

State of Trade Survey

October 2017 - £90



Weaker Sales in Q3 and Mixed Picture for Year Ahead

Headlines:

- Only 10% of heavy side firms and 36% of light side firms reported that **sales rose** during the third quarter of 2017, but this was the eighteenth quarter of growth
- 28% of heavy side product manufacturers and 33% of light side product manufacturers reported that they **anticipated sales rising** over the coming year
- **Cost increases** were reported by 90% of construction product manufacturing firms
- Raw materials **drove cost inflation**, according to 85% of heavy side firms and all of light side firms
- **Exports fell** for 11% of heavy side firms, compared to a year earlier, marking the first decline in two years

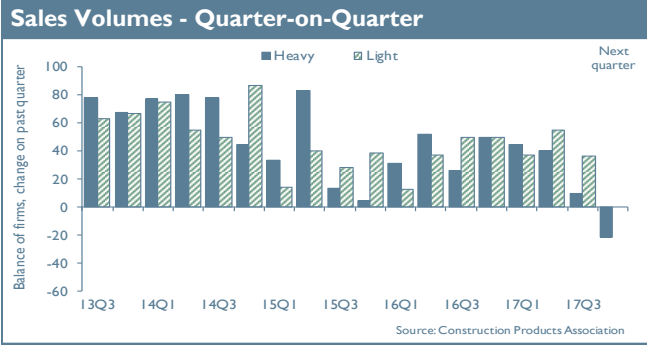
Following slower UK economic growth in the first half of 2017, construction product manufacturers reported the lowest balances for sales growth in two years in Q3. On the heavy side, only 10% of firms reported a quarterly increase in sales, down from 40% in Q2. Similarly, 36% of light side firms reported a rise in sales during the quarter, down from 55% in Q2. Looking ahead, manufacturers' expectations for sales growth over the next quarter and year remained mixed. 21% of heavy side manufacturers anticipated a fall in sales over the next quarter, with a zero balance recorded on the light side. In contrast, manufacturers remained optimistic for the next 12 months, with positive balances reported in Q3.

In Q3, cost pressures remained high, owing to the weak exchange rate and rising global commodity prices. Although the cost balances were lower compared to Q2, they remained among the highest registered in seven years, driven by higher raw material costs. Despite a weak exchange rate, manufacturers painted a mixed picture for export sales in Q3, with the heavy side reporting the first decline since 2015 Q4.

Construction product manufacturers continued to experience growth in sales during the third quarter of 2017. On balance, 10% of heavy side manufacturers and 36% of light side manufacturers reported that sales had increased compared to Q2. This was significantly lower than the balances of 40% and 55% reported by the heavy side and light side firms, respectively in the second quarter and marked the lowest in two years. On an annual basis, 30% of heavy side firms reported that sales had increased in Q3, whilst on the light side, 45% of firms reported that sales were higher than a year earlier. Against a backdrop of ongoing political and economic uncertainties relating to Brexit, forward-looking balances were mixed, with manufacturers expecting a deterioration in the next quarter. On balance, 21% of heavy side manufacturers anticipated a decrease in sales in Q4, which was the first negative balance since 2016 Q2, whilst a zero balance was reported on the light side. However, looking at the next 12 months, manufacturers appeared more optimistic, with 28% of heavy side and 33% of light side firms anticipating a rise in sales, compared to 29% and 30% in Q2.

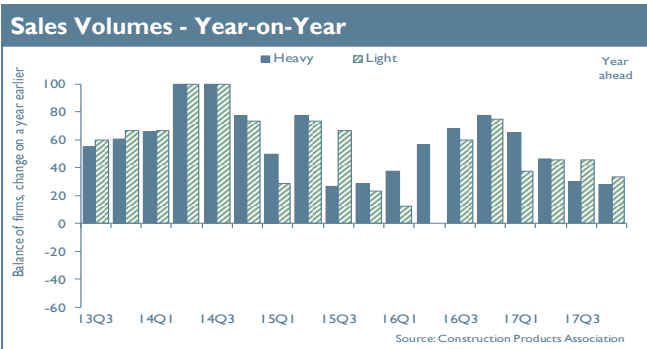
Consistent with widespread business surveys, the Q3 survey continued to indicate high inflationary pressures linked to the past Sterling depreciation and rising global commodity prices. 90% of manufacturers on both the heavy side and light side reported rising costs, which was among the highest for seven years. In Q3, the Sterling depreciated 5.3% against the Euro (in annual terms) to an eight-year low of 1.11. This led to higher costs for imported raw materials and, in Q3, 85% of heavy side firms and 100% of light side firms reported an increase in the cost of raw materials. The light side balance was the joint highest since the series began in 2011 Q1. Furthermore, manufacturers expected overall cost inflation to persist over the coming year, according to 78% of heavy side firms and 67% of light side firms. Despite favourable exchange rate conditions and robust global demand, export sales data revealed a mixed picture. 11% of heavy side firms reported an annual decrease in export sales in Q3, whilst 43% of light side firms reported an increase.

Sales & Constraints



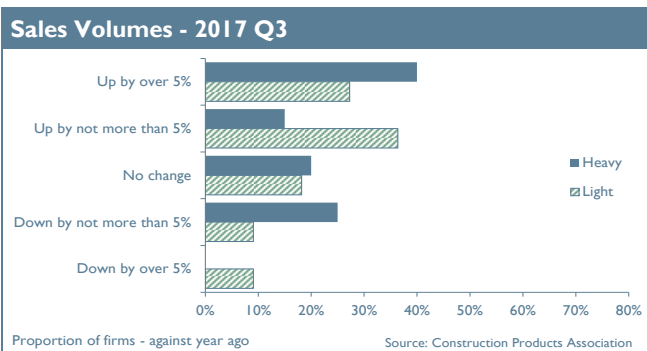
Quarterly sales continued to grow in Q3...

Construction product sales continued to increase in Q3, the eighteenth consecutive quarter of growth since 2013 Q2. In Q3, 10% of heavy side firms, on balance, reported an increase in quarterly sales, down from 40% in Q2 and reaching the lowest balance in two years. On the light side, 36% of firms, on balance, reported a quarterly rise in sales in Q3, down from 55% in Q2. Looking ahead, expectations for growth over the next quarter deteriorated in Q3, with 21% of heavy side firms, on balance, anticipating a fall, with a zero balance recorded on the light side.



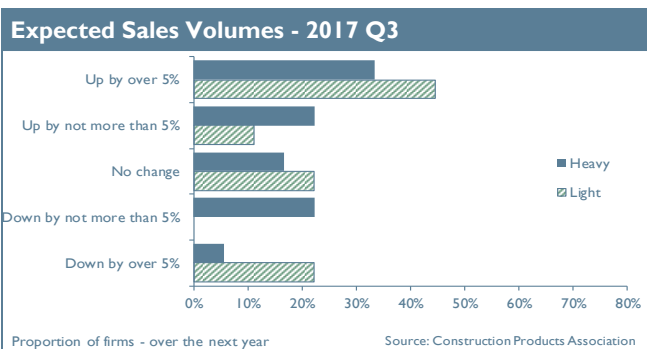
...and sales were also higher than a year ago...

On balance, 30% of heavy side manufacturers and 45% of light side manufacturers reported that sales were higher than a year earlier in Q3. The heavy side balance fell from a balance of 47% in the second quarter, whereas the balance for light side manufacturers remained unchanged from the previous quarter. Looking ahead, 28% of heavy side manufacturers and 33% of light side manufacturers anticipated an increase in sales in the next 12 months.



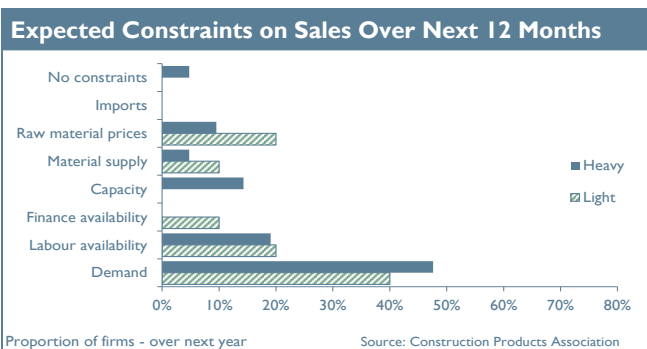
...but a quarter of heavy side firms reported a fall in sales.

Construction growth over the past year has been driven by private housing, commercial and private housing RM&I, which has benefitted most product manufacturers. 40% of heavy side firms and 27% of light side firms reported 'significant' rises in sales in Q3 (rises of over 5%) compared with a year earlier. 15% of heavy side firms and 36% of light side firms reported that sales had increased by up to 5% over the same period. However, one-quarter of heavy side firms and 9% of light side firms reported that sales fell by up to 5% during Q3.



Prospects for the next 12 months remain mixed...

Amid ongoing economic and political uncertainties relating to Brexit, product manufacturers painted a mixed picture for the year ahead in Q3. One-third of heavy side manufacturers and 44% of light side manufacturers reported that they anticipated sales over the next year would rise 'significantly', by over 5%. A further 22% of heavy side firms and 11% of light side firms anticipated further rises in sales of up to 5%. However, 28% of firms on the heavy side and 22% on the light side anticipated a fall in sales over the next 12 months.



...with demand still the main concern.

Demand was reported as the key constraint on sales growth over the next 12 months. 48% of heavy side manufacturers and 40% of light side manufacturers reported that demand was likely to be the key constraint on sales during the next 12 months. For heavy side firms, the other expected major constraints were; labour availability (19%), capacity (14%) and raw material prices (10%). For the light side, 20% of manufacturers reported both labour availability and raw material prices as potential constraints.

Costs, Employment, Capacity & Investment

Cost pressures remained in Q3...

Annual consumer price inflation in the UK was 2.9% in August, up from 2.6% in July. In Q3, cost increases were reported by 90% of heavy side manufacturers, on balance, compared to 93% in Q2. A balance of 90% of light side firms also reported rising costs in the Q3, up from 100% in Q2. Looking at the next 12 months, manufacturers expected cost pressures to remain elevated, with 78% of heavy side firms and 67% of light side firms anticipating increasing costs, on balance.

...with raw materials driving up cost inflation.

The key driver of cost inflation in Q3 was raw materials, owing to the weak Sterling exchange rate and rising global commodity prices. On balance, 85% of heavy side firms reported that raw materials rose over the past year and, for a second consecutive quarter, all light side firms reported higher raw material costs. Energy costs were also noted as a key driver, according to 75% of heavy side firms and 70% of light side firms. Wages & salaries and fuel costs were also cited as key pressures for both heavy and light side firms.

Employment growth and prospects remained positive...

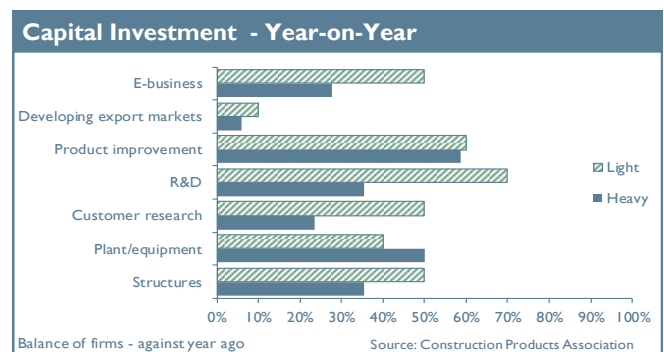
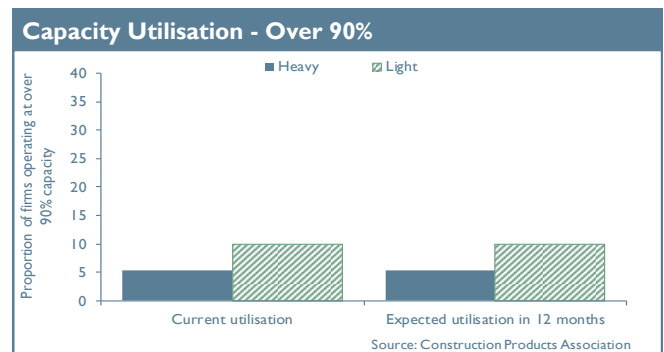
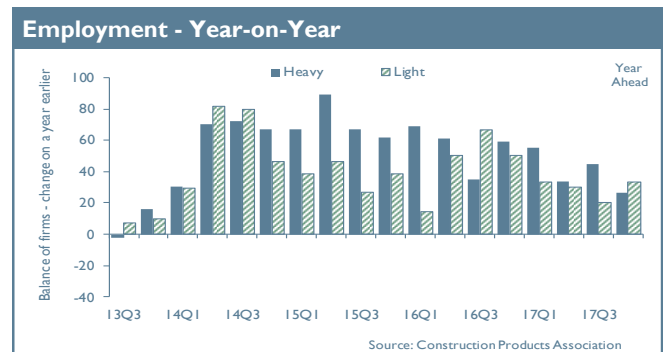
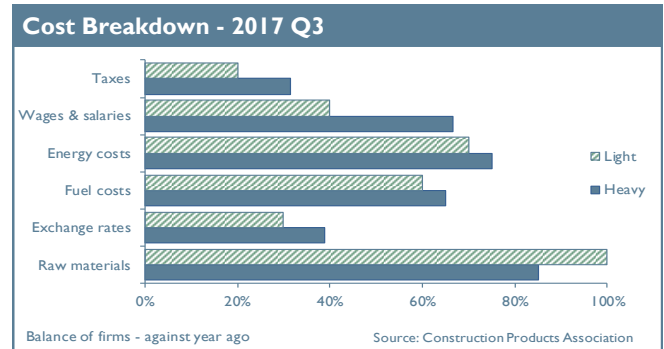
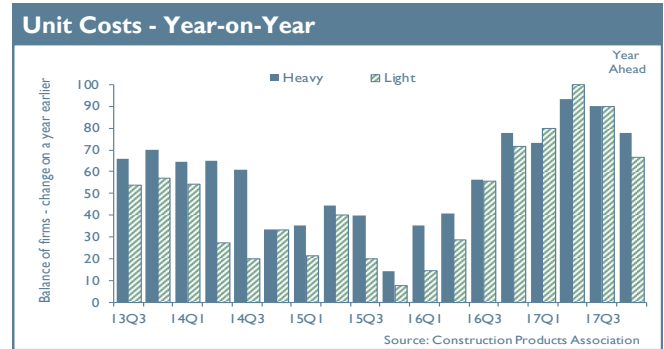
The rise in sales over the past year, coupled with expectations of further increases in sales over the next year, has seen product manufacturers increase employment. In Q3, 45% of heavy side manufacturers and 20% of light side manufacturers, on balance, reported that employment rose on a year earlier. Looking ahead, hiring intentions continued to remain positive. On balance, 26% of heavy side firms and one-third of light side firms anticipated increasing headcount during the next 12 months. On the heavy side, this was the lowest balance since 2013 Q2.

...but capacity utilisation remains low.

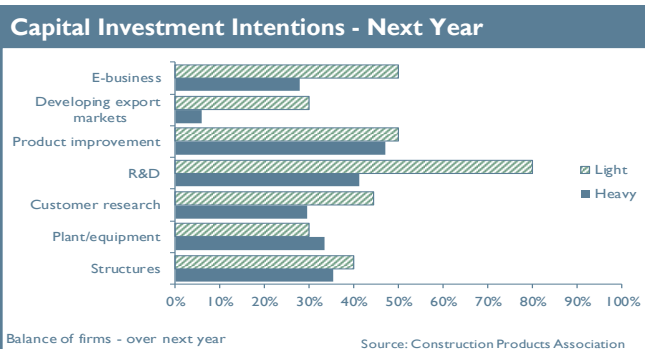
In Q3, product manufacturers reported that capacity utilisation over the past 12 months has been low. Only 5% of heavy side firms reported that they had operated at between 90% and full capacity over the last 12 months, compared to 36% in Q2. For the light side, 10% of firms reported that they had operated at 90% or over, compared to 0% in Q2. 47% of heavy side firms and 60% of light side firms reported capacity utilisation under 70%. In 12 months' time, capacity utilisation is anticipated to be 90% or higher according to 5% of heavy side and 10% of light side firms.

Capital investment remained one of the key priorities...

In Q3, on balance, 59% and half of heavy side firms reported that investment in product improvement and plant & equipment, respectively, was higher than a year earlier. A balance of 35% also reported increased investment in both structures and research and development (R&D). For light side firms, 70% and 60%, on balance, reported increased investment in R&D and product improvement, respectively, compared to a year earlier. Half of light side firms, on balance, also reported increased investment in each of structures, customer research and e-business.

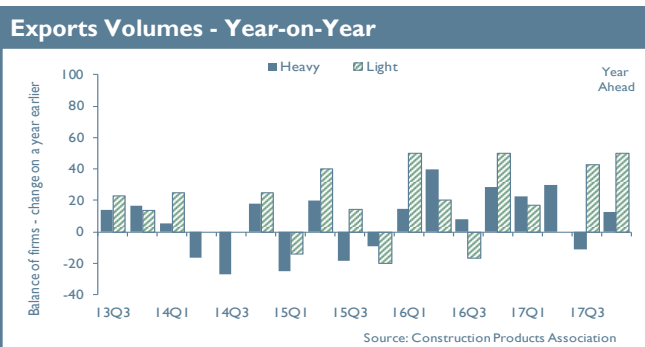


Investment Intentions & Exports



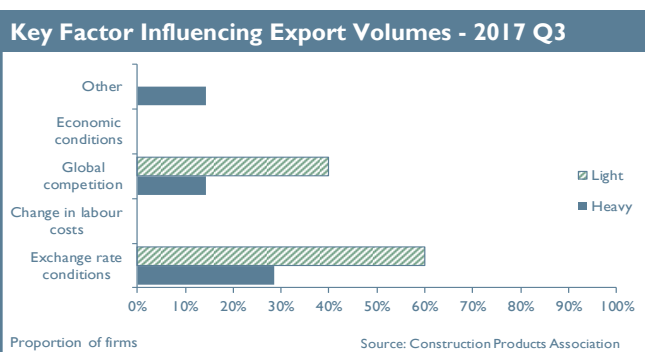
...and investment prospects remain positive for 2018.

On the heavy side, product improvement was the focus of capital investment intentions for the next 12 months, with 47% of manufacturers, on balance, anticipating increasing capital investment in this area. Furthermore, balances of 41% and 35% expected to increase investment in research and development (R&D) and structures respectively. On the light side, 80% of manufacturers anticipated increasing investment in R&D, whilst half also anticipated increased investment in both product improvement and e-business.



Mixed performance for export sales in Q3...

In Q3, 11% of heavy side manufacturers reported a decrease in exports compared with a year earlier. This compares to balance of 30% reporting a rise in Q2 and marked the lowest since 2015 Q3. On balance, 43% of light side firms in Q3 reported an increase in sales compared with a year earlier, up from a zero balance reported in the previous quarter. Looking forward, 13% of heavy side manufacturers and half of light side manufacturers anticipated a rise in exports, on balance, over the next 12 months.



...reflecting the weak Sterling exchange rate.

57% of heavy side product manufacturers and 40% of light side firms produced solely for the domestic market in Q3. Of those that did export, exchange rate conditions was the key factor influencing export volumes, according to 29% of heavy side firms and 60% of light side firms. Both global competition and other conditions, such as intra-group activity were also cited by 14% of manufacturers on the heavy side, whilst 40% of light side firms noted global competition as another key factor influencing export volumes in Q3.

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 300,000 people across 22,000 companies and has an annual turnover of more than £55 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:

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