Q2
2022

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State of Trade Survey

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

The report looks at activity in **April to June 2022**. It casts ahead to **July to September 2022**.

BRIAN BERRY, Chief Executive, Federation of Master Builders

> **"This is the toughest trading environment I have experienced in 17 years of business, a combination of continued higher absence through covid outbreaks, material supply shortages and price increases, and general uncertainty about the future"**
>
> – FMB member

View from the Chief Executive

Economic climate starts to bite

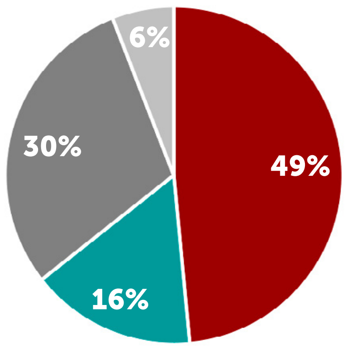
This quarter's State of Trade Survey paints a bleak, if not totally unexpected, picture of the worsening prospects for the UK's small builders. Nearly 50% of FMB members responding reported the current economic climate had a negative impact on their expected profits in Q2 of 2022.

Builders are being hit by soaring costs in materials and basics like fuel (not least with the end of the red diesel rebate). With a tradition for small margins, it's not surprising that these cost rises are being passed on to customers so that micro and SMEs businesses can remain solvent. The problem is, customers are also keeping the purse strings tight, battered by inflation, energy price rises and a worsening cost of living crisis. The FMB is keeping a close eye on the market and will continue to highlight the issues the industry faces in our conversations with governments across the UK, and seek support for small, local builders.

Costs, delays, skills shortages and declining enquiries – a troubled market

Workloads and enquiries are down, jobs are delayed, and costs are spiralling with these trends looking set to continue in the near term. The market is looking like it's in for a difficult few months. When looking back at some of the older State of Trade Surveys we aren't quite at the levels of the previous financial crisis in 2008. But some of the enquiry figures are looking worrying. Time will tell if this does turn out to be sectoral decline, but the warning signs are starting to show. House building enquiries are particularly concerning, given that the figures represent a downturn not seen since the pandemic.

What impact, if any, has the current economic climate had on your business' net profit over the period April-June 2022 compared to your expectations?



Graph 1. Q14/Topical. What impact, if any, has the current economic climate had on your business' net profit over the period April-June 2022 compared to your expectations? Base: Total (n= 296)

View from the Chief Executive

BRIAN BERRY, Chief Executive, Federation of Master Builders

Unfortunately, issues that became particularly concerning during the pandemic are continuing. Not only are costs of materials an ongoing concern, but their availability is still having a direct effect on jobs, with 71% of projects delayed. A lack of skilled tradespeople has been a long-term issue, that was made worse during the pandemic. But the effects linger on, with 61% of jobs delayed because FMB members couldn't secure the right tradespeople. Without some serious changes to the economic and political outlook of the UK, there isn't an easy way forward for the industry.

What lies ahead?

Many of the changes needed to ensure companies stay afloat, maintain healthy margins and grow are, for now, in a state of dormancy. The caretaker government announced in the wake of the Prime Minister, Boris Johnson, resigning is set to hold the fort, with no new announcements on the way until September.

Against this background the FMB will be working over the summer, preparing our engagement with the new government as soon as it is in place. We will be holding it to account to provide pragmatic and ambitious solutions to boost the sector. If the new government wants to deliver on the levelling up promises it will be local building companies that are best placed to boost local economies and provide jobs for local school leavers. That means proper commitment to a long-term National Retrofit Strategy, something the recent heatwave has only strengthened the case for. It means licensing to protect consumers and boost the image of the sector. And it also means a favourable tax and training environment to support businesses today and into the future.

"It appears that the industry is gradually slowing and likely to be very different in 12 months time and not in a positive way"
– FMB Member

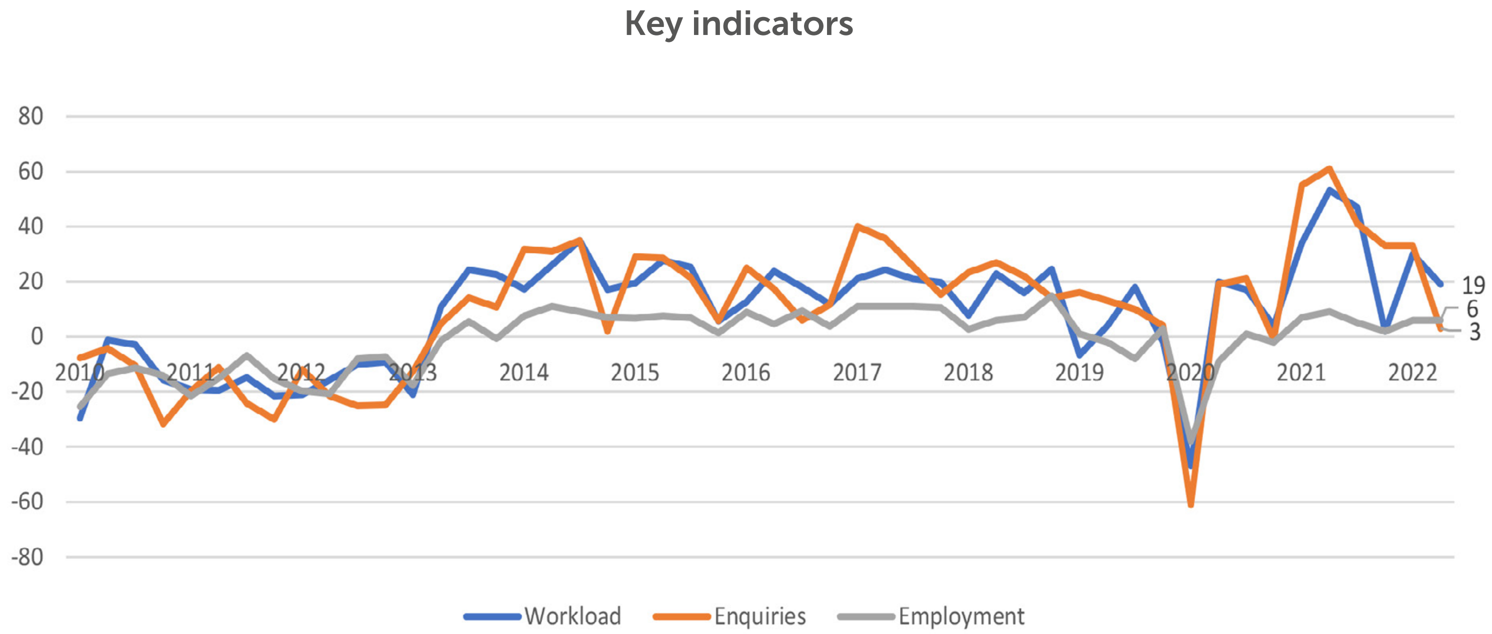
"Fuel costs, inflation and uncertainty over government strategy on the economy are holding back decision making in the medium term"
– FMB Member

Key indicators

The second quarter of 2022 has seen significant downturns in workload and enquiries, compared to Q1. However, reported workforce growth holds steady. This could be indicative of the current economic climate starting to bite, as consumers, who are looking to make savings, don't feel confident commissioning new projects.

Enquiries have plummeted, only a net 3% of members reported more enquiries on the previous quarter, down from 30% in Q1. 35% of members reported more enquiries on the previous quarter and 32% reported fewer. Workload is also showing a sharp downturn with a net 19% of members having reported a higher workload, down from 33% last quarter.

One in five small builders stated that their workforce grew in Q2, while 14% report a reduction in staff numbers. Despite the downturn, employment levels have stayed the same from the last quarter with a 6% net increase. The increase of 6% remains the highest reported figure since Q2 2021 (9%) when lockdown restrictions started to ease.



Graph 2 - Q3. Looking back, how does your company's workload in the period April - June 2022, compare to that in January - March 2022? Base: Total excl N/A (n=296) Q6. Looking back, how has the level of enquiries regarding future work changed in the period April – June 2022 compared to January – March 2022? Base: Total excl N/A (n= 296) Q8. How has the number of employees within your company's workforce changed during April – June 2022 compared to January – March 2022? Base: Total excl N/A (n= 296) Net balance of change.

"There is a definite change in the air. There is more talk of projects being cancelled or postponed and a little uncertainty around"

– FMB member

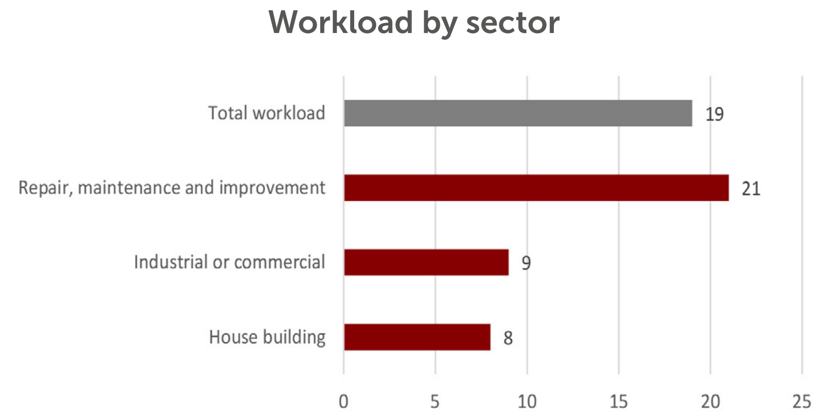
Workload and enquiries by sector

The number of FMB members that reported increased workload and enquiries has decreased in Q2 2022 compared to Q1 2022 on balance in most sectors. This follows increases in most sectors last quarter.

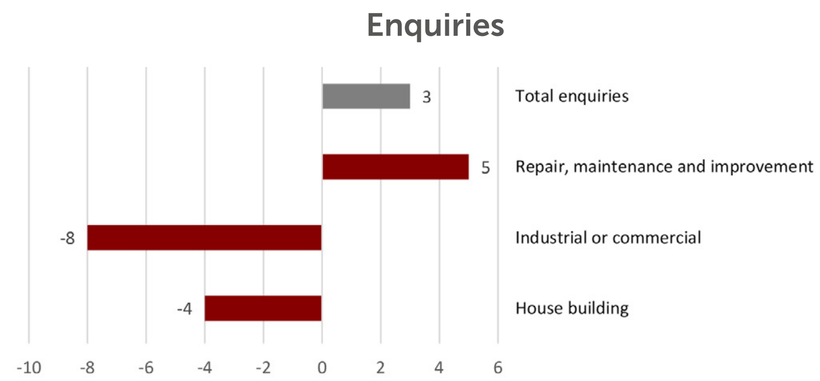
In line with Q1, the repair, maintenance and improvement sector continues to have the highest net increase, with around one in five (21%) FMB members having reported a higher workload on balance. However, this is down from 27% last quarter. Reported enquiries in RMI are also down significantly with a 5% increase, dropping from 33% last quarter.

House building holds the lowest net increase for workload, with 8% in Q2 compared to 21% in Q1. In terms of enquiries, house building has seen a significant reduction in those that reported more enquires on the previous quarter, with fewer members having reported an increase than those that reported no change or fewer enquires. This has resulted in net -4% reported enquiries, down from 16% last quarter. This is the first return to negative results for enquiries in the housebuilding sector since Q4 of 2020 (-8%). Lower enquiries would suggest that fewer consumers are looking to commission new housing projects. Lower output from the sector is clearly not welcome news, especially when more homes are desperately needed. While current problems are likely caused by the economic outlook, we'll look to the new Levelling Up and Regeneration Bill to ensure that it makes it easier for our members to develop.

The industrial or commercial sector continues its decline in enquiries observing a net decrease in Q2 of -8%, compared to Q1 in which it saw no net increase or decrease. However net workload increased to net 9%, up from 4% in Q1.



Graph 3 - Q3. Looking back, how does your company's workload in the period April - June 2022, compare to that in January - March 2022, thinking about total workload, and in the specific sectors of the industry that you work in? Base: Total workload (n=296); House building (n=157); Repair, maintenance and improvement (n=280); Industrial or commercial (n=140). Excluding N/As. Net balance of change.

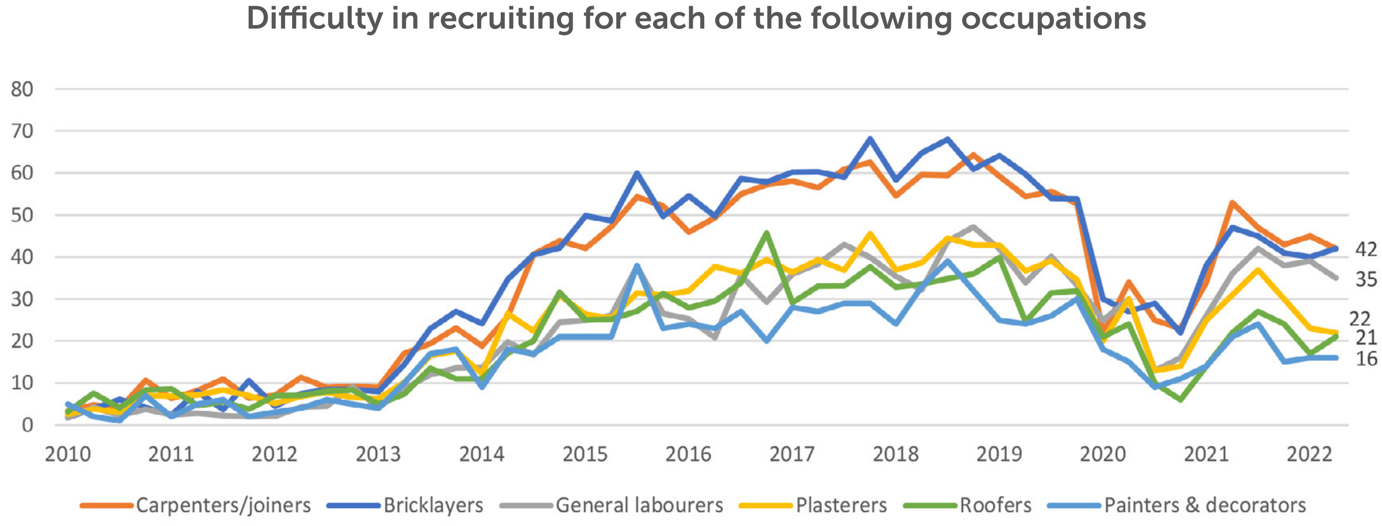


Graph 4 - Q6. Looking back, how has the level of enquiries regarding future work changed in the period April - June 2022 compared to January - March 2022? Base: Total enquiries (n=296); House building (n=169); Repair, maintenance and improvement (n=282); Industrial or commercial (n=144). Excluding N/As. Net balance of change.

Employment and skills shortages

Carpenters/joiners, bricklayers and general labourers continue to be the most difficult occupations to recruit in Q2 2022, with at least one third of FMB members having reported difficultly recruiting each occupation (42%, 42%, and 35% respectively). This means that carpenters and general labourers have become slightly easier to employ compared to Q1 (down from 45% and 39% respectively). However, bricklayers have become 2% more difficult to recruit, according to the latest data, up from 40% in Q1. Issues recruiting plasterers have stayed broadly similar to Q1 but it does continue a downward trend from Q3 2021. Recruiting roofers has increased in difficulty by 4% (21% in Q2, up from 17% in Q1), it's worst level since Q2 2021, but in recent years still represents a relatively low level of recruitment difficulty for this job.

While skills shortages have continued a broad trend of stabilisation or decrease in difficulty hiring, the continued lack of skilled labour is still causing job delays and cancellations as shown in graph 8 (page 8). The sector continues to suffer from long term underinvestment in training up the next generation of builders. FMB will continue in its efforts to show the industry as a rewarding career path. We will particularly focus on 'green skills' which will provide people with a future proofed skill set. Jobs that need these skills will be vital over the next few decades as the nation looks to upgrade its energy inefficient homes.



Graphs 5 - Q10. For which of the following trades has your company found it difficult to recruit skilled staff over the period of April - June 2022? Base: Total (n=296). Net balance of change.

"Unless we get a handle on getting schools to promote construction as a viable career we are heading for disaster. None of our recent apprentices have been up to standard"

– FMB member

Prices and costs

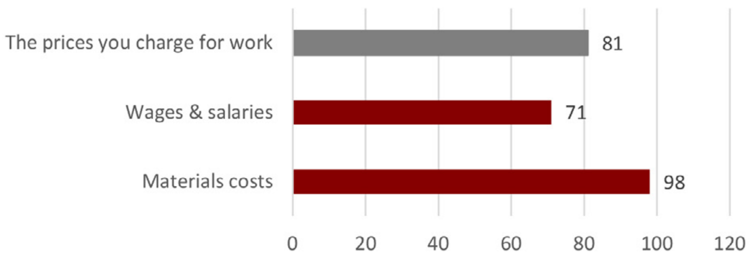
The vast majority of FMB members continue to report an increase in prices and costs in Q2 2022. Matching Q1, nearly all FMB members (98%) report an increase in material costs in Q2 on balance, and 71% report a rise in wages and salaries on balance (compared to 61% in Q1). On balance, 81% say the prices they are charging for work have also increased, a slight decrease on the 83% reported last quarter. In line with Q1 2022, most FMB members expect the rise in prices and costs to continue into the next quarter, on balance, nearly all (95%) say they expect material costs to increase in Q3 of 2022 and just under two thirds (63%) are anticipating an increase in wages and salaries, down from 67% in Q1. Around three quarters on balance (76%) are also expecting to increase the prices they charge for work, down from 83% last quarter.

Price issues continued in earnest into the second quarter of 2022. Energy prices have stayed high, the war in Ukraine continues, inflation is rampant at 9.4% (CPI), and prices increase with little possibility of a fall in the short term. The impact of the war in Ukraine is being felt with raw materials affected which has a knock-on effect for construction materials. Energy intensive materials have also seen prices rise significantly. Pragmatic measures to ease the burden on small builders would go some way to help this, such as the removal of VAT on all RMI jobs, which would lower costs, with savings being passed on to consumers.

"It is now becoming impossible to give fixed price tenders with material prices being increased every month"

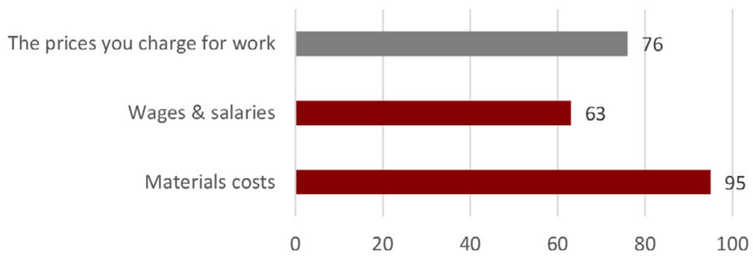
– FMB member

Past quarter prices and costs April – June 2022



Graph 6 - Q11. How have both the prices that you charge for work, and your outgoing costs changed over the period of April – June 2022? Base: The prices you charge for work (n=294); Wages & salaries (n=294); Materials costs (n=295) Excl N/As. Net balance of change.

Expected Prices and costs July – September 2022



Graph 7 – Q12. And how do you expect both the prices that you charge for work, and your outgoing costs to change over the period of July – September 2022? Base: The prices you charge for work (n=289); Wages & salaries (n=291); Materials costs (n=289) Excl N/As. Net balance of change.

Impact of lack of available materials and skilled tradespeople

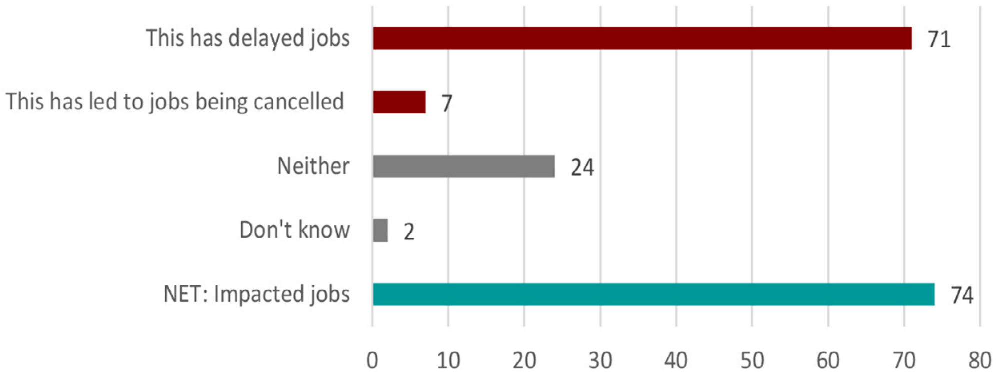
At least two thirds of FMB members have had jobs impacted by a lack of materials or a lack of skilled tradespeople during Q2 2022. Just under three quarters (71%) state that a lack of materials have delayed jobs, while 7% say this has led to jobs being cancelled, which is consistent with last quarter (8%). Lack of skilled tradespeople affects around three in five (61%) members, an increase from 55% having reported it as an issue last quarter. Lack of skilled tradespeople led to one in ten (10%) members cancelling jobs, this remains consistent with last quarter's results (11%).

Compared to Q1 2022, net overall impact of both the impact of lack of materials and skilled tradespeople available have stayed fairly consistent (74% and 66% vs. 77% and 62% respectively). The net impact is down from Q3 2021, when this question was asked as a one-off. In Q3 2021, skills had impacted jobs by 67% and materials by 85%. As with the last quarter, despite the drop off from Q3 2021 when issues were particularly bad, problems still persist. We will look to the new Government in September to introduce measures to ensure SME builders can access the materials they need and that vocational skills are prioritised.

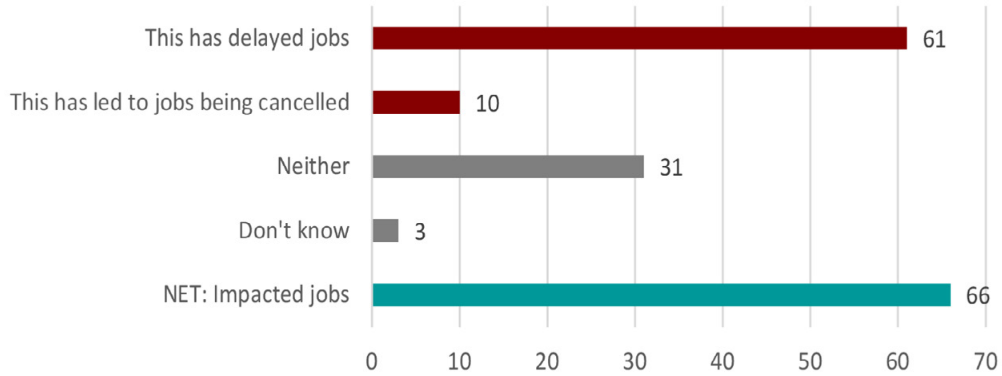
Lead times on materials is proving very difficult and extending job duration, which is proving very difficult for cash flow"

– FMB member

Impact of lack of materials
April – June 2022



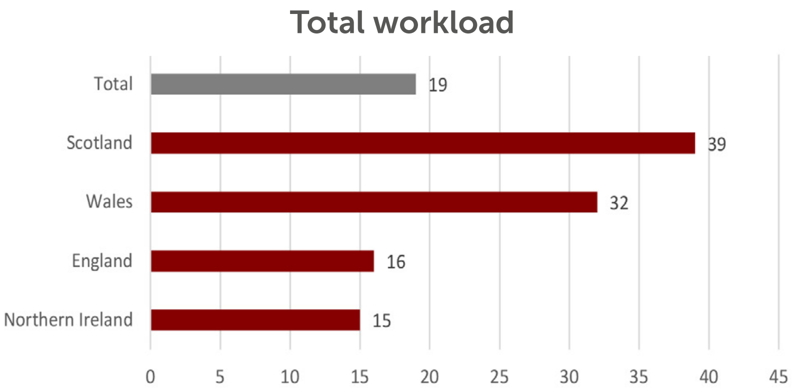
Impact of lack of skilled tradespeople
April – June 2022

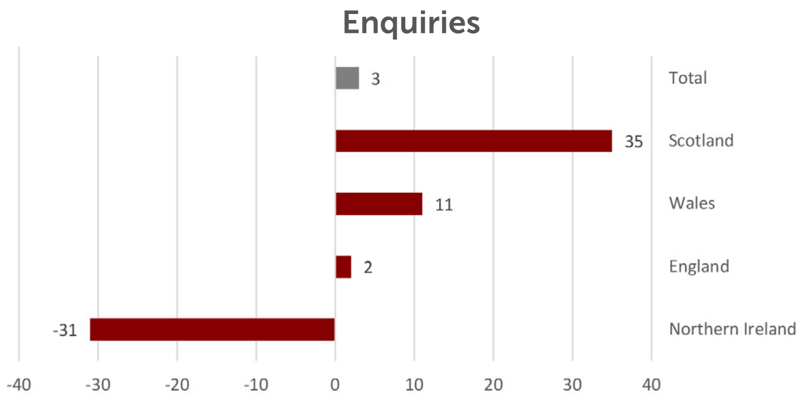


Graph 8 - Q13. How, if at all, have each of the following impacted your company's work over the period of April – June 2022? Base: All respondents (n=296)

Key indicators from the UK nations

Compared to the first three months of the year, the net balance for workload in Q2 2022 has fallen in England and Northern Ireland (16% and 15% vs 30% and 25% respectively). However, Scotland and Wales have seen increases in workload since Q1 2022 (39% and 32% vs. 31% and 25% respectively). There's also a national split when it comes to enquiries. The latest data indicates a sharp drop in enquiries for Wales, England and Northern Ireland compared to Q1 2022 (11%, 2% & -31% vs. 38%, 33% & 38% respectively). On the other hand, there has been an increase in enquiries in Q2 2022 on balance for Scotland (27% to 35%) compared to Q1 2022. The sharp decline in enquiries for the majority of nations of the UK is likely indicative of a nervous consumer base, unwilling to spend money as inflation and other costs issues hit household budgets.

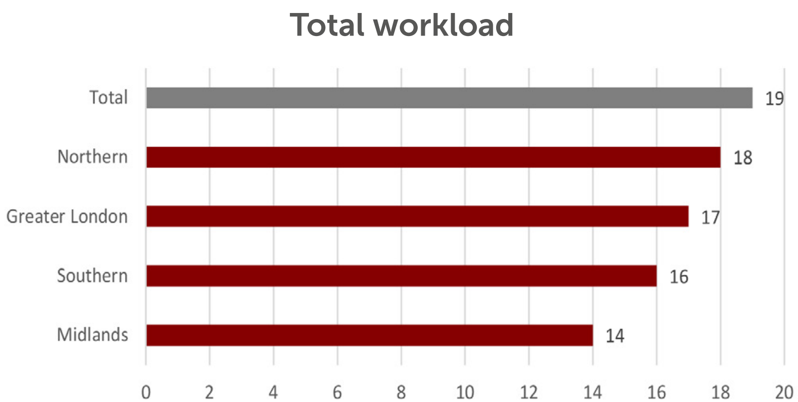


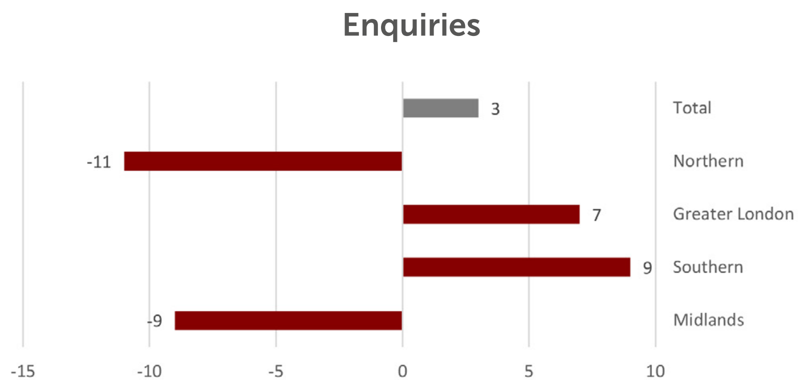


Graphs 9 and 10 -. Q3/Q6. Base: England (n=241); Wales (n=19); Scotland* (n=23), Northern Ireland* (n=13) *Caution: Results should be treated as indicative due to limited base size. Net balance of change.*

Key indicators from the English regions

All regions within England report increases in workload, on balance, however, the rate of increase has slowed in each region since the previous quarter. The most dramatic decreases compared to Q1 are seen in the North (45% to 18%) and Greater London (36% to 17%). Enquiries have also seen sharp falls compared to the previous quarter for all regions: the South has declined from 29% in Q1 to 9% in Q2, Greater London has reduced from 39% in Q1 to 7% in Q2, the Midlands has fallen from 31% in Q1 to -9% in Q2 and lastly, the North has seen the overall balance of enquiries drop from 47% in Q1 to -11% in Q2. These sharp falls could be indicative of a declining market. The FMB will be working with its members across England to push the Government to introduce measures to support the industry.





Graphs 11 and 12 - Q3/Q6. Base: Northern (n=45); Midlands (n=44); Southern (n=152); Greater London (n=42). Net balance of change.

For more information

This quarter, the survey was issued between 27th June and 11th July 2022 and received 296 completes. It was published in July 2022

For more information about the FMB please visit **www.fmb.org.uk**

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