

Monday, 08 May 2017

## Rising costs means mixed start to 2017 for construction industry

SME builders, civil engineering firms, product manufacturers and specialist contractors all reported a strong start to 2017 with increases in sales, output and workloads in Q1 driven by increased demand. The Construction Products Association's Construction Trade Survey Q1 also painted a positive picture for 2017 with companies reporting an optimistic outlook for the year ahead.

Meanwhile, weak activity in the industrial and commercial sectors resulted in main building contractors experiencing a decrease in activity, with 31% reporting that construction output fell in the first quarter of 2017 compared with a year ago. In addition, Q1 order books were reported to be lower across the majority of sectors for both main contractors and civil engineering contractors.

The latest statistics also highlighted that the past depreciations of Sterling continue to exert upward pressure on input costs across the industry. An increase in overall costs was reported by 84% of civil engineering contractors, whilst 86% of main contractors, 93% of heavy side manufacturers and 93% of light side manufacturers also reported a rise in raw materials costs.

Commenting on the survey, Rebecca Larkin, Senior Economist at the CPA, said: "Q1 was a positive opener to 2017 for product manufacturers, specialist building contractors and SME builders, continuing the momentum built up over the last four years of growth. For main contractors, however, it was only private sector house building that provided the bright spots of activity during the quarter. Falling orders in the commercial and industrial sectors also spilled over into infrastructure in Q1 and signal a broader weakness ahead.

"Furthermore, in contrast to the continued rise in costs reported during the quarter, particularly for imported raw materials, building contractors' tender prices are moving in the opposite direction. This suggests that it is margins, rather than clients, that are bearing the brunt of cost inflation."

Suzannah Nichol, Chief Executive of Build UK said: "Despite mixed rates of output growth in the first quarter of 2017, it is good news that enquiries for future work grew strongly with confidence in the project pipeline for 2017. But increased costs are beginning to bite. The majority of the supply chain reported increased costs in Q1, especially for materials. If this level of price increase continues, current and future projects could start to feel the squeeze."

Marie-Claude Hemming, Director of Public Affairs at the Civil Engineering Contractors Association said: "These results are extremely concerning. They show that not only is the rate of growth in infrastructure workloads currently sluggish, but that order books have moved into the red, indicating that the sector is at real risk of stagnation. Unless action is taken, our sector runs the risk of falling into a recession at exactly the time that we need it to be driving growth in the economy. As the country prepares to go to the polls next month, we call on all parties to commit to the projects outlined in the National Infrastructure Delivery Plan, and ensure steps are taken to boost investment in all regions of England, Scotland and Wales. Failure to act could undermine the

sector's ability to deliver. This will imperil the British economy at the very time we need this key driver of economic growth to secure the future of the UK.”

Key survey findings include:

- 31% of main building contractors, on balance, reported that construction output fell in the first quarter of 2017 compared with a year ago
- All specialist contractors reported a rise in output during Q1
- 8% of civil engineers, on balance, reported an increase in workloads during Q1
- On balance, 21% of SME contractors reported increased workloads in Q1 compared to three months earlier
- Main contractors reported lower orders in all sectors except private housing
- 9% of civil engineering firms reported a decrease in new orders in Q1, on balance
- 40% of SMEs and 50% of specialist contractors reported an increase in enquiries in Q1, on balance
- Overall costs increased for 84% of civil engineers contractors, whilst 86% of main contractors, 93% of heavy side manufacturers and 93% of light side manufacturers reported raw materials costs rose in Q1

**ENDS**

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#### **NOTE TO EDITORS:**

1. 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 22,000 companies and has an annual turnover of more than £55 billion. The Association is the leading voice to promote and campaign for this vital UK industry.

The CPA produces a range of economic reports including the quarterly Construction Industry Forecasts, Construction Trade Surveys and the State of Trade Surveys.

Much of the CPA's work is focused on serving as the first point of contact for politicians and policy makers requiring advice and information about matters that affect construction products or the wider construction industry. This includes understanding the need for investment into manufacturing or the built environment, new housing and energy-saving retrofitting of the existing housing stock; helping to develop effective, UK and EU legislation, regulations and product standards; and promoting the role of manufacturers in delivering a resource efficient built environment.

2. [Build UK](#) provides a strong collective voice for the contracting supply chain in construction. Build UK brings together 27 of the industry's largest main contractors and 40 leading trade associations representing over 11,500 specialist contractors. Build UK was created as a result of a merger between the National Specialist Contractors' Council (NSCC) and UK Contractors Group (UKCG) in 2015.

3. 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.
4. The [Federation of Master Builders](#) (FMB) is the largest trade association in the UK construction industry representing thousands of firms in England, Scotland, Wales and Northern Ireland. Established in 1941 to protect the interests of small and medium-sized (SME) construction firms, the FMB is independent and non-profit making, lobbying for members' interests at both the national and local level. Within its membership, around 45% of FMB members build new homes 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. The FMB is committed to raising quality in the construction industry and offers a free service to consumers called 'Find a Builder'.
5. 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.

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