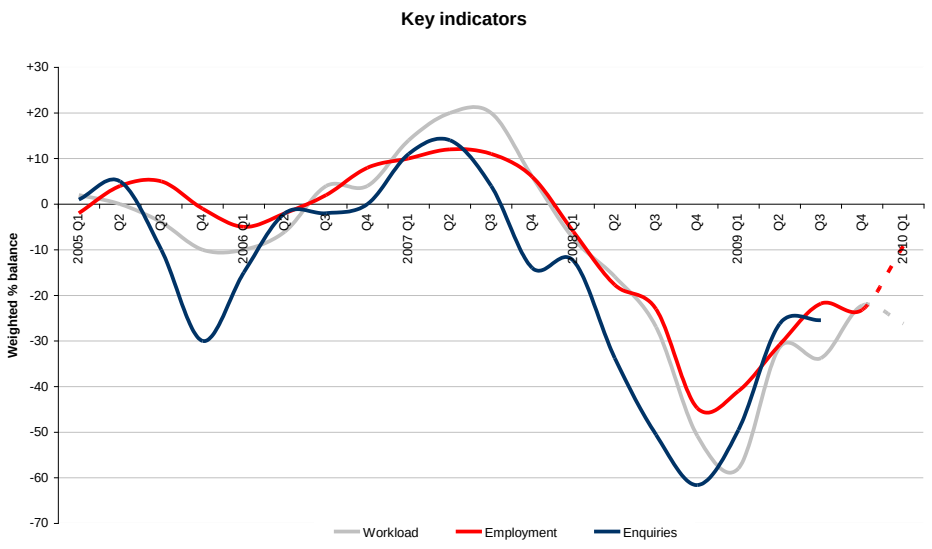
Federation of Master Builders

State of Trade Survey
Q4 2009

Summary

Conditions in the construction industry continued to deteriorate in the final quarter of 2009, according to the latest FMB survey. That said, although workload balances remained negative across the board, some sectors saw a slowdown in the rate of decline. However, expectations for workloads in the first quarter of 2010 turned more pessimistic, suggesting that the industry still has some way to go before a sustained recovery sets in.

- **Negative workload balances for all sectors:** the net workload balance for the industry as a whole improved to -22, but still showed falling workloads. However, around 20% of respondents saw levels of work increase in the three months to December 2009. The industrial sector continued to have the most negative net balance at -60, but the social housing sector saw the strongest fall, taking its net balance to -50.
- **Non-residential R&M sectors show signs of improvement:** the public and private non-residential R&M sectors both saw strong improvements in their net balances, although they were still indicative of falling workloads at -14 and -25, respectively. For the public R&M sector, around 17% of respondents reported increased workloads. The net balances for enquiries in both sectors remained negative, but showed some improvement in the three months to December.
- **Outlook remains weak:** the net balance for expected workloads eased again to -26, as more than twice as many firms (44%) expect their workloads to decline in the first quarter of 2010 as predict an increase (18%).
- **Employment levels decline again:** the net balance for employment remained negative at -23, and signalled declining staffing levels for an 8th consecutive quarter. However, the net balance for expected employment improved to -9, as 24% of firms anticipate hiring more staff over the coming six months.



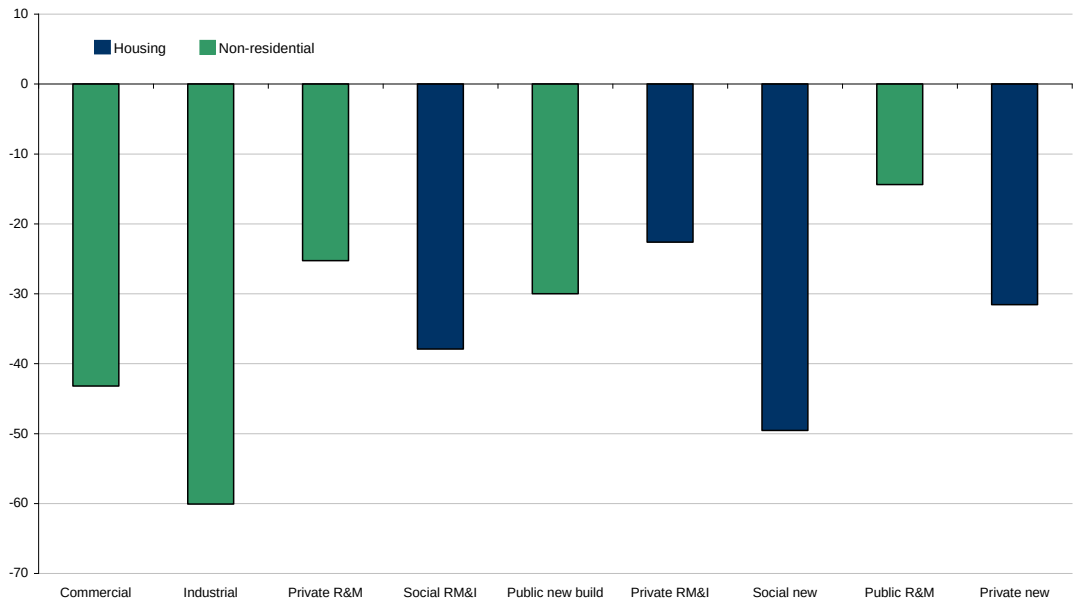
Please note: Q1 2010 reflects respondent's expectations for workload and employment.

Workload

In the fourth quarter of 2009, net workload balances remained negative across all sectors, indicating declining workloads. However, there were variations in sectoral performance, with five of the nine sectors showing an improvement in their net balances, although still pointed to falling workloads. The strongest improvement in net balance was in the public R&M sector, rising 29 percentage points to -14 as 17% of respondents indicated that their workloads were higher than three months ago. The net balance for the social housing sector plummeted by 34 percentage points to -50, but the industrial sector continued to have the most negative net balance at -60.

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 - Q4 2009



Residential workload

Weighted % balances

Workload	2008 Q1	Q2	Q3	Q4	2009 Q1	Q2	Q3	Q4
Private new	-23	-34	-54	-61	-55	-47	-34	-32
Private RM&I	-38	-25	-32	-41	-42	-25	-17	-23
Social new	-17	-31	-27	-55	-59	-25	-16	-50
Social RM&I	-18	-30	-22	-38	-39	-40	-37	-38
Total Residential	-24	-29	-36	-47	-34	-42	-41	-40

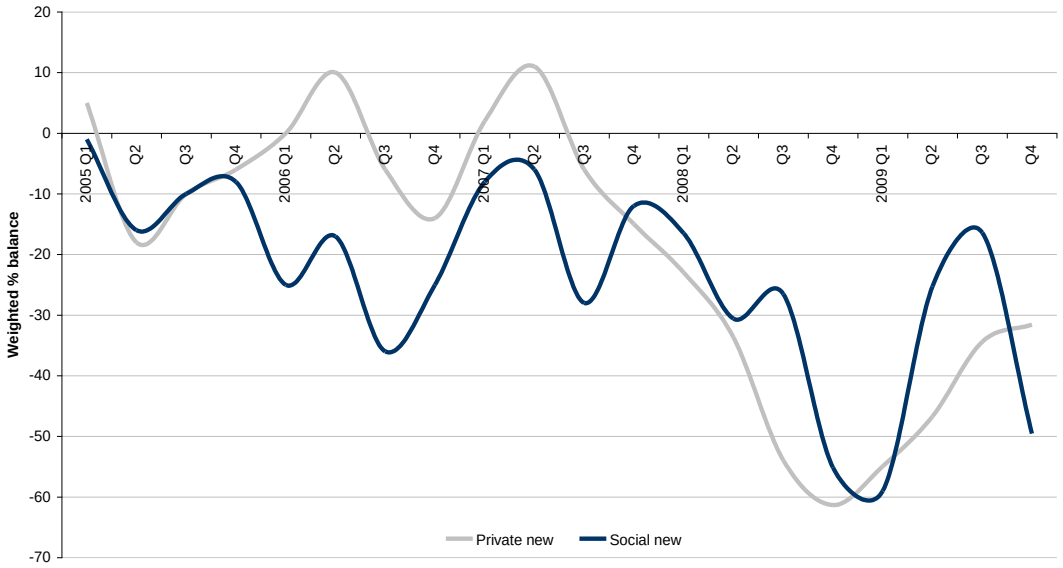
- The net balance for the **social new housing** sector fell by 34 percentage points to -50, as more than half of respondents (55%) indicated lower workloads compared with the previous quarter. This was slightly surprising given that work has begun on a number of schemes under the Homes and Communities Agency's (HCA) Kickstart Development programme, although there has been anecdotal evidence suggesting that funding allocations under the 2008-2011 National Affordable Housing programme have been slow to filter through.

- In contrast, the **private housing** sector's net balance continued its improvement, edging up to -32, but still signalled declining workloads in the sector. Around 20% of firms reported higher workloads compared with in the third quarter of the year, a slight increase on the 18% three months ago. Evidence suggests that conditions in the housing market are gradually improving, although concerns remain that the recent house price rises reflect restricted supply rather than a sustained increase in demand.

- Workloads in the **private housing RM&I** sector declined again in the fourth quarter of 2009, with a net balance of -23. This was more negative than in the three months to September, but 46% of respondents reported no change in workloads compared with 38% indicating a decline.

- The **social housing RM&I** sector also saw its net balance deteriorate, but by just one point to -38. This reflected lower workloads reported by 45% of firms and just 6% indicating that workloads were higher than in the previous quarter.

Residential historical weighted % balance - new work



Non-residential workload

Weighted % balances

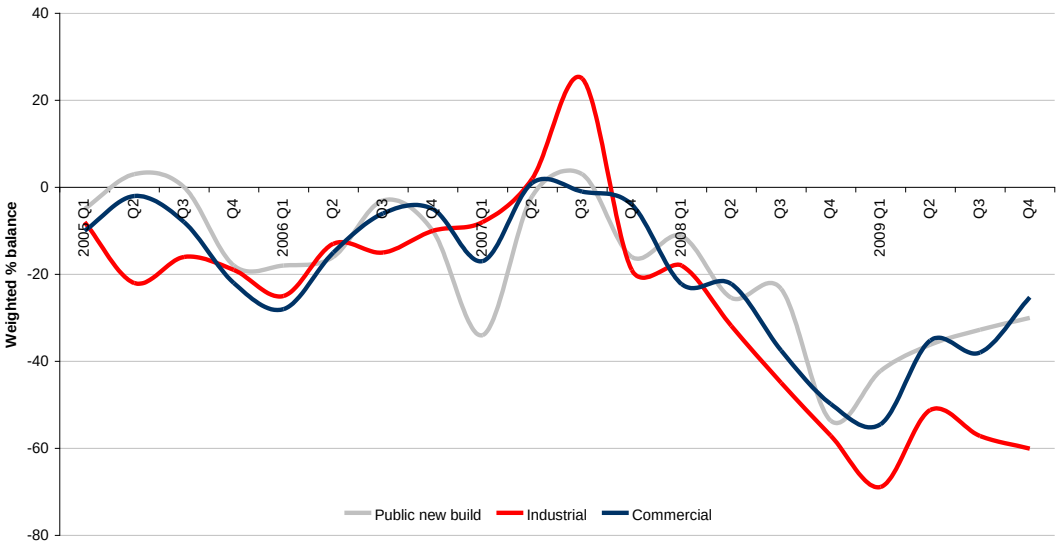
Workload	2008 Q1	Q2	Q3	Q4	2009 Q1	Q2	Q3	Q4
Public new build	-11	-25	-23	-54	-42	-36	-33	-30
Public R&M	-13	-30	-37	-53	-47	-53	-43	-14
Industrial	-18	-32	-45	-57	-69	-51	-57	-60
Commercial	-21	-19	-24	-55	-58	-38	-45	-43
Private R&M	-22	-22	-38	-50	-54	-35	-38	-25
Total Non-Residential	-22	-25	-33	-54	-42	-34	-33	-32

- The **industrial** sector was the only non-residential sector to see a deterioration in its net balance. Falling by 3 percentage points to -60, it remained the most negative net balance across both the non-residential and residential sectors. Lower workloads were reported by almost two-thirds of respondents, whilst just 4% saw an uplift in levels of work.

- The net balance for the **public new build** sector improved by a modest 3 percentage points. However, the net balance of -30 showed that workloads continued to decline, with around 16% of firms indicating an increase in workloads.

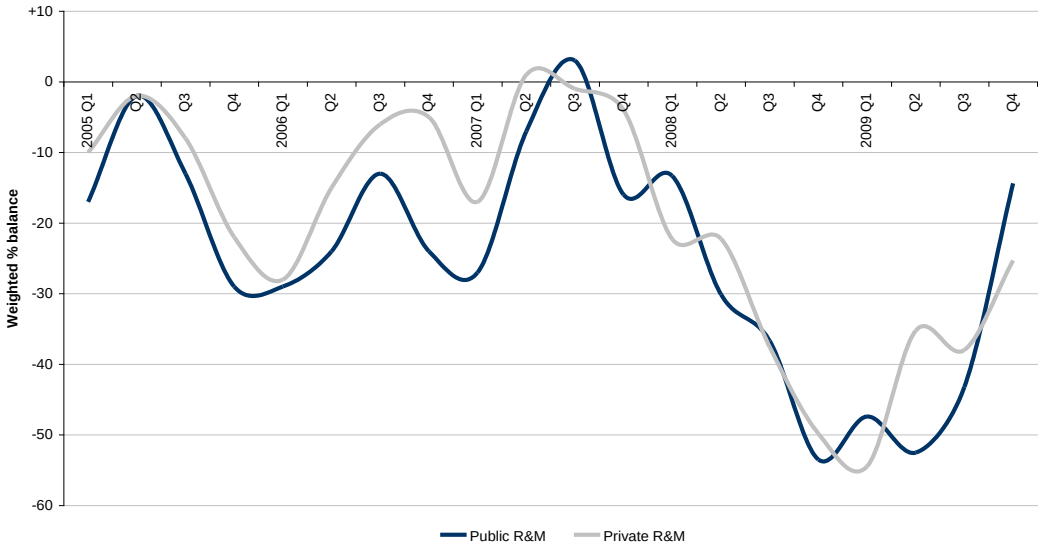
- Declining workloads in the **commercial** sector were reported by 52% of firms, whilst almost 9% indicated an increase. The resulting net balance of -43 was a slight improvement on the previous quarter's figure, but nevertheless still signalled a general fall in workloads. Demand for office, retail and leisure facilities remains weak, and it is unlikely that significant numbers of developments will be started, or indeed un-mothballed, until there is firm evidence that the economic climate is improving.

Non-residential historical weighted % balance chart - new work



- The **public R&M** sector saw a marked improvement in its net balance, although it continued to signal falling workloads. Rising 29 percentage points to -14, it was the least negative since the first quarter of 2008. Around 17% of firms reported higher workloads compared with three months ago, but over half (51%) indicated no change. There have been suggestions that public sector might have brought forward some expenditure in this area to take advantage of the 15% VAT rate which ended on 1st January 2010.
- The net balance of -25 indicated that levels of work in the **private R&M** sector continued to fall in the three months to December 2009. However, this was the least negative net balance since the second quarter of 2008, and an improvement of 13 points on the previous quarter's figure. Higher workloads were reported by 17% of firms, compared with just 13% in the third quarter of the year.

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



Expected workload and enquiries

Although there were some improvements in workload balances across the sectors in the final quarter of 2009, expectations for the first three months of 2010 are more pessimistic. The net

balance for expected workloads edged down 8 points to -26, the most negative reading since the first quarter of 2009, and indicative of declining workloads in the coming quarter. Whilst around 18% of firms have a positive outlook, 44% are pessimistic regarding expected workloads.

Around 21% of firms reported higher levels of enquiries, whilst 47% indicated that levels of enquiries regarding possible future work were lower in the three months to December 2009 than they had been in the previous quarter. The resulting net balance of -26 was broadly unchanged from the previous quarter and suggested that enquiries continued to fall in the final quarter of 2009. Financing issues remained a problem for potential clients, and anecdotal evidence indicated that enquiries were not necessarily translating into higher workloads because of this.

Residential expected workload and enquiries

The social new build and private RM&I sectors were the only ones, across both the residential and non-residential sectors, to see a deterioration in sentiment in the three months to December 2009, although workloads are still expected to decline across all sectors over the coming three months.

- The net balance for the **private new build** sector rose 5 percentage points to -13 in the fourth quarter of the year, the least negative net balance since the final quarter of 2007. However, workloads are still expected to decline, overall, with around 32% of firms having a pessimistic outlook. Nevertheless, 19% anticipate higher workloads in the first quarter of 2010.

- More than half of respondents (55%) expect a fall in workloads in **social new housing** over the coming quarter, whilst just 7% anticipate an increase. The resulting net balance of -48 was highly negative and 18 percentage points below the previous quarter's figure. This was unexpected given that work has already begun on a number of projects funded under the HCA's Kickstart Development programme which are due to be completed by 2012.

- Sentiment in the **private RM&I** sector deteriorated in the three months to December 2009. The net balance declined to -24, as 39% of respondents reported a pessimistic outlook for the sector. Consumer confidence remains fragile, particularly in light of the unexpected decline in GDP in the third quarter of 2009, and thus it is likely to be some time before consumer spending on large home improvement projects picks up significantly.

- The **social RM&I** sector saw an improvement in its net balance to -32, although this still signalled a pessimistic outlook for the coming quarter. Around 7% of firms have a positive view of the sector in the first quarter of 2010, whilst more than 55% anticipate lower workloads in the sector.

Weighted % balances

Expected Workload	2008 Q1	Q2	Q3	Q4	2009 Q1	Q2	Q3	Q4
Private new	-23	-40	-57	-54	-53	-25	-18	-13
Private RM&I	-2	-21	-36	-52	-46	-17	-20	-24
Social new	-8	-17	-47	-61	-25	-25	-30	-48
Social RM&I	-11	-26	-43	-63	-42	-28	-35	-32
Total Residential	-13	-26	-45	-56	-44	-23	-26	-30
Enquiries								
Private new	-33	-53	-65	-66	-64	-40	-31	-30
Private RM&I	-26	-36	-51	-65	-46	-31	-23	-22
Social new	-15	-46	-53	-65	-50	-44	-31	-39
Social RM&I	-20	-35	-50	-71	-52	-49	-43	-32
Total Residential	-20	-42	-55	-67	-53	-39	-40	-32

Non-residential expected workload and enquiries

Sentiment picked up across the board in the non-residential sectors, as net balances improved. However, it remains generally negative, indicating a continued decline in workloads in the first three months of 2010.

- The net balance for the **industrial** sector rose by 9 points to -36. This reflected positive sentiment by almost 16% of respondents, although more than half (52%) indicated that they expected workloads in the sector to continue to decline over the coming quarter.

- The **commercial** sector also saw an improvement in its net balance, which edged up 7 points to -28, thus still indicating an expected fall in workloads. Almost 19% of firms have an optimistic outlook for the coming quarter, but 47% still anticipate declining workloads.

- The outlook for the **public new build** sector improved slightly in the final quarter of the year, although the net balance still remained negative at -28. Around 42% of firms anticipate no change in levels of work over the coming three months whilst 15% expect an increase.

- An increase of 13 points took the net balance for the **public non-residential R&M** sector to -26, still indicative of an expected decline in workloads but showing less pessimistic sentiment than in the previous quarter. The proportion of firms anticipating higher workloads increased from 10% in the third quarter of the year to 15% in the three months to December.

- The **private non-residential R&M** sector also saw a strong improvement in its net balance, but again it remained indicative of falling workloads over the coming three months. The net balance of -20 reflected twice as many respondents (40%) having a pessimistic outlook as being optimistic (20%) regarding levels of work in the first quarter of 2010.

Weighted % balances

Expected Workload	2008 Q1	Q2	Q3	Q4	2009 Q1	Q2	Q3	Q4
Public new build	-9	-15	-40	-53	-37	-14	-31	-28
Public R&M	-5	-30	-37	-67	-46	-19	-39	-26
Industrial	+0	-25	-44	-64	-58	-26	-45	-36
Commercial	-15	-19	-42	-61	-43	-20	-35	-28
Private R&M	-12	-21	-44	-71	-48	-18	-31	-20
Total Non-Residential	-16	-22	-41	-64	-46	-19	-37	-28
Enquiries								
Public new build	-17	-27	-49	-55	-44	-41	-46	-41
Public R&M	-13	-38	-51	-65	-54	-39	-39	-26
Industrial	-11	-39	-54	-61	-65	-49	-44	-49
Commercial	-24	-32	-55	-64	-58	-39	-35	-35
Private R&M	-14	-36	-56	-64	-55	-38	-38	-27
Total Non-Residential	-12	-34	-53	-62	-55	-41	-40	-35

Materials

Firms generally reported no problems obtaining supplies of materials in the three months to December, with many indicating that delivery was very quick due to low demand. Those firms that indicated some delays in delivery largely reported shorter delays of between 2 weeks and 2 months, although there were some reports of delays for aggregates, cement and pre-cast concrete exceeding 2 months.

Shorter delays were reported for a range of materials, including timber, roofing materials and bricks/blocks.

Employment and labour

Employment levels continued to decline in the final quarter of 2009, as the net balance remained negative at -23. This was broadly unchanged from the previous quarter's net balance. Around 15% of builders reported a rise in employment over the three months to December, whilst 38% indicated that they had cut staffing levels.

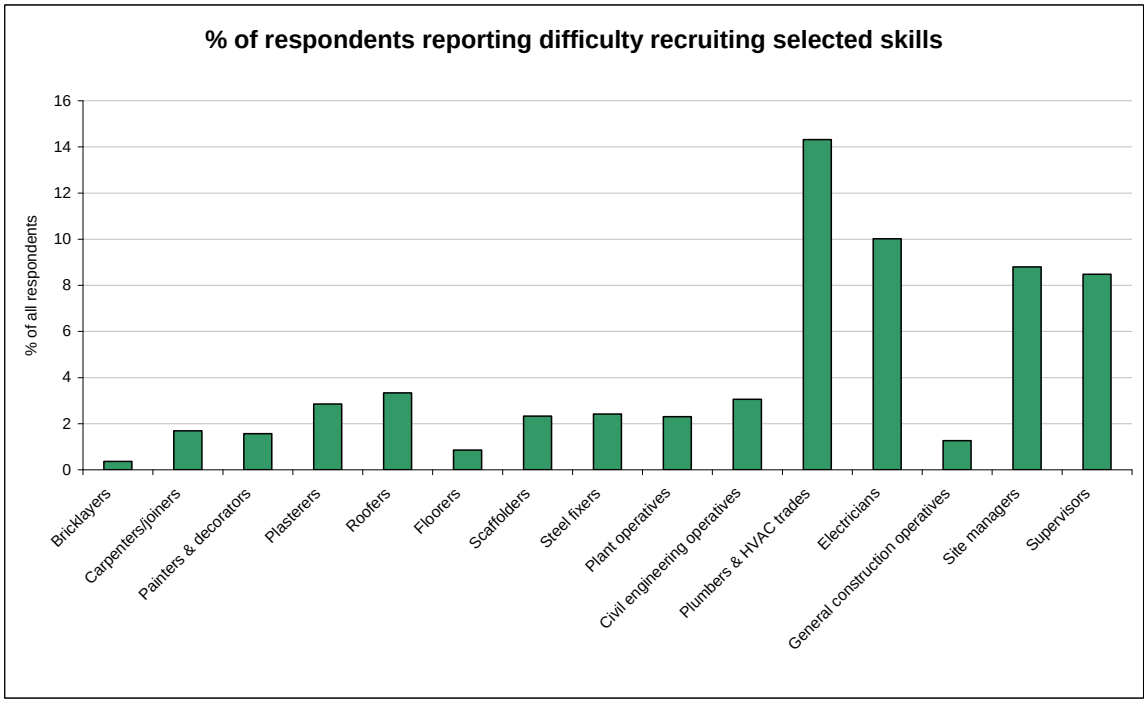
The outlook for employment improved in the fourth quarter of the year; the net balance, while still remaining negative, increased by 6 points to -9. This was the least negative reading since the second quarter of 2008. Opinion continued to be divided, however, with both the proportion of firms expecting employment levels to increase (23%) and decrease (33%) rising from the third quarter of the year, when these figures were 16% and 31%, respectively.

The net balances for employment for both specialist and general builders remained negative at -23 in the three months to December, indicating that employment levels continued to fall. However, whilst this was a marginal improvement in the net balance for general builders, it was a decline of 13 percentage points for specialist builders. Around 15% of specialist builders reported higher levels of employment compared with a figure of 14% for general builders. General builders are significantly more optimistic than specialist builders regarding employment during the first half of 2010, although staffing levels are generally expected to decline for both. That said, whilst almost half of specialist builders (48%) anticipate a reduction in employment, around 27% still expect an increase. This compares with figures of 29% and 24%, respectively, for general builders.

					Weighted % balance			
Employment	*2008 Q1*	*Q2*	*Q3*	*Q4*	*2009 Q1*	*Q2*	*Q3*	*Q4*
All builders	*-6*	*-22*	*-22*	*-41*	*-41*	*-34*	*-24*	*-23*
All specialists	*-5*	*+1*	*-27*	*-58*	*-41*	*-17*	*-10*	*-23*
Total	*-6*	*-18*	*-23*	*-44*	*-41*	*-31*	*-22*	*-23*

Expected employment	*2008 Q1*	*Q2*	*Q3*	*Q4*	*2009 Q1*	*Q2*	*Q3*	*Q4*
All builders	*+5*	*-25*	*-38*	*-45*	*-33*	*-19*	*-17*	*-6*
All specialists	*+17*	*-1*	*-6*	*-43*	*-34*	*-4*	*-4*	*-22*
Total	*+8*	*-20*	*-32*	*-44*	*-33*	*-16*	*-15*	*-9*

Skills shortages continue to be reported across some trades, despite widespread reports of job losses and falling output across the industry. Builders indicated that they had some difficulties recruiting plumbers & HVAC trades, electricians, site managers and supervisors.

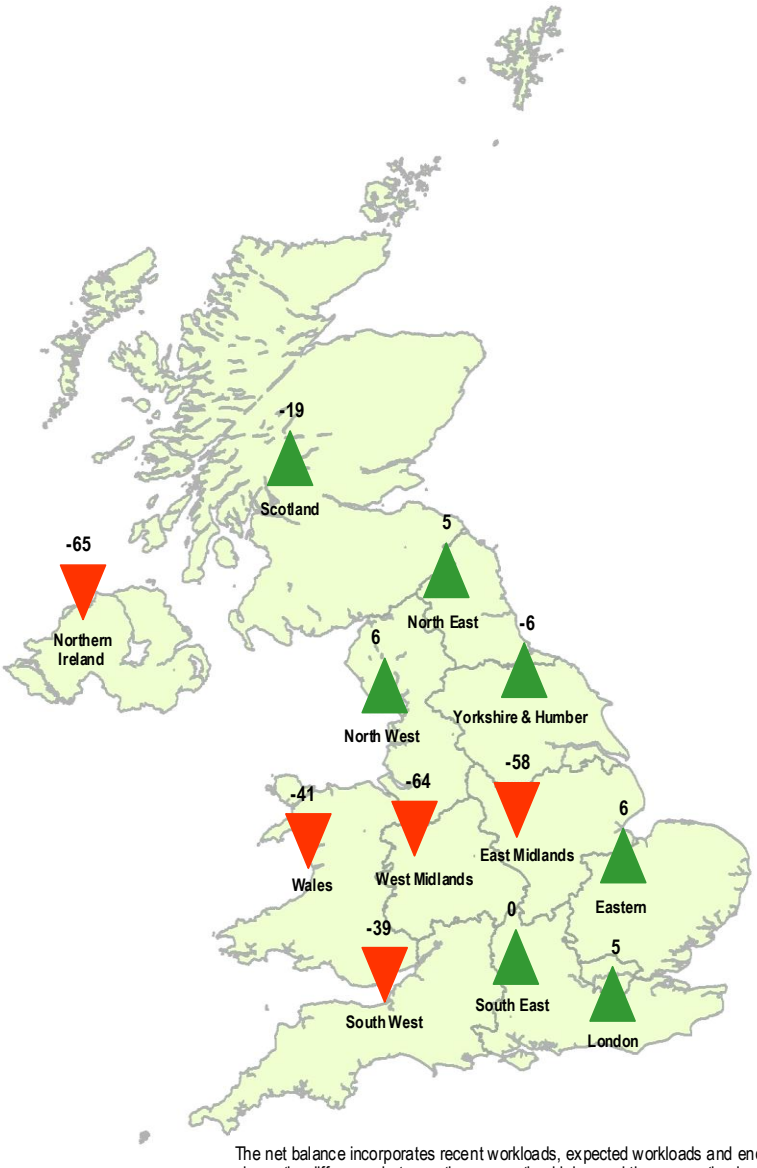


Regional perspective

There were significant variations in performance across the 12 regions and nations in the final quarter of 2009. Positive net balances were recorded in four regions – Eastern, North West, London and the North East – whilst the net balance for the South East was 0. Across the remaining regions and nations, Scotland and Yorkshire & Humber were the only two to see an improvement in their net balances, rising to -19 and -6, respectively. At the other end of the scale, the West Midlands saw its net balance plummet by 36 points to -64 and a 22-point drop took the East Midlands' net balance to -58.

Northern Ireland continued to have the most negative net balance in the fourth quarter of 2009, edging down 1 point to -65. This reflected negative sentiment from 68% of weighted responses, compared with a figure of 57% in the third quarter of the year and an all-UK figure of 45% for the

current quarter. England also saw a slight deterioration in its net balance; at -26, it was 2 percentage points lower than in the third quarter of the year. However, the weighted percentages of positive and negative sentiment both increased from the previous quarter. Positive sentiment was reported by 18% of weighted responses, a slight increase from the 17% three months ago. In contrast, 44% of weighted responses were negative, compared with 41% in the third quarter of the year. The net balance for Scotland was -19, the least negative since the second quarter of 2008. The proportion of weighted responses with a positive outlook increased to 17% (from 11% three months ago) and those with a pessimistic view also declined. In Wales, the net balance remained negative and fell 15 points to -41, as just 5% of weighted responses were positive. This was a marked decline from the 23% in the previous quarter and significantly below the UK figure of 16% for the fourth 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.

					Weighted % balance			
	2008 Q1	*Q2*	*Q3*	*Q4*	*2009 Q1*	*Q2*	*Q3*	*Q4*
North East	-17	-14	-23	-50	-55	-24	-14	5
Yorks & Humber	-1	-11	-27	-58	-42	-33	-19	-6
East Midlands	-8	-37	-59	-72	-55	-14	-36	-58
Eastern	-24	-47	-61	-28	-43	-9	-14	6
London	-20	-4	-1	-54	-48	3	-29	5
South East	+3	-7	-26	-40	-53	-44	-13	0
South West	+6	-9	-48	-57	-60	-19	-22	-39
West Midlands	-13	-41	-32	-52	-43	-15	-28	-64
North West	+25	-38	-70	-68	-53	-38	-9	6
Wales	+6	-7	-24	-75	-30	-24	-25	-41
Scotland	+3	-5	-32	-33	-52	-38	-37	-19
Northern Ireland	-32	-45	-43	-80	-68	-31	-64	-65
England	-8	-24	-38	-52	-48	-35	-24	-26
UK	-14	-28	-40	-54	-50	-23	-25	-24

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