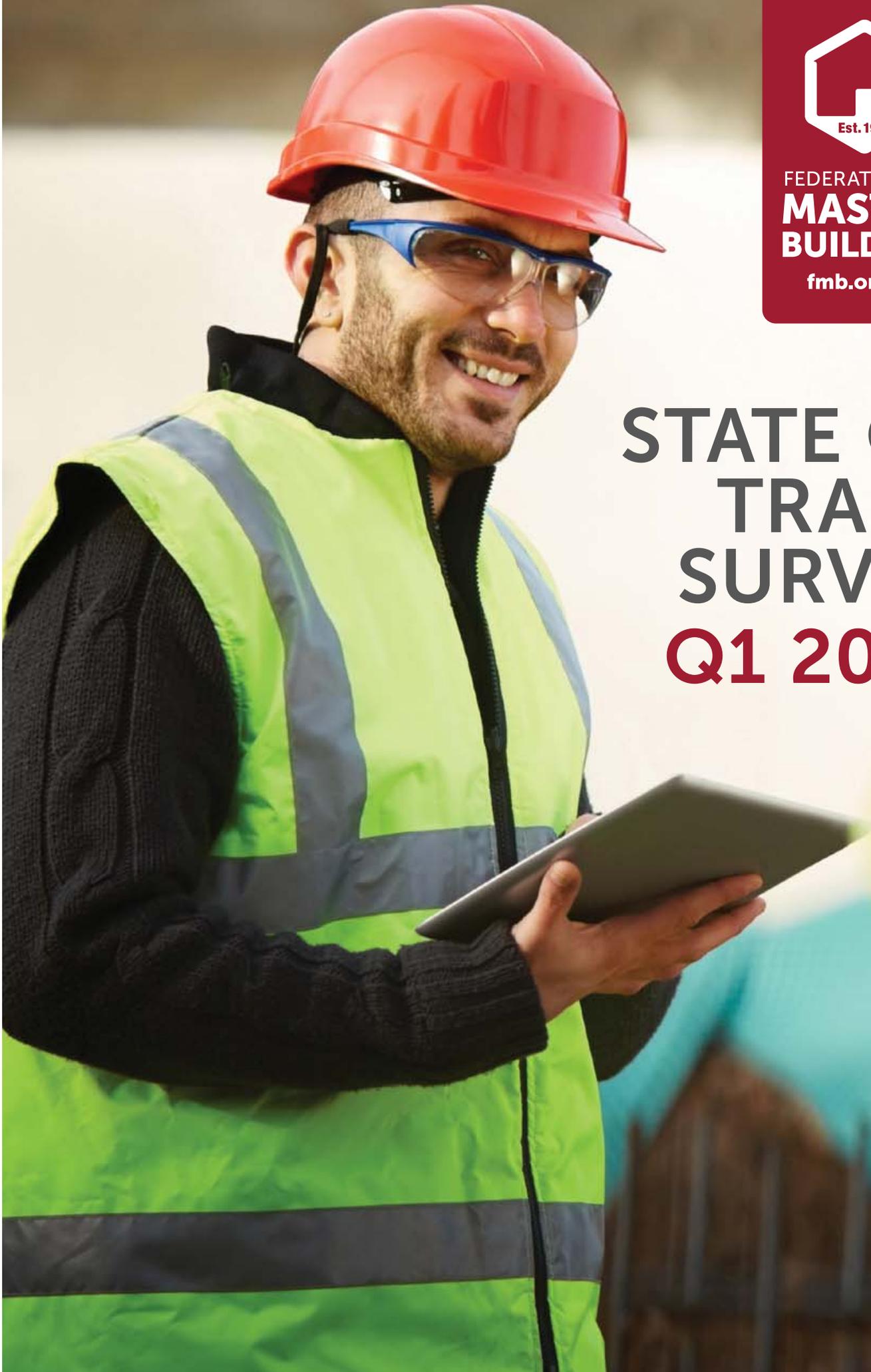




FEDERATION OF
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STATE OF TRADE SURVEY **Q1 2018**





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Introduction from FMB Chief Executive Brian Berry

The start of 2018 has been a reasonably positive one for the UK's small and medium-sized (SME) construction firms. During the first quarter of the year, we have seen positive figures for workloads, enquiries and expected workloads in all devolved nations and English regions. There have been particularly strong results in Scotland, Wales and Northern Ireland. Overall, these results represent the twentieth consecutive quarter of positive growth which means that the construction SME sector has been growing for five years.

These latest findings do expose continuing threats to the construction sector. Material prices are predicted to continue to rise over the next six months and this will squeeze SMEs' margins further. The predicted rise in salaries can be attributed to the industry's acute skills shortage. As the cost of doing business rises, firms may be forced to pass these increases onto the home owner or consumer. This may dampen consumer spending and would spell disaster for both construction and the wider economy alike.



“Material prices are predicted to continue to rise over the next six months”

Key statistics:

- At the UK level, activity rose at a slightly slower pace compared with Q4 2017;
- Every region and home nation of the UK saw positive results for workloads, enquiries and expected workloads;
- These results represent the twentieth consecutive quarter of positive growth which means that the construction SME sector has been on the rise for five years;
- 84% of builders believe that material prices will rise in the next six months;
- 66% of construction SMEs foresee wage increases over the next six months, up from 62% in the previous quarter;
- 58% of firms are struggling to hire bricklayers; 55% are struggling to hire carpenters and joiners; and 40% are struggling to hire plumbers.

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 three months to March 2018, SME workload growth slowed. Fewer firms reported increasing activity in comparison to the previous quarter (32% vs. 35%), while a larger share reported slowing activity (24% vs. 15%).

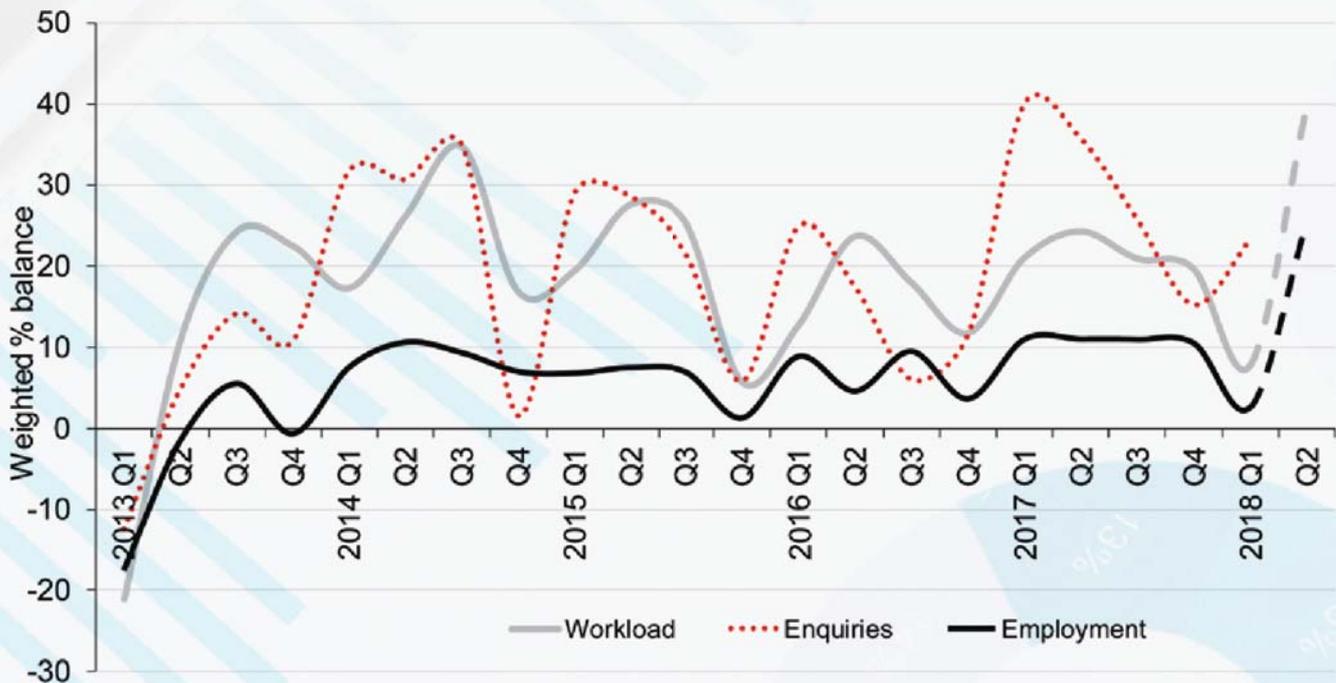
Business expectations for the future have strengthened, with nearly half (49%) of respondents predicting higher workloads, up from 38% whereas those expecting lower workloads declined, to 10% from 16%.

At both the UK and home nation level activity increased in Q1 2018: Northern Ireland's and Scotland's net balances moved into positive territory, with the former seeing its highest reading since Q1 2017.

Over the next six months output prices, material costs and wages and salaries are all likely to rise: This is in spite of the deterioration in the net balances for the first two.

SME employment activity slowed. Despite this it remained in positive territory for the seventeenth successive quarter: The share of firms indicating a rise in their workforce declined (18% vs. 23%) while around 15% of respondents stated lower staffing levels, up from 13%.

Key indicators



Please note: Q2 2018 reflects respondents' expectations for workload and employment

WORKLOADS

In the three months to March this year, the net balance (+8) for overall workloads lost another 12 percentage points. Despite this the net balance for overall workloads remained in positive territory for the twentieth consecutive quarter. Approximately 32% of respondents stated rising workloads, down from 35%, while just under a quarter (24%) reported lower workloads, up from 15%.

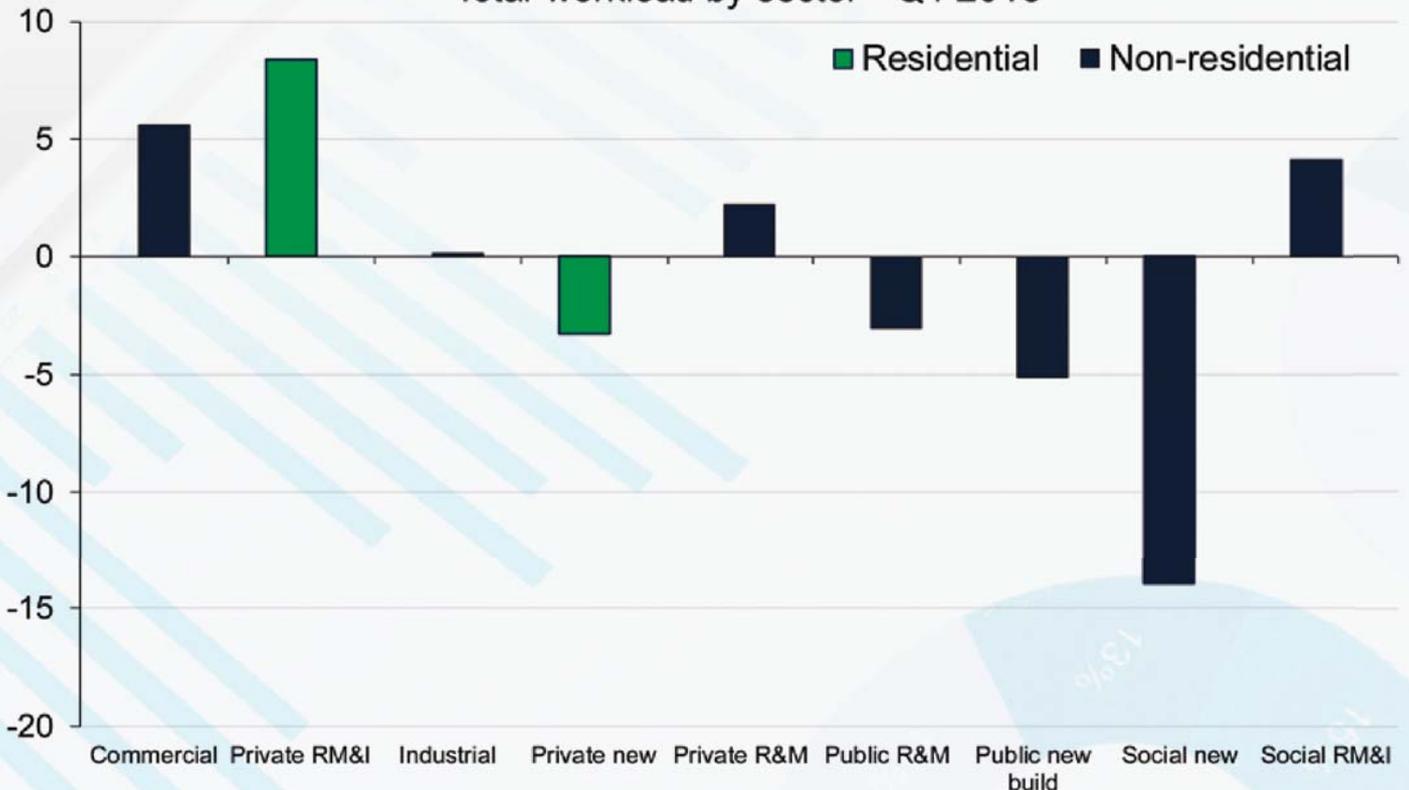
The net balance for the social RM&I sector moved back into positive territory as it experienced the greatest jump, rising by 19 percentage points to +4. Approximately 17% of businesses stated higher workloads, up from 7%, while those reporting lower levels decreased to 13% from 22%. The majority of firms (70%) stated no change in workloads.

In contrast, the net balance for the commercial sector saw the greatest drop of 13 percentage points to +6. Despite this, it remained in positive territory for the fifth successive quarter. The share of firms reporting lower workloads increased to 20% from 15%, whereas those stating higher workloads fell to 25% from 34%.

The overall housing sector's net balance moved into negative territory as it declined by 12 percentage points to -1. Around 22% of firms reported higher workloads, down from 28%, with 23% reporting lower workloads, up from 17%.

A drop of 18 percentage points took the non-residential sector's net balance (-2) back into negative territory. The proportion of firms reporting higher workloads decreased (18% vs. 26%), while those stating lower workloads doubled to 20% from 10% three months earlier.

Total workload by sector - Q1 2018



RESIDENTIAL WORKLOADS

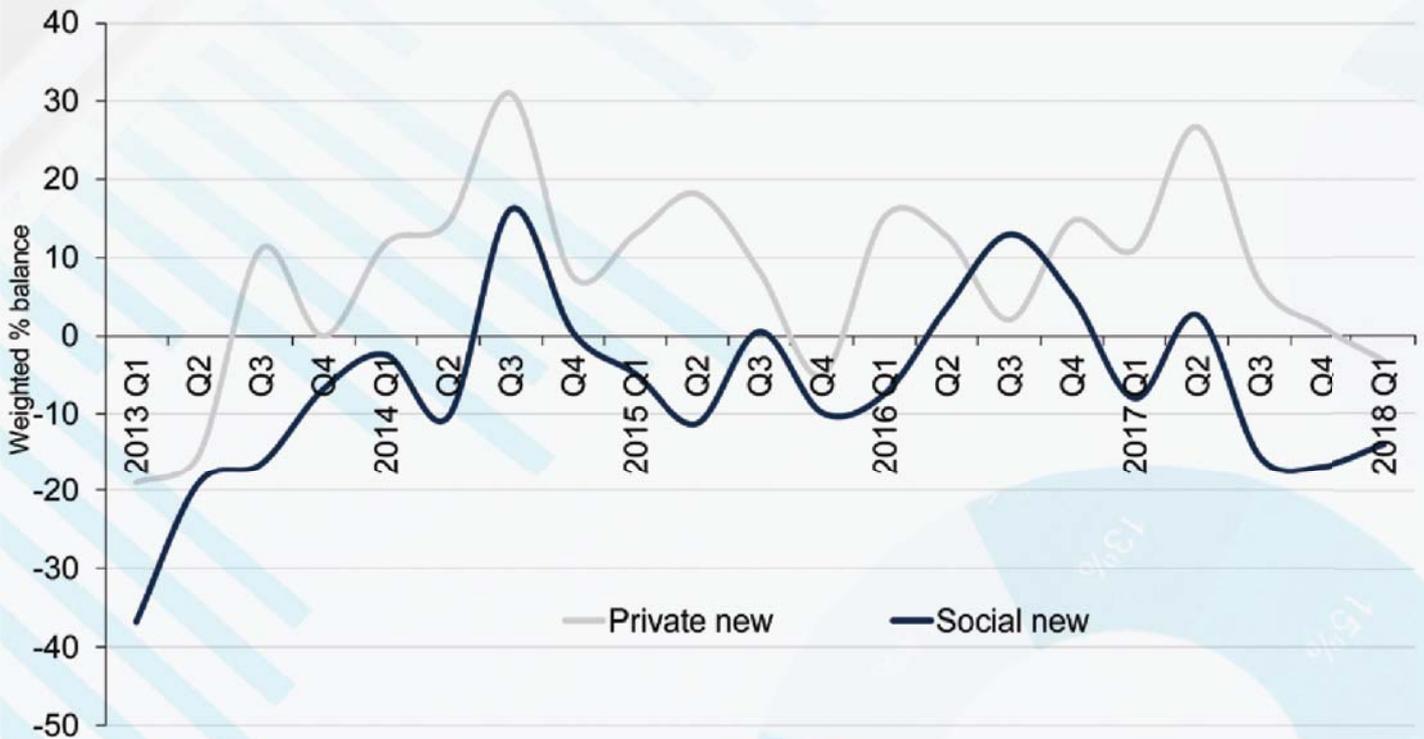
Weighted % balances

Workload	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
Private new	+13	+2	+15	+11	+27	+7	+1	-3
Private RM&I	+17	+13	+8	+15	+19	+12	+18	+8
Social new	+4	+13	+5	-8	+3	-15	-17	-14
Social RM&I	-8	-6	-1	+3	+5	-4	-15	+4
Total Residential	+22	+18	+30	+11	+16	+10	+11	-1

The net balance for the private new housing sector moved back into negative territory as it fell by 4 percentage points to -3. The share of firms reporting a decrease in workloads went up to 25% from 17% last quarter, while more than half of firms (54%) experienced no change to their workloads.

In contrast, the social new housing sectors net balance improved by 3 percentage points to -14. Fewer firms (20% vs. 24%) reported lower workloads, whereas just under three quarters (74%) of companies reported no change in workloads.

Residential historical weighted % balance - new build

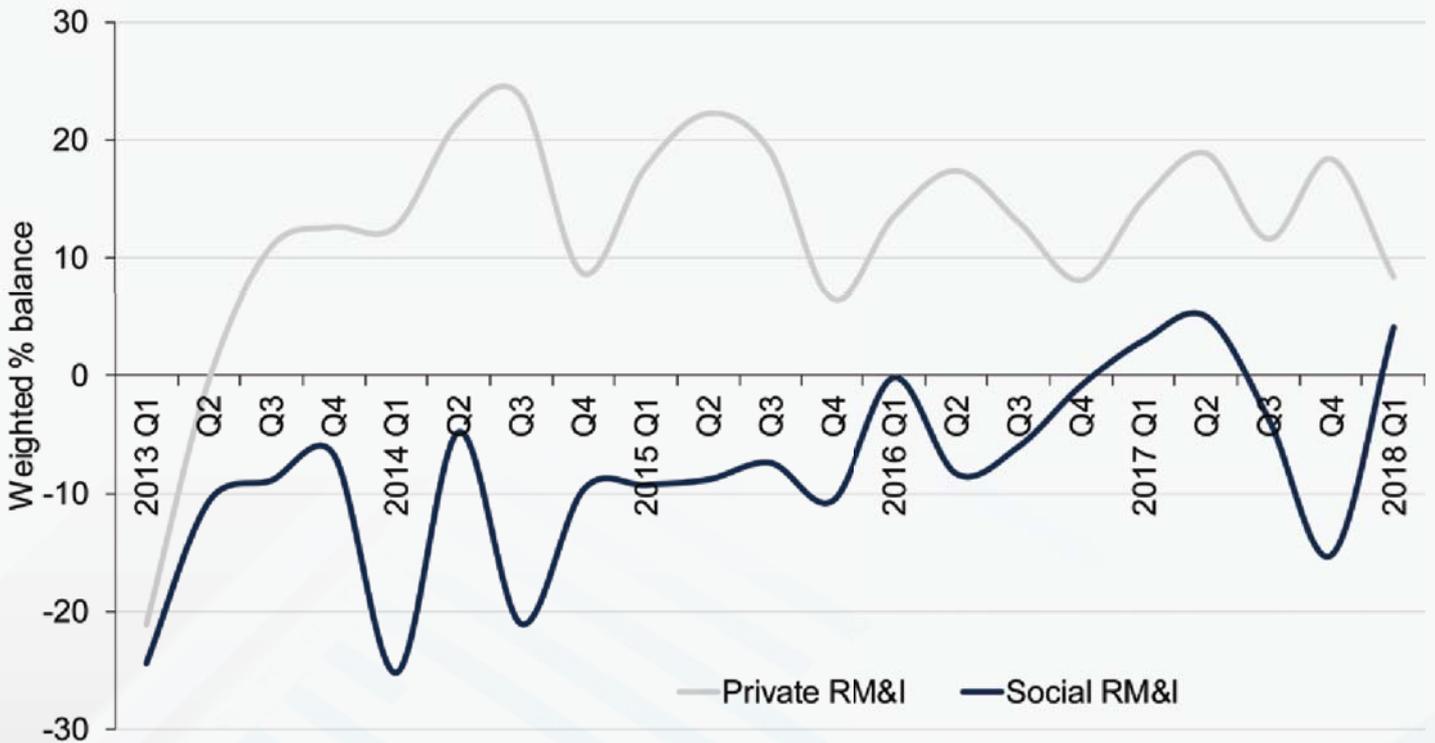


The net balance for the social RM&I sector increased by 19 percentage points to +4. The share of firms reporting an increase in workloads rose (17% vs. 7%), while businesses reporting a decrease in workloads fell (13% vs. 22%).

The net balance for the private RM&I sector remained in positive territory for the nineteenth successive quarter despite falling by 10 percentage points to +8. Approximately 20% of businesses experienced lower workloads, up from 12%, while just over half (51%) of respondents stated no change to workloads.

RESIDENTIAL / NON-RESIDENTIAL WORKLOADS

Residential historical weighted % balance - RM&I



NON-RESIDENTIAL WORKLOADS

Weighted % balances

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

The net balance for the **public new build** sector edged up, by 2 percentage points to -5. More firms reported higher workloads (15% vs. 11%), whereas around two thirds of businesses stated no change in workloads, down from 72% in Q4 2017.

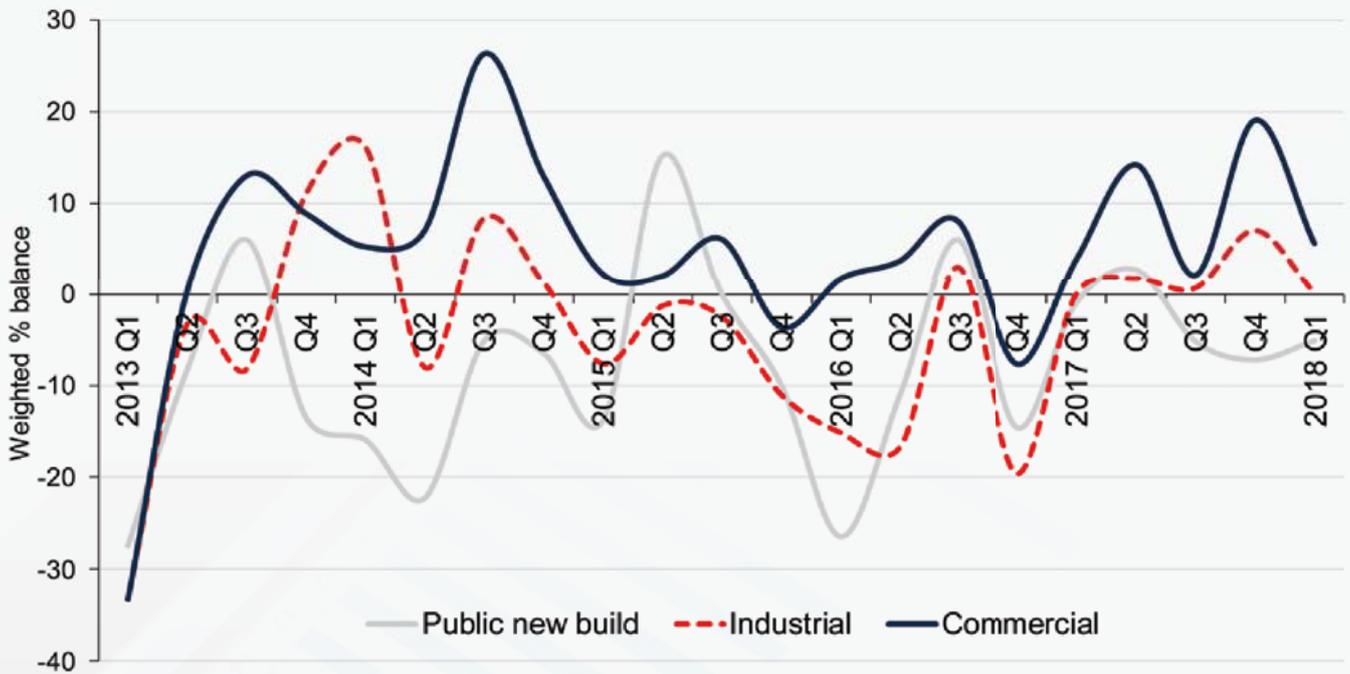
A decline of 13 percentage points took the **commercial** sectors net balance to +6. A quarter of respondents reported increasing workloads, down from 34% last

quarter, while 20% of respondents reported a drop in workloads, up from 15%.

The net balance for the **industrial** sector decreased by 7 percentage points to 0, indicating that overall activity is unchanged from the previous quarter. More firms reported lower workloads (24% vs. 13%) while just under a quarter of firms (24%) stated higher workloads, up from 20%.

NON-RESIDENTIAL WORKLOADS

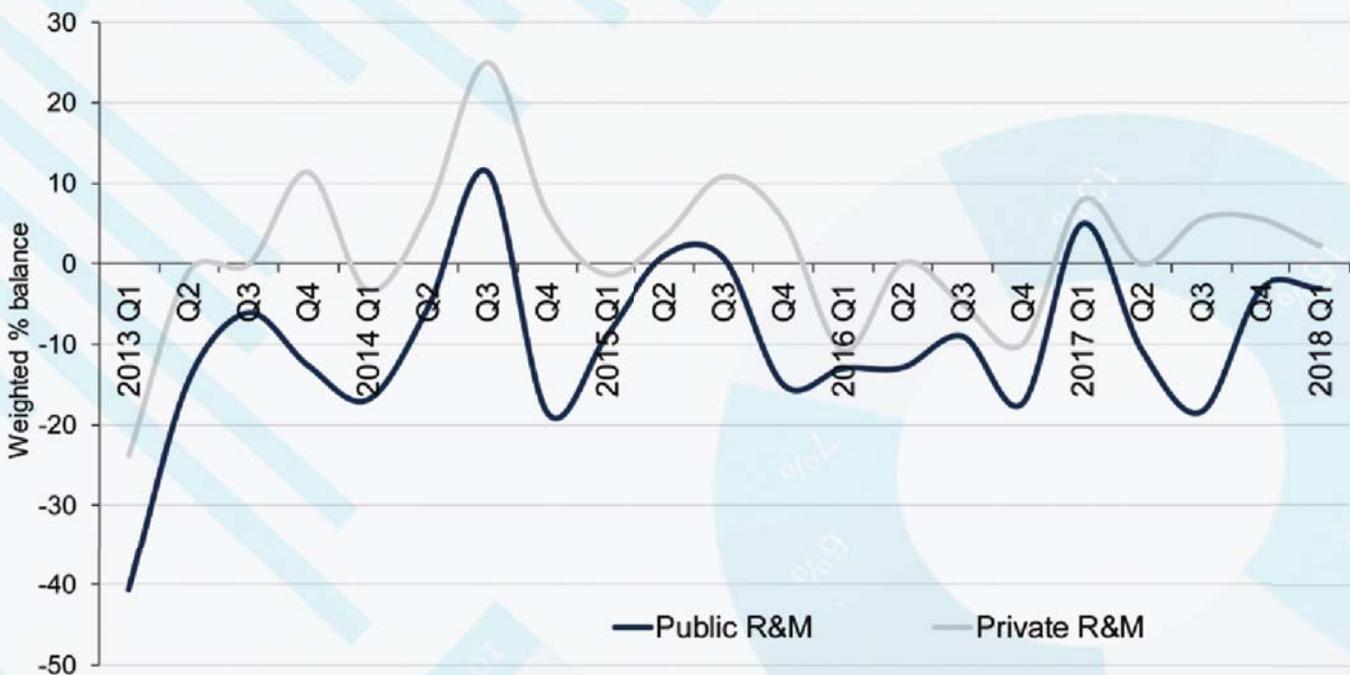
Non-residential historical weighted % balance chart - new work



The **public R&M** sector's net balance remained at -3 for the second consecutive quarter. Around 17% of firms indicated lower workloads, down from 12% in the previous quarter. However, most firms (69%) recorded no change in workloads.

The **private R&M** sector's net balance decreased by 4 percentage points to +2. Slightly more firms reported higher workloads (21% vs. 19%), while those stating lower workloads also went up, to 18% from 13%.

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



EXPECTED WORKLOAD OVER THE NEXT THREE MONTHS AND ENQUIRIES

The net balance for total enquiries rose by 8 percentage points to +23, remaining in positive territory for the twentieth consecutive quarter. A larger share of firms (39% vs. 35%) stated higher levels of enquiries, whilst businesses registering lower level of enquiries decreased to 16% from 20%.

The net balance for total expected workloads also increased, by 18 percentage points, to +40. The proportion of businesses with positive expectations went up to 49% from 38%, while those foreseeing lower workloads, went down to 10% from 16%.

RESIDENTIAL EXPECTED WORKLOADS

The residential sector's net balance went up by 16 percentage points to +28. Approximately 39% of firms are predicting higher workloads over the next three months, up from 32%, whilst fewer firms (11% vs. 19%) expect lower workloads.

The **private new** housing market's net balance moved back into positive territory as it jumped by 31 percentage points to +28. The proportion of respondents with positive expectations for workloads rose to 40% from 21% while a smaller share of businesses (12% vs. 24%) anticipate lower workloads.

A rise of 8 percentage points took the net balance for the **social new** housing sector to +5 and back into positive territory. At 13%, the proportion of respondents

envisaging higher workloads was unchanged from the previous quarter. In contrast, fewer firms (8% vs. 17%) forecast lower workloads.

The net balance for the **social RM&I** sector went up by 16 percentage points to +14. More respondents (24% vs. 14%) expect workloads to rise over the coming three months, while those anticipating lower workloads declined to 10% from 17%.

The **private RM&I** sector's net balance remained in positive territory for the ninth consecutive quarter as it increased by 19 percentage points to +31. Those respondents predicting lower workloads decreased from 18% to 13%, whilst 44% of firms expect higher workloads, up from 30%.



"39% of construction SMEs operating in the residential sector anticipate higher workloads over the next three months."

Weighted % balances

Expected Workload	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
Private new	+14	+2	+13	+35	+32	+24	-3	+28
Private RM&I	+17	+8	+6	+36	+28	+23	+12	+31
Social new	+12	+8	+19	+5	+8	0	-3	+5
Social RM&I	+3	-8	+5	+4	+9	+7	-2	+14
Total Residential	+22	+7	+4	+34	+33	+24	+12	+28
Enquiries								
Private new	+16	+1	+8	+31	+25	+17	+4	+18
Private RM&I	+13	+1	+6	+33	+32	+19	+8	+18
Social new	-11	0	-4	0	0	-3	-17	+13
Social RM&I	-3	-11	+7	+1	+11	+1	-9	+5
Total Residential	+22	+21	+3	+26	+23	+22	+10	+15

NON-RESIDENTIAL EXPECTED WORKLOADS

The net balance for non-residential expected workloads remained in positive territory for the fifth successive quarter as it rose by 9 percentage points to +19. Around 36% of businesses forecast higher workloads, up from 27%, while approximately 46% of respondents predict no change to workloads, down from 56%.

The **Public R&M** sector's net balance remained in positive territory for the third quarter running as it rose by 2 percentage points to +5. A fifth of firms anticipate higher workloads, marginally up from 19%, while 15% of businesses foresee lower workloads, slightly down from 16% in the previous quarter.

The net balance for the **private R&M** sector went up by 13 percentage points to +16, the highest reading since the beginning of last year. Approximately 29% of respondents project higher workloads, up from 18%, while around 13% of businesses anticipate lower workloads, down from 15%. However, most firms (59%) forecast no change in workloads.

The industrial sector's net balance increased by 8 percentage points to +15. The share of firms anticipating lower workloads fell (15% vs. 17%), while 31% of respondents predict higher workloads, up from 24%. Businesses expecting no change in workloads fell to 54% from 59%.

A rise of 7 percentage points to +9 allowed the **public new build** sector's net balance to remain in positive territory for the second successive quarter. Around 23% of businesses foresee higher workloads, up from 18%. In contrast, approximately 15% of respondents have a negative outlook, down from 17%.

The **commercial** sector's net balance jumped by 19 percentage points to +32. The share of respondents anticipating higher workloads grew to 45% from 28% while around 13% forecast lower workloads, down from 16%. Approximately 42% of firms predict no change to their workloads, down from 56% in Q4 17.



“The net balance for non-residential expected workloads has remained in positive territory for a full year.”

Weighted % balances

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

PRICES AND COSTS

Weighted % balances

Actual	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
Output prices	+26	+33	+25	+49	+48	+36	+43	+40
Wages & salaries	+45	+52	+44	+52	+59	+61	+63	+52
Materials costs	+65	+65	+73	+87	+89	+81	+87	+90

Weighted % balances

Expected	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
Output prices	+42	+33	+41	+68	+65	+61	+64	+60
Wages & salaries	+53	+41	+40	+66	+62	+58	+61	+66
Materials costs	+63	+65	+78	+85	+82	+82	+87	+83

The net balance for expected output prices fell by 4 percentage points to +60. Approximately 63% of firms predict higher output prices over the next six months, down from 66%. Just over two thirds (34%) of companies forecast no change to output prices, up from 31%.

In contrast, the net balance for expected wages and salaries rose by 5 percentage points to +66. Around two thirds of firms predict wage increases, up from 62% while

around 34% of respondents expect no change in wages and salaries, down from 36%.

A decline of 4 percentage points took the net balance for expected material costs to +83. At 84%, most firms expect a rise in material costs, down from 87% while 14% of respondents anticipate no change to material costs over the coming six months.

Prices and costs weighted % balance chart



EMPLOYMENT AND LABOUR

Weighted % balances

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

Weighted % balances

Expected employment	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
All builders	+17	+14	+7	+32	+29	+26	+28	+32
All specialists	+14	+10	+5	+30	+29	+21	+22	+19
Total	+16	+12	+6	+31	+29	+23	+25	+26
Total Employment	+16	+12	+6	+31	+29	+23	+25	+26

After remaining at +11 throughout last year, the total employment net balance dropped by 8 percentage points to +3 in the latest quarter. Fewer firms stated a rise in staffing levels (18% vs. 23%), whereas firms recording a decline in employment went up, to 15% from 13%.

The employment net balance for all builders halved by 4 percentage points to +4. Approximately 16% of firms reported a fall in staffing levels, up from 13% while those stating higher employment also decreased, to 20% from 22%.

The net balance for all specialists plummeted by 11 percentage points to +2. Around 16% of respondents reported higher staffing levels, down from a quarter, while firms indicating a reduction in their workforce grew (15% vs. 12%).

Due to rounding the net balance for expected total employment edged up by 1 percentage point to +26, despite the shares for firms expecting higher (34%), no change (57%) and lower (9%) workloads remaining the same.

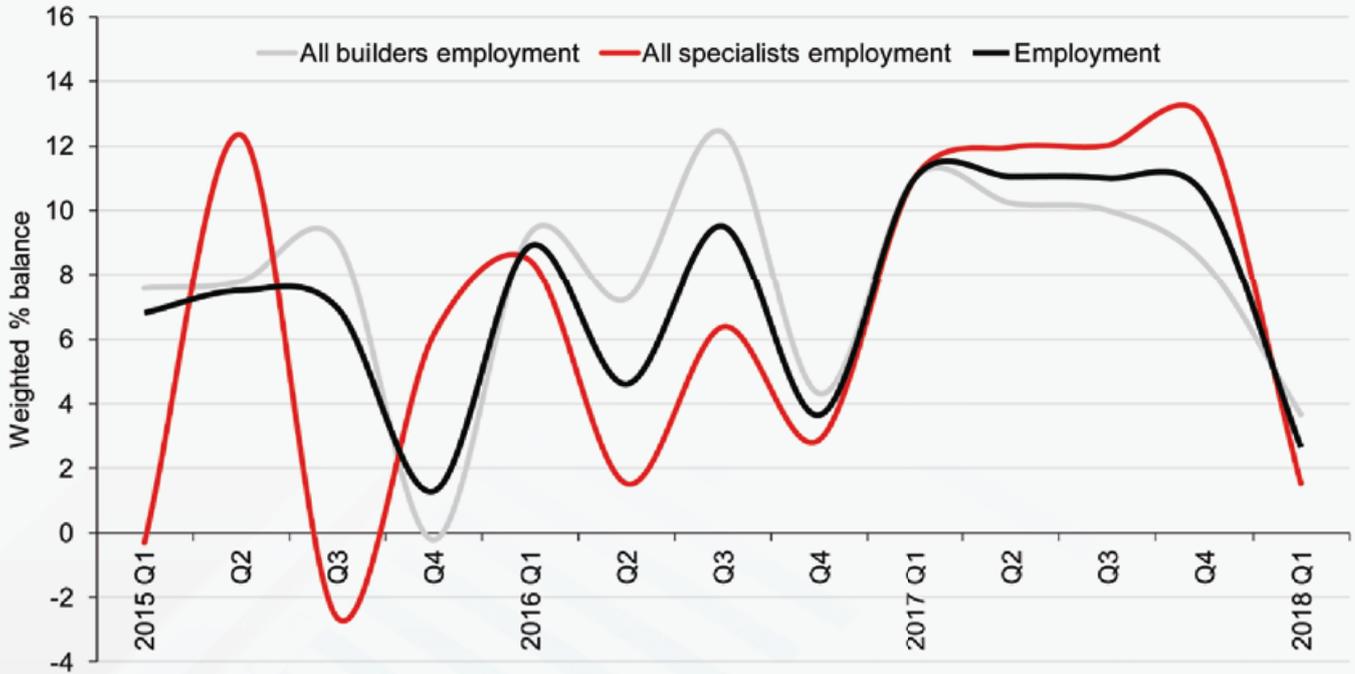
The expected employment net balance increased by 4 percentage points to +32. More firms expect to hire staff (40% vs. 37%), while around 51% of businesses project no change to their workforce, down from 55%.

A fall of 3 percentage points took the expected specialists employment net balance to +19. Approximately 28% of respondents envisage a rise in employment, down from 31%, while those expecting lower workloads was unchanged at 9%.



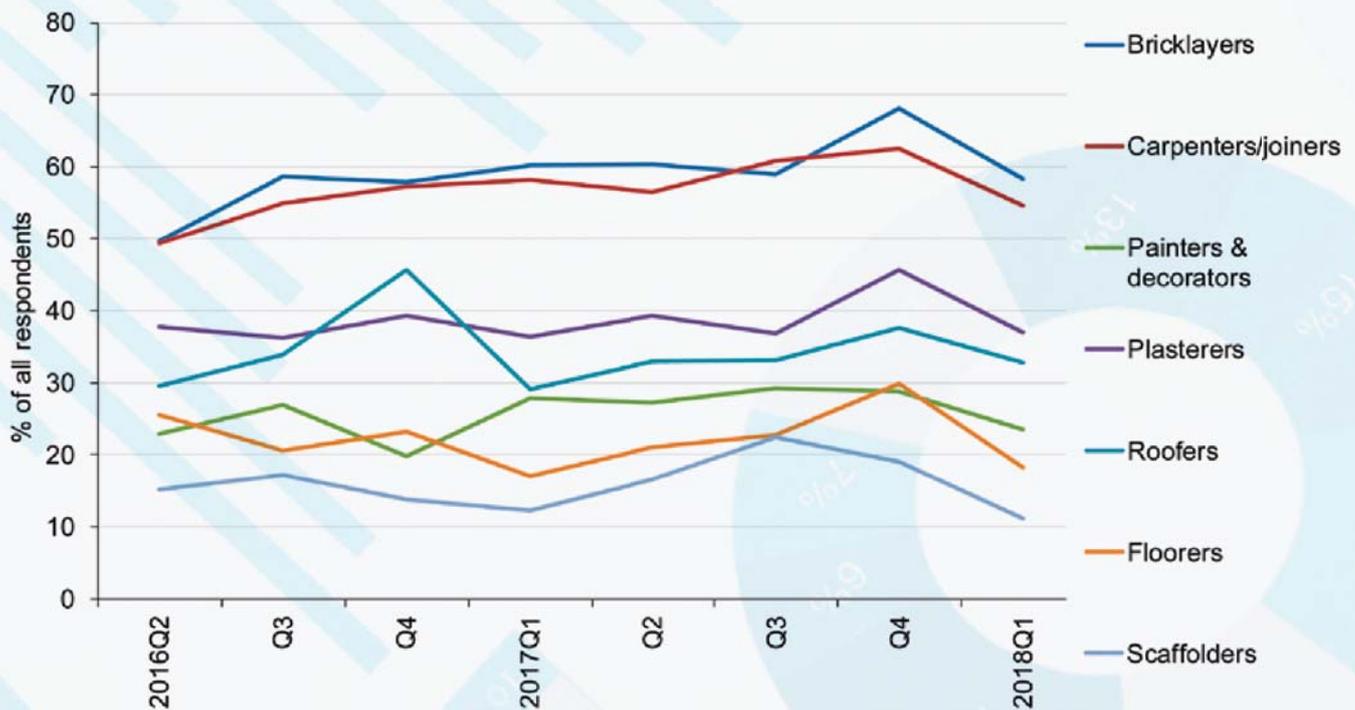
EMPLOYMENT AND LABOUR

Employment weighted % balance chart



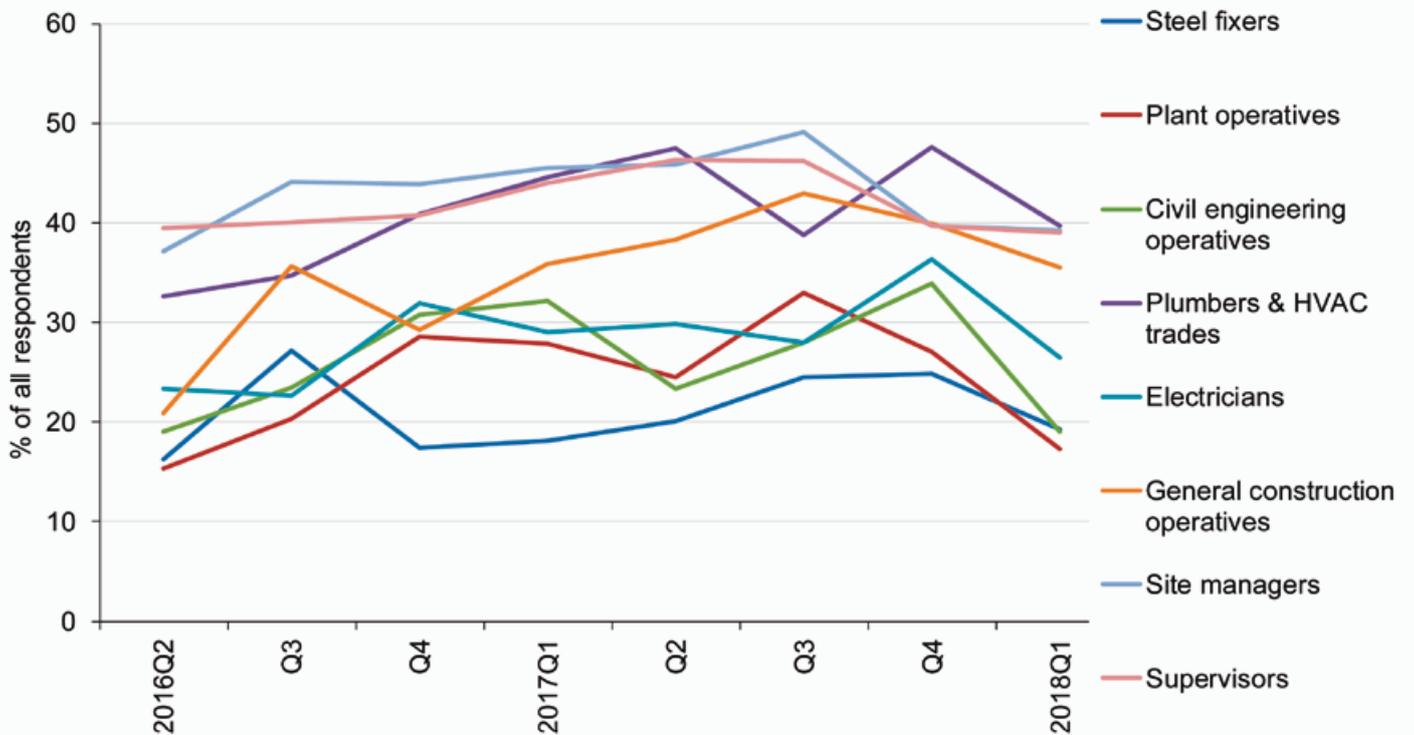
The trend of bricklayers being reported as being the most difficult to recruit continued into the first quarter of this year. Carpenters/joiners, plumbers & HVAC trades, site managers and supervisors were also difficult to obtain. In contrast, scaffolders were the least difficult to employ.

% of respondents reporting difficulty recruiting selected skills chart 1



EMPLOYMENT AND LABOUR

% of respondents reporting difficulty recruiting selected skills chart 2



% reporting difficulty

Trades	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
Bricklayers	50	59	58	60	60	59	68	58
Carpenters/joiners	49	55	57	58	57	61	63	55
Painters & decorators	23	27	20	28	27	29	29	24
Plasterers	38	36	39	36	39	37	46	37
Roofers	30	34	46	29	33	33	38	33
Floorers	26	21	23	17	21	23	30	18
Scaffolders	15	17	14	12	17	22	19	11
Steel fixers	16	27	17	18	20	24	25	19
Plant operatives	15	20	29	28	25	33	27	17
Civil engineering operatives	19	23	31	32	23	28	34	19
Plumbers & HVAC trades	33	35	41	45	47	39	48	40
Electricians	23	23	32	29	30	28	36	26
General construction operatives	21	36	29	36	38	43	40	35
Site managers	37	44	44	45	46	49	40	39
Supervisors	40	40	41	44	46	46	40	39

“58% of firms have reported difficulties recruiting bricklayers.”

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 up by 6 percentage points to +18 in Q1 2018. The proportion of positive weighted responses experienced a rise from 28% to 34% while the share of negative weighted responses remained at 16%. The proportion of neutral weighted responses declined to 50% from 56%.

Scotland's net balance moved back into positive territory as it increased by 19 percentage points to +7. Around a quarter of weighted responses were positive, up from 16% reported in the previous quarter. Approximately 18% of firms reported

negative weighted responses, down from 28% while at 57%, the bulk of weighted responses were neutral, slightly up from 56%.

England's net balance went up by 3 percentage points to +17. While the percentage of positive weighted responses rose to 33% from 29%, the percentage of negative weighted responses also edged up to 16% from 15%. Around 51% of responses were neutral, down from 56%.

Northern Ireland's net balance registered the largest increase of 33 percentage points to +26,

moving back into positive territory. Approximately 41% of weighted responses were positive, up from 21% whereas 15% of weighted responses were negative, down from 28% in Q4 2017. Around 44% of weighted responses were neutral, down from 51%.

The net balance for **Wales** went up by 20 percentage points to +39. The share of positive weighted responses increased to 47% from 33% while the proportion of negative weighted responses fell to 8% from 14%. Neutral weighted responses also decreased, to 45% from 53%.

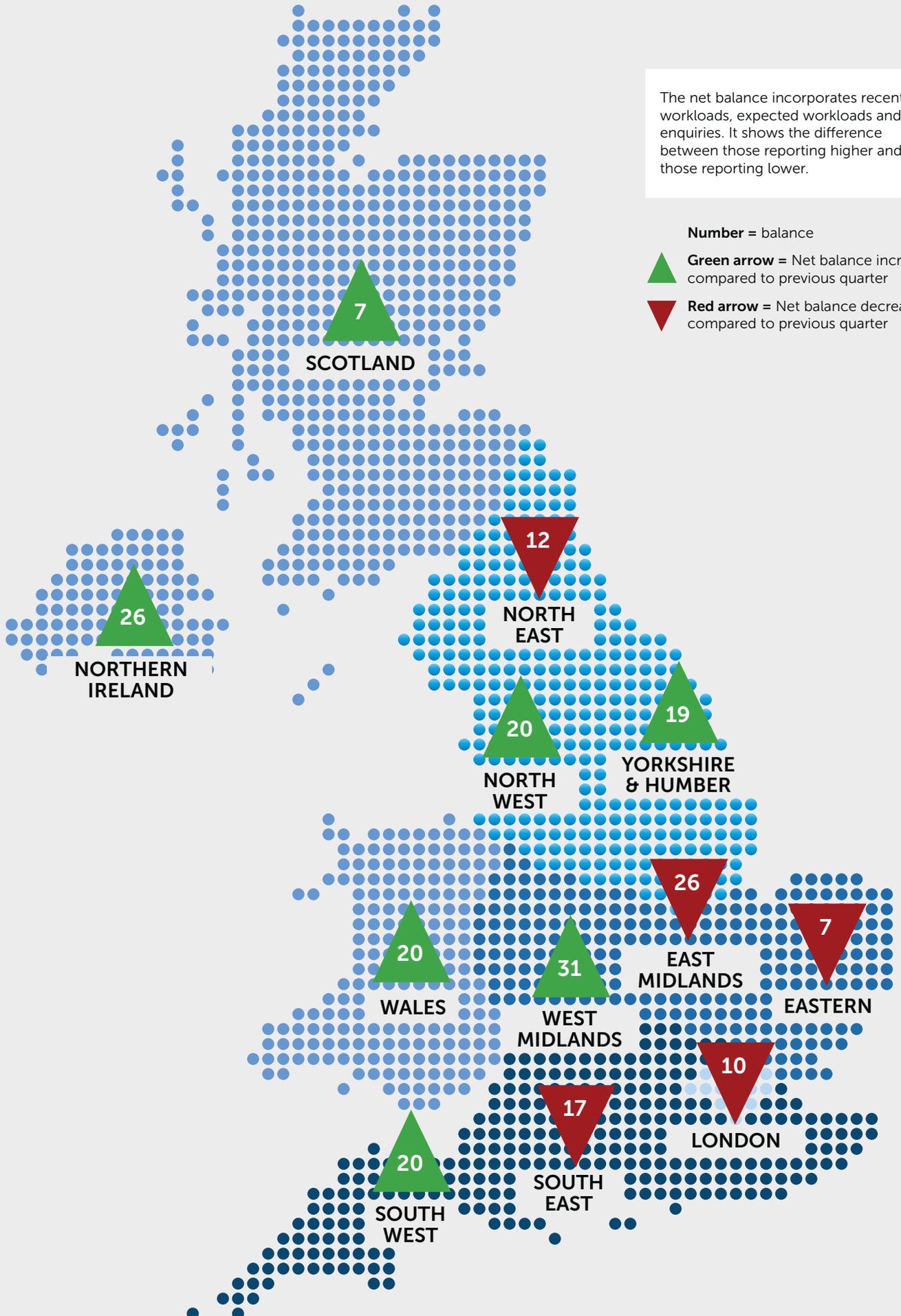
Weighted % balances

English Region	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
East Midlands	+3	-12	+16	+12	+39	+46	+37	+26
Eastern	+16	+7	+4	+37	+42	+34	+11	+7
London	-17	0	+14	+29	+23	+19	+15	+10
North East	+28	+30	-3	+36	+28	+23	+25	+12
North West	+11	0	+10	+28	+19	+25	+6	+20
South East	+15	-3	-8	+23	+32	+26	+23	+17
South West	+11	+4	-14	+18	+24	+14	+4	+20
West Midlands	+7	+1	-9	+18	+8	+36	-4	+31
Yorks & Humber	+13	+30	+19	+28	+8	+28	-9	+19

Nation	2016 Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1
England	+12	+6	+3	+25	+25	+22	+14	+17
Northern Ireland	+27	+15	+10	+27	+4	+12	-7	+26
Scotland	+21	+8	+10	+35	+13	+7	-12	+7
Wales	+16	-7	+15	+35	+26	+6	+19	+39
UK	+14	+6	+4	+26	+24	+23	+12	+18



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.

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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