

**Monday 5 November 2018**

## Cost Pressures Cast a Shadow over Construction

The construction industry experienced modest growth in the third quarter of 2018, following a weather-related boost to activity in Q2, according to a quarterly survey of product manufacturers, contractors, civil engineers and SME builders by the Construction Products Association.

The Construction Products Association's Construction Trade Survey for 2018 Q3 shows that during the quarter, 27% of product manufacturers, 25% of main contractors, 16% of SME builders and 10% of civil engineering firms reported an increase in activity. Output was reported lower for one-third of specialist contractors, however. The new orders and enquiries logged in Q3 indicate that the drivers of growth in the next 12 months will be restricted to private housing, repair and maintenance, and infrastructure, whilst further rises in costs have been reducing profit margins for main contractors and specialist contractors since the beginning of 2017. On balance, 80% of main contractors reported a rise in materials and labour costs, 90% of product manufacturers reported an increase in fuel costs and cost rises for civil engineering contractors reached a three-year high.

Commenting on the survey, Rebecca Larkin, Senior Economist at the CPA, said: "The industry looks to have maintained some of the momentum from its catch-up in the second quarter. However, beneath the top-level growth rate, firms throughout the supply chain are grappling with a narrowing base of activity led by private housing and infrastructure work and rising costs for labour, raw materials and fuel. This triple threat for input costs is placing a clear strain on contractors' profit margins, worsening confidence in an already-heightened environment of risk aversion."

Richard Beresford, chief executive of the National Federation of Builders (NFB), said: "The latest trade survey indicates a general increase in construction output, workloads and enquiries for SME contractors throughout the third quarter of 2018. This trend reflects the effect of the unseasonably warm weather in lifting up overall industry performance. The fall in profit margin for 7% of main contractors and 33% of specialist contractors is rather worrying because it is less than one year since the collapse of Carillion. With the economy facing further uncertainty in future months with the UK's departure from the EU in March 2019, contractors operating with falling profit margins are a reason for concern."

Commenting, CECA Director of External Affairs Marie-Claude Hemming said: "We welcome the fact that the infrastructure sector has enjoyed a second quarter in a row of growth, but there are some concerns as to poor growth in future orders. Given the substantial pipeline of work that exists, we would expect that order books would be rising at a greater rate than they have done in the last six months. It may be that clients are wary of investing given the uncertainty surrounding the effects on the economy of the UK leaving the European Union in 2019, and the inability of businesses to plan adequately for the future, given the failure of Brexit negotiations to progress beyond their current impasse."

Key survey findings include:

- On balance, 25% of main building contractors reported that construction output rose in the third quarter of 2018 compared with a year ago
- 10% of civil engineers, on balance, reported an increase in workloads during Q3
- On balance, 16% of SME contractors reported increased workloads in Q3 compared to three months earlier
- Main contractors reported that order books were higher in private new housing, and the housing and non-housing R&M sectors
- 15% of civil engineering firms reported an increase in new orders in Q3, on balance, but new orders fell for 17% of specialist contractors
- 22% of SMEs reported an increase in enquiries in Q3, on balance
- Overall costs increased for 89% of civil engineering contractors, whilst 80% of main contractors reported a rise in costs for labour and materials. Fuel costs rose for 90% of heavy side and light side product manufacturers
- Profit margins fell for 7% of main contractors and one-third of specialist contractors in Q3.

**ENDS**

---

**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 333,000 people across 23,000 companies and has an annual turnover of more than £56.5 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.

**FOR FURTHER INFORMATION CONTACT:**

Rebecca Larkin, CPA Senior Economist

Tel: 020 7323 3770

E-mail: [rebecca.larkin@constructionproducts.org.uk](mailto:rebecca.larkin@constructionproducts.org.uk)

Emma Salmon, CPA Senior Communications Executive

Tel: 020 7323 3770

E-mail: [emma.salmon@constructionproducts.org.uk](mailto:emma.salmon@constructionproducts.org.uk)

Follow the Construction Products Association on Twitter: [twitter.com/CPA\\_Tweets](https://twitter.com/CPA_Tweets)