

Federation of Master Builders

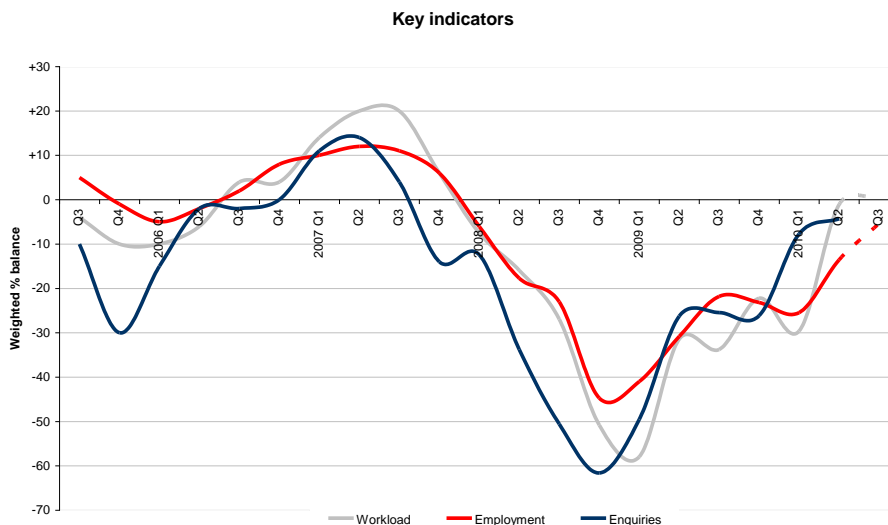
State of Trade Survey Q2 2010



Summary

In the second quarter of 2010, there were some encouraging signs from the FMB survey. Although workloads declined for the 10th consecutive quarter, the proportion of firms reporting higher workloads overall increased from 19% in Q1 to 32% in the second quarter. The outlook for the coming quarter is also more heartening with the same proportion of respondents (28%) reporting positive sentiment as negative. Employment prospects have also shown some improvement with a larger majority of respondents (60%) anticipating no change in staffing levels during the second half of the year.

- ✧ **Workloads continue to decline:** the proportion of respondents reporting higher workloads in the private housing RM&I sector rose from 22% in the first quarter of the year to 29% in the second and the proportion indicating lower workloads fell from 47% to 31%. This suggests that consumer confidence may be improving and households looking to undertake some RM&I work delayed by concerns over the recession.
- ✧ **Prospects improve:** the outlook improved across the majority of sectors, with a slightly higher proportion of firms (25%) anticipating higher workloads in the private housing RM&I sector than a decline (23%) over the next three months.
- ✧ **Commercial sector enquiries see some uptick:** around 24% of respondents reported higher levels of enquiries in the commercial sector in the second quarter of the year, up from 16% in the first quarter, suggesting that the prospects for the sector may be improving. In contrast, just 9% of firms indicated that enquiries for public R&M work had increased – a significant drop from the 21% three months ago. This is hardly surprising considering that this may be one of the areas to see declining government spending.
- ✧ **Employment outlook less downbeat:** the majority of firms (60%) anticipate no changes in staffing levels over the coming six months, an increase in the 56% saying the same three months ago, suggesting that the majority of firms expect no further significant deterioration in conditions in the construction industry.



Please note: Q3 2010 reflects respondent's expectations for workload and employment.

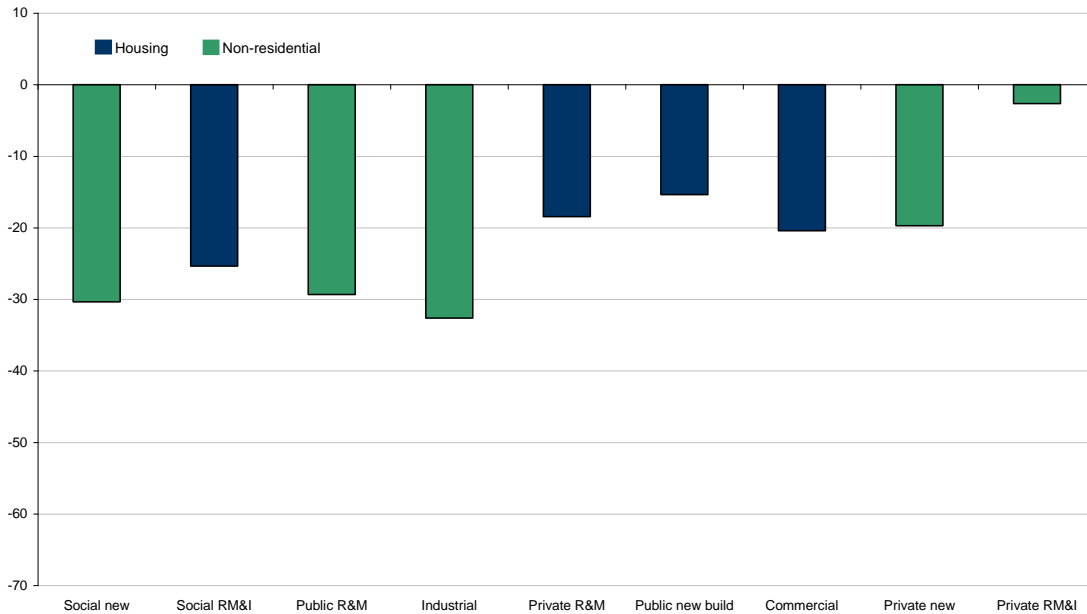
Workload

In the second quarter of 2010, workload net balances were again negative across all sectors. However, with the exception of the social housing new build sector, there were improvements in net balances for the remaining sectors. A 1-point decline took the social housing new build sector's net balance to -30, reflecting positive sentiment from just 5% of respondents. The private housing RM&I sector saw the strongest improvement, with the net balance rising 22 points to -3, with 29% of respondents indicating higher workloads. The industrial sector continued to have the most negative net balance at -33, although this was an improvement on last quarter's figure.

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.

Respondents are asked a number of questions about workloads, both about total workload and individual sectors. The responses to both of these questions are weighted by company turnover. As the survey is qualitative in nature, a problem may arise where the sum of the parts do not equal the whole. For example, Firm A may work in 4 sectors; they tick "higher" for total workload, but for the sectors one may be "higher" (private housing new build) but 3 may be "lower". The overall perception of what is going on is correct, because the private housing new build sector may account for over 50% of turnover, and thus will have a larger impact on total workloads. Therefore, both sets of data are correct. The differences between net balances for total workload shown in the Key Indicators graph on page 1, and the sectoral balances shown in the Total Workload by Sector chart below, are not usually as pronounced as they are this time around, and this may indicate that a turning point may have been reached in terms of declining output.

Total workload by sector - Q2 2010

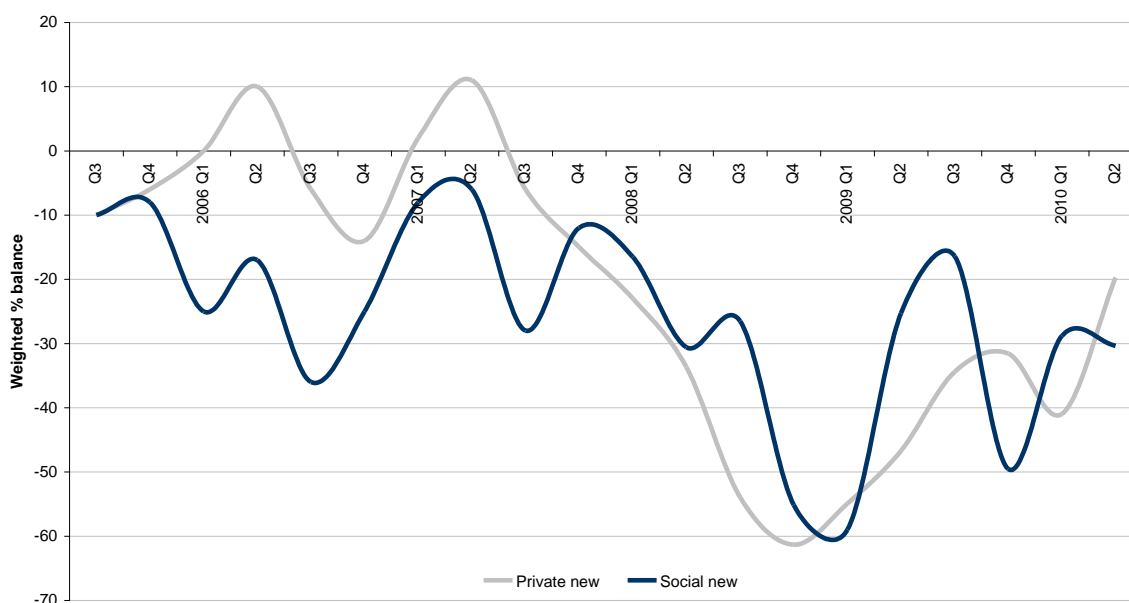


Residential workload

Workload	<i>Weighted % balances</i>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
Private new	-54	-61	-55	-47	-34	-32	-41	-20
Private RM&I	-32	-41	-42	-25	-17	-23	-25	-3
Social new	-27	-55	-59	-25	-16	-50	-29	-30
Social RM&I	-22	-38	-39	-40	-37	-38	-29	-25
Total Residential	-36	-47	-34	-42	-41	-40	-31	-16

- The net balance for the **private housing RM&I** sector rose by 22 points, but still remained negative at -3, signalling that workloads continued to decline. However, the net balance was the least negative since it fell below zero in the first quarter of 2008. The net balance reflected positive sentiment from around 29% of respondents, whilst 31% indicated that workloads fell.
- The **private housing** sector also saw a strong improvement in its net balance whilst still remaining in negative territory at -20. Around 17% of firms reported higher workloads compared with the first quarter of the year, whilst just less than half (46%) indicated that levels of work were unchanged. The private housing net balance has now been negative in each quarter since Q3 2007.
- More than half of respondents (52%) reported no change in workloads in the **social housing RM&I** sector in the three months to June 2010, an increase from the 42% three months ago. The net balance edged up by 4 points to -25, but continued to indicate declining workloads overall.
- The **social new housing** sector was the only one across both residential and non-residential sectors to see a decline in its net balance, which declined by 1 point to -30. Higher workloads were reported by just 5% of firms in the three months to June compared with 11% in the previous quarter. Around 60% of respondents indicated no change in workloads in the second quarter of the year compared with just 48% in the three months to March. The net balance for the social new housing sector has only been positive in 2 quarters since Q1 1999 (the earliest available data).

Residential historical weighted % balance - new build



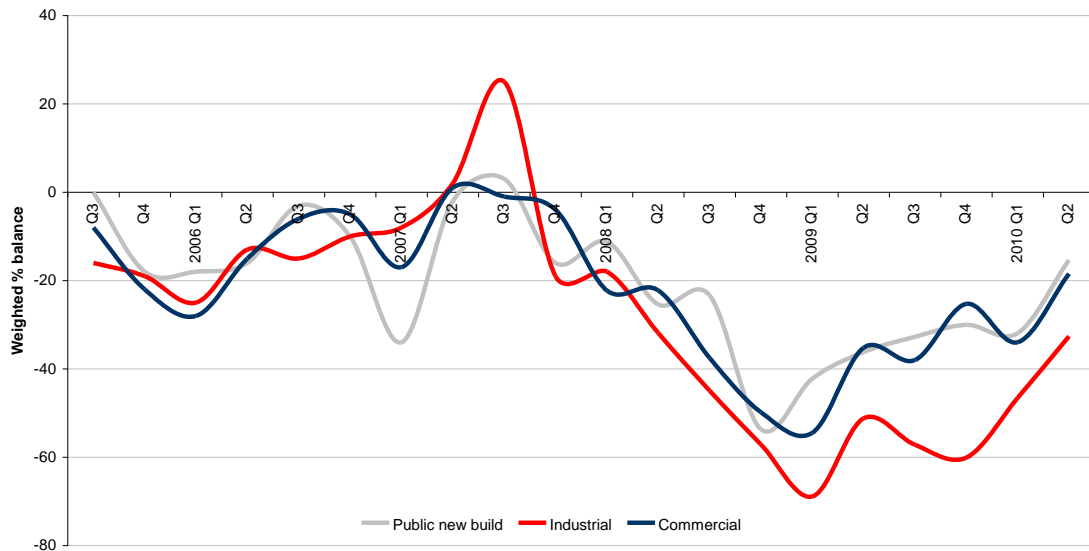
Non-residential workload

Workload	<i>Weighted % balances</i>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
Public new build	-23	-54	-42	-36	-33	-30	-32	-15
Public R&M	-37	-53	-47	-53	-43	-14	-38	-29
Industrial	-45	-57	-69	-51	-57	-60	-47	-33
Commercial	-24	-55	-58	-38	-45	-43	-37	-20
Private R&M	-38	-50	-54	-35	-38	-25	-34	-18
Total Non-Residential	-33	-54	-42	-34	-33	-32	-37	-23

- The **commercial** sector saw a marked improvement in its net balance which rose 17 points to -20, although this still signalled an overall fall in workloads. Around 17% of firms indicated that workloads in the sector had risen, an increase from the 13% in the previous quarter.

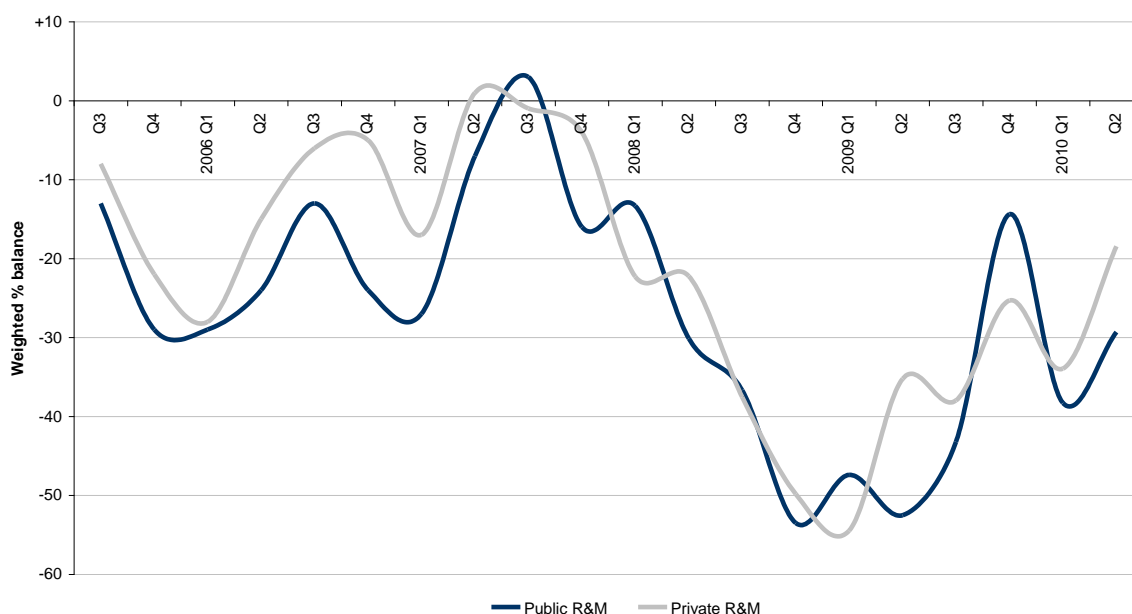
- The net balance for the **public new build** sector also increased by 17 points to reach -15, the least negative since the first quarter of 2008. This reflected positive sentiment from one-fifth of respondents compared with 38% who reported that levels of work had fallen.
- Workloads continued to fall in the **industrial** sector, although the net balance rose by 14 points to -33, the least negative figure since the second quarter of 2008. However, it remained the most negative of all the residential and non-residential sectors. Around 10% of respondents reported higher workloads in the sector, whilst 43% indicated a fall.

Non-residential historical weighted % balance chart - new work



- The **private R&M** sector saw its net balance rise by 16 points to -18 in the second quarter of the year, following a marked drop in the previous quarter, but workloads continued to fall overall in the sector. Higher workloads were reported by 18% of respondents, but 45% indicated that levels of work remained unchanged in the three months to June.
- The proportion of firms reporting higher workloads in the **public R&M** sector remained unchanged at 13% in the three months to June, although those reporting a fall in levels of work declined from 51% in the first quarter of the year to 42%. The resulting net balance of -29 was an increase of 9 percentage points on the previous quarter, but continued to signal declining workloads overall.

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



Expected workload and enquiries

Following improvements in workload balances in the majority of sectors in the three months to June 2010, expectations for the coming three months are less pessimistic across the board, with the exception of the public R&M sector. The net balance for expected workloads rose 3 percentage points to 0, indicating that firms expect no change in workloads overall in the third quarter of the year. It was the first time the expected workload balance had not been negative since the third quarter of 2007. Around 43% of respondents anticipated no change in workloads, whilst a positive outlook was reported by 28% of firms. This proportion was the same for those with negative sentiment for the coming three months.

The net balance for enquiries also improved, rising 4 points to -4, the least negative reading since the third quarter of 2007, but still indicated falling levels of enquiries. Around 34% of respondents reported higher levels of enquiries compared with the first quarter of the year, but 38% indicated that levels of enquiries had fallen.

Residential expected workload and enquiries

The private housing RM&I sector is expected to continue fare well over the coming three months, and posted a positive net balance, the only sector to do so across all the residential and non-residential ones. Firms anticipate that workloads will again decline in the remaining residential sectors over the next three months. This survey was run before the emergency Budget on 22nd June, and thus does not include respondents' views on the VAT increase in January 2011. The immediate impact that this increase will have on RM&I work is not clear cut, but it may serve to boost demand during the second half of this year as consumers bring forward planned expenditure to avoid paying the extra VAT.

- In the second quarter of the year, the **private housing RM&I** sector recorded a positive net balance for expected workloads for the first time since the third quarter of 2007. At +2, the net balance was 11 points higher than in the previous quarter. One-quarter of respondents anticipated higher levels of work in the sector compared with 23% expressing negative sentiment. However, the majority of firms (52%) expected no change in workloads in the sector.
- The net balance for the **social RM&I** sector rose by 7 percentage points to -12 in the second quarter of the year. Around 15% of respondents reported a positive outlook, but 58% anticipated no change in levels of work in the sector.

- Workloads in the **social new housing** sector are expected to keep declining over the coming quarter, highlighted by a net balance of -20. However, this was 4 points higher than in the previous quarter as 10% of firms indicated an optimistic outlook, but the majority of respondents (61%) anticipated no change in workloads over the coming three months. This was an increase from the 54% in the first quarter of the year. The continued pessimistic outlook for the sector is slightly surprising given that allocations have been made under the Homes and Communities Agency's (HCA) Kickstart Housing Delivery programme, and work has started on a number of sites. The deadline is for work on the first round projects to be completed by March 2011. However, this may be explained by the fact that the Kickstart programme is for mothballed developments, which when they resume are likely to do so with the same contractors as prior to the halt, and the funding is allocated to developers rather than SMEs or contractors directly.
- The proportion of respondents anticipating no change in levels of work in the **private new build housing** sector increased markedly between the first and second quarters of the year. In the three months to March, the figure was 37%, but it had increased to 53% by the three months to June. Around 21% of firms expected workloads in the sector to rise over the three months to September.

Expected Workload	<i>Weighted % balances</i>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
Private new	-57	-54	-53	-25	-18	-13	-8	-5
Private RM&I	-36	-52	-46	-17	-20	-24	-9	2
Social new	-47	-61	-25	-25	-30	-48	-24	-20
Social RM&I	-43	-63	-42	-28	-35	-32	-19	-12
Total Residential	-45	-56	-44	-23	-26	-30	-13	-6
Enquiries								
Private new	-65	-66	-64	-40	-31	-30	-13	-23
Private RM&I	-51	-65	-46	-31	-23	-22	-21	-12
Social new	-53	-65	-50	-44	-31	-39	-23	-28
Social RM&I	-50	-71	-52	-49	-43	-32	-29	-25
Total Residential	-55	-67	-53	-39	-40	-32	-21	-20

Non-residential expected workload and enquiries

Of the residential and non-residential sector, the public R&M sector was the only one to see a fall in its net balance for expected workloads, although it was only a slight decline. There was no change in the net balance for the private R&M sector, but the remaining three sectors saw improvements. However, workloads are expected to continue to decline across all the non-residential sectors over the coming three months.

- The **industrial** sector saw the strongest improvement in its net balance, which rose by 12 points to -17. Around 13% of respondents expressed positive sentiment, but the majority (58%) anticipated no change in activity. This was an increase from the 46% three months ago and is part of a recent trend in the sector of a shift in sentiment towards an expected stabilisation in workloads rather than a positive outlook.
- There was similar trend in the **public new build** sector with the sentiment regarding expected workloads shifting away from negative towards neutral. Around 54% of respondents anticipated no change in workloads, compared with a figure of 47% three months ago, and 16% expected levels of work to rise. The net balance rose by 7 points to -15, signalling that workloads in the sector are still expected to fall overall over the coming quarter.
- The net balance for the **commercial** sector was -15 in the second quarter of the year, an increase of 3 percentage points on the previous quarter. This still showed an overall pessimistic outlook from respondents, as almost twice as many (31%) expected lower workloads as anticipated an increase (16%).
- In the **private R&M** sector, the expected workload net balance remained unchanged at -16 in the second quarter of the year. However, there was a shift from both positive and negative sentiment towards neutral. The proportion of firms anticipating no change in workloads over the coming quarter increased from 47% in the first quarter of the year to 56% in the second.

- The **public R&M** sector's net balance for expected workloads was the only one to see a decline, although only by 1 percentage point to -21. The percentage of respondents anticipating an increase in work in the sector over the coming three months fell slightly from 13% in the three months to March to 11% in the three months to June. However, the majority (57%) continue to expect no change in levels of work.

Expected Workload	<i>Weighted % balances</i>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
Public new build	-40	-53	-37	-14	-31	-28	-22	-15
Public R&M	-37	-67	-46	-19	-39	-26	-20	-21
Industrial	-44	-64	-58	-26	-45	-36	-29	-17
Commercial	-42	-61	-43	-20	-35	-28	-18	-15
Private R&M	-44	-71	-48	-18	-31	-20	-16	-16
Total Non-Residential	-41	-64	-46	-19	-37	-28	-20	-17
Enquiries								
Public new build	-49	-55	-44	-41	-46	-41	-18	-21
Public R&M	-51	-65	-54	-39	-39	-26	-17	-34
Industrial	-54	-61	-65	-49	-44	-49	-29	-29
Commercial	-55	-64	-58	-39	-35	-35	-23	-13
Private R&M	-56	-64	-55	-38	-38	-27	-22	-18
Total Non-Residential	-53	-62	-55	-41	-40	-35	-22	-22

Materials

Reports remained mixed regarding the supply of materials in the second quarter of the year. There continued to be reports of some merchants keeping low levels of stock in due to weak demand, thus delivery times were longer, whilst other firms indicated that this lack of demand had reduced delivery times. Those firms that indicated some delays in delivery reported shorter delays of between 2 weeks and 2 months.

There were shorter delays reported for a range of materials, including bricks/blocks, steel and timber.

Employment and labour

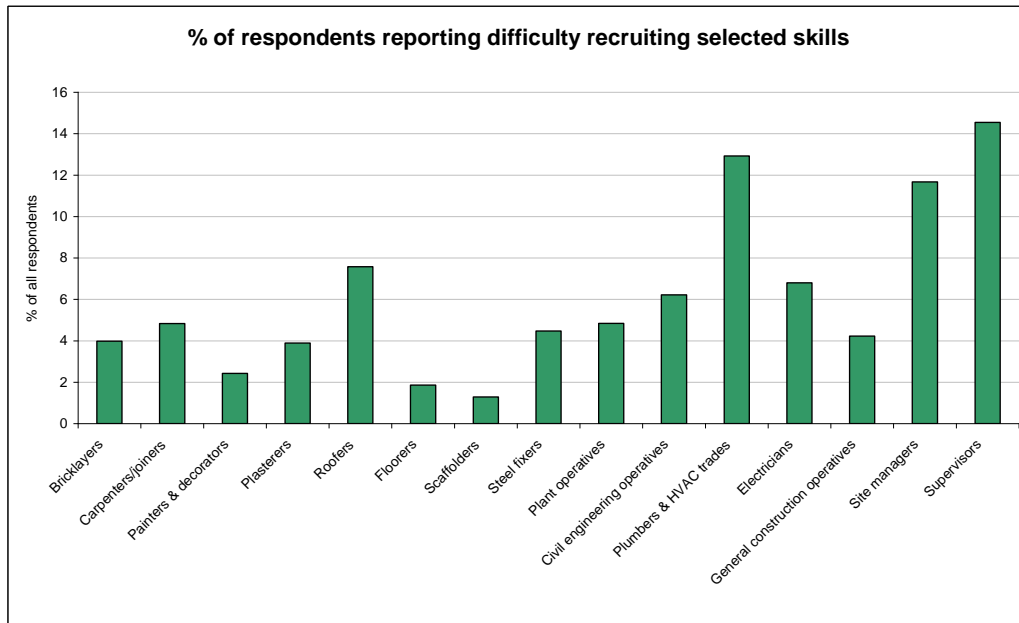
Employment levels across the industry continued to decline in the second quarter of the year. However, the net balance for employment rose by 11 points to -14, the least negative since the first quarter of 2008. Although the majority of firms (54%) indicated that staffing levels had remained unchanged during the quarter, the proportion saying that they had increased employment rose from 14% in the first quarter of the year to 16% in the second.

The outlook for employment remains negative, with a net balance of -5, slightly more negative than the previous quarter's reading of -2. However, whilst the percentage of respondents anticipating reducing staffing levels remained unchanged from the previous quarter at 23%, those anticipating increasing employment levels fell from 21% in the three months to March to 17% in the three months to June.

The net balances for employment for both specialist and general builders remained negative in the second quarter of the year. However, the net balance for specialist builders was significantly less negative at -1 than that for general builders at -17. This was an increase of 21 percentage points for specialist builders, reflecting a significant shift from those saying they had reduced employment to no change; in the first quarter of the year, 41% of specialist firms indicated that they had reduced staffing levels, whilst this figure was just 21% in the three months to June. The net balance of -17 for general builders reflected 15% of respondents reporting higher staffing levels compared with 32% indicating a reduction in employment. Employment among specialist builders is expected to remain unchanged over the coming six months, as 24% of firms have a positive outlook for employment and the same proportion have a negative outlook. The net balance for expected employment amongst general builders fell 4 percentage points to -7, although the majority of firms (63%) anticipated no changes in employment over the next six months.

	Weighted % balance							
Employment	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
All builders	-22	-41	-41	-34	-24	-23	-26	-17
All specialists	-27	-58	-41	-17	-10	-23	-22	-1
Total	-23	-44	-41	-31	-22	-23	-25	-14
Expected employment	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
All builders	-38	-45	-33	-19	-17	-6	-3	-7
All specialists	-6	-43	-34	-4	-4	-22	+4	+0
Total	-32	-44	-33	-16	-15	-15	-2	-5

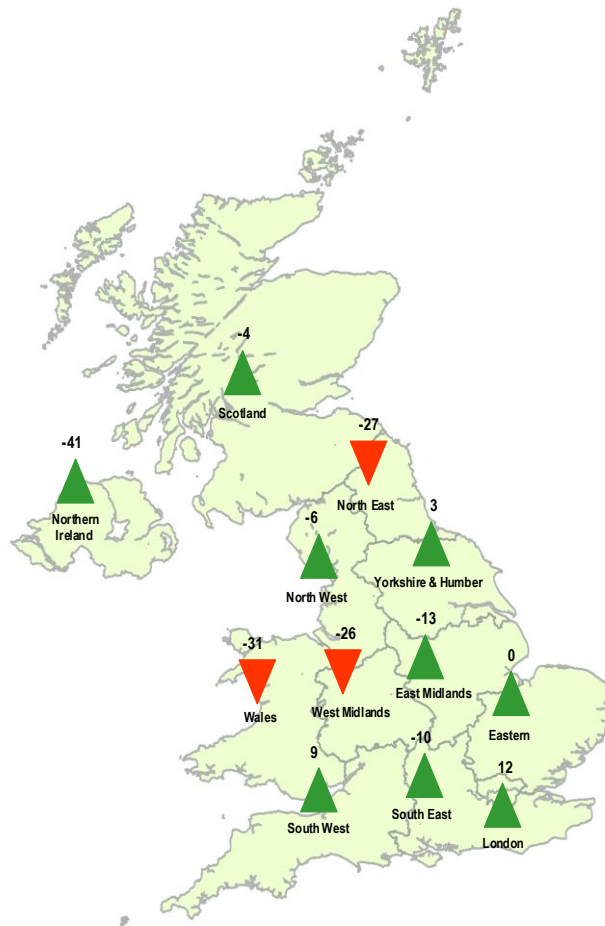
Some firms continued to report skill shortages across some trades, even as levels of employment and output remain in decline across the industry. There were difficulties reported recruiting supervisors, plumbers & HVAC trades and site managers.



Regional perspective

Net balances were negative across 8 of the 12 regions and nations in the second quarter of 2010, with London, Yorkshire & Humber and the South West recording positive net balances. The net balance for the Eastern region was 0. Scotland saw the strongest improvement in its net balance, but still remained negative, followed by the South West which saw its net balance jump 21 points to +9, the first positive reading since the first quarter of 2008.

Northern Ireland's net balance remained the most negative at -41, but this was an improvement of 10 percentage points on the previous quarter's figure. This reflected negative sentiment from 49% of weighted responses, down from 62% in the first quarter of the year, but still higher than the UK figure of 34%. Following a strong improvement in the three months to March, the net balance for Wales plummeted by 25 percentage points to -31, as 46% of weighted responses were negative. This was higher than the UK figure and a marked increase from the 34% in the previous quarter. The weighted net balance for Scotland jumped 35 points to -4, with more than double the proportion of weighted responses expressing positive sentiment this quarter (28%) than in the first quarter of the year (13%). Around 27% of weighted responses for England were positive, an increase from 23% from three months ago, whilst 32% of weighted responses expressed negative sentiment. The resulting net balance of -6 was 10 percentage points better than in the first quarter of the year.



The net balance incorporates recent workloads, expected workloads and enquiries. It shows the difference between those reporting higher and those reporting lower.

Regional figures are based on a composite indicator combining workload, expected workload and enquiries question, 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>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
East Midlands	-59	-72	-55	-14	-36	-58	-14	-13
Eastern	-61	-28	-43	-9	-14	+6	-4	-0
London	-1	-54	-48	+3	-29	+5	-1	+12
North East	-23	-50	-55	-24	-14	+5	-24	-27
North West	-70	-68	-53	-38	-9	+6	-15	-6
South East	-26	-40	-53	-44	-13	-0	-28	-10
South West	-48	-57	-60	-19	-22	-39	-12	+9
West Midlands	-32	-52	-43	-15	-28	-64	-22	-26
Yorks & Humber	-27	-58	-42	-33	-19	-6	-14	+3

	<i>Weighted % balance</i>							
	2008 Q3	Q4	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2
England	-40	-54	-50	-35	-24	-26	-16	-6
Northern Ireland	-43	-80	-68	-31	-64	-65	-51	-41
Scotland	-32	-33	-52	-38	-37	-19	-39	-4
UK	-38	-52	-48	-23	-25	-24	-19	-9
Wales	-24	-75	-30	-24	-25	-41	-6	-31



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. The survey is dispatched to a rolling stratified sample of 2,000 FMB Members each quarter. Between 300 and 400 responses are received and these are weighted according to turnover.

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 Survey results are an important source of information, not only for firms and individuals directly involved in the industry, but also for ministers, civil servants, parliamentarians and journalists.

The FMB is a trade association established over 60 years ago to protect the interests of small and medium-sized building firms – today it is the largest trade association in the UK building industry. It 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. It is independent and non-profit-making, lobbying continuously for members' interests at both national and local levels.

For more information about the FMB State of Trade Survey please contact Peter O'Connell, at the Federation of Master Builders, Gordon Fisher House, 14/15 Great James Street, London WC1N 3DP. Telephone 0870 162 0937 E-mail peteroconnell@fmb.org.uk