

Construction Growth in Q4 but Cost Rises Hindered Margins

Firms across construction reported growth during the fourth quarter of 2014 according to the Construction Trade Survey and this represents the first time that the industry has recorded three consecutive quarters of growth since the financial crisis over five years ago. However, the rises in activity during Q4 were slower than during the previous two quarters as growth in new construction work, especially within the housing sector, was partially offset by falls in repair and maintenance work. Orders for new work slowed in a similar manner to output during Q4, highlighting uncertainty among contractors as to whether the recovery would be sustained.

The rise in demand has boosted tender prices, which rose for the majority of firms in construction, especially building contractors and civil engineers. However, these rises were offset by growth in cost inflation due, in turn, to increases in labour and materials costs. As a consequence, a fall in profit margins were reported by the majority of contractors despite the rise in demand over the past 12 months.

Building contractors, SMEs and civil engineers reported rises in output during the fourth quarter of 2014, although the balances reported by firms were lower than in the third quarter. 15% of building contractors, on balance, reported a rise in output during Q4 compared with a year earlier. This is considerably less than the 43%, on balance, that reported a rise in output during the third quarter compared with a year earlier. 22% of SMEs, on balance, reported that output rose in the fourth quarter compared with a year earlier, a slight slowdown compared with the 24% of SMEs that reported a rise in output during the third quarter. 31% of civil engineers, on balance, reported a rise in output during the fourth quarter of 2014 compared with 44%, on balance, reporting a rise in output during the third quarter compared with a year earlier. Only product manufacturers saw activity levels rise more during the fourth quarter than in the previous quarter. 61% of heavy side manufacturers and 67% of light side manufacturers reported that sales were higher than a year earlier, compared with 55% and 60% respectively reporting annual sales rises in Q3.

The continued growth in construction demand during Q4 was also reflected in a rise in tender prices. However, this was offset by the labour and material cost rises and, as a consequence, profit margins continued to fall in Q4.

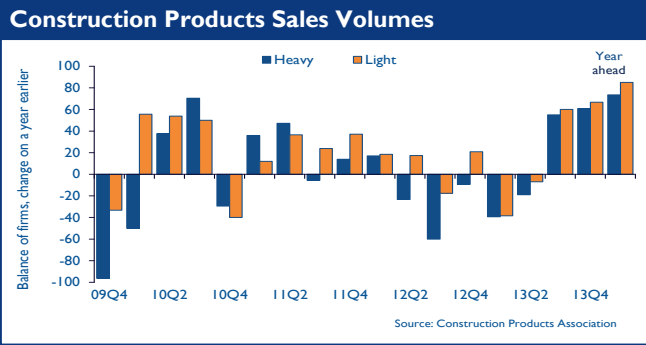
Building contractors reported a second consecutive rise in tender prices. 2% of firms, on balance, reported a rise in tender prices in the fourth quarter of 2013 compared with 4% in the second quarter of 2013. Civil engineers reported that tender prices were higher than a year ago, on balance, for 36% and 31% of firms for new work and for repair and maintenance work respectively.

On balance, 49% of contractors, reported that costs during the third quarter were higher compared with the previous quarter. In the fourth quarter this rose to 63% of firms, on balance, still reporting rises in costs. 65% of firms reported rises in material costs in Q4, marginally higher than the 60% of firms reporting material cost rises in Q3. Product manufacturers reported that the primary drivers of these costs rises were energy and transport fuel costs. 82% of heavy side manufacturers and 86% of light side manufacturers reported rises in fuel costs during the final quarter of 2014. 76% of both heavy side and light side manufacturers suffered from a rise in energy costs.

34% of building contractors also reported rises in labour costs, higher than the 23% of firms reporting labour cost rises in Q3 and only 7% at the start of 2013. 41% of building contractors reported that it was difficult to obtain bricklayers during the fourth quarter of 2013, compared with just 3% one year earlier, and a further 32% reported that they had difficulty recruiting carpenters compared with only 5% just one year ago. As a consequence, profit margins still fell in Q4 according to 14% of building contractors, on balance.

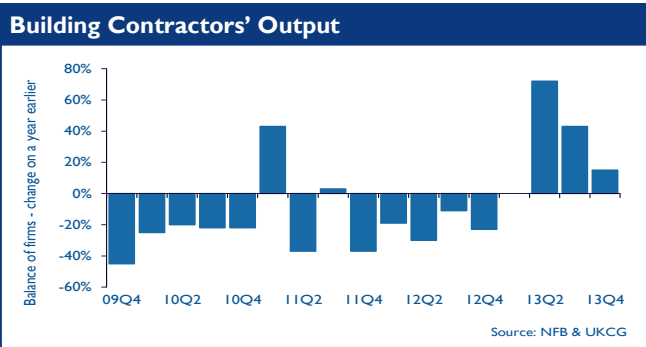
This report is compiled by the Construction Products Association and brings together results that survey members of the Civil Engineering Contractors Association, Construction Products Association, Federation of Master Builders, National Federation of Builders, National Specialist Contractors Council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

Output & Sales



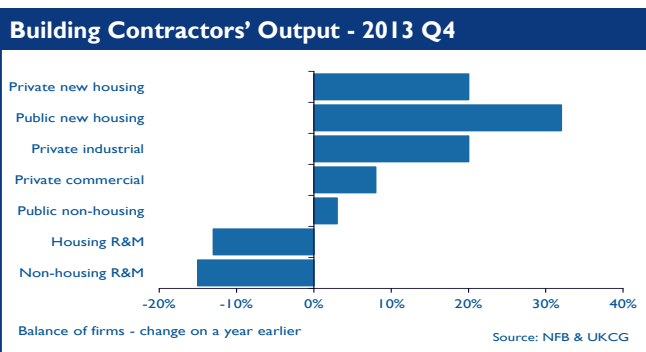
Construction product sales grew strongly in Q4...

As a consequence of sales growth in consecutive quarters following the weather-affected 2013 Q1, the majority of firms reported in Q4 that sales were higher than a year earlier. 61% of heavy side manufacturers and 67% of light side manufacturers reported that sales were higher than a year earlier, compared with 55% and 60% respectively reporting annual sales rises in Q3. Looking forward, both heavy side firms and light side firms are even more optimistic. 73% of heavy side manufacturers and 83% of light side manufacturers anticipate sales rising during 2014.



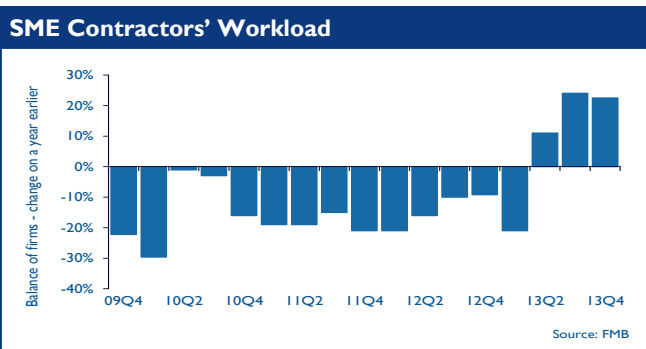
... but contractors' activity rose to a lesser extent...

15% of building contractors, on balance, reported a rise in output during Q4 compared with a year earlier, representing growth for the third consecutive quarter. The 15% reported in Q4 is considerably less than the 43%, on balance, that reported a rise in output during the third quarter compared with a year earlier. However, the results for Q4 also highlight the first time that the sector has grown for three consecutive quarters since the onset of the financial crisis in 2008, and its inevitable impact upon the construction industry.



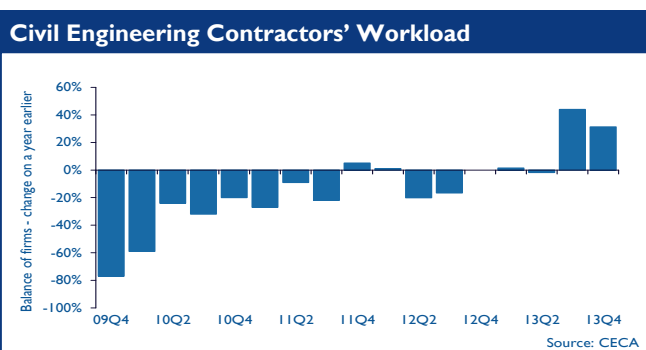
... growth in new work partially offset by falls in r&m.

The slowing of growth for building contractors was primarily driven by falls in workload in the repair and maintenance sectors. New work construction sectors once again grew with private and public housing the drivers of this growth, reporting balances of 20% and 32% respectively. However, in Q4, this growth was partially offset by 13% of building contractors, on balance, reporting a fall in housing repair and maintenance and 15% of building contractors, on balance, reporting a fall in non-housing repair and maintenance work.



SME workloads rose once again...

Despite the net balance for overall workloads with the SME construction sector seeing marginally slower growth in the fourth quarter when compared to three months earlier (22 vs 24), it still remained in positive territory for the third successive quarter for the first time in over six years. The proportion of small and medium size firms reporting that workloads were higher fell marginally, from 42% to 41%, whereas those respondents indicating that workloads were unchanged from the latest quarter rose from 40% to 41%.



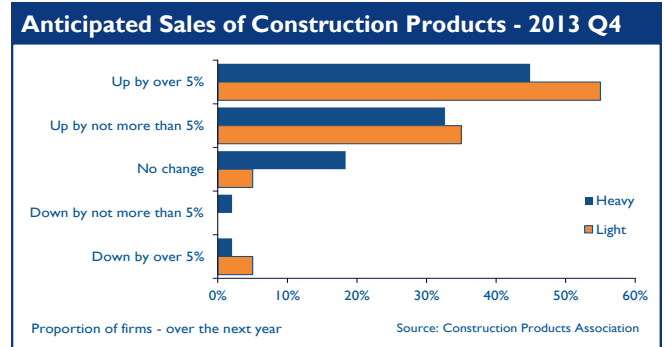
... as did work in infrastructure.

Workloads increased on a balance for a second quarter in Q4. In Great Britain 31% of firms, on balance, reported workloads rose. Only 19% of firms reported workloads declined. In England, 27% of firms reported workloads fell compared to 12% in Q3 but the balance remained positive at 18%. In Scotland, 55% of firms reported that workloads were unchanged on a year earlier, but only 8% reported that workloads were lower, leaving a positive overall balance of 29%. In Wales, workloads declined on balance, according to 5% of firms, and 41%, in total, reported falls.

Expectations

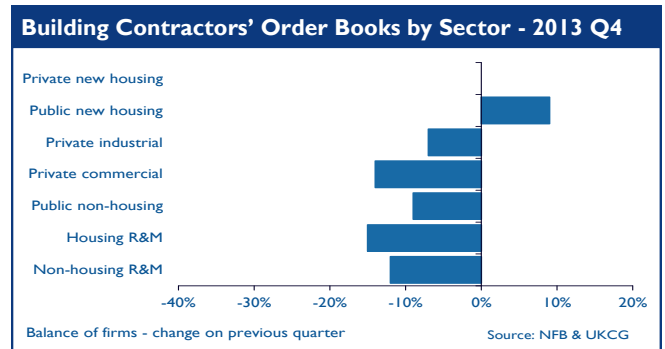
Prospects for manufacturers improved further...

Product manufacturers are increasingly optimistic looking forward due to wider economic and construction recovery. 45% of heavy side manufacturers and 55% of light side manufacturers reported that they anticipated sales in 2014 would rise 'significantly', by over 5%. A further 33% of heavy side firms and 35% of firms anticipated further rises in sales of up to 5% during 2014. Only 4% of heavy side firms and 5% of light side firms anticipate any fall in sales during 2014 although 18% of heavy side firms and 5% of light side firms anticipate no change in sales in 2014.



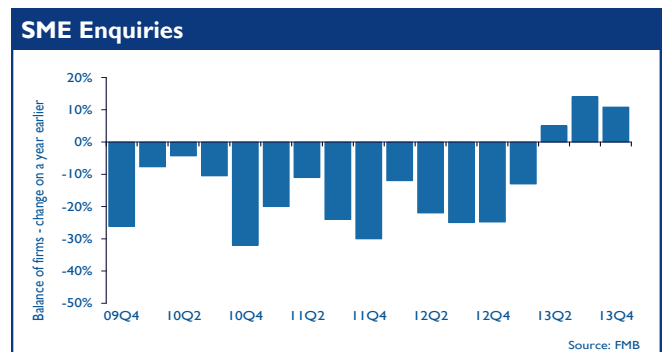
... although building contractors reported poor orders...

Despite the recover in output, building contractors reported surprisingly poor orders during the fourth quarter of 2013. Building contractors in private new housing, the quickest rising sectors since the construction industry began to enjoy a recovery, reported flat orders, on balance. All other sectors reported a fall in orders books during the fourth quarter, on balance, with the exception of public new housing, where 9% of building contractors, on balance, reported rising order books.



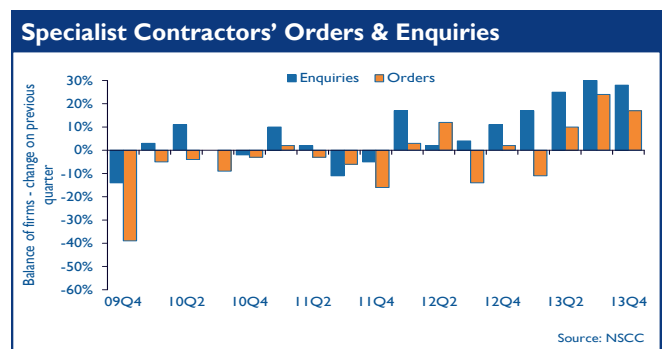
... with SMEs still cautiously optimistic.

SME enquiries grew at a marginally slower pace than three months earlier as its net balance fell to 11, a 3% fall. The number of firms stating a higher level of enquiries declined in Q4, to 31%, from 40% during the third quarter and the number reporting lower levels of enquiries decreased from 26% to 21%. 48% reported no change in the level of enquiries, up from one third of businesses three months earlier. Expected workloads also continued to rise as its net balance went up, its third consecutive positive reading and highest level since 2007 Q3.



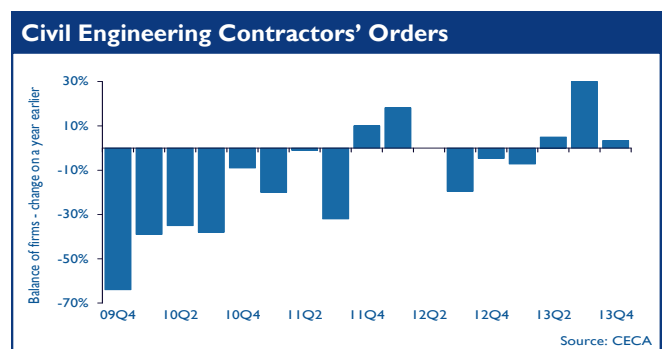
Specialists reported positive orders and enquiries...

After five quarters of rises in the number of specialists reporting an increase in enquiries, rising to 51% during Q3, there was a slight decline in Q4 with it dropping back marginally to 47%. Only 19% of specialists reported a fall in enquiries in Q4, the lowest since 2006 Q2, with the resultant enquiries balance at 28%. 43% of respondents reported an increase in orders, down from 49% last quarter; 26% reported a decrease in orders, a marginal increase on last quarter. This resulted in the balance of orders dropping by 7 to 17% in Q4.

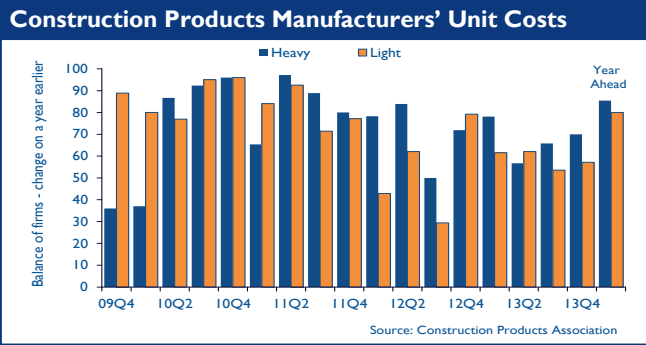


... and civil engineers reported marginally positive orders.

30% of respondents, on balance, reported a rise in orders in Q3 but only 3%, on balance, reported orders growth in Q4. One-third of firms reported orders fell. For the first time in five quarters, a negative balance (7%) was reported in England. In Scotland, 35% of firms, on balance, reported growth in Q3. In Q4, 5% reported that order books had fallen compared to 12 months ago. In Wales, the balance of firms reporting a change in orders compared to 12 months ago remained negative for the second quarter in a row. On balance, 10% of firms reported orders declining.

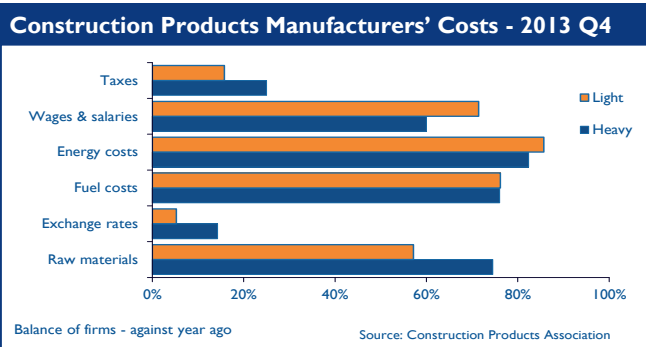


Costs



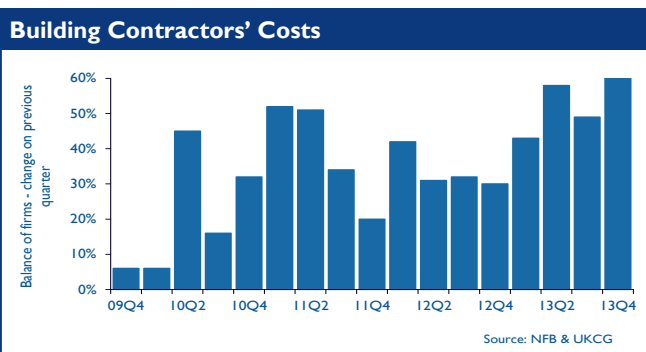
Cost pressures heightened in Q4 for manufacturers...

Despite general CPI inflation slowing considerably during the final quarter of 2013, construction product manufacturing cost inflation rises were reported across heavy (70%) and light (57%) side firms, on balance, in Q4. This compares with 66% and 54% respectively during Q3. Over half of both heavy side firms and light side producers reported that costs were up to 5% higher than a year ago. Few firms reported falling costs over the year. Falling costs were reported by only 2% of heavy side firms and 10% of light side firms.



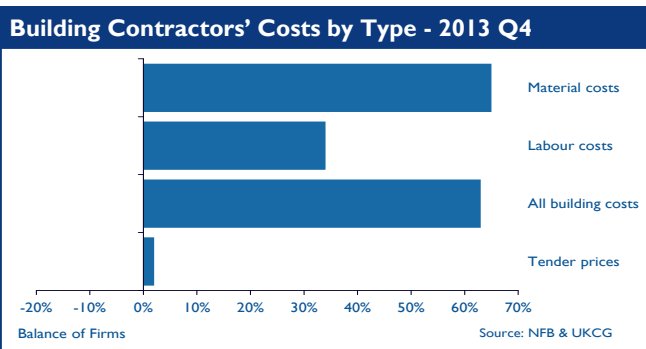
...with energy and fuel driving production cost rises.

82% of heavy side manufacturers and 86% of light side manufacturers reported rises in fuel costs during the final quarter of 2014. 76% of both heavy side and light side manufacturers suffered from a rise in energy costs. Recently, wages & salaries and raw materials prices have also increased the pressure on manufacturing costs. 60% of heavy side firms and 71% of light side firms, on balance, reported in Q4 that wages and salaries rose over the past year. 75% of heavy side firms and 57% of light side firms reported rises in raw materials prices over the same period.



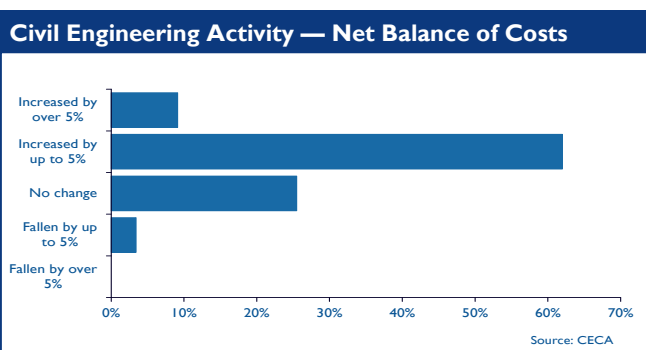
Contractors' costs rose once again...

Building contractors continued to report rises in output over the last six years despite relatively subdued output. With output rising over the past year, it is unsurprising that costs have also rise considerably. Cost inflation in the fourth quarter of 2013 higher than in the same period three months earlier. On balance, 49% of contractors, on balance, reported during the third quarter that costs were higher compared to the previous quarter. In the fourth quarter this rose to 63% of firms, on balance, still reporting rises in costs.



... with materials and labour contributing...

Tender prices for building contractors rose marginally in Q4, driven by a combination of increasing cost pressures and rises in workloads. 2% of building contractors, on balance, reported that tender prices rose in Q4, marginally lower than the 4% reported in Q3. 65% of firms reported rises in material costs in Q4, marginally higher than the 60% of firms reporting material cost rises in Q3. 34% of firms reported rises in labour costs, higher than the 23% of firms reporting labour cost rises in Q3 and only 7% at the start of the year.



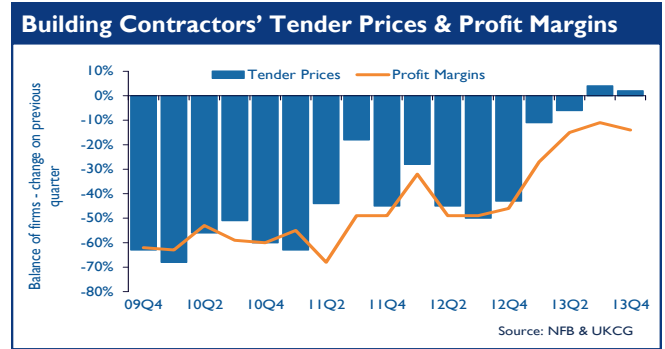
... and almost all civil engineers reporting cost rises.

The majority of firms (62%) in Great Britain reported that costs had increased by up to 5% in Q4 compared to 12 months earlier with 9% reporting increases of over 5%. In England, 65% of firms, on balance, reported an increase in costs. 15% reported rises of more than 5%, 51% by up to 5% and 2% of firms reported falling costs. 42% of firms in Scotland, on balance, reported increased costs during the fourth quarter. In Wales, 96% of firms, on balance, reported an increase in costs in Q4 over the last 12 months. No firms reported declines.

Prices, Profit & Payment

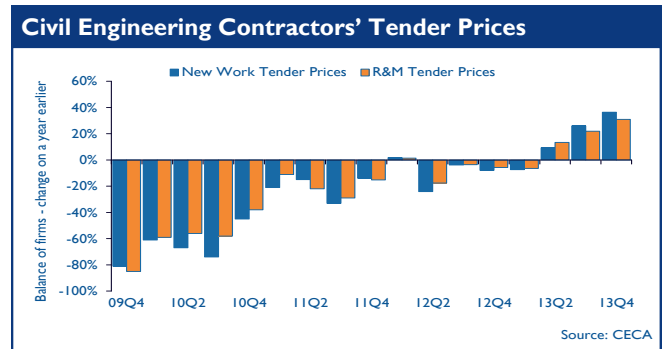
Building contractors reported positive margins...

For the first time in over six years building contractors reported a second consecutive rise in tender prices, albeit both only marginal rises. 2% of firms, on balance, reported a rise in tender prices in the fourth quarter of 2013 compared with 4% in the second quarter of 2013. However, once again this was not enough to offset the adverse impacts of labour and material cost rises. As a consequence, profit margins, continued to fall and by further than in the previous quarter. 14% of firms reported, on balance, that profit margins fell in Q4 compared with 11% during Q3.



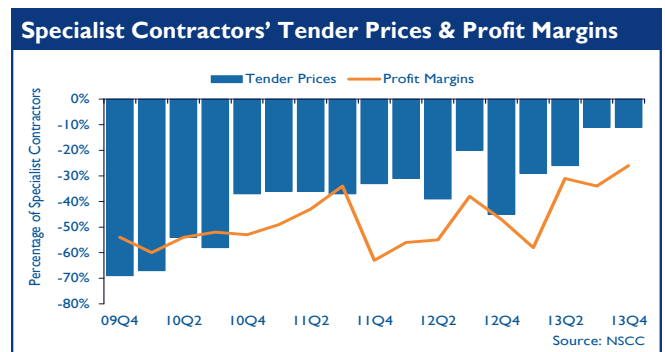
... and civil engineers reported positive tender prices.

Tender prices were higher than a year ago, on balance, for 36% and 31% of firms for new work and for repair and maintenance work respectively. In England, 23% of firms, on balance, reported higher tender prices for new work and 20% for repair and maintenance. In Wales, only 5% of firms, on balance, reported an increase in tender prices for new work and 10% for repair and maintenance. In Scotland, on balance, 40% of respondents reported an increase in new work and 23% in repair and maintenance.



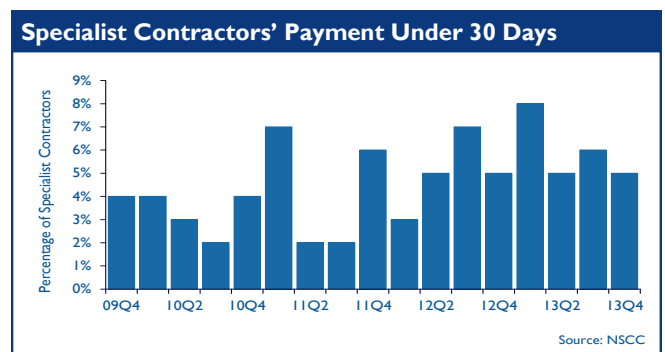
Specialists reported negative tender prices and margins...

The rises in demand are slowly filtering through to specialists' tender prices with 19% reporting increasing tender prices, the highest figure since 2008 Q3. 30% of respondents still reported falling tender prices, resulting in the same balance as last quarter of 11 points. An improving trend is seen with margins. Specialists continue to report negative margins with 39% of respondents indicating falling margins but 13% reported increasing margins, a recent high. The resulting falling balance of 16 points is therefore the highest reported figure since 2007 Q3.



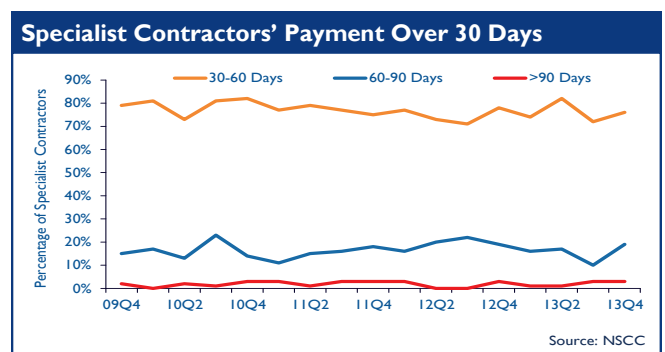
... with only 5% being paid in under 30 days...

Late payment continues to hinder the construction sector, especially lower in the supply chain. 55% of specialist contractors reported that they had carried out work on public sector projects during the final quarter of 2013. Only 61% of these contracts were reported as being paid within 30 days even though payment within 30 days is now a contractual requirement on all central Government contracts. On average, respondents secured a retention of zero on 61% of their contracts that were for projects in the public sector.



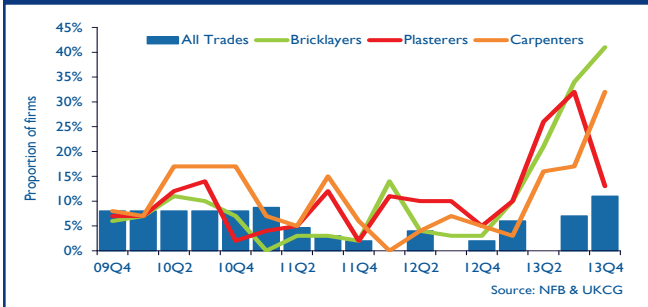
... and over one-fifth paid in more than 60 days...

Late payment and bid-peddling are ranked as the most important factors affecting specialist contractors' businesses. The responses on payment periods remain broadly constant with the vast majority (76%) receiving payment between 30 and 60 days during the fourth quarter, marginally higher than the 72% of specialist contractors reporting only receiving payment for work carried out between 30 and 60 days during the third quarter of 2013. 3% of specialists reported only receiving payment after over 90 days, the same figure reported during Q3.



Employment & Capacity

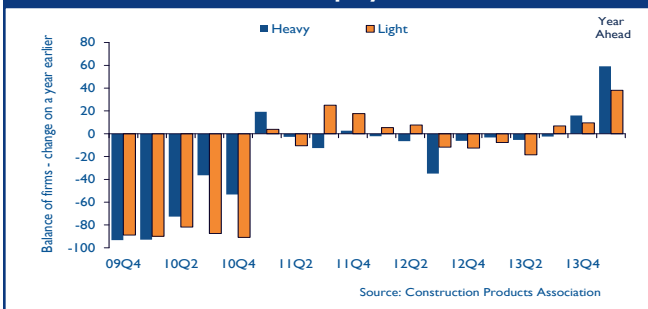
Building Contractors' Difficulty Recruiting Site Trades



Bricklayers and carpenters are hard to recruit...

Although the recovery in construction has been largely positive for the industry, following five years of subdued work levels, it has had some negative impacts. Overall, less than 11% of building contractors reported difficulties recruiting site trades. However, within this, 41% of firms reported that it was difficult to obtain bricklayers during the fourth quarter of 2013, compared with just 3% one year earlier, and a further 32% reported that they had difficulty recruiting carpenters compared with only 5% just one year ago.

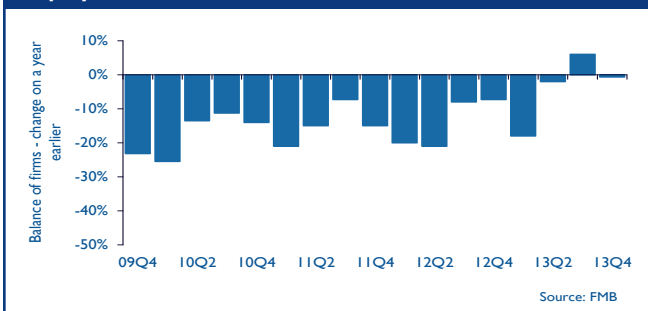
Products Manufacturers' Employment Trends



Employment prospects for manufacturers rose...

After falls in employment in 2012 and the first half of 2013, manufacturers reported a rise in headcount across heavy side firms and light side firms. The balances of 16% for heavy side manufacturers and 10% for light side manufacturers are still relatively low but are the first positive balances in both heavy and light side firms since 2011 Q4. Furthermore, firms are very positive looking forward. 59% of heavy side firms and 38% of light side firms anticipate increasing headcount during the next 12 months.

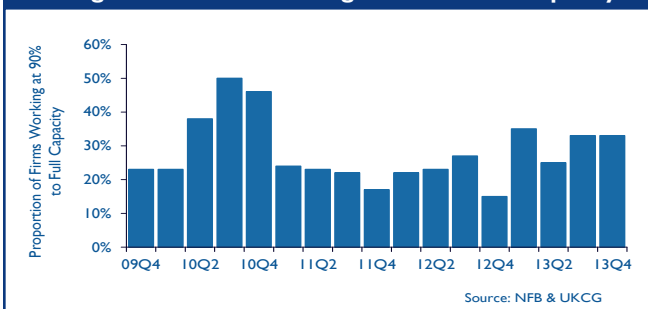
Employment Trends Within SME Contractors



... although SMEs reported broadly flat headcount.

The total employment net balance moved back into negative territory as it deteriorated from a rise, on balance, of 6% to a fall, on balance, of 1%. Fewer firms indicated that staffing levels had risen (19% compared with 25% during the third quarter) while those stating that their workforce had decreased edged up, from 19% during the third quarter to 20% in the fourth quarter. Most firms (61%) saw no change in staffing levels, up from 56% three months earlier. However, the balance for expected employment in Q4 rose for the third consecutive quarter.

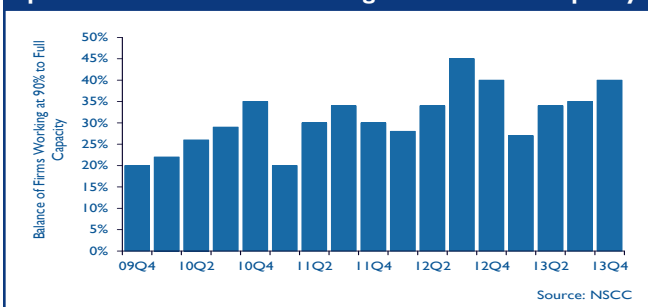
Building Contractors Working at 90% to Full Capacity



... Building contractors reported sufficient capacity...

The rise in workloads during 2013 has led to an improvement in capacity utilisation. However, spare capacity remains a key issue for building contractors. In 2013 Q3, only 33% of building contractors, on balance, that reported they were operating at between 90% and full capacity. This was the same figure that reported they were operating at between 90% and full capacity during the third quarter of 2013. However, it is still a considerable improvement on the nadir in 2012 Q4, when only 15% of firms reported operating between 90% and full capacity.

Specialist Contractors' Working at 90% to Full Capacity



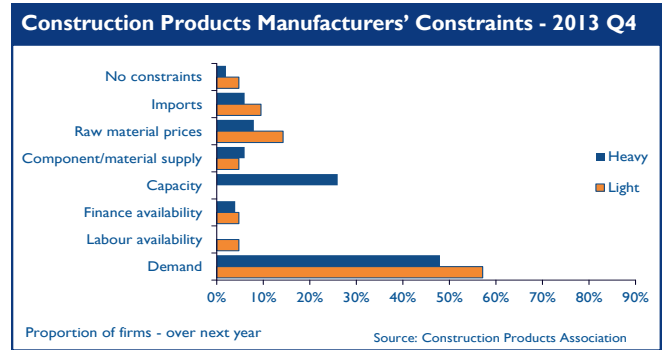
... as did specialists despite rises in demand.

Market demand continues to rank as the most important factor in terms of business planning. The availability of finance and material costs are jointly ranked second, followed by the availability of labour. Interest rates continue to be considered one of the least important factors. 83% of specialists reported in Q4 that they were working at over 60% capacity and 40% reported working at over 90% capacity. 34% of respondents planning to expand business in the next quarter and 54% of specialists are planning to expand business over the next 12 months, a survey-high figure.

Constraints, Investment & Trade

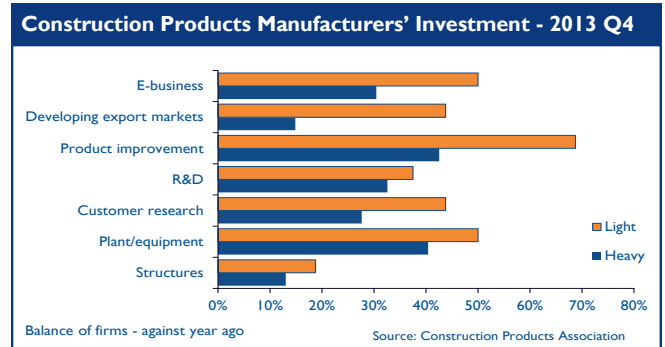
Demand still the key concern for manufacturers.

Despite recent rises in construction output, activity remains at historically low levels and so it is unsurprising to see that the key constraint to sales growth over the next 12 months is still expected to be demand. 48% of heavy side manufacturers and 57% of light side manufacturers reported that demand was the key constraint on sales during 2014. The second most important constraint reported for both heavy and light side manufacturers was raw materials prices with 8% and 14% respectively reporting price rises as a key constraint.



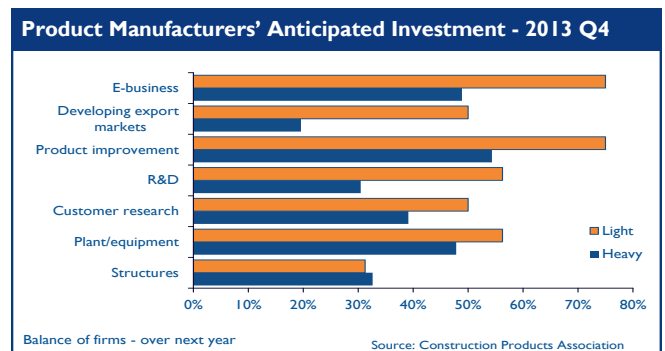
Capital investment remained one of the key priorities...

Product improvement remained a key priority for both heavy and light side producers with 69% of light and 43% of heavy side firms increasing investment in the year to 2013 Q4, on balance. Light side companies continued to develop export markets and 44% of respondents stated that investment rose, on balance. Heavy side companies focused on plant and equipment with 40% of companies, on balance, increasing investment from a year ago. A further 33% of heavy side firms, on balance, reported rises in research and development (R&D) investment in the year to Q4.



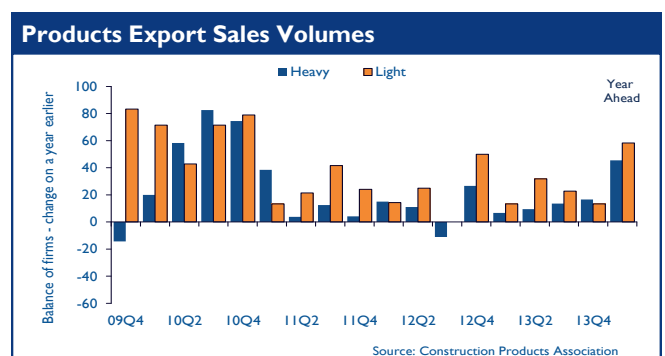
...with priorities likely to change in the next 12 months.

In Q4, manufacturers reported that product improvement was key for both heavy side (54%) and light side (75%) firms over the next 12 months. Yet, the next 12 months are also set to see a considerable increase in driving e-business and export markets. 49% of light side firms and 75% of light side firms reported that they anticipate a rise in investment in e-business over the next year. 20% of heavy side firms and 50% of light side firms reported in Q4 that they anticipate a rise in investment in developing export markets over the next year.



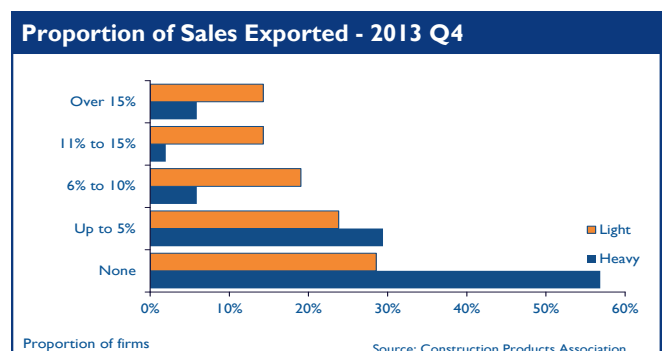
International sales continued to grow in Q4...

17% of heavy side manufacturers in Q4 reported a rise in exports, on balance, compared with a year earlier, a marginal rise from the balance of 14% in Q3. 13% of light side manufacturers in Q4 reported a rise in exports, on balance, compared with a year earlier, marginally lower than the balance of 23% in Q3. Looking forward, 45% of heavy side manufacturers in Q4 anticipate a rise in exports, on balance, over the next year and 58% of light side manufacturers in Q4 anticipate a rise in exports, on balance, over the next 12 months.



... but most firms produced only for the domestic market.

Over half of heavy side product manufacturers (57%) produced solely for the domestic market in Q4. Almost one third of respondents sold only up to 5% of total sales to international customers in the final quarter of 2013. 29% of light side companies did not export at all and 24% of firms only exported up to 5% of all sales. Only 6% of heavy side firms and 14% of light side firms reported that over 15% of their sales were exported. The key reason for driving export sales remained relatively bright economic prospects in fast growing economies.





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 £40 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, B&CE Building, Manor Royal, Crawley RH10 9QP T: 08450 578 160
Email: paul.bogle@builders.org.uk Website: www.builders.org.uk

About the National Specialist Contractors Council (NSCC) Survey



The National Specialist Contractors Council (NSCC) brings together the common aims of specialist trade organisations within the construction industry and is the authoritative voice of Specialist Contractors in the UK. NSCC has 29 member organisations that collectively represent over 7,000 Specialist Contractors engaged in the planning, design, construction, refurbishment and maintenance of the built environment in both the commercial and domestic sectors. By using the collective strength of the specialist sector, NSCC has the influence to make a real difference to how the UK construction industry operates. For further information contact:

David Bishop, NSCC, 6-8 Bonhill Street, London, EC2A 4BX T: 0844 249 5351
Email: enquiries@nsc.org.uk Website: www.nsc.org.uk

About the UK Contractors Group (UKCG) Survey



The UK Contractors Group (UKCG) represents more than 30 leading contractors operating in the UK. Its mission is to represent contractors' interests to government and key clients and to encourage contractors to work together to promote change and best practice, especially on health and safety and environmental issues. UKCG also works closely with the CBI Construction Council to ensure that contractor's interests are properly reflected in the wider business agenda. Enquiries to:

Stephen Ratcliffe, UKCG, Centre Point, 103 New Oxford Street, London WC1A 1DU T: 020 7836 6636
Email: stephen.ratcliffe@ukcg.org.uk Website: www.ukcg.org.uk