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Cost Increases Hinder Construction Despite Growth in Q2

The latest Construction Trade Survey, published today, highlights that activity rose in the second quarter of 2014 across all areas of construction, including building contractors, SMEs, specialist contractors, civil engineers and product manufacturers. Future growth, however, may be put at risk by rising costs.

Commenting on the survey, Dr Noble Francis, Economics Director at the Construction Products Association, said: “Firms across construction reported rises in output during Q2 and the majority of the industry is expecting activity to rise over the next 12-18 months.

“Unsurprisingly, private new housing was the key driver of construction activity. On balance, 41% of contractors reported that private housing output rose in Q2 compared with a year ago. The largest construction sector, private commercial, also enjoyed an increase in activity with 37% of contractors reporting that commercial output rose in Q2 compared with a year ago. In addition, 46% of building contractors reported that work in publicly-funded education and health construction saw a return to growth, reflecting the recovery in capital investment in 2014/15 with less than a year to go to the next election.

“Tender prices rose in Q2. Many major contractors are still working on projects won in 2013 at relatively low prices but have been suffering from the key concerns of rising costs and skills availability, especially in specific sectors such as private new housing. Overall, 80% of building contractors reported, on balance, that costs rose over the past year; 95% reported that materials costs rose over the past year and 75% reported that labour costs rose over the past year. In terms of skills, 47% of building contractors reported that bricklayers and carpenters were difficult to recruit.”

Stephen Ratcliffe, Director UKCG, said: “There are some mixed signals in these results showing that there is some way to go before full recovery in the sector. As we move

towards the general election next year, UKCG will continue to stress to politicians on all sides of the political divide the need for a visible public sector pipeline of infrastructure investment and a steady flow of new projects."

Richard Beresford, Chief Executive of the National Federation of Builders, added: "The good news is construction output is rising. However, higher tender prices, materials and labour costs and difficulty in securing skilled labour at reasonable cost all highlight the fragility of this recovery. Longer term institutional investment and more easily accessible finance options for the industry would go some way to securing stable, sustainable growth."

Key survey findings for Q2 include:

- 41% of building contractors reported that private housing output was higher than a year ago;
- 46% of building contractor firms reported public non-housing (education and health) output was higher than a year ago;
- 37% of building contractors reported that private commercial output was higher than a year ago;
- 58% of firms reported tender prices were higher than a year ago;
- 80% of building contractors reported that total costs were higher than a year ago;
- 95% of building contractors reported materials costs were higher than a year ago;
- 75% of firms reported that labour costs were higher than a year ago;
- Profit margins rose for the first time since the financial crisis six years ago (according to 5% of building contractors);
- 14% of specialist contractors reported being paid within 30 days, the highest recorded throughout the survey;
- 47% of building contractors reported difficulty recruiting bricklayers and carpenters.

ENDS

NOTE TO EDITORS: The six survey participants are listed below.

CONSTRUCTION PRODUCTS ASSOCIATION:

The [Construction Products Association](#) represents the UK's manufacturers and distributors of construction products and materials. The sector directly provides jobs for 300,000 people across 20,000 companies, has an annual turnover of more than £40 billion and accounts for over 1/3 of total construction output. The Association acts as the leading voice to promote and campaign for this vital UK industry.

The Construction Trade Survey is one of a range of economic publications produced by the Association, including the Construction Industry Forecasts and the State of Trade Survey. These reports are available to Association members and interested parties via our website.

NATIONAL FEDERATION OF BUILDERS:

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.

NATIONAL SPECIALIST CONTRACTORS COUNCIL:

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.

CIVIL ENGINEERING CONTRACTORS ASSOCIATION:

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.

UK CONTRACTORS GROUP:

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.

FEDERATION OF MASTER BUILDERS:

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.

The FMB is a source of knowledge, professional advice and support for its members, providing a range of modern and relevant business building services to save them time and money. The FMB also offers advice to consumers via its "[Find a Builder](#)" service. 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.

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