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Construction Growth in Q3 but Weak Orders Weigh on the Outlook

The Construction Products Association's Construction Trade Survey for Q3 shows that despite rising costs and diverging performance across sectors, the industry extended its run of growth to eighteen quarters.

The survey of main contractors, SME builders, civil engineering firms, product manufacturers and specialist contractors found that the construction supply chain reported increases in sales, output and workloads in the quarter, driven by increased demand in private housing, repair and maintenance and infrastructure. Net balances for enquiries and expected product sales for the year ahead remained muted, however, and contractors' order books were sustained by work in only three sectors: private housing, housing R&M and non-housing R&M. New orders were reported lower in sectors such as commercial, industrial and public non-housing, which account for one-third of construction output.

The effects of the Sterling's depreciation in the second half of 2016, following the EU Referendum, are still pervasive, with 92% of main contractors, 85% of heavy side manufacturers and all light side manufacturers reporting a rise in raw materials costs in Q3. In spite of this, only a small proportion of contractors are increasing tender prices and, as a result, 31% of main contractors reported a fall in margins, the worst balance in five years.

Commenting on the survey, Rebecca Larkin, Senior Economist at the CPA, said: "This 18th consecutive quarter of growth reported by the industry stands in contrast to the construction recession in preliminary GDP data from the ONS. There is a clear division in fortunes across sectors, however, with weakness in the commercial and industrial sectors offset by strength in new build private housing, a sector where demand and confidence remain supported by the Help to Buy equity loan.

"In common with the wider economy, the construction industry continues to experience cost inflation, particularly for raw materials. A clear consequence of the supply chain trying to absorb these higher costs is the fall in contractors' profit margins since the start of the year. Combined with a smaller pipeline of upcoming work in some key sectors, the survey's more mixed view on near-term industry prospects is not surprising."

Suzannah Nichol, Chief Executive of Build UK said: "The latest Construction Trade Survey result highlights the industry's continued growth, contrary to ONS's statistics, with both contractors and specialist contractors reporting a rise in output during Q3. However, a lack of required skills remains a concern, with labour availability issues continuing to impact on contractors' business performance. Build UK believes industry needs to recruit, train and retain a skilled workforce and we are working with members, government and other key stakeholders to ensure that this remains a key priority."

CECA Director of External Affairs, Marie-Claude Hemming, said: "It is good news that our members see growth in infrastructure, to the benefit of businesses and communities across the country. However, uncertainty

continues to act as a drag on the ability of the construction industry more generally to boost the economy. Ahead of the Autumn Budget, we are calling on the UK Government to commit to the projects outlined in the National Infrastructure Delivery Plan, to secure the foundations of a strong economy, drive productivity, and deliver post-Brexit growth.”

Key survey findings include:

- 40% of main building contractors, on balance, reported that construction output rose in the third quarter of 2017 compared with a year ago
- 20% of specialist contractors reported a rise in output during Q3
- 24% of civil engineers, on balance, reported an increase in workloads during Q3
- On balance, 21% of SME contractors reported increased workloads in Q3 compared to three months earlier
- Main contractors reported higher orders in private housing and both housing and non-housing R&M
- 13% of civil engineering firms reported an increase in new orders in Q3, on balance
- 26% of SMEs but no specialist contractors reported an increase in enquiries in Q3, on balance
- Overall costs increased for 82% of civil engineering contractors, whilst 92% of main contractors, 85% of heavy side manufacturers and all light side manufacturers reported raw materials costs rose in Q3.

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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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