

# State of Trade Survey

February 2024 - £100



## A Weak Ending to the Year for Product Sales

### Headlines:

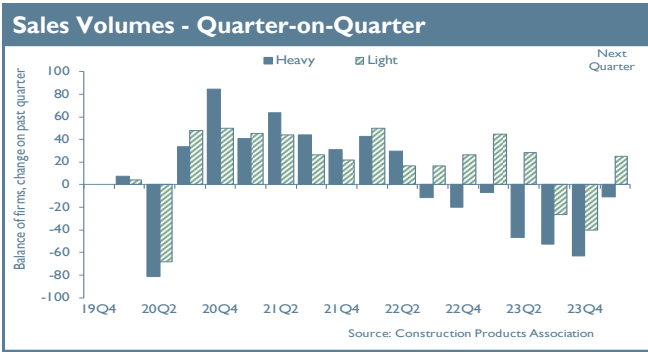
- 63% of heavy side firms reported that **sales fell** in 2023 Q4, the sixth consecutive quarterly decline
- **Sales also fell** for 40% of light side firms, marking a second quarterly decline
- 11% of heavy side manufacturers and 15% of those on the light side expect **sales to fall** over the next 12 months
- **Demand** was cited as the factor most likely to constrain output in the year ahead
- Cost inflation **continued to moderate** in Q4, despite pressure on wages & salaries

Construction product manufacturing ended 2023 with firms reporting the weakest quarter for sales since the first pandemic lockdowns. For firms on the heavy side, Q4 marked a sixth consecutive quarter of falling sales and the worst quarterly sales performance since 2020 Q2. For light side manufacturers this was the second quarterly decline but, equally, the lowest balance recorded since activity was paused at the height of early pandemic restrictions. Lower demand was by far the most commonly cited factor set to constrain activity over the next 12 months and both heavy side and light side manufacturers are anticipating that product sales will be lower in 2024 as expectations of protracted economic weakness, lengthier decision-making periods for major spending and the higher interest rate environment limit demand for new house building, major home improvements, large new office towers and industrial buildings. Costs, which have been a key reason for project delays over the last couple of years, were reported to have continued moderating during the quarter, across fuel, energy and raw materials. Wages and salaries stood out as a lingering upward pressure on input costs, however, and were reported to have increased by nearly all manufacturers during the quarter.

On balance, 63% of heavy side manufacturers and 40% of those on the light side reported a quarterly fall in product sales in Q4. This was a sixth consecutive fall reported by firms on the heavy side and the second for light side manufacturers and comes amidst official ONS data that has shown weakness in new orders for construction since the end of 2022 that then started to filter through into lower construction activity in the second half of 2023, particularly in housing, commercial offices and warehouses and factories in the industrial sector. The deterioration in the housing market has been particularly noticeable, with major house builders noting demand around one-third lower, and mortgage approvals and property transactions at considerably lower volumes than in recent years. This, along with flatlining economic growth, interest rates at a 15-year peak and high, albeit slowing, rates of inflation has negatively impacted confidence to proceed with new starts, but has also negatively affected homeowner confidence to commit to large improvements spending and client and developer confidence to sign off the large up-front investments needed for projects in the commercial and industrial sectors. With consensus forecasts for UK economic growth pointing to the malaise continuing throughout much of this year, manufacturers remained subdued in their outlook for 2024. Balances of 11% on the heavy side and 15% on the light side expected sales to be lower for the year, with demand the key concern, cited by 71% of heavy side manufacturers and 80% of light side firms.

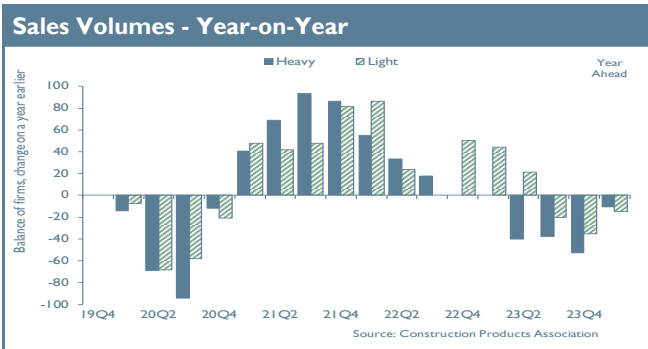
More positive, input price inflation continued to ease in Q4. On balance, 35% of heavy side manufacturers and 50% of light side manufacturers reported an increase in costs compared to a year earlier. For the heavy side this was the lowest balance since 2016 and contrasts sharply with four quarters of 100% balances reported between 2021 Q3 and 2022 Q2. Price pressures were lower for raw materials, fuel and energy, which had all been major contributors to inflation over the last couple of years. Nevertheless, manufacturers reported continued pressure from wages & salaries. The National Living Wage rose by 9.7% in April 2023 and will rise by 9.8% in April 2024, which not only raises wage bills at entry level, but increases the pressure to raise wages for workers at the next pay grades too.

# Sales & Constraints



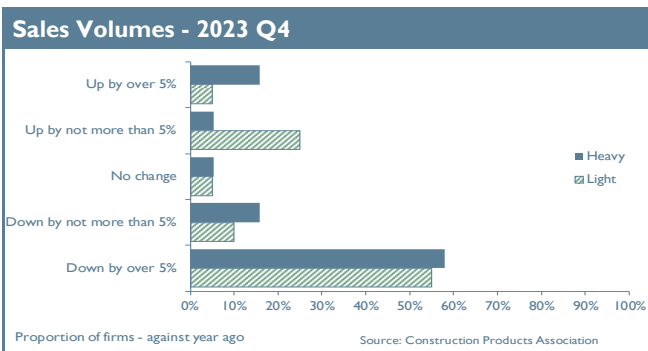
## Product sales fell in Q4...

Construction product manufacturers reported a broad fall in sales in the fourth quarter of 2023. On the heavy side, a balance of 63% of manufacturers reported a decline in sales compared to Q3, deteriorating from a balance of 53% that reported a fall in the previous quarter and reaching the lowest since 2020 Q2. For light side firms, a fall in sales was reported by 40%, on balance, down from 27% that reported a fall in Q3. Looking to the next quarter, 11% of heavy side firms and expected a fall in sales, whilst 25% of light side firms expected a rise.



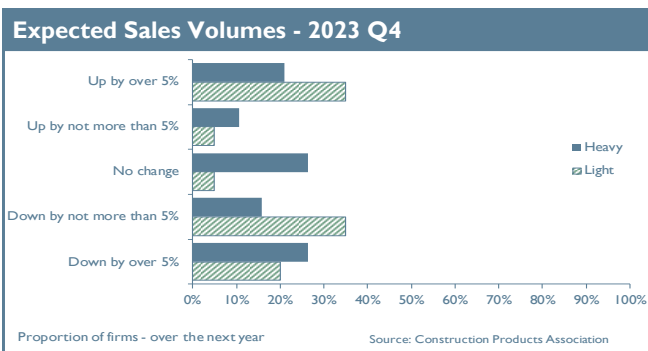
## ...and sales fell on an annual basis too...

In Q4, 53% of heavy side manufacturers reported that sales declined compared to the same quarter of 2022, down from the 38% balance that reported a fall in Q3. For light side firms, 35% reported an annual decrease in sales, on balance, compared to 20% that reported a decline in Q3. This was the third consecutive annual fall for the heavy side and the second for the light side. Looking to the next 12 months, 11% of heavy side firms and 15% of those on the light side anticipated a fall in sales, on balance.



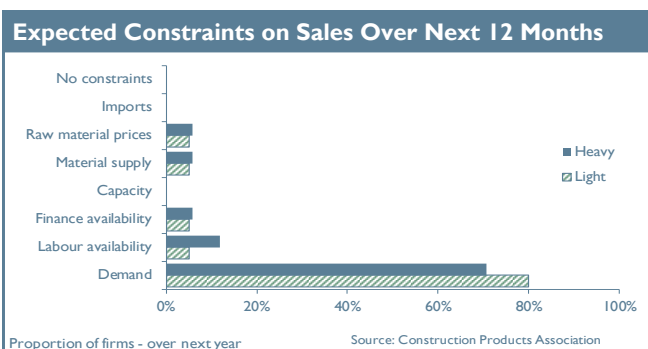
## ...with large falls widely reported.

In the year to Q4, 58% of heavy side firms reported significant decreases in sales (rises of over 5%) compared with a year earlier and 16% reported falls of up to 5%. Similarly, on the light side 55% of firms reported a decrease of over 5% and 10% of firms reported a decrease of up to 5%. Nevertheless, 21% of firms on the heavy side and 30% of firms on the light side reported an annual increase in sales during the quarter.



## Manufacturers more positive for the next 12 months...

For heavy side manufacturers, 21% of firms anticipated that sales would rise by more than 5% in the next 12 months and 11% anticipated a rise of up to 5%. On the flipside, 16% of firms anticipated a fall of up to 5% and 26% anticipated a fall of more than 5%. For manufacturers on the light side, 35% anticipated sales rising by more than 5% and another 5% anticipated a rise of up to 5% in the next 12 months. However, 35% anticipated that sales would decrease by up to 5% and 20% anticipated a decrease of more than 5%.



## ...with demand the key concern.

Not surprisingly given the weak UK economy, the strength of demand remained the key concern for sales over the next 12 months. Demand was expected to be the primary constraint on sales for 71% of heavy side manufacturers and 80% of those on the light side. For heavy side firms, labour and finance availability, as well as materials prices and supply were the other potential constraints cited by respondents. These were also cited as other potential constraints on light side sales over the next 12 months.

# Costs, Employment, Capacity & Investment

## Costs moderated in Q4...

Input cost inflation continued to moderate across the construction products manufacturing sector in the fourth quarter of 2023. Balances were the lowest since 2016 for the heavy side and the lowest since 2020 for the light side. On balance, 35% of manufacturers on the heavy side and half of those on light side reported an annual increase in costs. Looking at the year ahead, 59% of heavy side firms and 40% of those on the light side anticipated an increase in manufacturing costs.

## ...but wages & salaries were the strongest cost pressure.

Costs continued to rise across a wide range of inputs in Q4. Wages & salaries were the biggest contributor to input cost inflation for both the heavy side and the light side, and increases were reported by 88% and all firms, respectively. On the heavy side, 41% also cited a rise in energy costs and 35% cited higher fuel costs. For the light side, 55% cited higher costs for both of energy costs and taxes.

## Hiring activity increased..

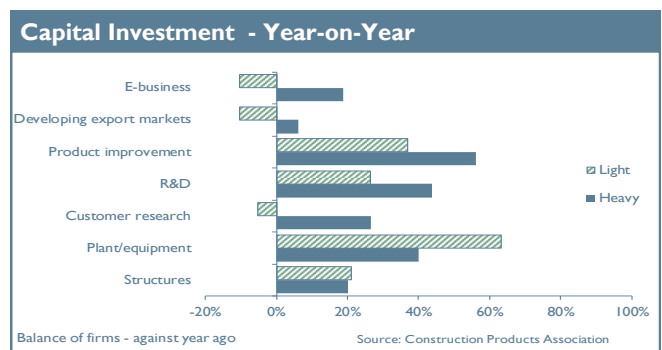
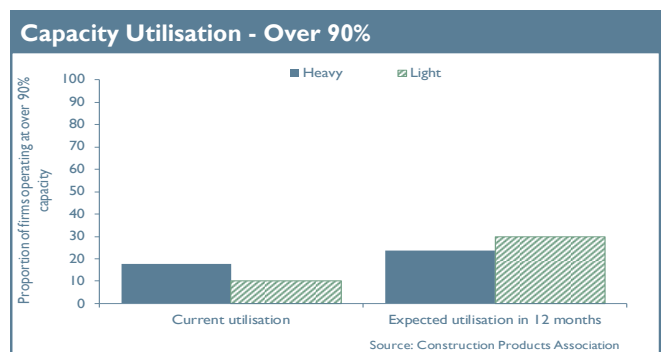
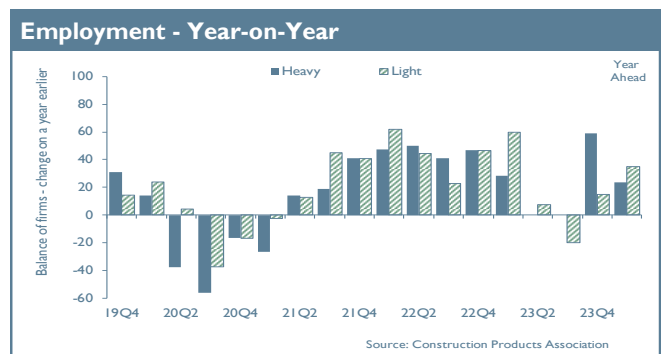
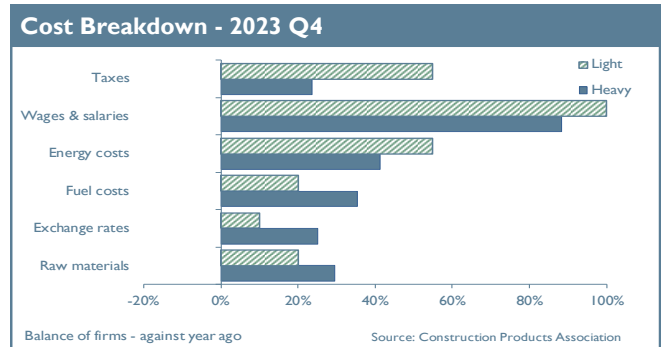
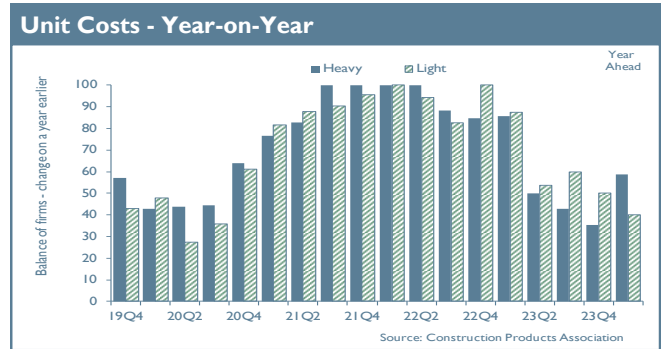
A balance of 59% of firms on the heavy side reported an annual increase in employment in Q4, whilst for light side firms, a balance of 15% reported an increase. Both were the strongest balance in three quarters. Looking to the next 12 months, 24% of heavy side firms, on balance, expected to increase headcount, whilst among light side firms, 35% expected to increase employment over the next year.

## ...but capacity utilisation was low.

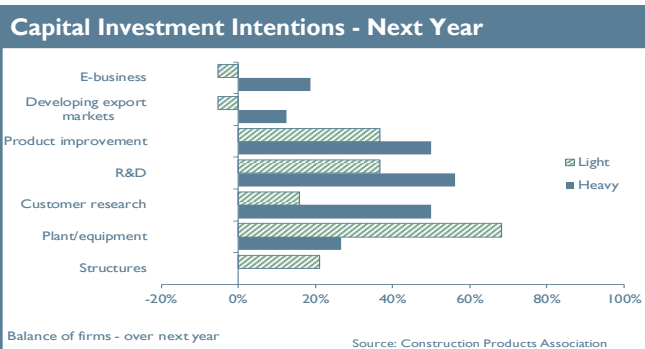
On the heavy side, 18% of manufacturers reported that they had operated at 90% and full capacity over the last 12 months, and a further 12% of heavy side firms also reported that they had operated at 81%-90%. On the light side, 10% of firms reported that they had operated at 90% or over and the proportion operating at 81%-90% was 25%. In 12 months' time, 24% of heavy side firms and 30% of light side firms still expect capacity utilisation to be 90% or higher.

## Capital investment priorities varied...

Product improvement was the key priority for heavy side capital investment in Q4, with 56% of firms reporting increased investment in this area. This was followed by R&D (44%) and plant/equipment (40%). On the light side, a balance of 63% of firms reported that investment in plant/equipment increased in annual terms, with 37% and 26% also reporting increased investment in product improvement and R&D, respectively.

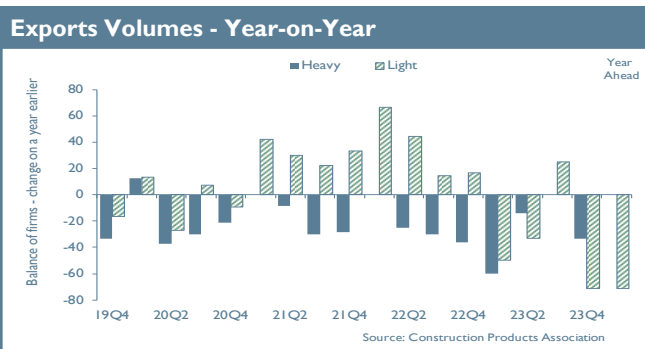


## Investment Intentions & Exports



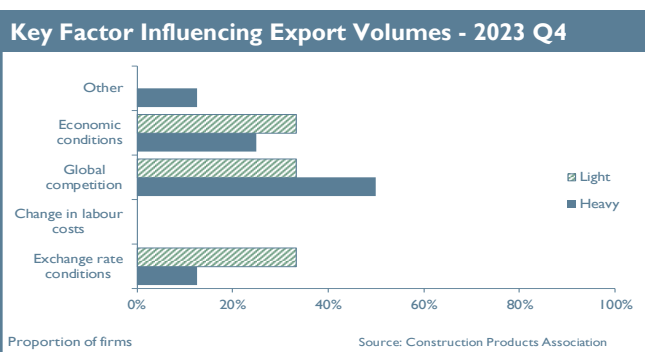
...with a similar focus for the year ahead.

On the heavy side, 56% of firms anticipated higher investment in R&D and half of firms also anticipated increasing investment in product improvement and customer research. Plant/equipment was the key focus of investment intentions on the light side, with 68% of firms expecting to increase investment in this areas, alongside balances of 37% that were reported for investment in product improvement and R&D. However, light side firms anticipated reducing investment in e-business and developing export markets, on balance.



Export sales fell in Q4...

Product manufacturers' export sales performance was weak in Q4. On the heavy side, one-third of firms, on balance, reported a fall in export sales. On the light side, 71% of firms reported a decrease in export sales. Manufacturers' expectations of export sales over the next 12 months remained subdued in Q4. Equal proportions of heavy side firms anticipated either an increase or decrease but a balance of 71% of light side firms expected sales to decrease.



...due to economic conditions and competition.

44% of heavy side product manufacturers and half of light side manufacturers produced solely for the domestic market in Q4. Of those that did export, for heavy side firms, global competition was the key factor influencing export volumes, according to half of firms. 13% also cited economic conditions. For the light side, economic conditions, global competition and exchange rate conditions were cited as the key factors, by one-third of firms.

### Information about the Construction Products Association and the State of Trade Survey

The **Construction Products Association** represents the UK's manufacturers and distributors of construction products and materials. The sector directly provides jobs for 382,500 people across 23,949 companies and has an annual turnover of £62.5 billion. The Association acts as the leading voice to promote and campaign for this vital UK industry.

The State of Trade Survey, conducted quarterly, provides insight into current and expected future industry trends. The survey analysis includes the use of 'balance of respondents' to assess survey results and identify trends. Balance of respondents is a percentage of firms reporting a rise less those reporting a decline. No weighting is given to allow for the extent of the change of the size of the firms involved.

Analysis is divided into heavy and light construction products. **Heavy side products** are typically structural materials used early in the construction process and include materials used in transport and other civil engineering projects. Heavy side materials include: aggregates, cement, ready-mix concrete, structural and reinforcing steel. **Light side products** are typically installed later in the construction process and include internal fittings and services. Light side products include: heating and ventilation systems, plumbing, electrical and lighting, doors and windows, kitchen furniture and thermal insulation.

The State of Trade Survey is one of a range of publications produced by the Association, including the Construction Trade Survey and Construction Industry Forecasts. For further information on the content and availability of these publications please contact:

Rebecca Larkin - Head of Construction Research: Construction Products Association, 26 Store Street, London WC1E 7BT

T: 0207 323 3770 Email: rebecca.larkin@constructionproducts.org.uk

Website: [www.constructionproducts.org.uk](http://www.constructionproducts.org.uk) Twitter: @CPA\_Tweets