

# Federation of Master Builders

## State of Trade Survey Q3 2012

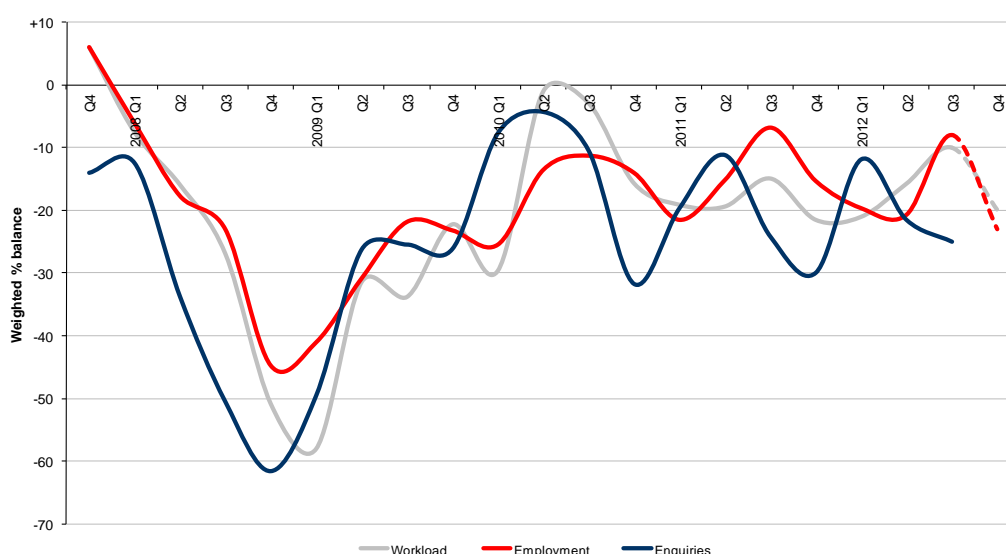


### Summary

Overall SME workloads continued to decline in Q3 2012, although one quarter of firms reported an increase during the quarter and 40% indicated that workloads had remained unchanged from the previous quarter, up from 35% in Q2. However, the outlook for workloads deteriorated again in the three months to September as the proportion of firms with positive expectations fell to 18%, from 22% three months ago.

- ✧ **Further falls in workloads across the board:** Workloads continued to decline in all sectors in the three months to September 2012, although there were improvements for all bar private housing.
- ✧ **Prospects for private housing remain downbeat:** In Q3 2012, around 39% of firms in the private new housing sector reported lower workloads, down from 43% three months ago. Those anticipating workloads to decline in the final three months of the year stood at 40%, marginally above the 39% with negative expectations in the second quarter of this year.
- ✧ **Costs expected to increase over next six months:** Almost 70% of firms expect materials costs to rise over the six months to March, a slight increase from three months ago. In contrast, just 20% of respondents anticipate raising their output prices whilst wages & salaries are largely expected to remain unchanged as 79% indicated this was the case.
- ✧ **SME employment prospects deteriorate:** Just 9% of firms expect to increase their staffing levels over the coming six months, down from 14% three months ago. However, more than half (59%) anticipate no change. This may reflect the more positive employment trends over the three months to September, although employment levels continued to decline on balance. Around 55% of respondents indicated no change in staffing levels, up from 47% in Q2 and 18% reported that they had hired more staff during Q3.

Key indicators



Please note: Q4 2012 reflects respondent's expectations for workload and employment.

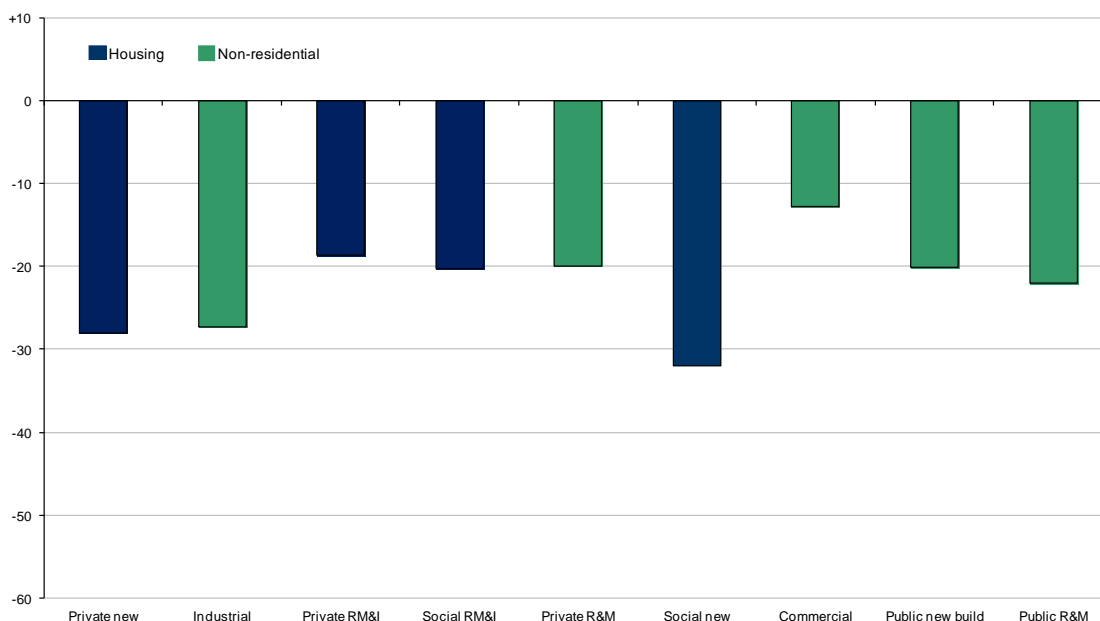
## Workload

In Q3 2012, the net balance for overall workloads remained negative, although it improved by 6 percentage points to -10. This was the least negative net balance for two years. The proportion of firms indicating that workloads increased during the quarter remained at 25% but 40% of respondents reported that workloads had remained unchanged in Q3 2012, up from 35% three months ago. Net balances were again negative across all sectors, but they improved across the vast majority of sectors in the quarter, the exception being private housing, where the net balance deteriorated by 3 percentage points to -28. However, this reflected a shift in sentiment towards neutral as those indicating no change in workloads during the quarter rose from 39% to 49%. Surprisingly, it was the public R&M sector which saw the strongest improvement in its net balance in the three months to September, whilst still strongly negative at -22. Those firms in the sector indicating higher workloads more than doubled to 14%, from 6% in Q2. The public new build and social housing, along with the commercial one, also saw marked improvements in net balances in the three months to September but again all were negative.

The net balance for overall non-residential workloads improved by 16 percentage points whilst remaining negative at -20, as lower workloads were reported by 36% of respondents, down from 47% three months ago. For overall residential workloads, the net balance of -23 was an improvement of 8 percentage points on the previous quarter with the proportion of firms indicating higher workloads unchanged from Q2 at 15%.

Balances only reflect the percentage of responses reporting higher workloads against those reporting lower workloads. In some cases, although the total workload chart suggests that activity has fallen strongly, a large proportion of respondents indicated that there had been no change in workloads compared with the previous quarter.

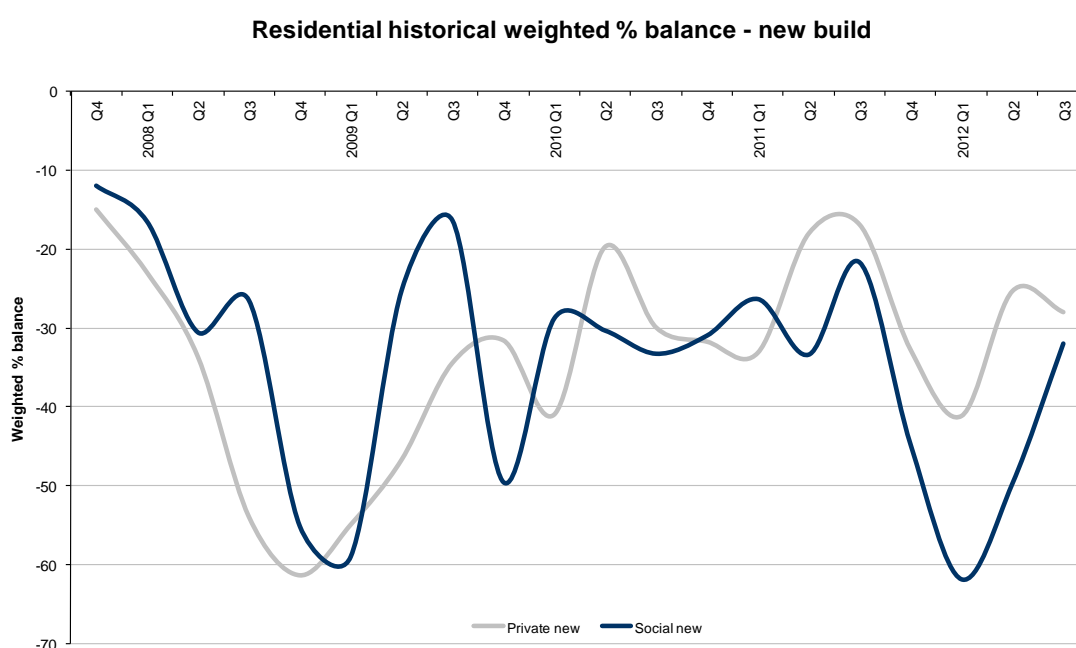
**Total workload by sector - Q3 2012**



## Residential workload

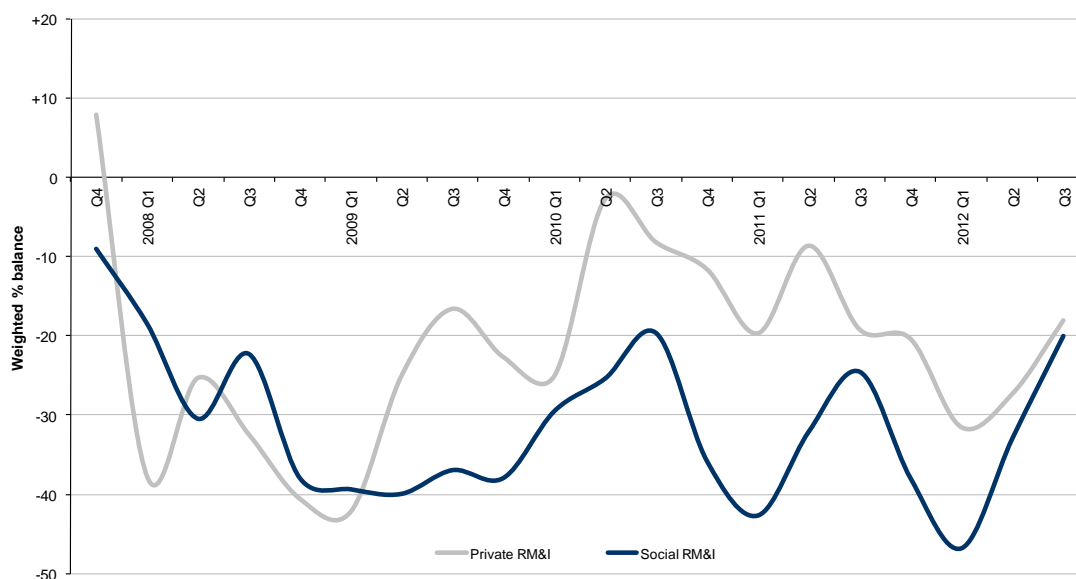
Workload	Weighted % balances							
	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
Private new	-32	-33	-18	-17	-33	-41	-25	-28
Private RM&I	-12	-20	-9	-19	-20	-32	-27	-18
Social new	-31	-26	-33	-22	-45	-62	-50	-32
Social RM&I	-36	-43	-32	-25	-38	-47	-33	-20
Total Residential	-24	-28	-19	-20	-31	-41	-31	-23

- A deterioration of 3 percentage points took the net balance for the **private new** housing to -28, following a substantial improvement in Q2. Despite the proportion of firms reporting higher workloads actually falling from 18% in Q2 to 11%, almost half (49%) indicated that workloads were unchanged during the quarter. Around 39% of firms indicated that workloads declined in the three months to September, down from 43% three months ago and the lowest proportion since Q3 last year.
- The **social new** housing sector saw an 18-point improvement in its net balance in the three months to September but continued to have the most negative net balance across all the sectors at -32. Around 11% of respondents indicated that workloads in the sector increased during the quarter, up from 4% in Q2, whilst 43% of firms reported lower workloads compared with 54% three months ago. This was unexpected considering the halving of the funding for the 2011-15 Affordable Housing Programme, compared with the previous one, and the latest figures from the Department of Communities and Local Government (CLG) which showed a 45% fall in new public housing starts in the first half of 2012. However, the net balance for workloads in the sector remains heavily negative and thus the recent improvement is indicative of a slowing rate of decline in workloads rather than any material increase.



- The net balance for the **social RM&I** sector improved by 13 percentage points but was negative again. The net balance of -20 reflected positive sentiment from 16% of respondents compared with 12% in Q2, whilst those indicating lower workloads during the quarter fell to 36% from 45% three months ago.
- In Q3 2012, the proportion of firms indicating that workloads in the **private RM&I** sector were unchanged rose from 39% to 44%, whilst those reporting a decrease dropped from 44% to 37%. The resulting net balance of -18 was an improvement of 9 percentage points on the previous quarter.

### Residential historical weighted % balance - RM&I

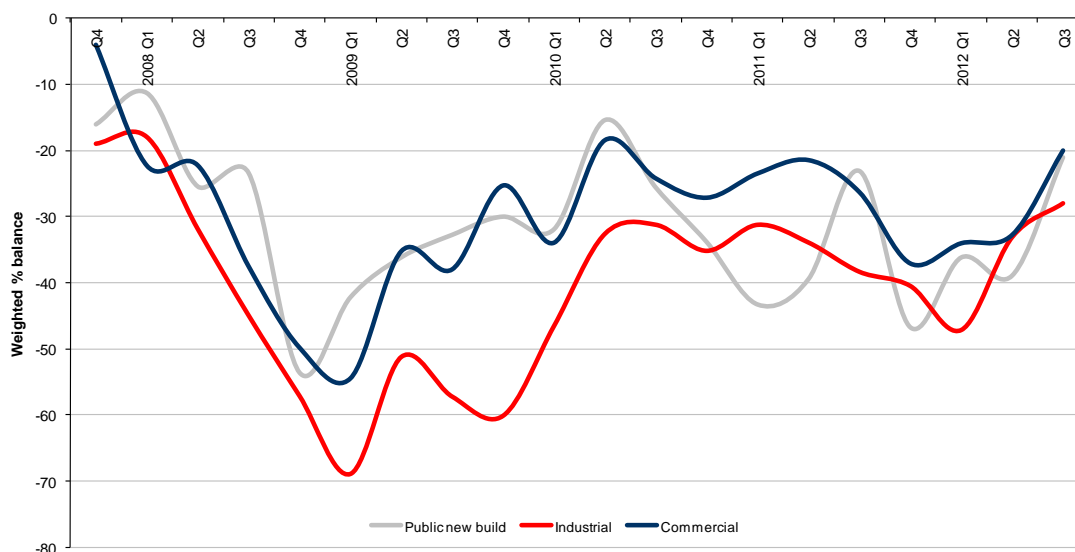


### Non-residential workload

Workload	Weighted % balances							
	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
Public new build	-34	-43	-39	-23	-47	-36	-39	-21
Public R&M	-41	-39	-45	-30	-44	-45	-44	-22
Industrial	-35	-31	-34	-38	-40	-47	-33	-28
Commercial	-32	-24	-30	-28	-38	-30	-31	-12
Private R&M	-27	-23	-21	-26	-37	-34	-33	-20
Total Non-Residential	-33	-31	-33	-29	-41	-38	-36	-20

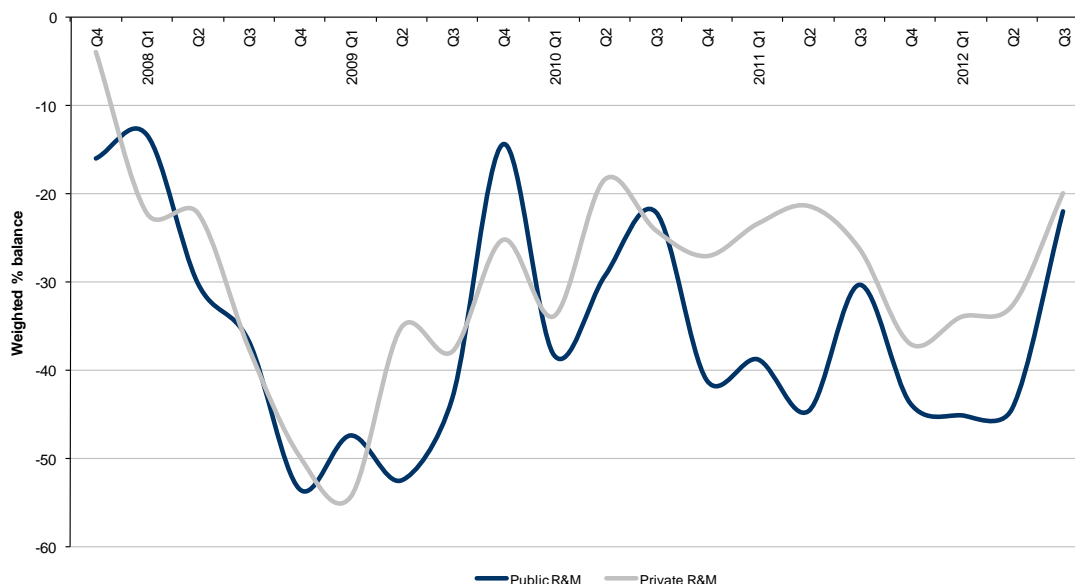
- The net balance for the **public new build** sector improved by 18 percentage points to -21, the least negative since Q2 2010. This reflected positive sentiment from 18% of firms, up from 10% three months ago, whilst those indicating that their workloads had declined dropped to 39% (from 49%). This seems to be in line with recent new orders figures from the Office for National Statistics (ONS) which showed a 32%, quarter-on-quarter, increase in new orders in the second quarter of the year whilst levels were still down strongly on quarterly totals from recent quarters. The net balance of -21 for the public new build sector is still substantially negative but a definite improvement from, for example, the balance of -47 at the end of last year.
- Around 23% of firms in the **commercial** construction sector indicated that workloads had increased during the quarter, up from 16% in the previous quarter. The proportion of those reporting lower workloads fell from 47% in Q2 to just 35% in Q3. The resulting net balance of -12 was an improvement of 19 percentage points on Q2 and the least negative since the final quarter of 2007.
- An improvement of 5 percentage points took the net balance for the **industrial** sector to -28. This reflected a shift from both positive and negative sentiment to neutral, as the proportion of firms reporting no change in workloads rose sharply from 34% three months ago to 52% in Q3 2012. Those reporting positive changes in workloads fell from 16% in Q2 to just 10% and the net balance for the sector was the most negative across the non-residential sectors.

Non-residential historical weighted % balance chart - new work



- An improvement of 22 percentage points took the net balance for the **public R&M** sector to -22, the least negative for 2 years. The proportion of firms indicating that workloads in the sector had declined dropped from 51% to just 36% in the three months to September 2012. Nevertheless, more than half (51%) of firms reported no change in workloads.
- The net balance for the **private R&M** sector saw a weaker improvement of 13 percentage points, taking it to -20. The proportion of firms indicating higher workloads edged up from 15% to 16% during the quarter, whilst those reporting falling workloads in the sector fell from 48% to just 36%.

Non-residential historical weighted % balance chart - R&M



## Expected workload and enquiries

The net balance for enquiries deteriorated by 3 percentage points to -25 in Q3 2012, although one-fifth of firms reported an increase in enquiries during the quarter. However, this was down from 25% three months ago, but those reporting a fall in enquiries in the three months to September also declined, edging down from 47% to 45%.

Given the deterioration in enquiries, on balance, in the three months to September 2012, it is not surprising that expectations for workloads in the coming three months also worsened. The net balance for overall expected workloads deteriorated by 4 percentage points in Q3 and at -20, was substantially more negative than the particularly optimistic reading of -7 in the first quarter of the year. However, whilst those firms with positive expectations fell from 22% to 18%, those with negative expectations remained unchanged at 38%.

### Residential expected workload

The net balance for residential expected workloads deteriorated by 2 percentage points to -26 in Q3 2012. The proportion of firms anticipating higher workloads in the coming three months fell from 15% to 10%, whilst those with negative expectations also edged down from 39% to 36%. There was a strong deterioration in the net balance for the private new housing sector whilst the social R&M sector saw a slight improvement. Nevertheless, net balances remained negative across all the residential sectors.

- The net balance for the **private new** housing sector deteriorated by 9 percentage points to -28, with the proportion of firms with positive expectations for workloads falling from 20% to 12%. Around 40% of respondents anticipate falling workloads over the coming quarter, a slight increase from 39% three months ago.
- At -30, the net balance for the **social new** housing sector was unchanged from the previous quarter. Whilst just 7% of firms anticipate increasing workloads over the coming quarter, down from 11% three months ago, around 56% expect workloads in the sector to remain unchanged in the final three months of the year. This compared to 48% three months ago.
- The **social RM&I** sector saw the strongest improvement in its net balance of the residential sectors, although it was still negative at -28. Around 8% of firms have positive expectations for workloads in the sector, unchanged from the previous quarter, whilst those anticipating no change rose from 54% to 56%.
- The net balance for the **private RM&I** sector improved by a marginal one percentage points to -21 in Q3 2012. However, this reflected a decline in the proportion of firms with positive expectations, from 16% to 12%, and also an increase in those anticipating no change in workloads, from 46% to 55%.

Expected Workload	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	<i>Weighted % balances</i>	
							Q2	Q3
Private new	-33	-13	-18	-20	-36	-31	-19	-28
Private RM&I	-29	-12	-10	-17	-45	-18	-22	-21
Social new	-44	-40	-37	-23	-40	-32	-30	-30
Social RM&I	-43	-30	-28	-18	-46	-29	-31	-28
Total Residential	-35	-21	-20	-19	-42	-25	-24	-26
Enquiries								
Private new	-44	-22	-18	-30	-35	-28	-30	-35
Private RM&I	-33	-25	-14	-34	-43	-26	-26	-29
Social new	-52	-35	-35	-39	-40	-42	-43	-37
Social RM&I	-56	-43	-29	-36	-42	-38	-32	-29
Total Residential	-43	-33	-21	-34	-40	-31	-31	-32

### Non-residential expected workload

In Q3 2012, the net balance for overall expected non-residential workloads improved by 4 percentage points but was still negative at -28. Those anticipating an increase in non-residential workloads fell to 8%, from 11% in the previous quarter, but there was also a decline in those with negative expectations, from 43% to 36%. With the exception of the commercial sector, there were improvements in all non-residential net balances but they remained negative.

- The net balance for the **public R&M** sector was -27, an improvement of 10 percentage points on the previous quarter, and the least negative since Q2 2010. Although those with positive expectations edged down from 8% to 7%, those anticipating no change in workloads in the sector jumped from 47% to 59%.

- Around 11% of respondents expect an increase in workloads in the **private R&M** sector over the coming three months, whilst 37% anticipate a decline, compared with 9% and 41%, respectively, three months ago. The resulting net balance of -25 was an improvement of 7 percentage points on the previous quarter's figure.
- In Q3 2012, the net balance for the **industrial** sector improvement by 6 percentage points to -29. Although this reflected positive expectation from just 6% of respondents, down from 10% in Q2, those anticipating no change in workloads in the sector rose markedly from 45% to 59%.
- The net balance for expected workloads in the **public new build** sector improved by a marginal 2 percentage points in Q3, although the net balance continued to be strongly negative at -33. Just 6% of firms expect public new build workloads to increase during the final three months of the year, down from 11%. However, more than half (55%) anticipate no change in workloads, up from 43% in Q2.
- The proportion of firms with positive expectations for **commercial** sector workloads fell from 15% to 10% in Q3, whilst those with a negative outlook also declined, from 38% to 36%. The resulting net balance of -26 was a deterioration of 3 percentage points on the previous quarter's figure.

<i>Weighted % balances</i>								
Expected Workload	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
Public new build	-46	-40	-29	-28	-41	-32	-35	-33
Public R&M	-45	-38	-39	-38	-41	-29	-37	-27
Industrial	-36	-35	-28	-25	-39	-25	-35	-29
Commercial	-33	-29	-20	-24	-38	-14	-23	-26
Private R&M	-36	-25	-15	-26	-43	-23	-32	-25
Total Non-Residential	-38	-33	-25	-28	-41	-24	-32	-28
Enquiries								
Public new build	-58	-44	-17	-39	-39	-32	-30	-33
Public R&M	-65	-37	-36	-37	-44	-31	-40	-33
Industrial	-42	-42	-25	-37	-43	-41	-39	-37
Commercial	-30	-29	-19	-36	-33	-19	-30	-27
Private R&M	-47	-27	-15	-37	-35	-22	-37	-27
Total Non-Residential	-47	-35	-22	-37	-38	-28	-35	-31

## Prices and costs

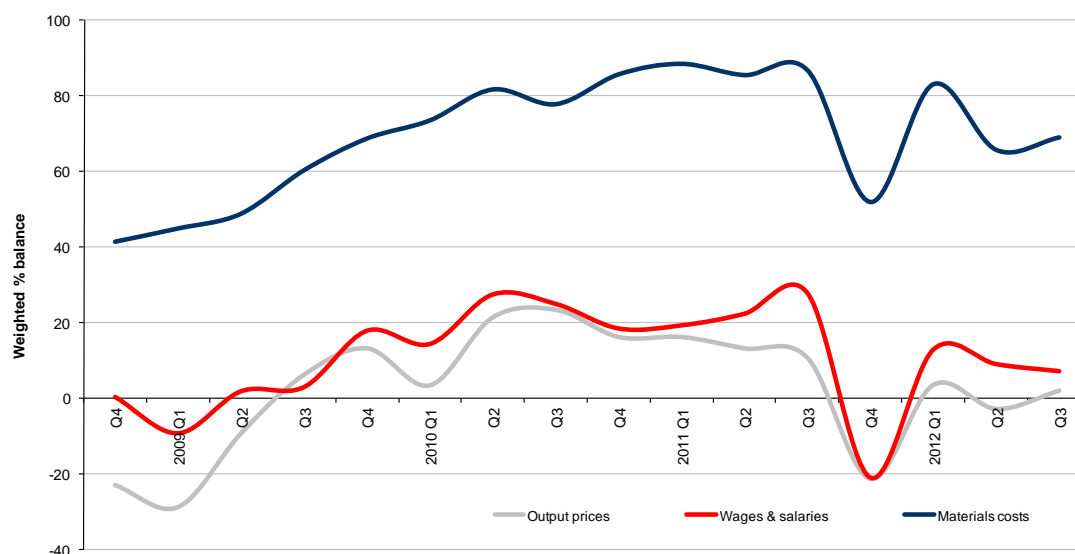
<i>Weighted % balances</i>								
Expected	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
Output prices	+16	+16	+13	+11	-21	+4	-3	+2
Wages & salaries	+18	+19	+22	+28	-21	+13	+9	+7
Materials costs	+86	+88	+86	+87	+52	+83	+66	+69

In Q3 2012, the net balance for expected output prices was marginally positive at +2, after turning negative in Q2. The proportion of firms indicating that they expect to increase output prices over the coming six months rose from 18% to 20%, whilst those anticipating a reduction edged down from 21% to 18%.

The net balance for expected wages & salaries remained positive, although it edged down by 2 percentage points to +7. Around 14% of respondents anticipate increasing wages & salaries in the six months to March, down from 17% three months ago, but the proportion of firms expecting them to remain unchanged increased from 74% to 79%.

In contrast, the net balance for materials costs remained strongly positive at +69, an increase of 3 percentage points on the previous quarter. Just 1% of firms expect materials costs to decline over the next six months, marginally down from 2% three months ago, and the vast majority (70%) anticipate a rise in materials costs, up from 68%.

Prices & costs weighted % balance chart



## Employment and labour

	Weighted % balance							
Employment	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
All builders	-14	-24	-16	-14	-22	-24	-23	-10
All specialists	-15	-17	-11	-5	+8	-5	-13	-2
Total	-14	-21	-15	-7	-15	-20	-21	-8

Expected employment	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
All builders	-21	-10	-14	-10	-27	-17	-20	-24
All specialists	-1	+1	-5	-16	-4	-16	-2	-19
Total	-17	-7	-12	-11	-22	-17	-16	-23

The net balance for employment improved by 13 percentage points in the three months to September 2012, although it was still negative at -8 as staffing levels declined on balance. Nevertheless, this was the least negative net balance for a year. Around 18% of firms indicated that staffing levels had increased during the quarter, up from 16% three months ago. However, the biggest shift was to no change, reported by more than half (55%) of firms, a substantial increase from 47% in Q2.

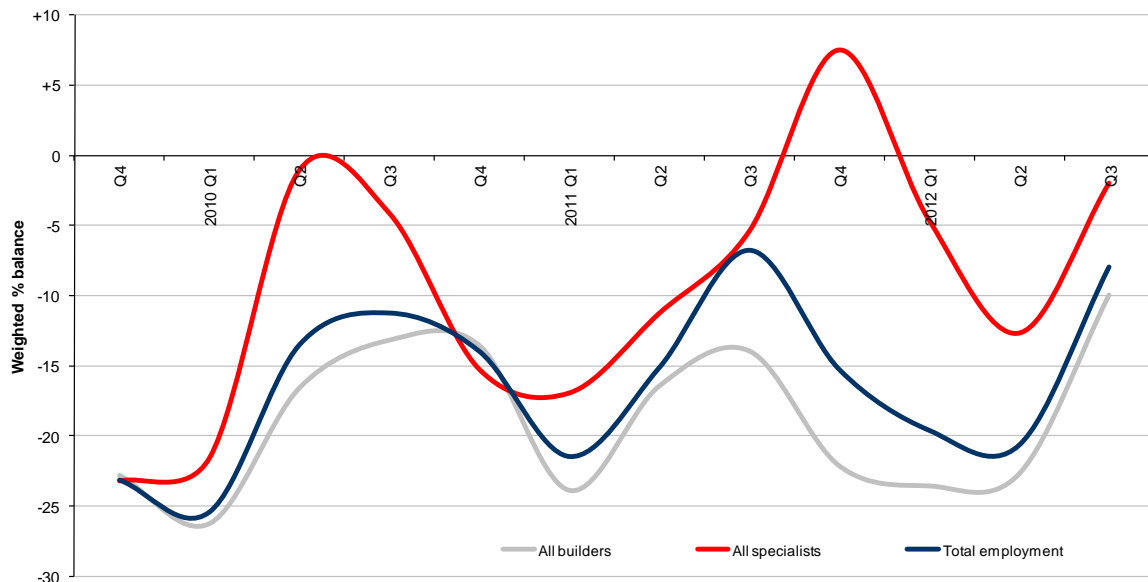
In Q3 2012, the net balance for employment among general builders improved by 13 percentage points to -10, its least negative reading since Q1 2008. Around 17% of firms indicated that they had increased staffing levels during the quarter, up from 14% three months ago, whilst the proportion of firms reporting reduced employment dropped from 37% to 27%. Although the proportion of specialist builders indicating higher employment levels fell from 25% in Q2 to 22% in Q1, those reporting a decline in employment fell markedly from 38% to 24%. The resulting net balance of -2 was an improvement of 11 percentage points on the previous quarter and took it to its least negative since Q2 2010.

Despite this improvement in the net balance for Q3, expectations for employment deteriorated during the quarter as the net balance fell to -23, the most negative reading since Q1 2009. Just 9% of firms anticipate increasing their staffing levels over the coming six months, down from 14% three months ago, whilst those with negative expectations edged up from 30% to 32%. Nevertheless, 59% of respondent expect no change in employment.

The outlook for employment among both specialist and general builders deteriorated in the three months to September 2012, although the outlook weakened more strongly among specialists. The net balance for expected employment among specialist builders deteriorated by 17 percentage

point to -19 as just 2% of firms anticipate increasing staffing levels over the next six months. This compared to 16% three months ago. However, more than three-quarters (76%) expect no change in employment, up from 66% in Q2. For general builders, the proportion of firms anticipating unchanged employment levels over the next six months fell from 13% to 10%, whilst those with a negative outlook edged up from 33% to 34%. The resulting net balance of -24 was a deterioration of 4 percentage points on the previous quarter's figure.

**Employment weighted % balance chart**



Firms reported shortages across a number of occupations in Q3 2012, including supervisors, site managers and plumbers & HVAC trades.

## Regional perspective

In Q3 2012, there were improvements in eight of the twelve regions and devolved nations although net balances continued to be negative across the board. Net balances deteriorated in Scotland, the South East, Northern Ireland and London during the quarter. The North West and West Midlands both saw a thirteen point improvement in their net balances, although they were still negative at -8 and -9, respectively. Nevertheless, this was the least negative net balance since Q2 2010 for the North West and since Q3 2007 in the West Midlands. The North East also saw a marked improvement in its net balance, of 11 percentage points, but was still negative at -22.

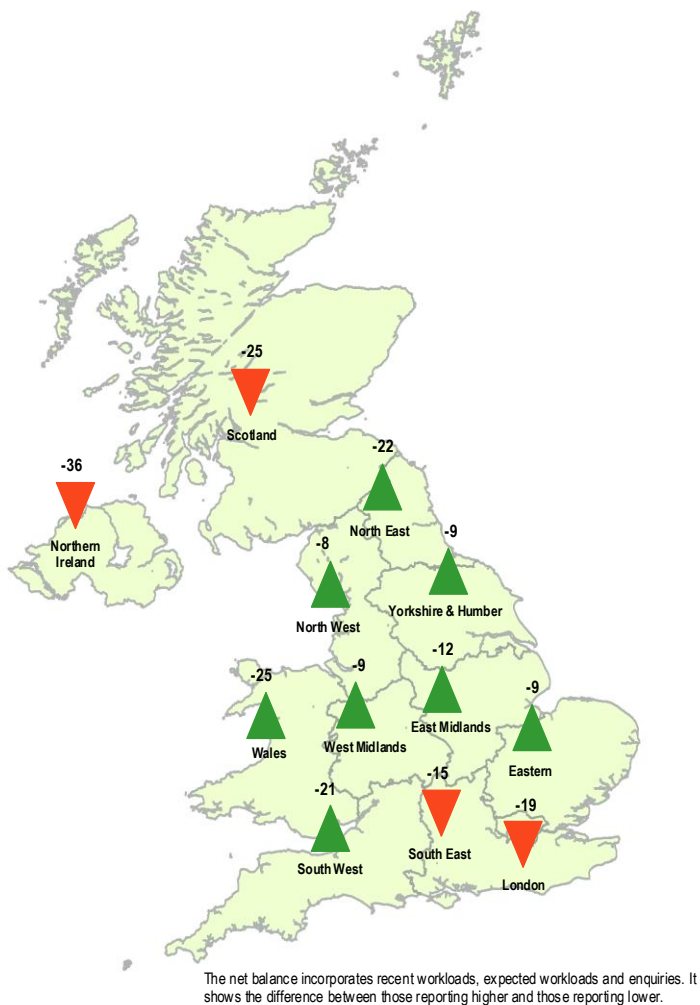
Scotland saw the strongest deterioration in its net balance, of 15 percentage points, which took it to -25. The proportion of weighted responses which were positive more than halved from 27% to 13% in Q3, whilst those which were negative edged up from 36% to 38%. However, 49% of weighted responses were neutral, up from 37% three months ago.

In Q3 2012, the net balance for Northern Ireland also deteriorated, by 6 percentage points, following a strong improvement in Q2. The net balance of -37 reflected negative sentiment from more than half (52%) of weighted responses whilst 15% were positive. This compared with figures of 11% and 42% in the previous quarter. One-third of weighted responses were neutral.

The net balance for Wales improved by a marginal 1 percentage point in the three months to September, but continued to be negative at -25. The proportion of weighted responses which were neutral rose to 41%, from 37%, whilst those which were positive edged down from 19% to 17%. Around 42% of weighted responses were negative, slightly lower than the 45% three months ago.

One-fifth of weighted responses for England were positive and 35% were negative, compared with 21% and 39%, respectively, three months ago. The resulting net balance of -15 was an

improvement of 4 percentage points on the previous quarter's balance. Around 45% of weighted responses were neutral.



Regional figures are based on a composite indicator combining workload, expected workload and enquiries questions, weighted by firm's size. The net balance shows the difference between those saying higher and those saying lower for the three questions.

	<i>Weighted % balance</i>							
	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
East Midlands	-17	-30	-30	-6	-13	-15	-12	-8
Eastern	-12	-0	+4	+6	-14	-26	-13	-9
London	-8	-12	-26	-10	-24	-21	-14	-19
North East	-28	-13	-29	-45	-49	-37	-33	-22
North West	-50	-32	-25	-16	-41	-15	-21	-8
South East	-12	-8	-1	-20	-27	-7	-9	-15
South West	-28	-22	-19	-27	-39	-22	-30	-21
West Midlands	-47	-51	-24	-47	-42	-25	-22	-9
Yorks & Humber	-16	-20	-8	-30	-23	-19	-12	-9

	<i>Weighted % balance</i>							
	2010 Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
England	-24	-19	-18	-25	-33	-20	-19	-15
Northern Ireland	-52	-37	-35	-30	-42	-51	-31	-37
Scotland	-51	-31	-23	-29	-34	-13	-9	-25
UK	-29	-22	-18	-24	-33	-20	-19	-17
Wales	-23	-20	-6	-11	-28	-17	-26	-25



### About the Federation of Master Builders and the State of Trade Survey

For more than 20 years the FMB State of Trade Survey has monitored key indicators and predicted future short-term developments in the UK construction industry and is the only survey of its kind to focus exclusively on SMEs throughout the construction industry. The survey is dispatched to a rolling stratified sample of 2,000 FMB Members each quarter. Over 400 responses are received and these are weighted according to turnover.

The typical firm responding is either a general builder or building contractor directly employing 9 people, and turning over between £100,000 and £249,999 per annum.

Results are generally reported as percentage balances, as results from qualitative surveys traditionally are. This is the difference between the percentage of respondents stating 'higher' and those replying 'lower' to questions. The magnitude of the balance does not indicate the scale of the change. Instead, the larger the balance, the greater the number of respondents stating either 'higher' or 'lower'.

The Federation of Master Builders (FMB) is the largest trade association in the UK building industry, representing more than 10,000 building companies. Established in 1941 to protect the interests of small and medium-sized building firms, the FMB is independent and non-profit-making, lobbying continuously 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 and check a builder websites.

For more information about the FMB please visit: [www.fmb.org.uk](http://www.fmb.org.uk)

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