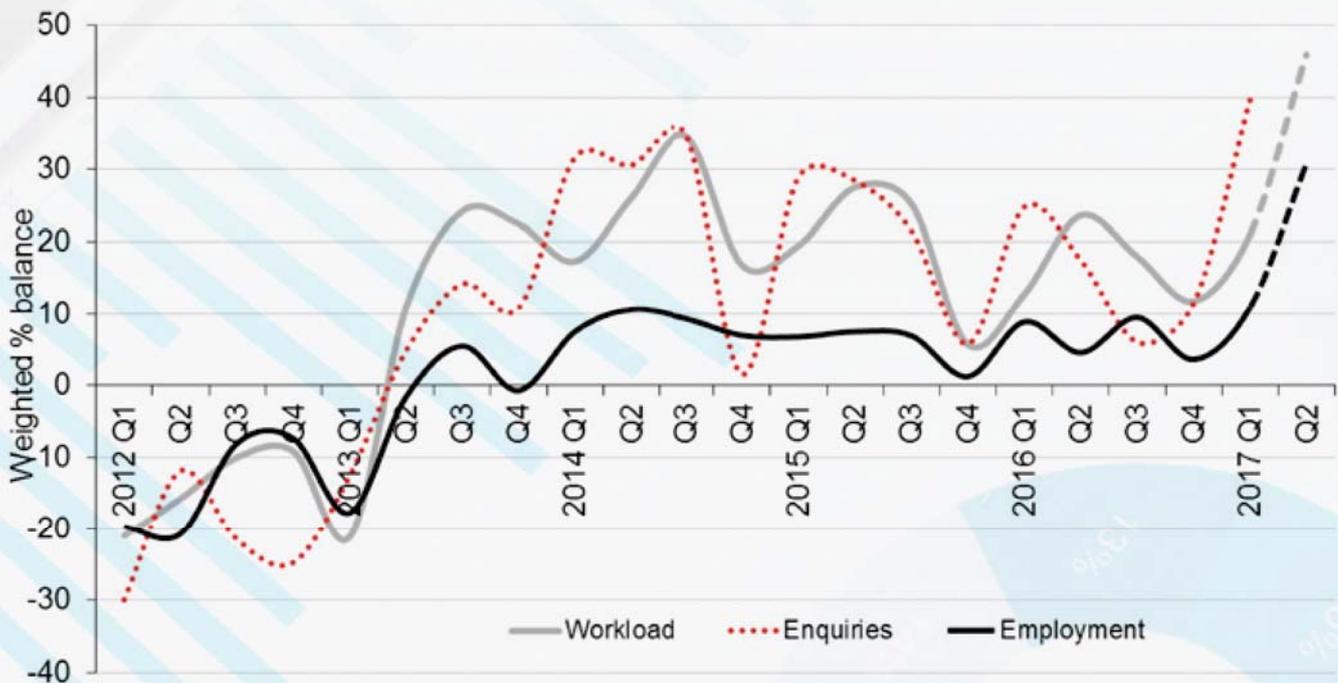
The latest regional composite indicators showed activity rising at a faster pace in all four home nations: Scotland saw the greatest increase of 25 percentage points in its net balance, while Northern Ireland experienced the smallest rise of 17 percentage points.

Output prices, wages and salaries and material costs are all predicted to increase over the next six months: The net balance for output prices saw the greatest jump as the share of businesses anticipating price rises grew to 68% from 45%.

In contrast, only 1% of firms project output price deflation, down from 4% registered in the previous quarter.

Employment rose at a faster pace compared with three months earlier: The proportion of businesses reporting that their workforce went up rose to 21% from 18%, while most firms (70%) reported no change in employment.

Key indicators



Please note: Q2 2017 reflects respondents' expectations for workload and employment

WORKLOADS

In Q1 2017 the net balance for overall workloads remained in positive territory for the sixteenth quarter running as it went up by 9 percentage points to +21. The proportion of firms reporting rising workloads went up (35% vs 32%), while the share of those reporting lower workloads fell to 14% from 20%.

The net balance for the public R&M sector moved into positive territory for the first time since Q3 2015, as it experienced the greatest jump of 22 percentage points to +5.

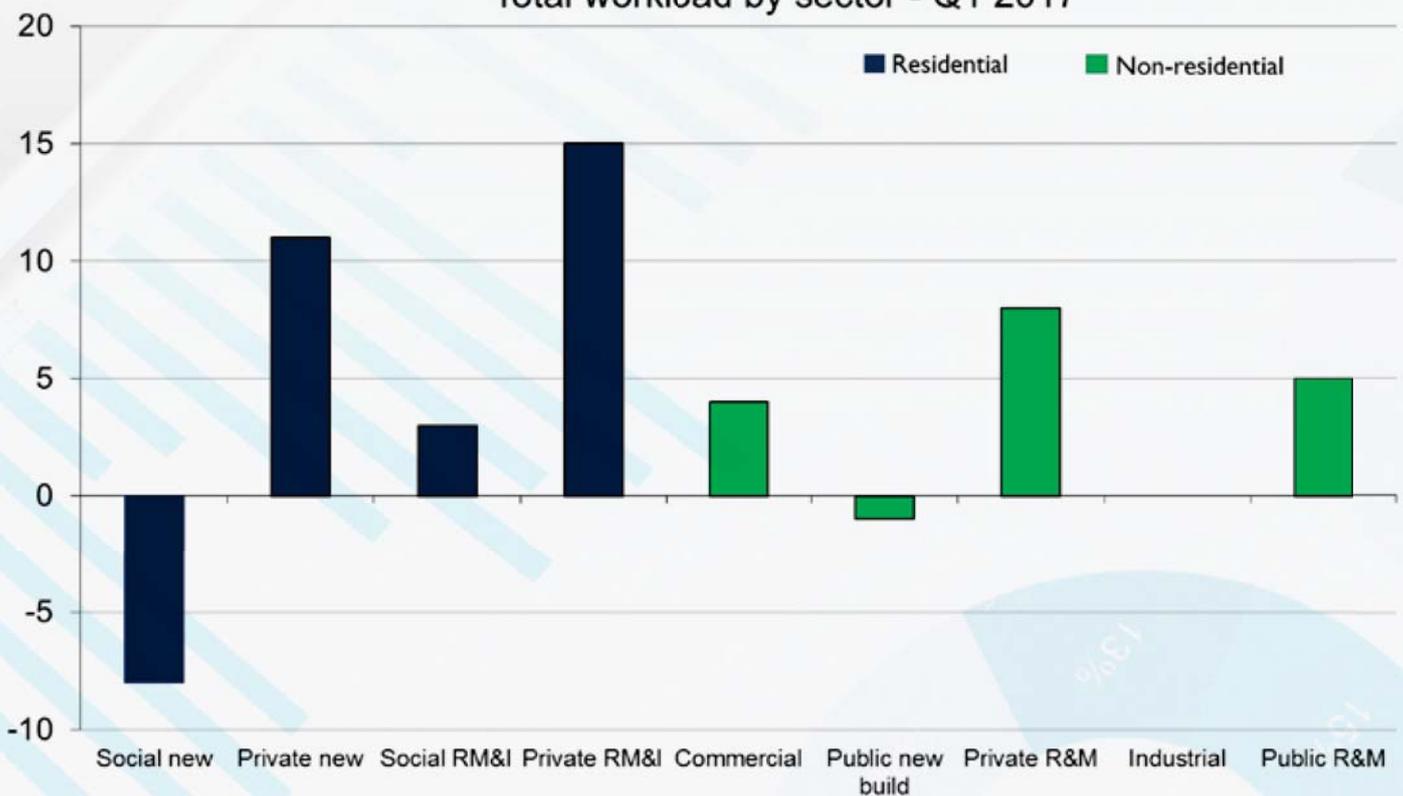
Approximately 14% of businesses stated higher workloads, up from 9%, while those reporting lower levels decreased to 9% from 26%. However, just over three quarters of firms (77%) stated no change in workloads.

An improvement of 20 percentage points took the industrial net balance to 0, indicating that overall activity is unchanged from the previous quarter. Respondents stating lower workloads declined to 18% from 28%, while those stating higher workloads increased to 18% from 8%.

A decline of 19 percentage points took the overall housing sector's net balance to +11. Fewer businesses reported higher workloads (23% vs 40%) while more firms indicated lower workloads (11% vs 9%). Around two thirds of respondents stated no change in workloads, up from 51% in the previous quarter.

The non-residential net balance fell by 3 percentage points to -3. Around 18% of firms reported higher workloads, down from 29% three months earlier, whereas the majority of firms (61%) stated no change in workloads.

Total workload by sector - Q1 2017



RESIDENTIAL WORKLOADS

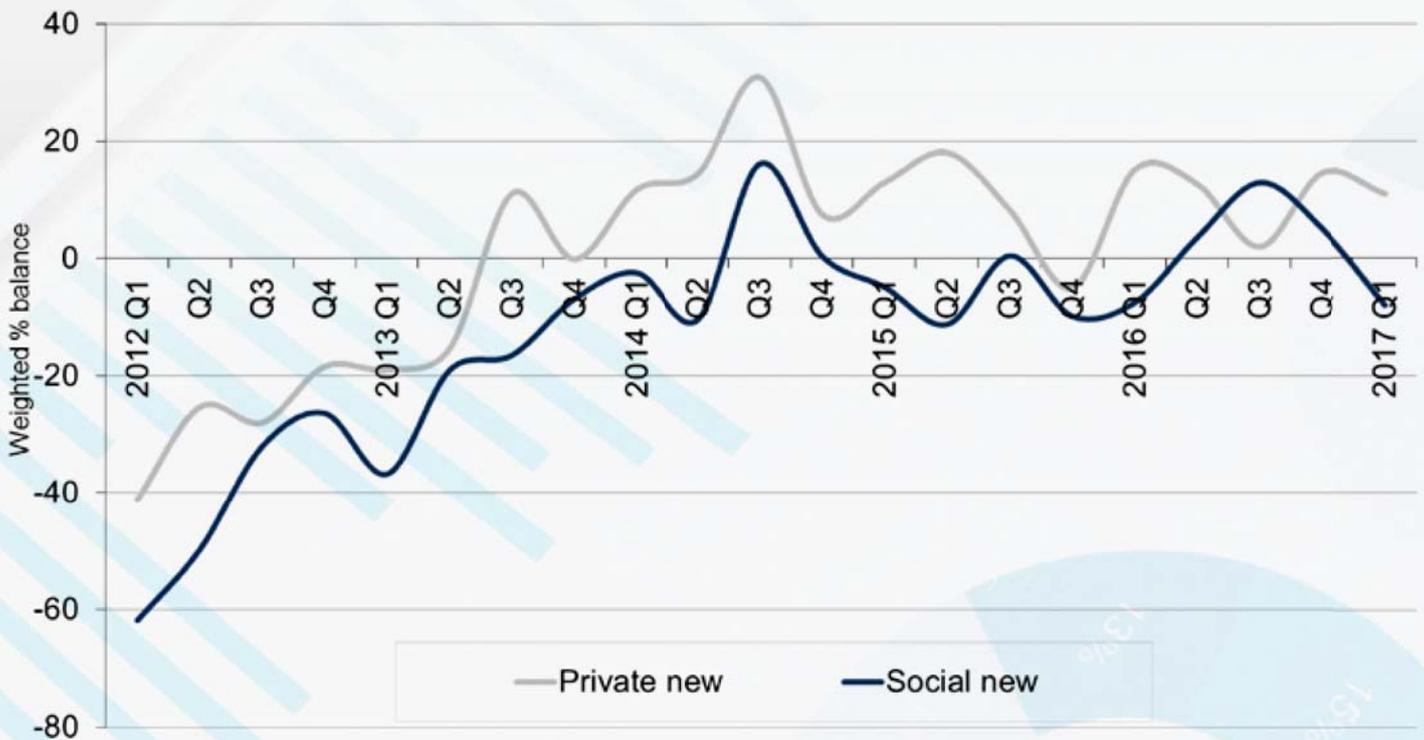
Weighted % balances

Workload	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Private new	+18	+8	-5	+15	+13	+2	+15	+11
Private RM&I	+22	+19	+7	+14	+17	+13	+8	+15
Social new	-11	+1	-10	-7	+4	+13	+5	-8
Social RM&I	-9	-7	-11	0	-8	-6	-1	+3
Total Residential				+22	+22	+18	+30	+11

The net balance for the **private new** housing sector declined by 4 percentage points to +11. Despite this, it remained in positive territory for the fifth consecutive quarter. The proportion of firms reporting a rise in workloads fell, to 25% from 30% last quarter, while over half of respondents (62%) experienced no change in workloads.

A decline of 13 percentage points took the **social new** housing net balance to -8, moving into negative territory for the first time since Q1 2016. Just 9% of firms indicated higher workloads, down from 18%, while those stating lower workloads grew to 17% from 13%. However, just under three quarters of businesses (74%) reported no change in workloads, up from 68%.

Residential historical weighted % balance - new build

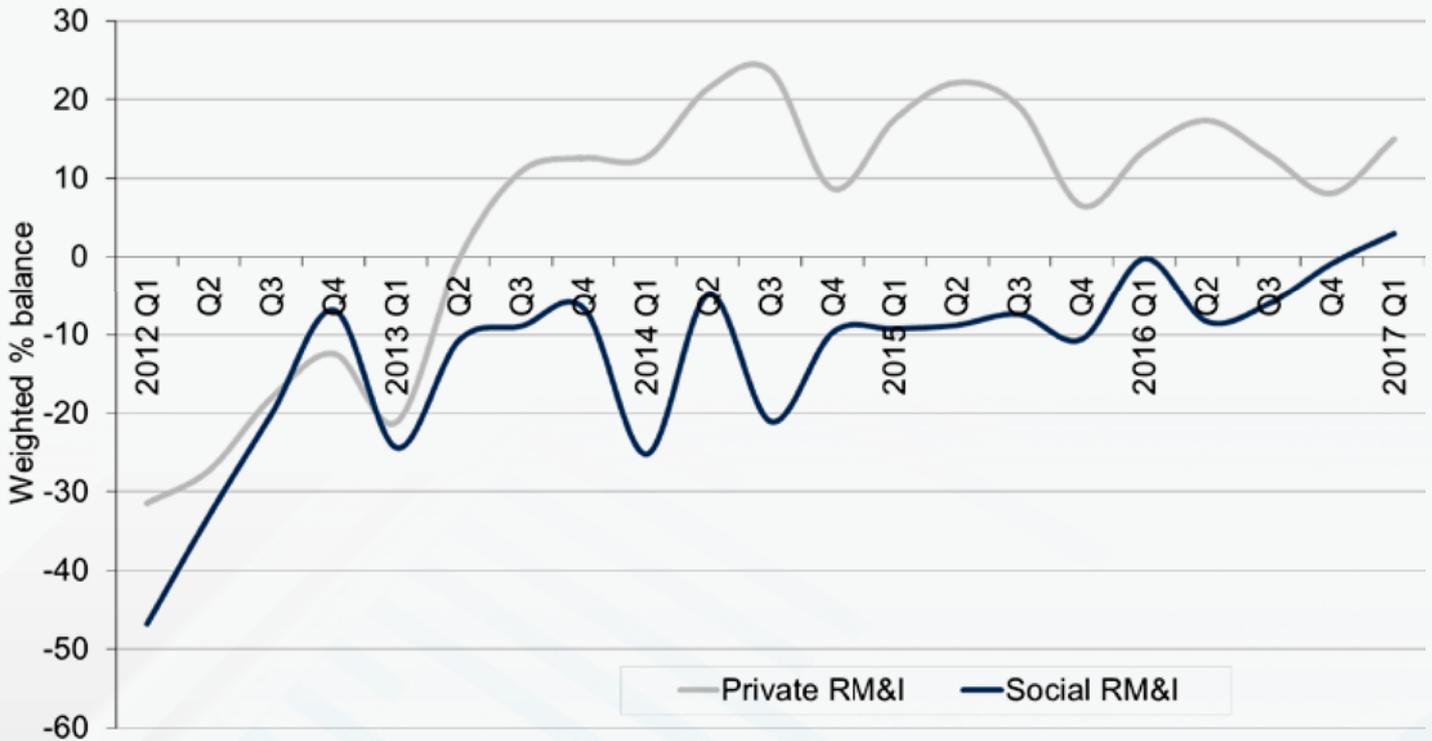


The net balance for the **social RM&I** sector went up by 4 percentage points to +3. The share of firms reporting a fall in workloads decreased to 8% from 16%, while the majority of businesses (82%) reported no change in workloads, up from 69% three months earlier.

The net balance for the **private RM&I** sector remained in positive territory for the fifteenth consecutive quarter as it rose by 7 percentage points to +15. Approximately 31% of respondents experienced growth in workloads, up from 24%, while the majority of firms (54%) stated no change in workloads.

RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



NON-RESIDENTIAL WORKLOADS

Weighted % balances

Workload	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Public new build	+15	0	-10	-26	-11	+6	-15	-1
Public R&M	+1	+1	-15	-13	-13	-9	-17	+5
Industrial	-1	-2	-11	-15	-17	+3	-20	0
Commercial	+2	+6	-4	+2	+4	+8	-8	+4
Private R&M	+3	+11	+5	-11	+0	-5	-10	+8
Total Non-Residential				+5	+0	+7	0	-3

The net balance for the **public new build** sector improved by 14 percentage points to -1. Just over a tenth (11%) of respondents indicated lower workloads, down from 27%, whereas the bulk (79%) of firms stated no change in workloads, up from 61% in the previous quarter.

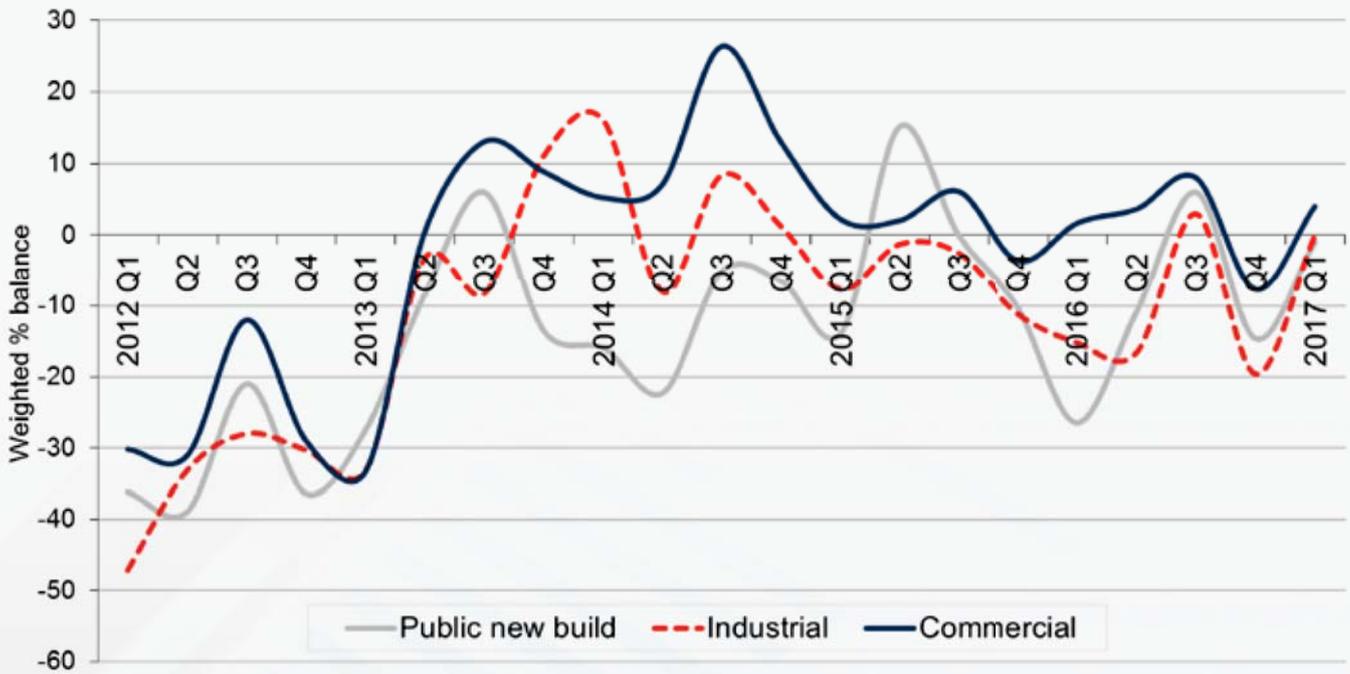
An increase of 12 percentage points took the **commercial** sector's net balance (+4) back into positive territory. A quarter of respondents reported increasing workloads,

up from 17% while fewer respondents reported a drop in workloads (21% vs 25%).

The net balance for the **industrial** sector increased by 20 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. Fewer firms reported lower workloads (18% vs 28%) while over half of businesses (63%) stated no change in workloads.

NON-RESIDENTIAL WORKLOADS

Non-residential historical weighted % balance chart - new work



A jump of 22 percentage points to +5 took the **public R&M** sector's net balance back into positive territory. The proportion of firms registering higher workloads went up to 14% from 9%, while those stating lower workloads dropped (9% vs 26%).

The **private R&M** sector's net balance also moved back into positive territory as it increased by 18 percentage points to +8. Around 25% of firms reported higher workloads, up from 12%, while the share of those reporting lower workloads fell to 16% from 22%.

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



EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

The net balance for total enquiries jumped by 28 percentage points to +40. Half of respondents reported increasing enquiries, up from 34%, while just over a tenth (11%) of firms stated lower enquiries, down on the 22% recorded three months earlier.

An increase of 42 percentage points took the total expected workload's net balance to +46. Around 50% of businesses are forecasting higher workloads over the next three months, up from 26%, while just 5% of respondents anticipate lower workloads, down from 21%.

RESIDENTIAL WORKLOADS

The residential expected workload net balance rose by 30 percentage points to +34. Approximately 37% of firms anticipate higher workloads, up from 19% three months earlier. Just 3% of respondents predict lower workloads over the next three months, down from the 15% recorded in Q4 16.

An increase of 22 percentage points took the net balance for expected workloads in the **private new** housing sector to +35. Around 39% of firms anticipate higher workloads, up from 26% in the previous quarter, while those projecting lower workloads dropped to 4% from 13%.

Despite falling by 14 percentage points to +5, the **social new** housing net balance remained in positive territory for the fifth successive quarter. The share of firms

predicting higher workloads fell (10% vs 22%) while the proportion expecting lower workloads edged up to 5% from 4%.

The **social RM&I** sector remained in positive territory for the second consecutive quarter, despite its net balance falling by 1 percentage point to +4. The share of firms expecting higher workloads dropped to 8% from 19%, while the percentage of those anticipating lower workloads declined to 4% from 14%. The bulk of respondents (88%) foresee no change in workloads.

The net balance for **private RM&I** sector jumped by 30 percentage points to +36. Approximately 40% of firms predicted an increase in workloads, up from 19%, whereas just 4% of respondents project lower workloads, down from 13% in Q4 16.



“Half of respondents reported increasing enquiries, up from 34%”

Weighted % balances

Expected Workloads	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Public new build	+9	-3	-12	-6	+17	-10	+5	+9
Public R&M	+9	+9	-14	-11	+13	-16	-8	+9
Industrial	-2	-1	-6	-10	0	-6	0	+18
Commercial	+3	+5	-4	+18	+2	-5	+3	+14
Private R&M	+20	+13	-4	+6	+13	-7	-14	+29
Total Non-Residential				+14	+11	-4	-3	+16
Enquiries								
Public new build	-5	-12	-14	-6	-1	-7	-14	+6
Public R&M	0	-4	-23	-3	-12	-10	-20	+1
Industrial	-3	0	0	-15	+3	-7	-6	+5
Commercial	-8	+2	+2	+4	+3	-4	-9	+13
Private R&M	+9	+7	-5	-1	-3	-4	-19	+21
Total Non-Residential				+8	+5	+1	-1	+12

NON-RESIDENTIAL EXPECTED WORKLOADS

The net balance for non-residential expected workloads rose by 19 percentage points to +16. Around 23% of businesses forecast higher workloads, up from 15%, while just 7% of firms expect lower workloads, down from 18%. Approximately 70% of the respondents forecast no change in workloads, up from 66% in the previous quarter.

A jump of 17 percentage points to +9 took the **Public R&M** sector's net balance back into positive territory. Around 14% of firms have a positive outlook, up from 5%, while the share of companies predicting lower workloads fell to 5% from 13%.

The net balance for the **private R&M** sector also moved into positive territory as it increased by 43 percentage points to +29. Around 34% of respondents envisage higher workloads, up from 8%, while just 4% predict lower workloads, down from the 22% registered in the three months to December 2016.

The **industrial** sector's net balance rose by 18 percentage points to +18. Just 7% of firms anticipate a negative outlook, down from 12%, while a quarter of respondents predict higher workloads, up from 12% three months earlier.

An increase of 4 percentage points to +9 allowed the **public new build** sector's net balance to remain in positive territory for the second successive quarter. Slightly more businesses expect higher workloads (17% vs 16%), while only 8% of respondents foresee lower workloads, down from 11%.

The **commercial** sector's net balance went up by 11 percentage points to +14. A quarter of respondents predict higher workloads, up from 19%, whereas those projecting lower workloads fell to 11% from 16%. The majority (64%) of firms anticipate no change in their workloads.



“The net balance for non-residential expected workloads rose by 19 percentage points to +16”

Weighted % balances

Expected Workloads	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Private new	+16	+6	0	+10	+14	+2	+13	+35
Private RM&I	+21	+17	-4	+19	+17	+8	+6	+36
Social new	-6	-12	-5	+6	+12	+8	+19	+5
Social RM&I	+3	+2	-3	-17	+3	-8	+5	+4
Total Residential				+25	+22	+7	+4	+34
Enquiries								
Private new	+16	+14	-4	+6	+16	+1	+8	+31
Private RM&I	+25	+16	+1	+15	+13	+1	+6	+33
Social new	-3	-1	-9	+12	-11	0	-4	0
Social RM&I	+2	+8	-1	+1	-3	-11	+7	+1
Total Residential				+30	+22	+21	+3	+26

PRICES AND COSTS

Weighted % balances

	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Output prices	+29	+37	+23	+29	+26	+33	+25	+49
Wages & salaries	+43	+56	+44	+44	+45	+52	+44	+52
Materials costs	+73	+68	+60	+64	+65	+65	+73	+87

Weighted % balances

Expected	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Output prices	+42	+44	+42	+43	+42	+33	+41	+68
Wages & salaries	+55	+44	+46	+51	+53	+41	+40	+66
Materials costs	+67	+63	+69	+63	+63	+65	+78	+85

In Q1 2017, the net balance for expected output prices jumped by 27 percentage points to +68. Approximately 68% of firms think output prices will go up over the next six months, up from 45% three months earlier. The share of respondents expecting output prices to fall declined to just 1% from 4%.

The net balance for wages and salaries increased by 26 percentage points to +66. More firms envisage wage

increases (67% vs 41%) while around a third of businesses predict no changes in wages and salaries.

The net balance for expected material costs went up by 7 percentage points to +85. Most firms expect to see a rise in material costs (85% vs 79%). However, no respondents anticipate material cost deflation over the coming six months.

Prices & costs weighted % balance chart



“In Q1 2017, the net balance for expected output prices jumped by 27 percentage points to +68”

EMPLOYMENT AND LABOUR

Weighted % balances

Employment	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
All builders	+8	+9	0	+9	+7	+12	+4	+11
All specialists	+12	-3	+6	+8	+2	+6	+3	+11
Total	+8	+7	+1	+9	+5	+10	+4	+11
Total Employment	+8	+7	+1	+9	+5	+10	+4	+11

Weighted % balances

Expected employment	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
All builders	+23	+19	+18	+26	+17	+14	+7	+32
All specialists	-5	+24	-2	+14	+14	+10	+5	+30
Total	+19	+20	+16	+20	+16	+12	+6	+31
Total Employment	+19	+20	+16	+20	+16	+12	+6	+31

In Q1 2017, the total-employment net balance went up by 7 percentage points to +11 and remained in positive territory since the final quarter of 2013. More businesses registered a rise in staffing levels (21% vs 18%) while a tenth of firms reported a drop in employment levels, down from 14%. Around 70% of respondents stated no change in staffing, up from 67%.

The employment net balance for all builders increased by 7 percentage points to +11. Approximately 23% of firms reported higher staffing levels, up from 20%, while those stating lower levels decreased to 11% from 15%.

The net balance for all specialists rose by 8 percentage points to +11. The share of firms reporting higher staffing levels increased to 18% from 16%, while those experiencing a fall dropped to 8% from 13% in the previous quarter.

The net balance for expected total employment jumped by 25 percentage points to +31. Around 37% of firms predict rising staffing levels, up from 21%, while only 6% forecast falls in employment, down from 14%. The bulk (56%) of respondents foresee no changes to staffing levels.

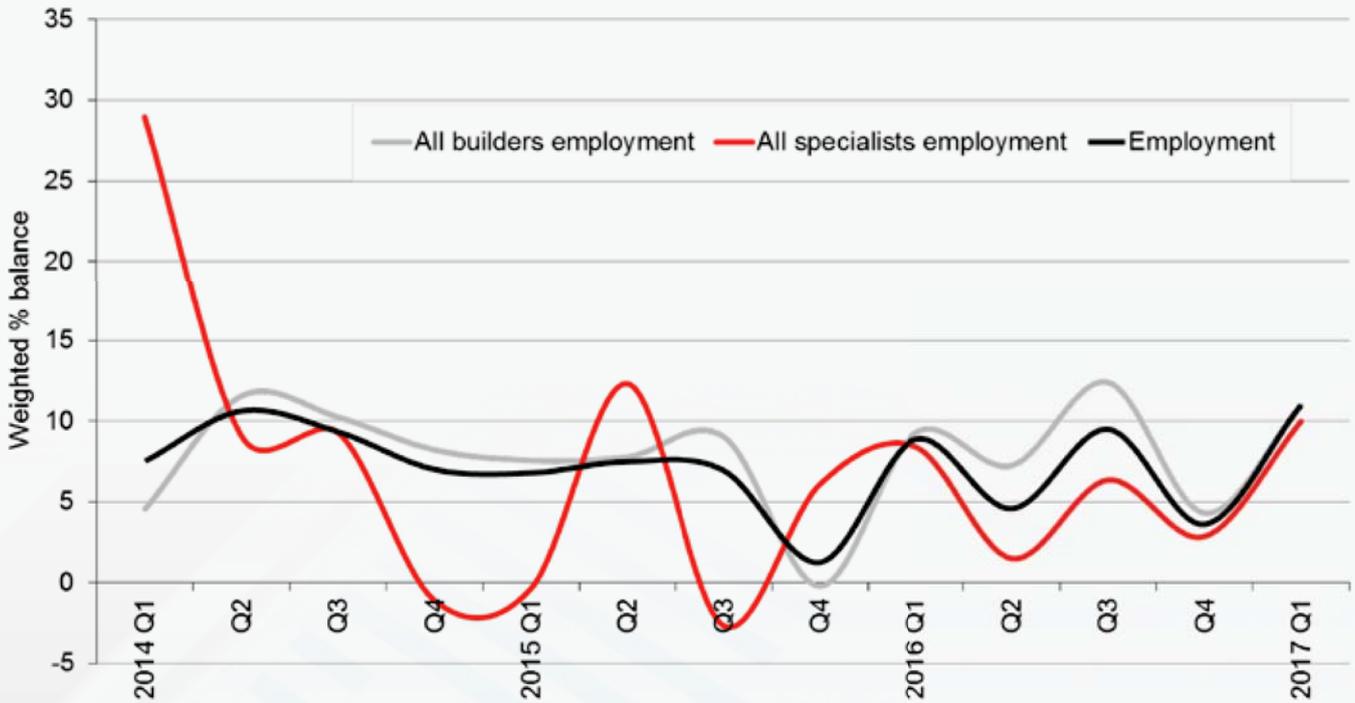
The expected employment net balance for all builders went up by 25 percentage points to +32. Approximately 38% of businesses expect to hire more staff, up from 21%, while fewer firms (6% vs 14%) anticipate a cut to their workforce.

A rise of 25 percentage points took the expected specialists net balance to +30. Around 37% of firms foresee growth in employment, up from 20% in the previous quarter, while 7% anticipate a reduction in staffing levels, down from 15%.



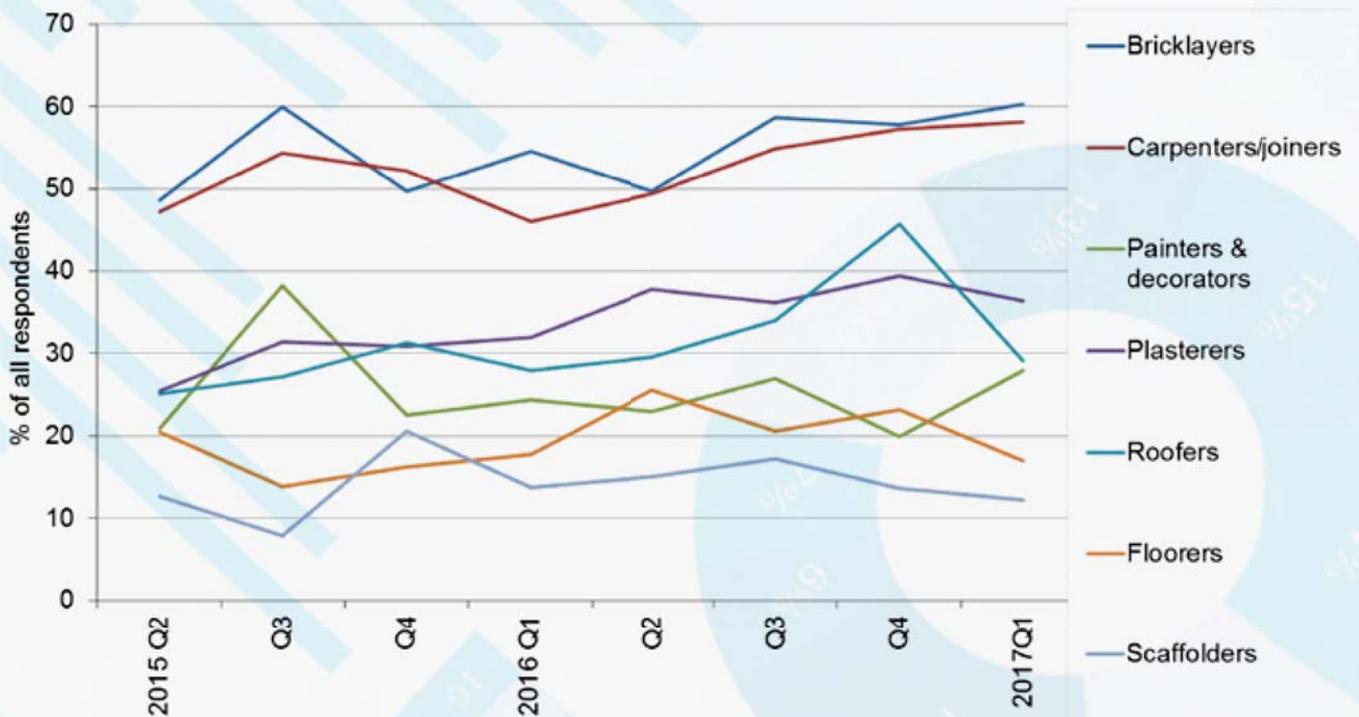
EMPLOYMENT AND LABOUR

Employment weighted % balance chart



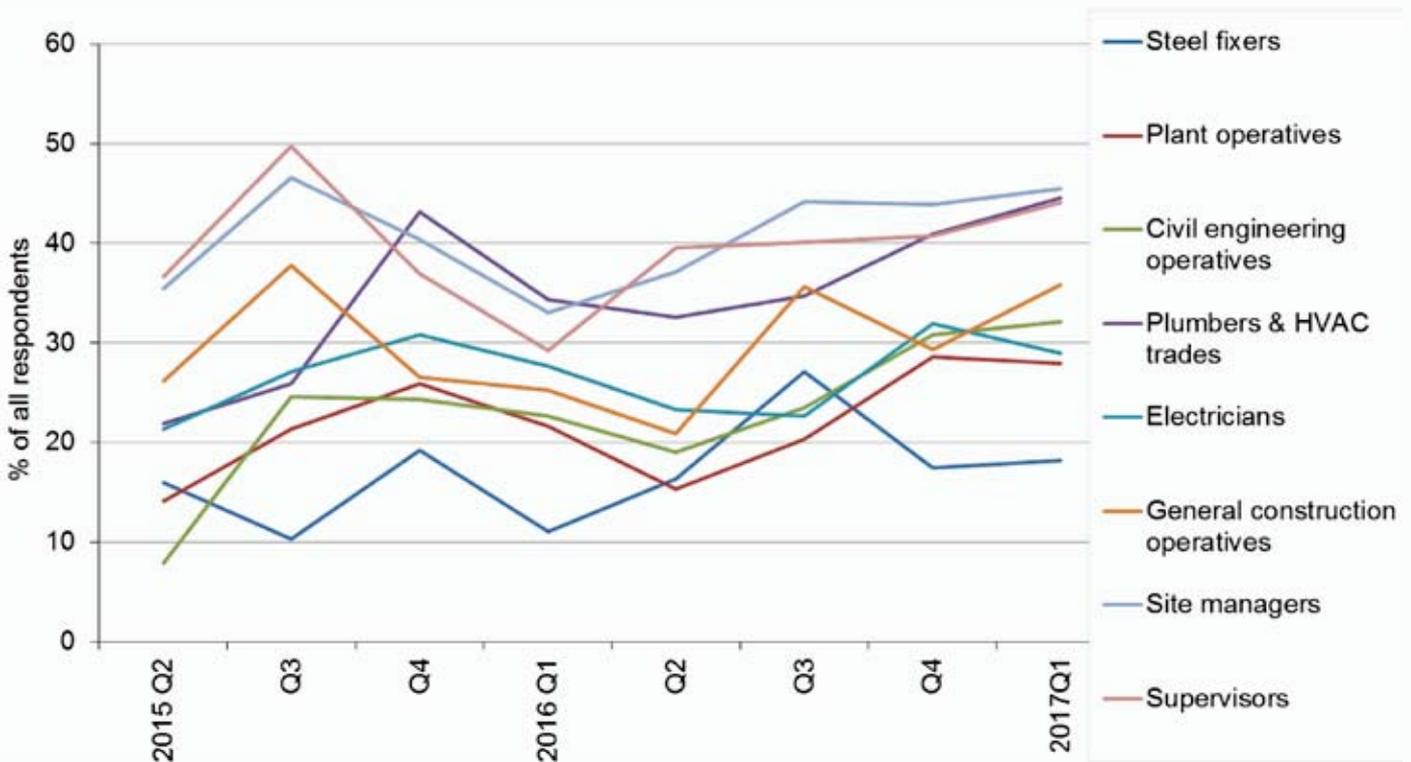
Bricklayers were reported as being the most difficult to recruit in the first quarter of this year. Carpenters/joiners, site managers and plumbers and HVAC trades were also hard to come by. In contrast, fewer respondents had difficulties hiring scaffolders and floorers in comparison with other trades.

% of respondents reporting difficulty recruiting selected skills chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

Trades	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
Bricklayers	49	60	50	55	50	59	58	60
Carpenters/joiners	47	54	52	46	49	55	57	58
Plumbers & HVAC trades	22	26	43	34	33	35	41	45
Site managers	35	47	40	33	37	44	44	45
Supervisors	37	50	37	29	40	40	41	44
General construction operatives	26	38	27	25	21	36	29	36
Plasterers	25	31	31	32	38	36	39	36
Civil engineering operatives	8	25	24	23	19	23	31	32
Electricians	21	27	31	28	23	23	32	29
Roofers	25	27	31	28	30	34	46	29
Plant operatives	14	21	26	22	15	20	29	28
Painters & decorators	21	38	23	24	23	27	20	28
Steel fixers	16	10	19	11	16	27	17	18
Floorers	20	14	16	18	26	21	23	17
Scaffolders	13	8	21	14	15	17	14	12

“The number of construction SMEs reporting difficulty hiring carpenters is at a post-financial crisis high.”

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 jumped by 22 percentage points to +26 between January and March 2017. The share of positive weighted responses increased to 37% from 22%, while the percentage of negative weighted responses dropped to 11% from 18%. The proportion of neutral weighted responses declined to 52%, from 60% in Q4 16.

Of all the four home nations, **Scotland** (+35) saw the greatest increase of 25 percentage points in its net balance. More than half (53%) of weighted responses were positive, up from 30% in the previous quarter, while fewer firms reported

negative weighted responses (18% vs 20%). Around 29% of weighted responses were neutral, down from 50% three months earlier.

England's net balance went up by 22 percentage points to +25 as the share of positive weighted responses rose to 36% from 21%, while the percentage of negative weighted responses decreased to 11% from 18%. At 53%, most responses were neutral, down from 61%.

Northern Ireland's net balance increased by 17 percentage points to +27. Approximately 40% of weighted responses were positive, up from

24%. Around 13% of weighted responses were negative, slightly down on the 14% registered in the three months to December last year. Just under half (47%) of weighted responses were neutral, down from 62%.

Wales' net balance went up by 20 percentage points to +35. The proportion of positive weighted responses increased to 39% from 30%, while just 4% of weighted responses were negative, down from 15%. The share of neutral weighted responses edged up to 57% from 55%.

Weighted % balances

	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
East Midlands	+27	+32	+19	+4	+3	-12	+16	+12
Eastern	+38	+9	-9	+18	+16	+7	+4	+37
London	+4	+27	+24	+25	-17	0	+14	+29
North East	-2	+3	+2	+22	+28	+30	-3	+36
North West	+13	+7	+3	-2	+11	0	+10	+28
South East	+30	+16	+10	+17	+15	-3	-8	+23
South West	+26	+8	-10	+19	+11	+4	-14	+18
West Midlands	+30	+40	-1	+9	+7	+1	-9	+18
Yorks & Humber	+16	+38	+13	+26	+13	+30	+19	+28

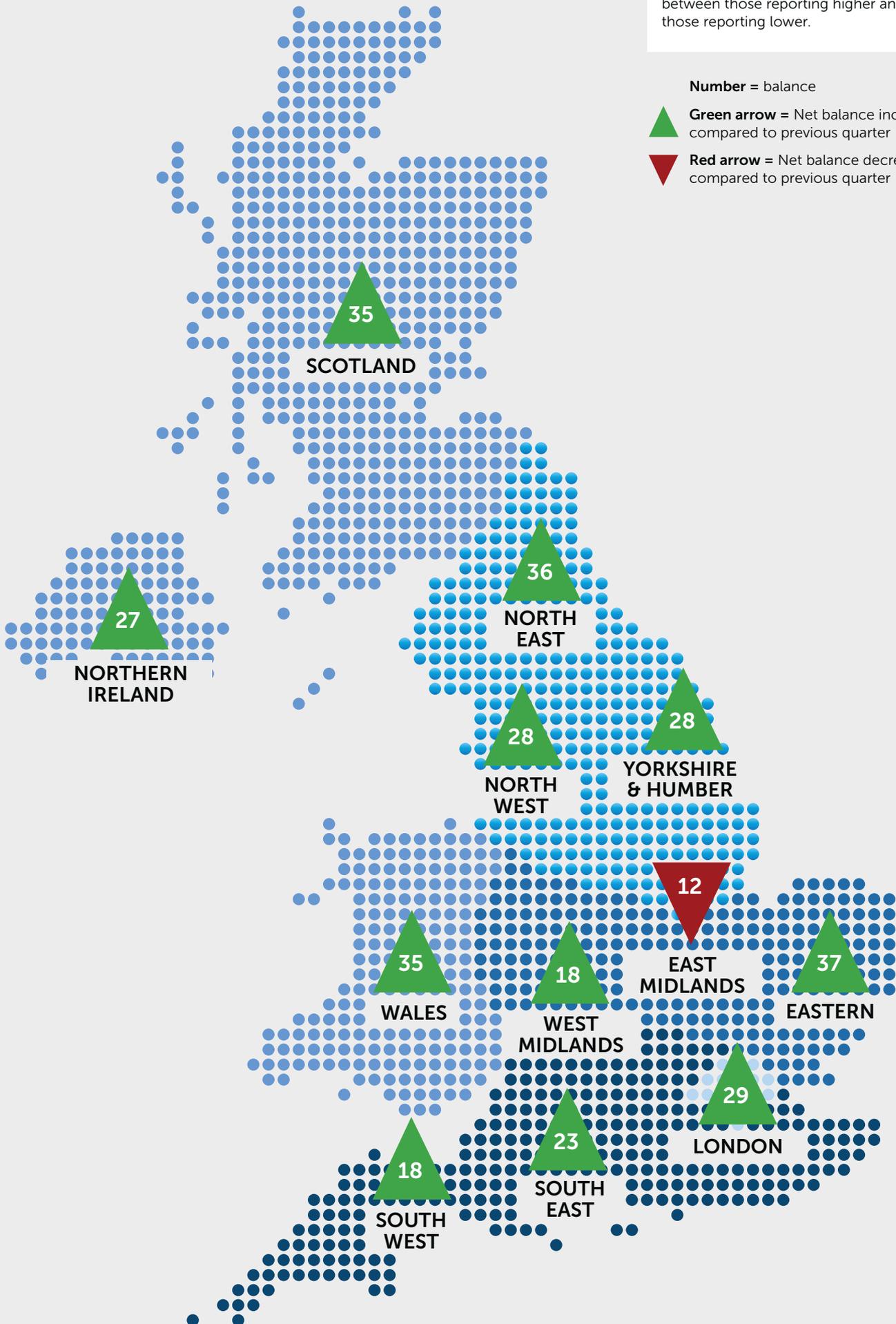
	2015 Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1
England	+22	+17	+5	+16	+12	+6	+3	+25
Northern Ireland	+28	+35	+18	+34	+27	+15	+10	+27
Scotland	+14	+14	-13	+6	+21	+8	+10	+35
Wales	+16	+9	+7	-6	+16	-7	+15	+35
UK	+21	+17	+4	+15	+14	+6	+4	+26



REGIONAL PERSPECTIVE

The net balance incorporates recent workloads, expected workloads and enquiries. It shows the difference between those reporting higher and those reporting lower.

- Number** = balance
-  **Green arrow** = Net balance increase compared to previous quarter
-  **Red arrow** = Net balance decrease compared to previous quarter



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

For more than 20 years the 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 industry. The survey is dispatched to a rolling stratified sample of 2,000 FMB members each quarter. Over 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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