

Weakness in Construction Growth in Q3

Firms across construction reported growth during the third quarter of 2015, which extends the industry's sustained growth to ten quarters. Large contractors, SMEs, civil engineers and product manufacturers continued to report growth in output or sales during the period, according to the Construction Trade Survey for the quarter. However, lower balances recorded by firms throughout the supply chain suggest that activity in the industry slowed down from previous growth rates, as strength in private housing and commercial was weighed down by weakness in public housing and infrastructure work on roads and rail in particular. Looking ahead to Q4 and the next 12 months, a rise in new orders or enquiries, reported by civil engineers and SMEs, was accompanied by optimism over the outlook from product manufacturers. A broad decline in large contractors' order books suggests an element of weakness and uncertainty lingers over the near-term outlook for some links in the supply chain.

Balances across all types of firms in the construction industry remained positive for a tenth consecutive quarter in Q3. Building contractors, SMEs, civil engineers and product manufacturers appear to have experienced growth in output, workloads or sales, albeit slower than in previous quarters. This indicates that the 2.2% fall in the ONS's preliminary estimate of construction output is likely to be revised up. On balance, only 4% of building contractors reported an annual increase in output in Q3. This compares to 17% in Q2 and 50% in Q1 as overall activity was hampered by falls in work in public housing, private industrial and non-housing repair and maintenance (r&m). Civil engineering firms reported a similar moderation in Q3 activity, as the balance of firms experiencing increased workloads decreased to 7% from 29% over the previous six months. A decline in workloads was reported in key infrastructure sub-sectors such as roads, rail and water & sewerage. In addition, around a quarter (27%) of heavy side product manufacturers, typically used in the early phases of building works, reported an increase in sales in Q3 compared to a year earlier, down from 78% in Q2. In contrast, for light side manufacturers, whose products are typically installed towards the end of the construction process, and SME builders, activity appeared to be as strong as in recent quarters.

Survey results for near-term indicators suggest a similar mixed picture going forward over the next 12 months.

Building contractors' order books deteriorated in Q3, recording a fall in orders across the board. Declines in orders for public housing and housing r&m are not surprising given recent policy changes that affect the finances and, consequently, the house building capabilities of housing associations and local authorities or the cancellation of funding arrangements for energy-efficient retrofit programmes such as the Green Deal. Signalling further areas of potential weakness, large contractors also reported a decline in orders in the private housing, commercial and industrial sectors, which have been the key drivers of construction growth over the last 12-18 months.

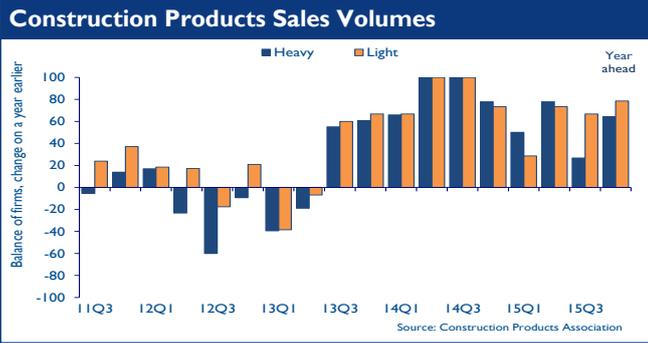
This pessimism was not echoed by other firms in the construction supply chain, however. In Q3, civil engineers reported growth in new orders in infrastructure, another key growth sector, although a balance of 13% was the lowest in seven quarters. Nevertheless, orders and workloads are expected to increase further over the coming 12 months. In addition, more than half of product manufacturers on both the heavy and light side anticipated an increase in sales in the next year and 22% of SMEs reported an increase in enquiries in Q3.

Increased hiring by construction firms sends another signal that growth is expected to accelerate. SMEs and civil engineering firms reported increased headcounts during Q3, but difficulties in recruiting skilled labour persist. 63% of large contractors struggled to recruit bricklayers, along with difficulties finding skilled carpenters and plasterers. This increased demand for skills, driven by the sustained period of growth in activity, continues to have a noticeable effect on construction wage bills. Labour costs were higher for three-quarters of large contractors in Q3, 44% of SMEs and 93% of heavy and light side product manufacturers.

This report is compiled by the Construction Products Association and brings together results that survey members of the Civil Engineering Contractors Association, Construction Products Association, Federation of Master Builders and National Federation of Builders.

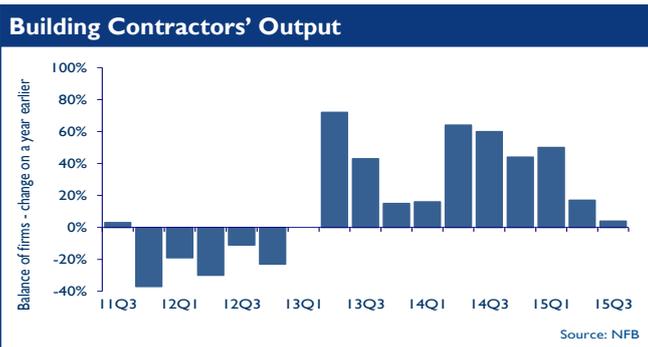
Build UK, created as a result of a merger between the National Specialist Contractors' Council (NSCC) and UK Contractors Group (UKCG), did not carry out a survey in Q3. As a result, some charts have been temporarily replaced for this edition.

Output & Sales



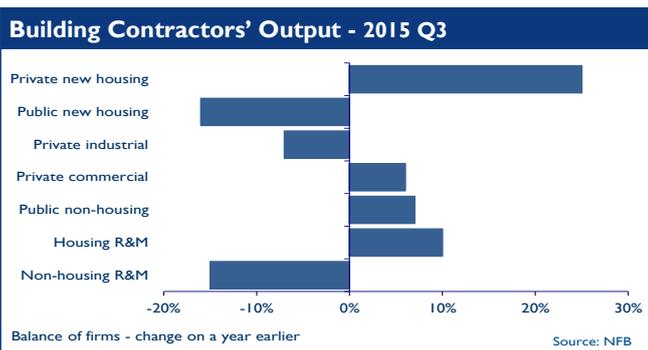
Construction product sales continued to grow in Q3

27% of heavy side manufacturers and 67% of light side manufacturers, on balance, reported that sales were higher than a year earlier in Q3. This has fallen from 78% of heavy side firms and 73% of light side firms reporting growth in the second quarter of 2015, but shows a continued improvement from the falls in annual sales reported two years earlier at the beginning of 2013. Looking forward, 64% of heavy side manufacturers and 79% of light side manufacturers anticipated sales rising in the next 12 months.



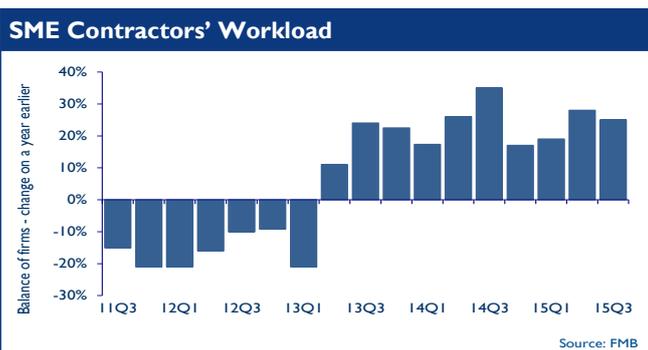
Building contractors' output continued to rise

On balance, 4% of building contractors reported that construction output rose in Q3 compared with a year ago. This was the tenth consecutive quarter of increasing activity, but it was the lowest balance reported over this period. This compares to a balance of 17% of firms that reported an increase in output in Q2 and a balance of 50% of firms in Q1. No larger firms (with 115 employees or more) reported a decrease in output in Q2, whereas smaller-sized firms reported small positive or negative balances.



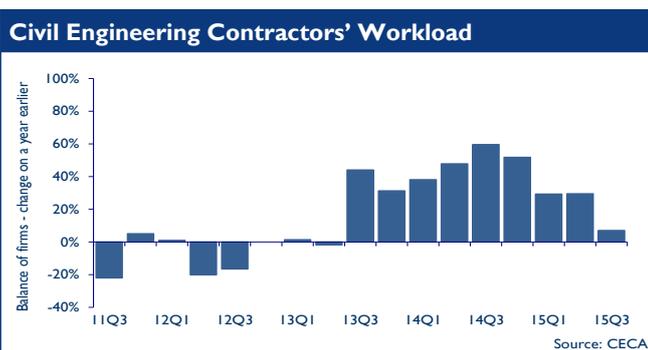
Building contractors' growth led by private housing

Output growth in Q3 continued to be driven by the private housing sector. On balance, 25% of contractors reported growth in private housing. Positive balances were also reported in the largest construction sector, private commercial (6%), the housing r&m sector (10%) and the public non-housing sector (7%). However, 16% of contractors, on balance, reported a decrease in output for public new housing. Negative balances of 15% and 7% were reported in the non-housing r&m and private industrial sectors, respectively.



SME workloads increased once again

The net balance for overall workloads for SMEs in construction remained in positive territory for the tenth consecutive quarter in Q3. On balance, 25% of SMEs reported higher workloads, compared to 28% three months earlier. 39% of firms reported higher workloads, down from 42% in Q2, whilst 48% of firms specified unchanged workloads, up from 43% in Q2. A positive workloads balance was recorded in the private housing, commercial and r&m sectors for both private housing and private non-housing.



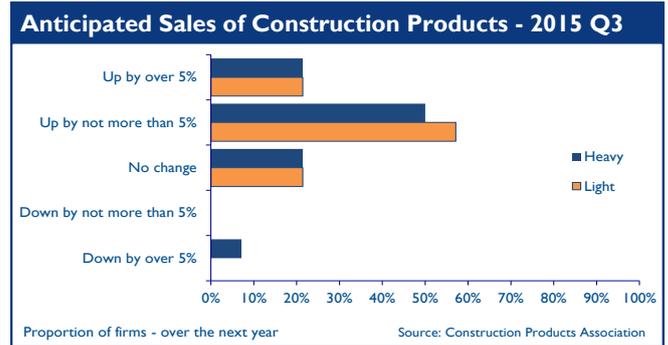
Ninth consecutive quarter of growth for civil engineers

Workloads increased, on balance, across Great Britain for a ninth consecutive quarter in Q3. 7% of firms, on balance, reported that workloads had increased, but this was the lowest since 2013 Q2. In Scotland, a balance of 59% reported that workloads increased from a year earlier, the highest since 2007 Q4. In England, workloads declined after nine consecutive quarters of growth, according to 14% of firms, on balance. For a second consecutive quarter, workloads in Wales declined, on balance, according to 32% of firms.

Expectations

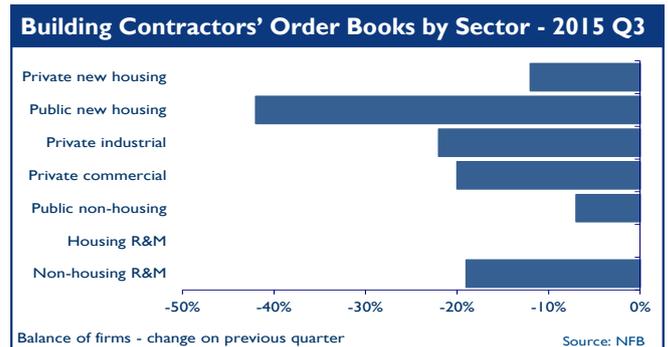
Firms remain upbeat over prospects for the next year

Looking forward, product manufacturers remained optimistic, in line with expectations of further economic and construction growth in 2015 and 2016. 21% of manufacturers on both the heavy and light side reported that they anticipated sales over the next year would rise 'significantly', by over 5%. A further 50% of heavy side firms and 57% of light side firms anticipated further rises in sales of up to 5%. No light side firms anticipated a fall in sales over the next 12 months, but 7% of light side firms anticipated a fall in sales of over 5%.



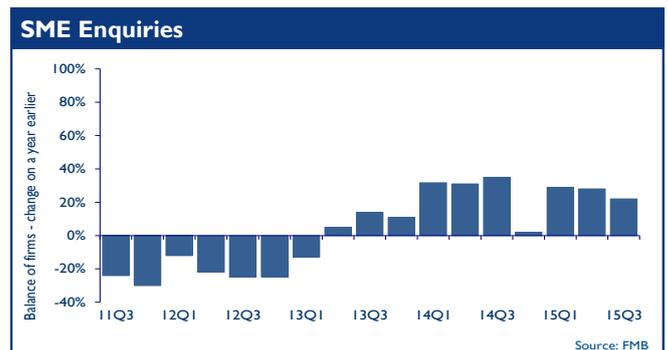
Broad weakness in contractors' order books in Q3

Building contractors' order books were reported to be lower in all sectors in Q3 compared to the previous quarter. 12% of contractors, on balance, reported a fall in orders for private housing and 42% reported a fall in public housing orders. On balance, 22% reported that orders were lower in the industrial sector, 20% in private commercial and 7% in public non-housing. For r&m, a zero balance was reported in housing and 19% reported a fall in non-housing r&m orders in Q3.



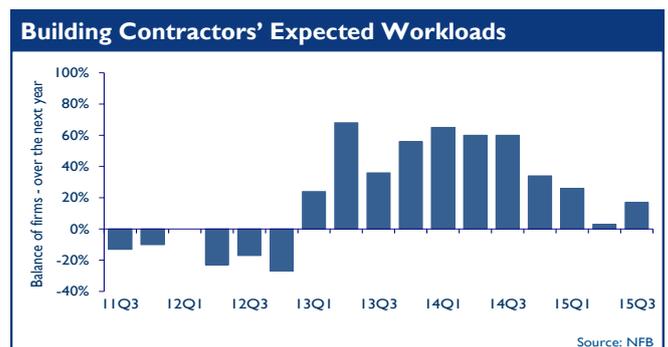
SME enquiries balance positive in Q3

The net balance for total enquiries to SMEs was 22% in Q3, lower than the balance of 28% recorded in Q2. This was the tenth consecutive quarter that SMEs reported an increase in enquiries. 41% of firms reported higher levels of enquiries in the third quarter, down from the 46% of firms that reported higher levels of enquiries in Q2. 20% of respondents reported a lower level of enquiries in the third quarter of 2015 compared with 18% during the second quarter.



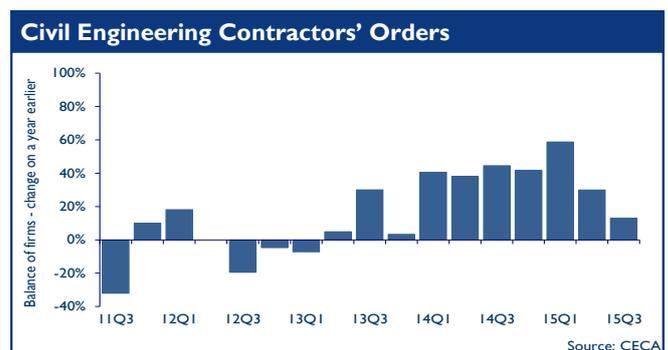
Building contractors expect workloads to increase

In the third quarter, 17% of large building contractors, on balance, reported that they anticipated workloads increasing over the next 12 months. This improved from a balance of 3% in Q2, but this compares to a balance of 60% one year earlier. Within this, 30% of contractors, on balance, anticipated an increase in workloads for new build over the next 12 months, whilst a balance of 22% expected an increase in workloads in the repair and maintenance sector.

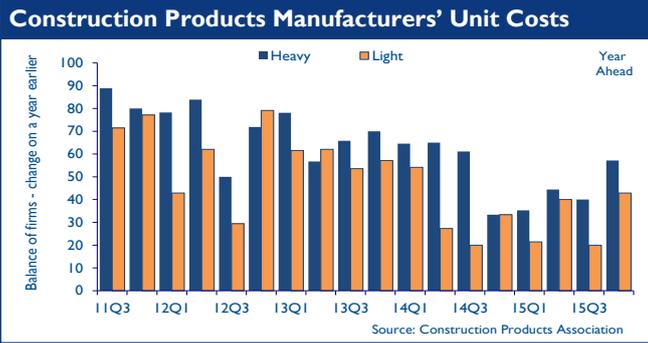


Growth in infrastructure orders during Q3

13% of firms, on balance, reported growth in orders in Q3, compared to 30% in Q2. 36% of respondents reported that orders had increased and 23% of respondents reported that they had fallen. For the first time in seven quarters, a negative balance (-11%) was reported in England. In Scotland, 64% of respondents, on balance, reported an increase in orders in Q3, compared to 11% in Q2 and this was the strongest balance since 2007 Q4. 57% of Welsh firms reported increased orders, and 29% recorded decreased orders, resulting in a positive balance of 29%.

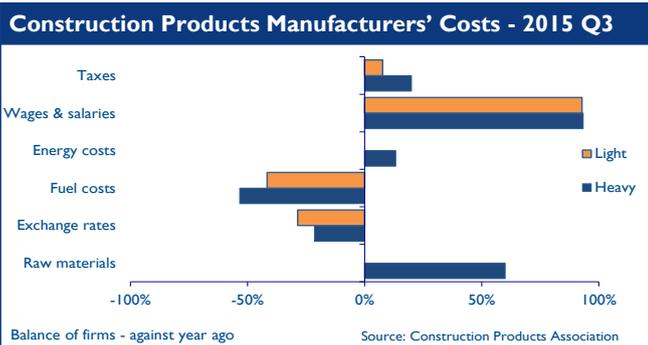


Costs



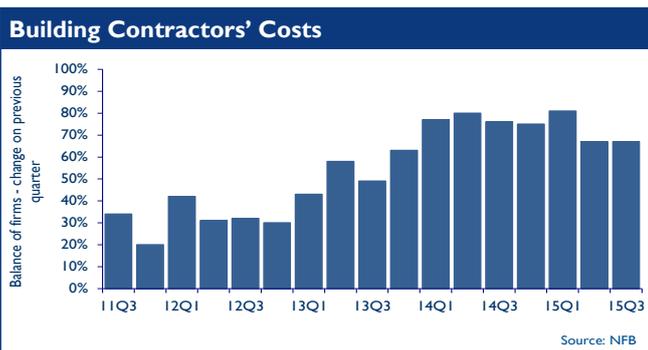
Cost pressures weakened a little in Q3

Annual consumer price inflation in the UK fell 0.1% in September. For product manufacturers, cost increases were reported by 40% of heavy side construction product manufacturers in Q3, on balance, compared to 44% in 2015 Q2. A balance of 20% of light side firms reported rising costs in Q3, down from 40% in Q2. Going forward, manufacturers' cost pressures are expected to continue over the next 12 months, according to 57% of heavy side firms and 43% of light side firms.



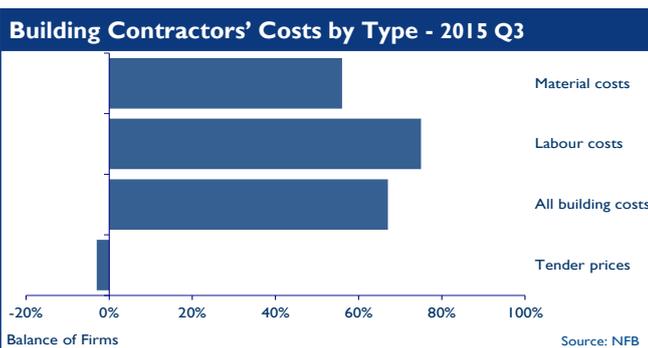
Wages & salaries drove cost inflation

The key driver of cost inflation continued to be wages & salaries in Q3, reflecting the impact of the rapid rise in demand for skilled employment. On balance, 93% of firms on both the heavy side and light side reported that wages and salaries rose over the past year. Raw materials costs were also noted as a key driver for heavy side firms. Reflecting wider developments in the global economy, fuel costs were lower for 53% of heavy side firms and 42% of light side firms, on balance. A negative balance was also reported for exchange rates for both heavy side and light side firms.



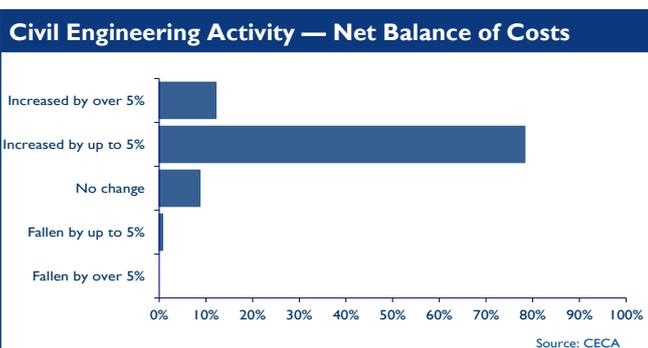
Costs for building contractors continued to rise in Q3

Building contractors continued to report a rise in costs in the third quarter. A balance of 67% of contractors stated that costs had increased compared to a quarter earlier, matching the balance recorded in Q2. No contractors have reported falling costs since 2014 Q3, suggesting that the impacts of weak general inflation in the economy (0.0% in Q3) and lower input prices for producers (13.6% lower in Q3) are yet to filter through to building work on the ground.



Materials and labour costs rose for building contractors

Materials and labour costs remained the key drivers of cost rises for building contractors during the third quarter of 2015. 56% of contracting firms reported that materials costs rose in Q3, down from 63% in Q2. 75% of firms, on balance, reported labour costs were higher over the quarter, above the balance of 57% reported in Q2. On balance, 3% of contractors reported a fall in tender prices in Q3, the first negative balance in nine quarters. Around half of respondents (48%) reported that tender prices were unchanged in Q3.



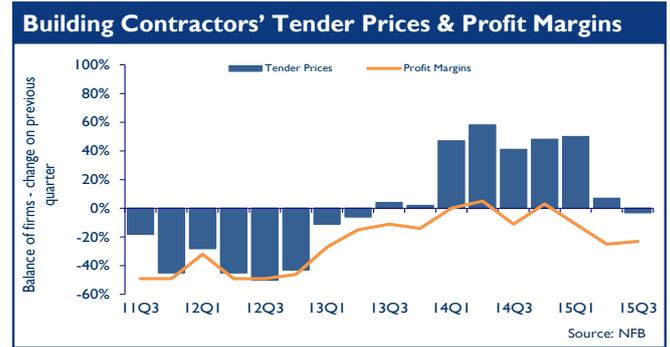
Costs rose for civil engineers

In Q3, 90% of firms in Great Britain reported an increase in costs, on balance. The majority of the firms (78%) reported that costs increased by up to 5% compared to 12 months earlier with 12% reporting increases over 5%. In England, 90% of firms, on balance, reported an increase in costs. 16% reported rises of over 5%, 74% by up to 5% and only 10% reported no change. All firms in Scotland, on balance, reported increased costs and in Wales, 64% of firms, on balance, reported an increase in costs over the last 12 months.

Costs, Prices and Profit

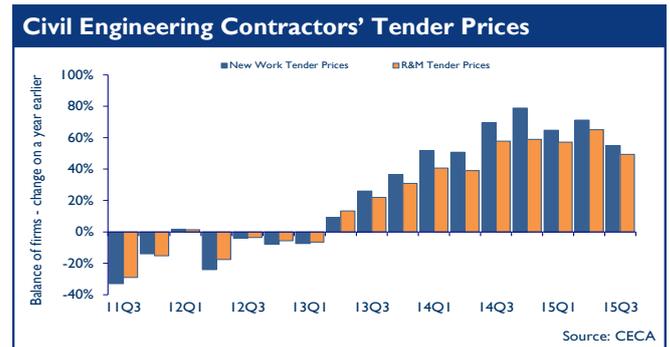
Building contractor tender prices decreased

Building contractors reported the first decrease in tender prices for nine consecutive quarters in Q3. On balance, 3% of contractors reported that tender prices fell over the quarter, compared to positive balances of 7% in Q2 and 50% in Q1. The effects of rising costs on profit margins were evident, with 23% of contractors, on balance, reporting falling profit margins in Q3. Contractors have reported a decline in profit margins in each quarter of 2015 so far.



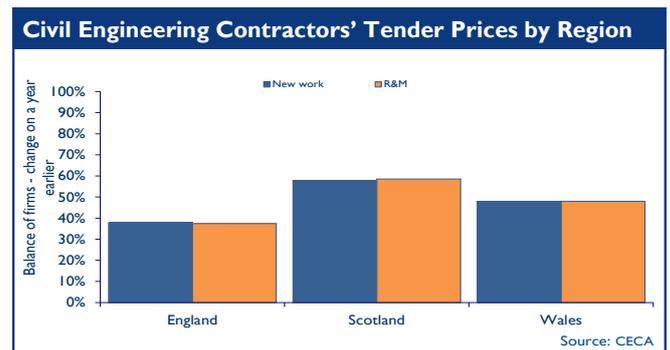
Tender prices rose for civil engineers

Compared to 12 months ago, tender prices were higher, on balance, for 55% and 49% of firms for new construction work and improvement, and for repair and maintenance work, respectively. These were the lowest balances in five quarters. Overall, 58% of firms in Great Britain reported an increase in tender prices for new work and improvements, 38% reported no change and 3% reported a fall in tender prices. For repair and maintenance work, 54% reported an increase in tender prices, 41% reported no change and 5% reported a decrease.



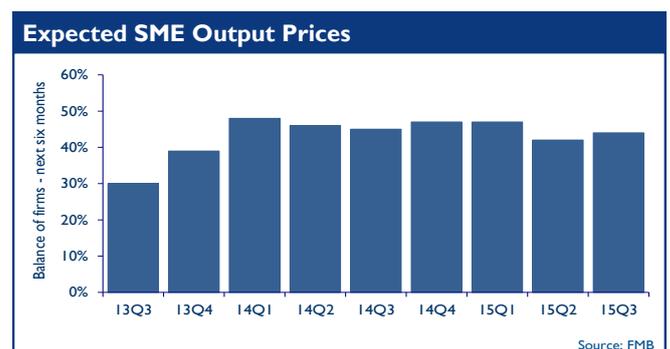
Tender price rises vary by region

For firms in England, 38%, on balance, reported higher tender prices for new construction work and improvement, the lowest since 2013 Q4, and 37% for repair and maintenance. In Wales, on balance, 48% of respondents, reported an increase in tender prices for both new construction work and improvement and for repair and maintenance. In Scotland, on balance, 58% of respondents reported an increase in tender prices for new construction work and improvement and 59% of firms reported higher tender prices for repair and maintenance work.



SMEs expect increases in output prices

In Q3, 44% of SME builders, on balance, expected output prices to rise over the next six months. Only 3% of firms anticipated a decrease in output prices over the next six months, whilst the proportion of small and medium-sized builders expecting higher output prices was 47%, up from 44% in Q2. Half of SMEs anticipate output prices will remain unchanged over the next six months, however.

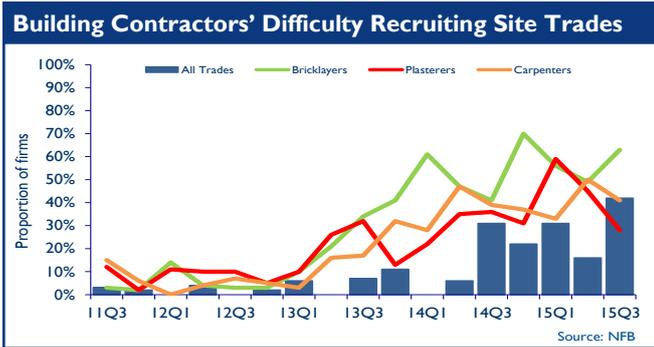


Materials costs are the main concern for SMEs

On balance, 63% of SME firms in construction anticipated an increase in the cost of materials in the next six months. This is a decrease from a balance of 67% in Q2 and is the lowest balance in more than two years. A balance of 44% of SMEs expected their wages and salaries bill to increase in the next six months, down from 55% in Q2. Around half (54%) of firms anticipated wages and salaries to remain unchanged over the next six months.

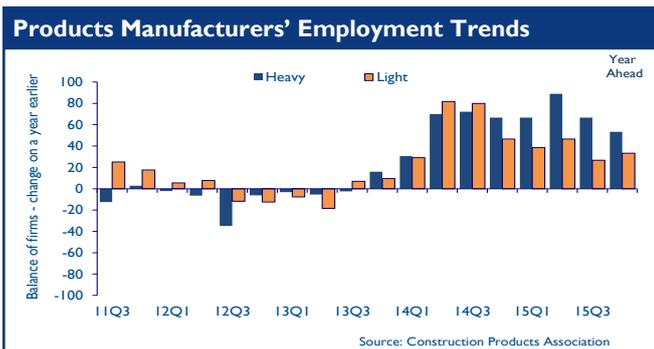


Employment & Capacity



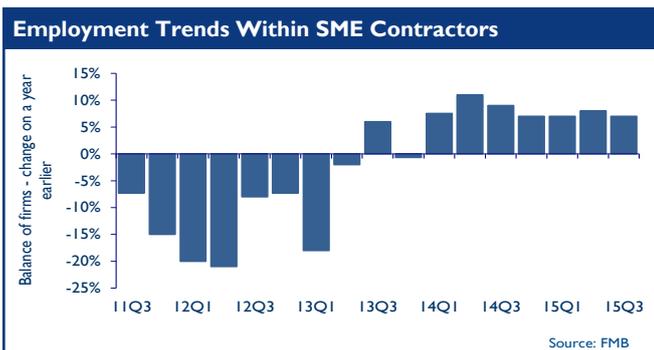
Building contractors struggle to recruit on site trades

Overall, 42% of building contractors reported difficulties recruiting on-site trades in Q3, compared to 16% in Q2 and a balance of 31% one year earlier. The supply of bricklayers was the largest concern in Q3, with 63% of contractors reporting difficulties with recruitment of this trade. 41% of firms reported that it was difficult to recruit carpenters, down from a proportion of 50% in Q2. 28% of contractors reported that plasterers were difficult to recruit, lower than the 45% of firms that reported supply issues in Q2.



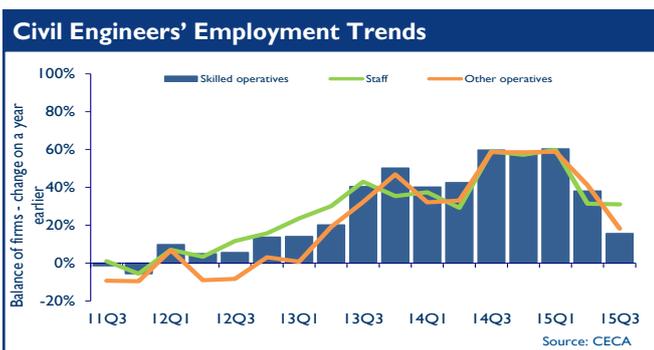
Product manufacturers increased headcount

The rise in sales since 2013, coupled with expectations of further increases in sales over the next year, has seen product manufacturers increase employment over the last two years. In Q3, 67% of heavy side manufacturers and 27% of light side manufacturers, on balance, reported that employment rose on a year earlier. Looking forward, hiring intentions continued to remain positive. On balance, 53% of heavy side firms anticipated increasing headcount during the next 12 months. The balance was 33% for light side firms.



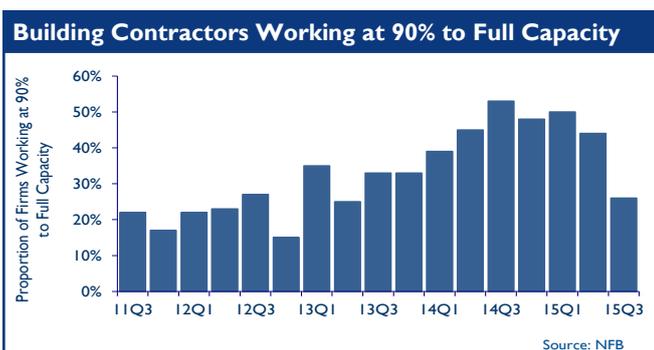
SME employment increased in Q3

In the third quarter of 2015, the net balance for total employment within SME contractors remained positive for the seventh successive quarter. At 7%, the balance of firms reporting that employment increased was slightly lower than in Q2 (8%) and was lower than the balance reported a year earlier (9%). 27% of firms reported that staff levels had risen in the third quarter, and 20% of firms reported that there had been a fall in employment during the third quarter.



Civil engineers increased employment

In Britain, employment of skilled operatives increased according to 16% of firms, on balance, in Q3. Employment of other operatives and staff increased according to a balance of 18% and 31% of firms, respectively. For English firms, employment increased, on balance, according to 1% of firms for skilled operatives, 2% for other operatives and 27% for staff. In Wales, balances were negative across all three types, whilst in Scotland, employment of both other operatives and staff increased, according to 40% of firms and 35% of firms for staff, on balance.



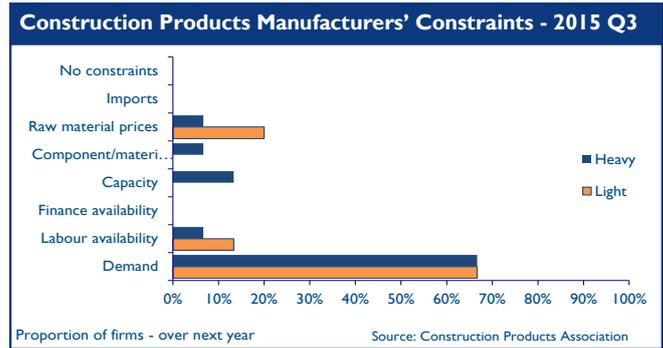
Limited spare capacity for building contractors

The proportion of building contractors working at between 90% and full capacity was reported at 26% in Q3. This was a decrease from the 44% of contractors stating their operating capacity was at 90% or above in Q2, but continues to reflect the trend of increasing capacity utilisation by contractors since the start of 2013. Since 2013 Q2, the proportion of contractors reporting that they are operating at between 90% and full capacity has risen from 25% in line with increases in activity and workloads.

Constraints, Investment & Trade

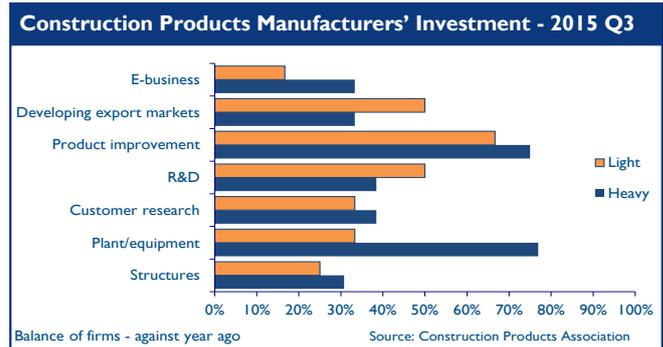
Demand is the key concern for product manufacturers

Despite positivity over sales, demand was reported as the key constraint to sales growth over the next 12 months. 67% of heavy side manufacturers and 67% of light side manufacturers reported that demand was likely to be the key constraint on sales during the next 12 months. For heavy side firms, the other expected constraints were; capacity (13%), labour availability (7%), material supply (7%) and raw materials prices (7%). For the light side, 20% of manufacturers reported raw materials prices as a constraint and 13% cited availability of labour.



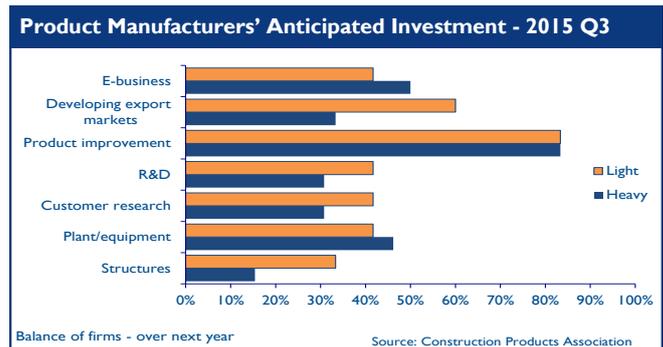
Capital investment remained one of the key priorities

Construction product manufacturers gave a broad focus to investment in Q3. For heavy side firms, 77%, on balance, reported that investment in plant & equipment was higher than a year earlier. A balance of 75% also highlighted increased investment in product improvement. 67% of light side firms, on balance, reported increased investment in product improvement, whilst investment in research and development (R&D) and developing export markets was higher for a balance of 50% of light side firms in both cases.



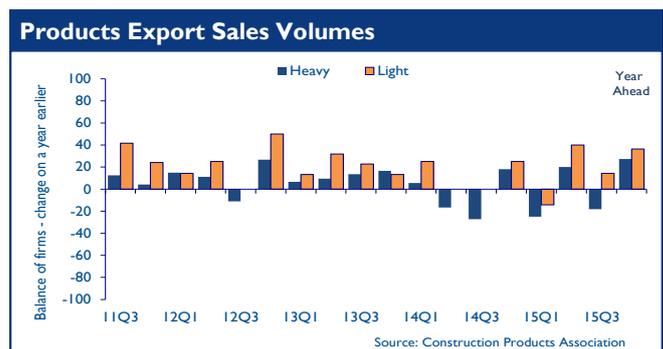
Product improvement was the focus of investment

On the heavy side, product improvement was the focus of capital investment intentions for the next 12 months, with 83% of firms, on balance, anticipating increasing capital investment in this area. Also on the heavy side, balances of 50% and 46% expected to increase investment in e-business and plant & equipment, respectively. For firms on the light side, 83% of manufacturers anticipated increasing investment in product improvement and 60% expected to increase investment in developing export markets.



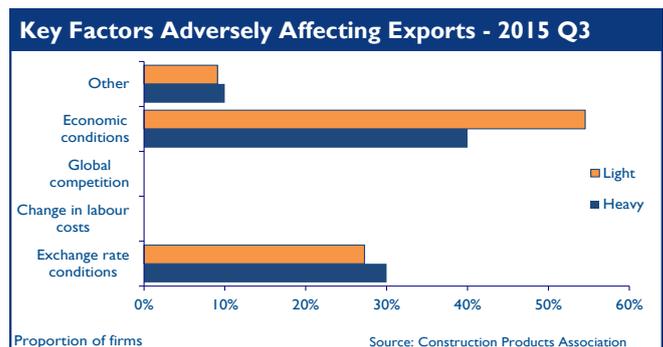
Mixed performance for export sales in Q3

A decrease in exports during Q3 was reported by 18% of heavy side firms, on balance, compared with a year earlier, compared to a balance of 20% reporting an increase in Q2. 14% of light side firms, on balance, reported a rise in export sales compared with a year earlier in Q3. This compares to a balance of 40% reporting a rise in Q2. Looking forward, 27% of heavy side firms and 36% of light side manufacturers anticipated a rise in exports, on balance, over the next 12 months. Furthermore, 27% of heavy side firms and 36% of light side firms anticipate increases of over 5%.



International economic conditions improved

27% of heavy side product manufacturers and 20% of light side firms produced solely for the domestic market in Q3. Of those that did export, economic conditions in the Eurozone was the key factor influencing export volumes, according to 40% of heavy side firms and 55% of light side firms. Exchange rate conditions, notably Sterling strength against the Euro, were also cited by 30% of manufacturers on the heavy side and 55% of light side firms as a key factor influencing export volumes in Q3.





About the Civil Engineering Contractors Association (CECA) Survey

The Civil Engineering Contractors Association (CECA) has over 300 member firms that carry more than 80% of all civil engineering work in Great Britain. The CECA survey of civil engineering workload trends, in which more than a third of the membership takes part, tests for changes over the past year in contractors' workload, workforce, order books, cost trends, and tender prices. It also examines the supply situation for key resources, and contractors' expectations of trends in new orders and employment in the coming 12 months. Enquiries to:

Alasdair Reisner, CECA, 1 Birdcage Walk, London SW1H 9JJ T: 020 7340 0454
Email: alasdairreisner@ceca.co.uk Website: www.ceca.co.uk

About the Construction Products Association Survey



The Construction Products Association represents the UK's manufacturers and suppliers of construction products, components and fittings. The Association acts as a single voice for the construction products sector, representing the industry-wide view of its members. The sector has an annual turnover of more than £47 billion and accounts for over 1/3 of total construction output. For further information on the content and availability of these publications please contact:

Noble Francis, Construction Products Association, 26 Store Street, London WC1E 7BT T: 0207 323 3770
Email: noble.francis@constructionproducts.org.uk Website: www.constructionproducts.org.uk

About the Federation of Master Builders (FMB) Survey



The Federation of Master Builders (FMB) is the UK's largest trade association in the building industry, with nearly 10,000 small and medium-sized (SME) construction firms operating across England, Wales, Scotland and Northern Ireland. Established in 1941 to protect the interests of SME building firms, the FMB is independent and non-profit-making, lobbying for members' interests at both national and local levels. Within its membership, around 38% of FMB members engage in house building either as their primary function or as part of the suite of building services they provide, but most are primarily active in the domestic RM&I market. Enquiries to:

Sarah McMonagle, FMB, David Croft House, 25 Ely Place, London, EC1N 6TD
T: 020 7092 3802 E-mail: SarahMcMonagle@fmb.org.uk Website: www.fmb.org.uk

About the National Federation of Builders (NFB) Survey



The National Federation of Builders (NFB) represents around 1,500 builders and contractors across England and Wales. In addition to providing specialist advice and business services, the federation, with a network of four regional offices, lobbies local, national and European government on a range of issues to sustain positive trading conditions for members. With origins dating back to 1876, today's NFB is a modern organisation providing the medium sized contractor and smaller builder with an unparalleled package of services. Enquiries to:

Paul Bogle, NFB, Spectrum House, Suite AF29, Beehive Ring Road, Gatwick, West Sussex, RH6 0LG
T: 01293 855 203 E-mail: paul.bogle@builders.org.uk Website: www.builders.org.uk

This report has been compiled with the support of



www.citb.co.uk