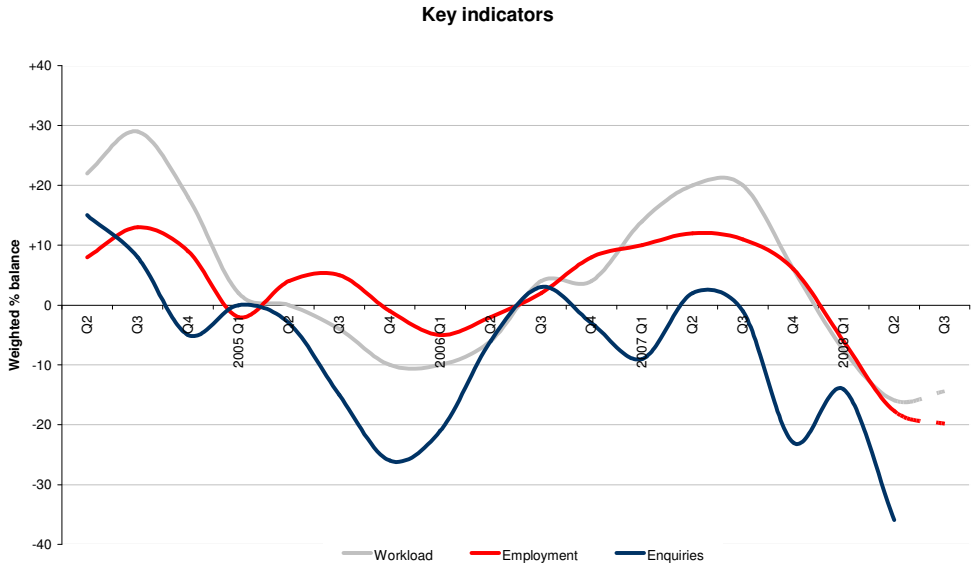
Federation of Master Builders

State of Trade Survey
Q2 2008

Summary

Construction industry conditions are showing no signs of improving. Results from the FMB's latest survey were particularly gloomy. Credit markets remain in disarray, impacting both on supply and demand, and there has been a marked deterioration in housing market conditions. FMB members working in both residential and non-residential markets were equally pessimistic, to give the weakest quarterly survey results of the decade so far.

- **Workload down:** workloads started to fall in Q1 2008, for the first time since Q2 2006 for the majority of FMB members. In Q2 2008 falling output was more widely reported and just over 40% of respondents said their workloads during the quarter fell short of their Q1 2008 level.
- **Rate of house building contracts:** contractors working in residential new build were particularly pessimistic. 43% of private new house builders reported a drop in work. In the social new build sector a smaller workload was reported by 45% of firms.
- **Credit problems and falling demand hits non-residential firms:** industrial was hardest hit but commercial new build and R&M were also affected.
- **Employment likely to fall:** employment levels were scaled back by 26% of firms in Q2 2008 and further falls are likely. 23% of respondents said they plan to reduce headcount further over the next six months.



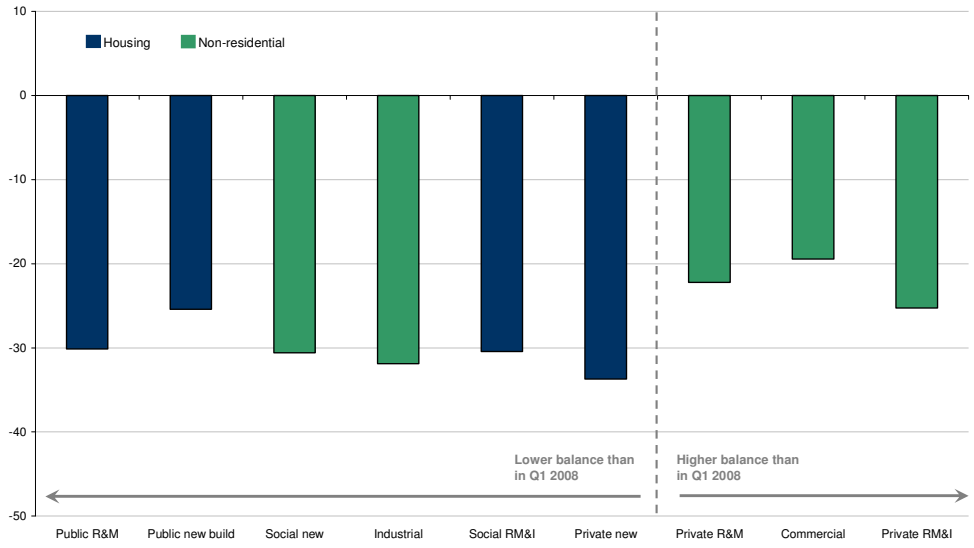
Please note: Q3 2008 reflects respondent's expectations for workload and employment.

Workload

Conditions deteriorated further in Q2 2008. The majority of Members reported that their workloads declined across all industry sectors in Q2 2008 for the second consecutive quarter. The contraction in the private new housing sector was especially marked. The new private housing balance fell to -34, with 43% of respondents reporting a decrease in work in this sector.

While the total workload chart, below, suggests that activity has fallen through the floor, balances only reflect the percentage of responses reporting higher workloads against those reporting lower workloads. Last quarter the majority of respondents in most sectors suggested their workload was unchanged from the previous quarter. In Q2 2008, however, far fewer responses fell into the 'no change' category and there was an uplift in the proportion of respondents stating 'lower'.

Total workload by sector - Q2 2008



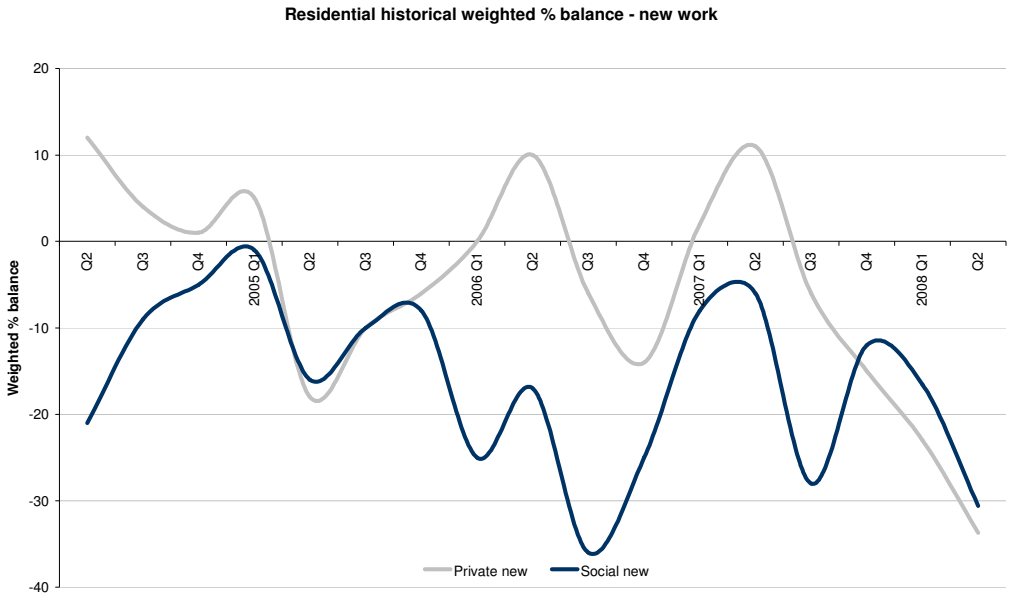
Residential workload

- As previously mentioned, the private new housing balance declined further in Q2 2008 to -34, its lowest level this decade. Housing market conditions continue to deteriorate, almost by the day. Problems in the credit markets are having a double impact. Banks have less money to lend out to borrowers, wholesale markets are illiquid and many are choosing to build up their reserves to ensure survival if the worst were to happen. For house builders, securing finance to fund new development is also problematic. Anecdotal evidence suggests that lenders are unwilling to lend to them unless 30% of the units are sold upfront – unlikely in the current climate.

Weighted % balances

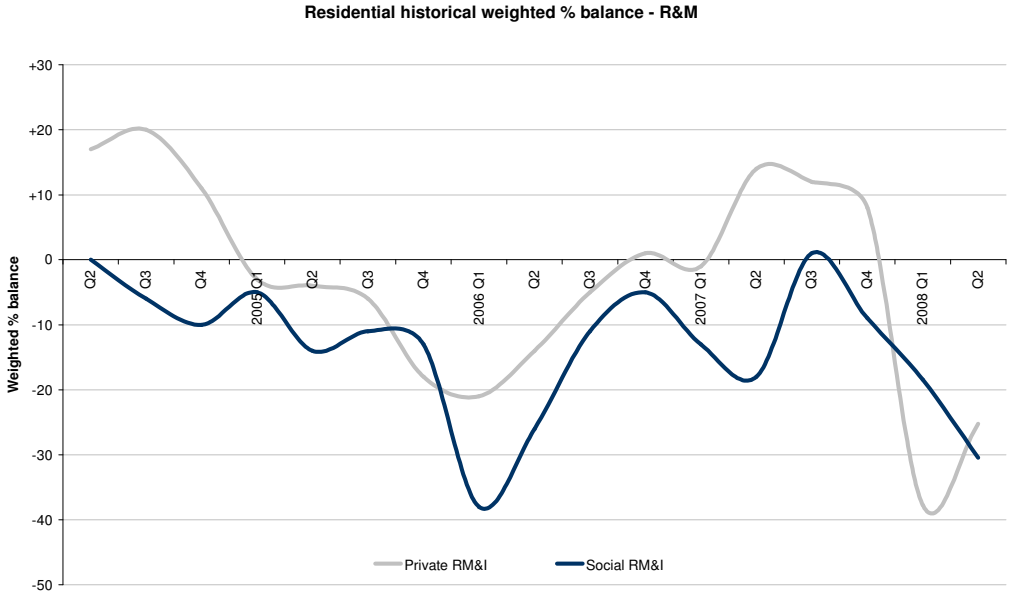
Workload - housing	2006 Q4	2007 Q1	Q2	Q3	Q4	2008 Q1	Q2
Private new	-14	+2	+11	-6	-15	-23	-34
Private RM&I	+1	-1	+14	+12	+8	-38	-25
Social new	-25	-8	-6	-28	-12	-17	-31
Social RM&I	-5	-13	-18	+1	-9	-18	-30

- Things are almost equally bad for the social house building sector. Housing Corporation funding means the sector is to some extent removed from the problems in the credit markets. That said, the move from local authority delivery of social housing to registered social landlords (RSLs) was in part made to allow private finance to be raised to enhance the build programme. The social new build balance fell to -31 in Q2 2008.



- Responses from firms operating in the RM&I sectors were equally downbeat. While the **private housing RM&I** balance was improved on Q1 2008 in the second quarter, at -25 is still suggested that many firms suffered a contraction in their work levels.

- The **social housing RM&I** balance was also heavily negative at -30. The balance has been sub-zero for the past three quarters.



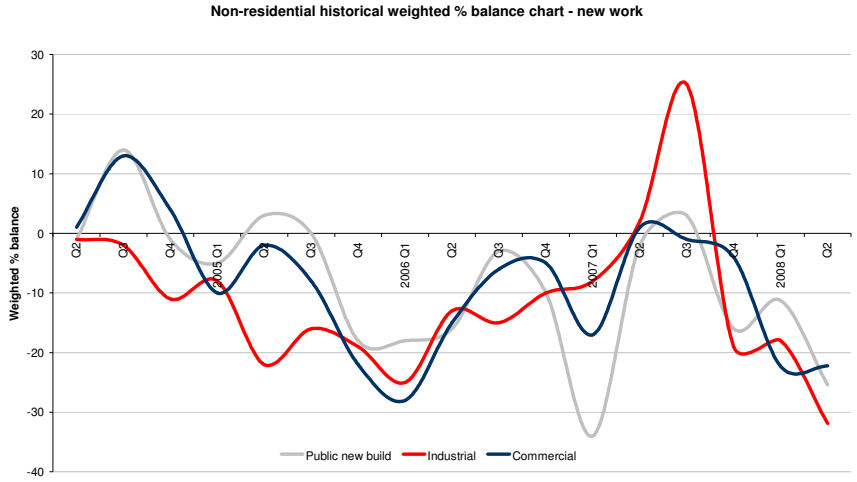
Non-residential workload

- In recent years the consolidation of distribution networks by retailers, rising imports and growth in internet shopping drove something of a step-change in the level of **industrial** construction, a trend that seems to now be in reverse. The industrial balance fell to -32 in Q2 2008, a significant drop from -18 in Q1 2008.

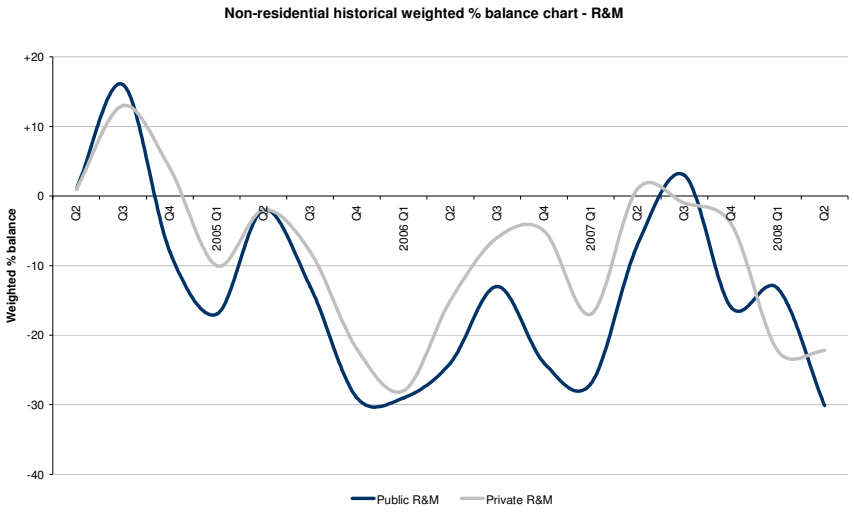
Weighted % balances

Workload - non-residential	2006 Q4	2007 Q1	Q2	Q3	Q4	2008 Q1	Q2
Public new build	-10	-34	-2	+3	-16	-11	-25
Public R&M	-24	-27	-7	+3	-16	-13	-30
Industrial	-10	-8	+2	+25	-19	-18	-32
Commercial	+4	-3	+14	+22	+2	-21	-19
Private R&M	-5	-17	+1	-1	-4	-22	-22

- Growth in publicly financed health work has stalled as PFI procurement grows in popularity. Increased investment in education was, however, expected to be having an impact on the industry by now but the Government's Building Schools for the Future programme has encountered severe delays. The **public new build** balance fell from -11 in Q1 2008 to -25 in Q2 2008.
- The **commercial** workload balance has been negative for two quarters, suggesting it has only recently been affected by the slowdown. The commercial balance stood at -19 in Q2 2008, a marginal improvement on the -21 recorded in Q1 2008.



- The **private non-residential R&M** balance fell below zero in Q3 2007, and since then it has deteriorated quarter-on-quarter. In Q2 2008, however, it stabilised at -22.
- **Public non-residential R&M** recorded a sharp fall on Q1 2008 in Q2 2008. It declined from -13 in the previous quarter to -30.



Expected workload and enquiries

Many respondents expect the industry to remain subdued for the short-term at least. 36% of all respondents expect their workloads to be lower in Q3 2008 than in Q2 2008. For some, however, the horizon is brighter and 22% said their workloads are likely to actually rise over the coming quarter.

The majority of respondents cannot foresee an immediate change in their rate of activity and expect their workloads to remain stable.

Residential expected workload and enquiries

The housing market is encountering challenging conditions, with no immediate respite on the horizon. FMB members suggest that new private residential work has already been affected but worse could be yet to come. On a brighter note, expectations regarding residential building work financed by the public sector and residential RM&I are expected to fare a little better. Across all residential sectors there was a noticeable drop in enquiries in Q2 2008.

- Expectations about future **new private housing** workloads were extremely pessimistic. A negative balance of -40 is significantly lower than the -23 recorded in Q1 2008. Nearly 50% of respondents expect their new private housing workloads to fall over the next three months. Such pessimism, however, comes as no surprise considering the major housebuilders are unanimously scaling back developments this year until the market stabilises.

- **New social housebuilding** also recorded a sizeable negative balance in Q2 2008. At -17 it was once again lower than the previous quarter. Interestingly, however, respondent's expectations were less firmly down than for private sector work. The majority of firms working in **social** new housebuilding thought their workloads were unlikely to change, at least in the next three months.

- Expectations were also subdued for the **private housing RM&I** sector, but again to a lesser extent than for private new build. The private housing RM&I balance fell from a mild -2 in Q1 2008 to -21 in Q2 2008.

- The **social housing RM&I** expected workload balance also suffered a fall in Q2 2008. It slipped from -11 in Q1 2008 to -26 in Q2 2008. This balance has been consistently negative in recent years, intuitively surprising given the government's Decent Homes initiative is well underway. Possibly prospects for this sector will improve as equivalent programmes commence in Scotland and Wales.

Weighted % balances

Expected Workload	2007 Q1	Q2	Q3	Q4	2008 Q1	Q2
Private new	+17	+27	+17	-8	-23	-40
Private RM&I	+12	+15	+5	-1	-2	-21
Social new	-3	-7	0	-14	-8	-17
Social RM&I	-7	-3	+3	-11	-11	-26
Enquiries						
Private new	+3	+12	-17	-22	-33	-53
Private RM&I	+12	+12	+4	-16	-26	-36
Social new	0	-10	-30	-21	-15	-46
Social RM&I	-12	-18	-6	-16	-20	-35

Non-residential expected workload and enquiries

Expectations about future workload were also generally subdued for firms operating in the non-residential sector. In Q1 2008, expectations about forthcoming work in the public sector were less pessimistic than in the private one. In Q2 2008, however, this was no longer the case and there was little to separate the two sectors.

- After recording the lowest expected workload balance of all the non-residential sub-sectors in Q1 2008, the **commercial** sub-sector fared relatively well in Q2 2008. While its balance was nevertheless down at -19, the other non-residential sub-sectors, with public new build being the one exception, were more pessimistic. Therefore it would appear that both directly and indirectly the problems in the credit markets are impacting on all aspects of the construction industry.

- **Public new build's** expected balance deteriorated from -9 in Q1 2008 to -15 in Q2 2008, putting it back on a par with Q4 2007.

- After holding up well in early 2008, the **industrial** sector took a turn for the worst in the second quarter. Its expected workload balance slipped from zero in Q1 2008 to -25 in Q2 2008.

- The **private non-residential R&M** balance has been in negative territory for four consecutive quarters. In Q2 2008 it reached a new low of -21, a level not seen since Q4 2005.

- The **public non-residential R&M** balance was the lowest of all the non-residential sector balances. It dropped by 25 percentage points to -30.

Weighted % balances

Expected Workload	2007 Q1	Q2	Q3	Q4	2008 Q1	Q2
Public new build	-18	+6	-12	-13	-9	-15
Public R&M	-4	+4	-6	-13	-5	-30
Industrial	+11	+17	+2	-11	+0	-25
Commercial	+3	+17	+9	-6	-15	-19
Private R&M	0	+8	-7	-10	-12	-21
Enquiries						
Public new build	-26	+5	+1	-17	-17	-27
Public R&M	-12	-3	+5	-19	-13	-38
Industrial	-11	+1	+1	-22	-11	-39
Commercial	-3	+10	+11	-10	-24	-32
Private R&M	-9	+2	-1	-23	-14	-36

Materials

Many respondents reported encountering relatively short delays in materials supply of between two weeks and two months. No single material stands out as being in particularly short supply, rather shortages were reported equally across a wide range of different materials (aggregates, black top, brick/blocks, cement, plaster/plasterboard pre-cast concrete, roofing materials, steel and timber).

Delays in delivery of more than two months were relatively rare in Q2 2008.

Employment and skills

Respondents were extremely pessimistic about employment in Q2 2008, significantly more so than in Q1 2008. 18% more firms reported that their workforce decreased during the second quarter than said their employment increased, meaning the employment balance has been in negative territory for two consecutive months. In Q1 2008 the balance equalled -6. As the table below shows more subdued prospects for employment have hit general builders hardest. Specialist firms reported that employment was marginally up during the second quarter.

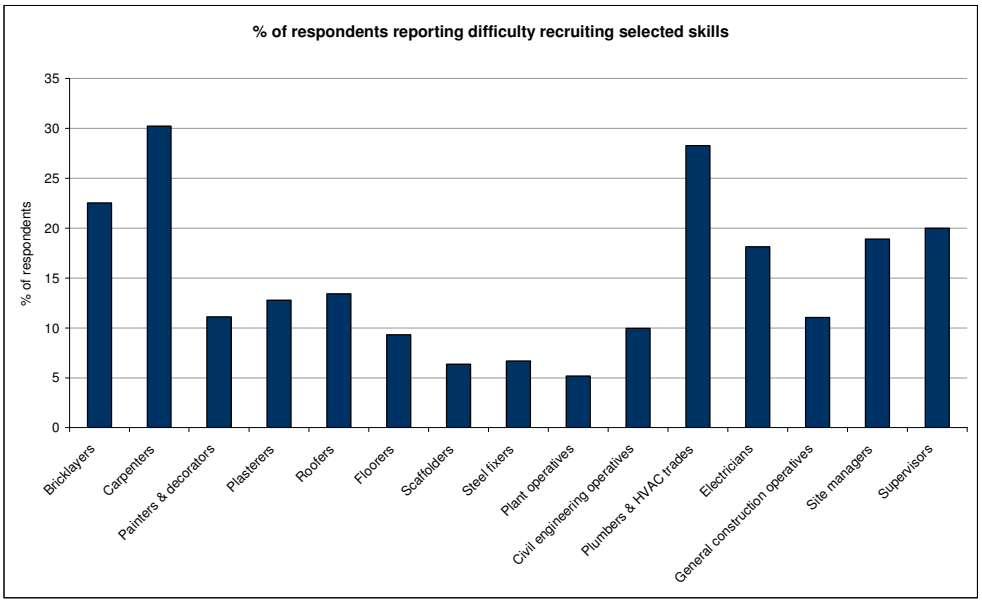
Employment prospects are set to deteriorate further according to FMB members. The expected employment balance fell sharply to -20 in Q2 2008. Both general builders and specialists expressed a view that employment is likely to fall in the coming months, although falls were widely expected by general builders but only by a minority of specialists.

Weighted % balance

Employment	*2006 Q4*	*2007 Q1*	*Q2*	*Q3*	*Q4*	*2008 Q1*	*Q2*
All builders	*+8*	*+11*	*+13*	*+13*	*+4*	*-6*	*-22*
All specialists	*+8*	*+9*	*+9*	*+3*	*+18*	*-5*	*+1*
Total	*+8*	*+10*	*+12*	*+11*	*+6*	*-6*	*-18*

Expected employment	*2006 Q4*	*2007 Q1*	*Q2*	*Q3*	*Q4*	*2008 Q1*	*Q2*
All builders	*+5*	*+13*	*+14*	*+11*	*0*	*+5*	*-25*
All specialists	*+4*	*+32*	*+35*	*+18*	*+11*	*+17*	*-1*
Total	*+4*	*+15*	*+17*	*+12*	*+2*	*+8*	*-20*

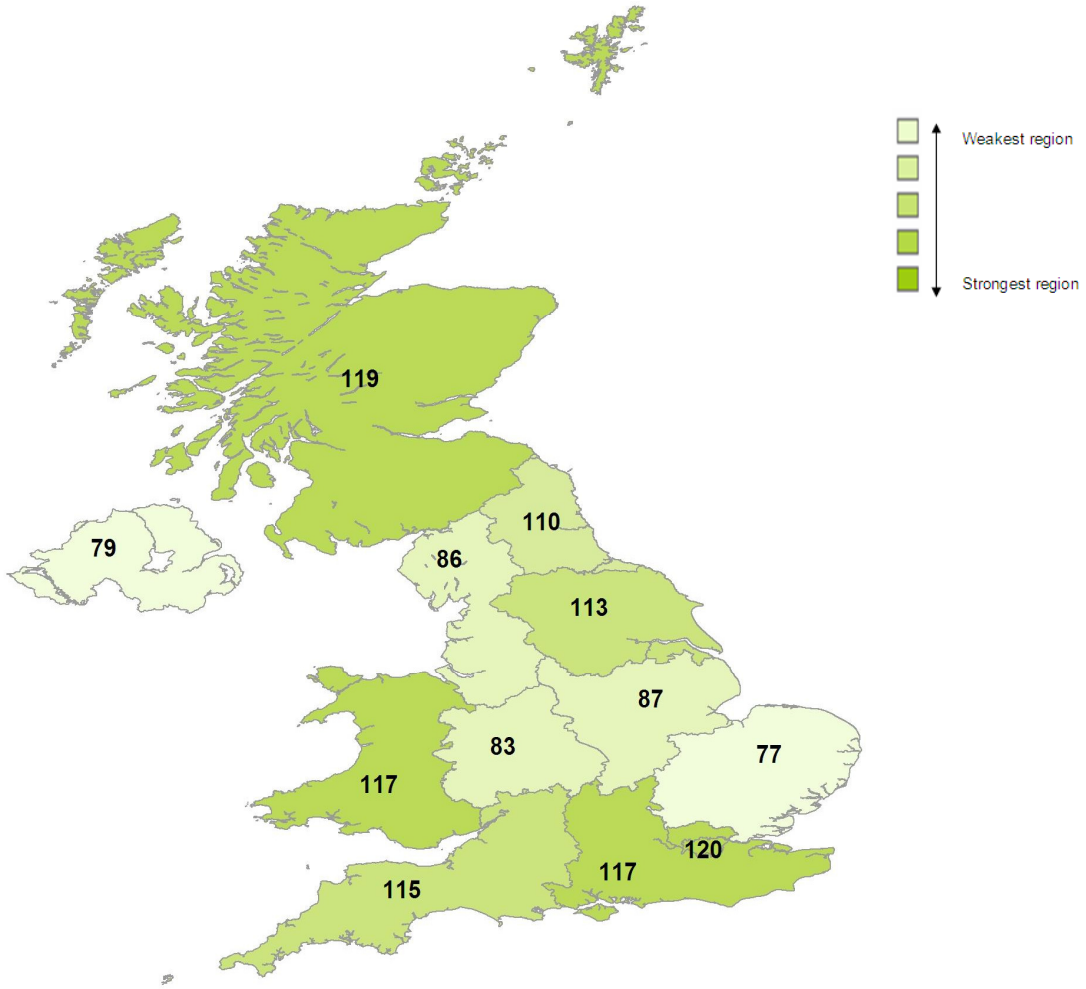
Despite overall levels of employment falling, some firms continued to encounter problems attracting core trades, such as bricklayers, carpenters/joiners and plumbers and HVAC trades, during Q3 2008. That said, such problems were relatively uncommon and most of the required skills available to the majority of respondents.



Regional perspective

The variation in regional responses was wide in Q2 2008. Firms operating in Greater London were the most optimistic and the South East followed in close proximity. Responses from firms in Scotland and Wales suggest that they too have been so far resilient to the slowdown in industry activity. Both countries fared significantly better than the national average with their indicators standing at 119 and 117 respectively. Once again, Northern Ireland's industry performed relatively very poorly. At 79, its indicator was the lowest across the UK as a whole. Only the East of England's indicator was weaker.

Regional indicators are based on an index of firm's responses, weighted by firm's size, to the workload, expected workload and enquiries questions. They provide a measure of the relative strength of each region's construction industry. Please note: 100 represents the national average. A region with an indicator of more than 100 is performing relatively well, while a region with an indicator of less than 100 is under-performing compared to the national average.



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