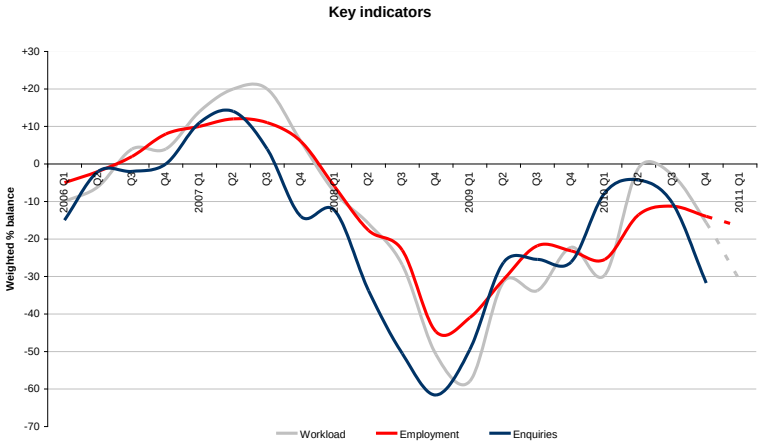
Federation of Master Builders

State of Trade Survey
Q4 2010

Summary

Construction workloads continued to decline in the final quarter of 2010, according to the latest FMB survey. The net balance was negative for a 12th successive quarter, meaning that the SME construction sector has now seen 3 years of declining workloads. The proportion of firms reporting higher workloads fell from 31% in Q3 to 22% in Q4, and those indicating declining workloads increased to 38%. There is expected to be no let up at the beginning of 2011 as workloads are expected to contract again. Almost 47% of respondents expect workloads to contract at the beginning of 2011, a significant increase from 34% in Q3. There was also a marked fall in the proportion of firms reporting higher levels of enquiries, which declined from almost 30% in Q3 to just 17% in Q4.

- **Continued fall in workloads:** Workloads remained negative across the board with conditions worsening in all sectors with the exception of the social new build housing sector. The proportion of firms reporting higher workloads in that sector rose from 10% in the third quarter to 13% in the final quarter of 2010. In contrast, there was a marked deterioration in public R&M sector workload, as more than half of firms (53%) reported falling levels of work in the sector.
- **Gloomy start to 2011 expected:** the outlook weakened significantly in the final three months of 2010 suggesting that the first three months of the year will be tough. Just 16% of respondents expect an increase in workloads compared with 28% in the third quarter of the year.
- **Weak outlook for public construction sectors:** expectations for public construction remain particularly downbeat, not entirely surprising given the raft of expenditure cuts that have been announced by the government. The outlook for the social RM&I sector saw an especially strong deterioration, as the proportion of firms expecting higher workloads in the sector dropped from 17% in the third quarter of the year to just 3% at the end of the year.
- **Staffing levels continue to decline:** the proportion of firms reporting an increase in their workforce fell to 17% from 20% in the previous quarter. More than half of respondents (55%) anticipate that employment levels will remain unchanged in the first six months of 2011, but 31% expect a contraction in workforces.



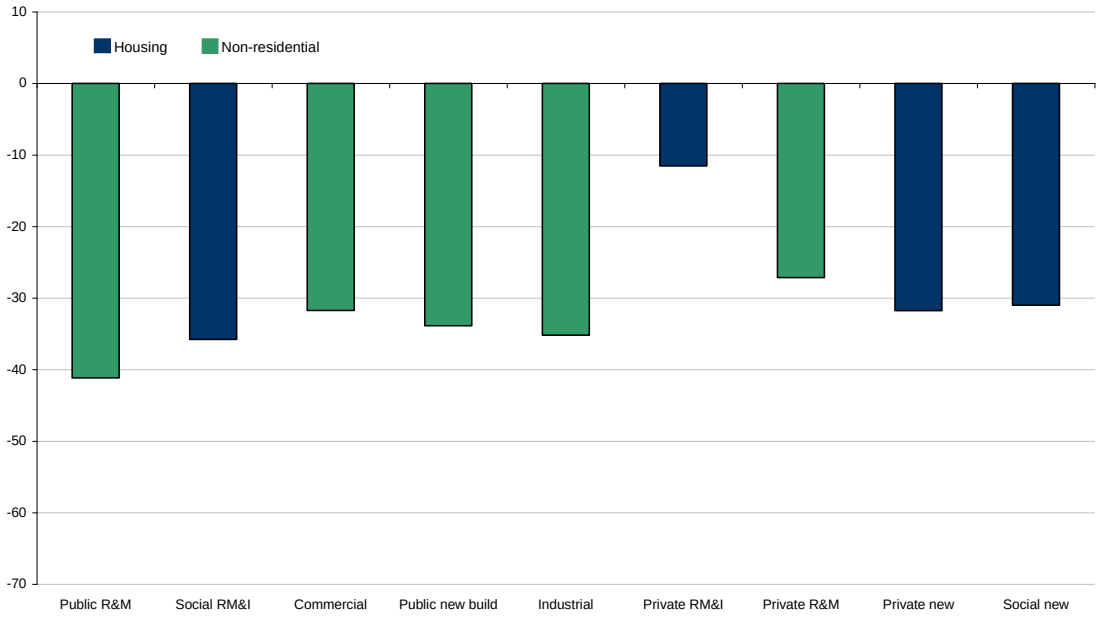
Please note: Q1 2011 reflects respondent's expectations for workload and employment.

Workload

Workload net balances were negative across the board in the final quarter of 2010 – the 12th successive quarter that this has been the case. The social new housing sector was the only one to see an improvement in its net balance, which rose by 2 points -31, reflecting positive sentiment from 13% of respondents. The net balance for the social RM&I sector was the most negative at -36 as around 48% of firms indicated that workloads in the sector had declined during the quarter. The industrial sector did not fare much better with a net balance of -35 as just 10% of respondents reported positive workload trends. The overall workload net balance fell by 13 percentage points to -16 as the proportion of respondents reporting higher workloads fell from 31% in the third quarter of the year to just 22%.

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 2010



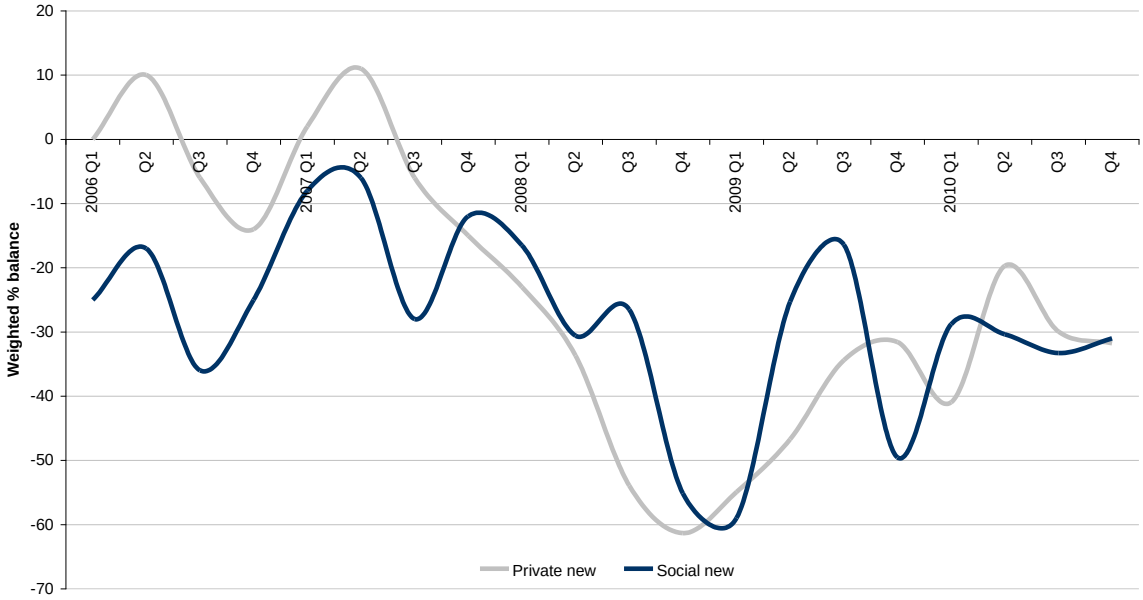
Residential workload

						Weighted % balances	*% balances*	
Workload	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4
Private new	-55	-47	-34	-32	-41	-20	-30	-32
Private RM&I	-42	-25	-17	-23	-25	-3	-8	-12
Social new	-59	-25	-16	-50	-29	-30	-33	-31
Social RM&I	-39	-40	-37	-38	-29	-25	-20	-36
Total Residential	-34	-42	-41	-40	-31	-16	-20	-24

- The **social new** housing sector was the only one to see an improvement in its net balance, which rose by 2 points to -31. The proportion of firms reporting higher workloads rose from 10% in the three months to September 2010 to 13% in the final quarter of 2010.

- The proportion of firms in the **private new** housing sector reporting higher levels of activity during the quarter rose from 12% to 17% in the final quarter of the year. However, those indicating that workloads had fallen also increased from 42% to 49%, giving a net balance of -32. This was a deterioration of 2 points on the previous quarter's figure.

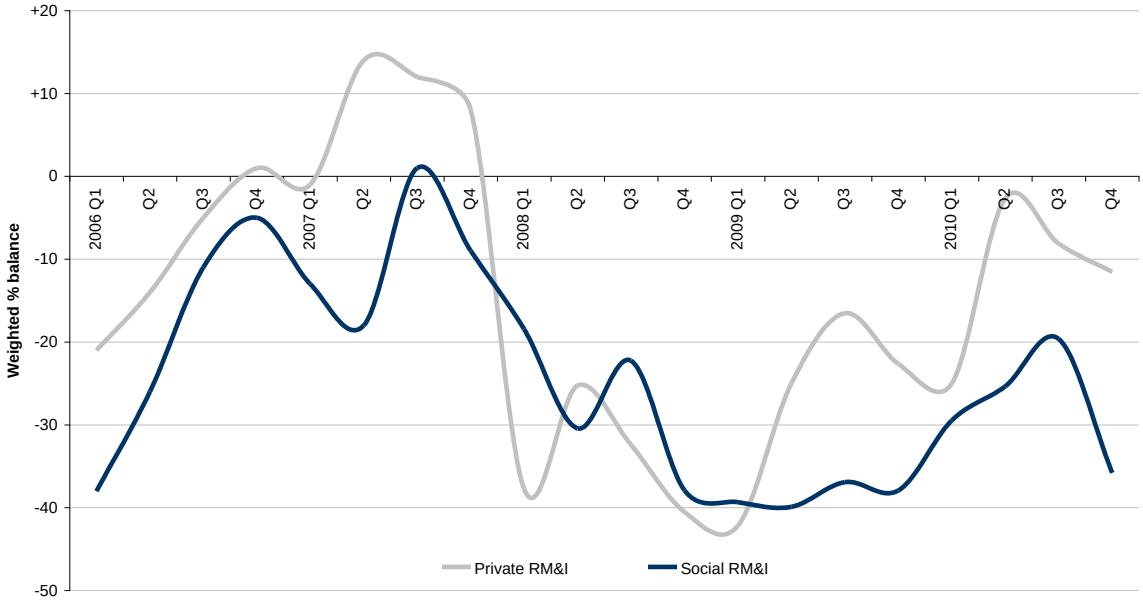
Residential historical weighted % balance - new build



- The **private housing RM&I** sector continued to have the least negative net balance across all the residential and non-residential sectors. However, the net balance fell by 4 points to -12, reflecting a slight fall in positive sentiment; in the third quarter of the year, around 24% of firms reported higher workloads but this has eased to 22% in the final three months of 2010.

- It was a different situation for the **social housing RM&I** which saw its net balance deteriorate by 16 percentage points to -36, its most negative reading for a year. This reflected a substantial shift towards negative sentiment from firms. In the third quarter of 2010, 35% of respondents reported that workloads had fallen compared with 48% in the three months to December 2010.

Residential historical weighted % balance - RM&I



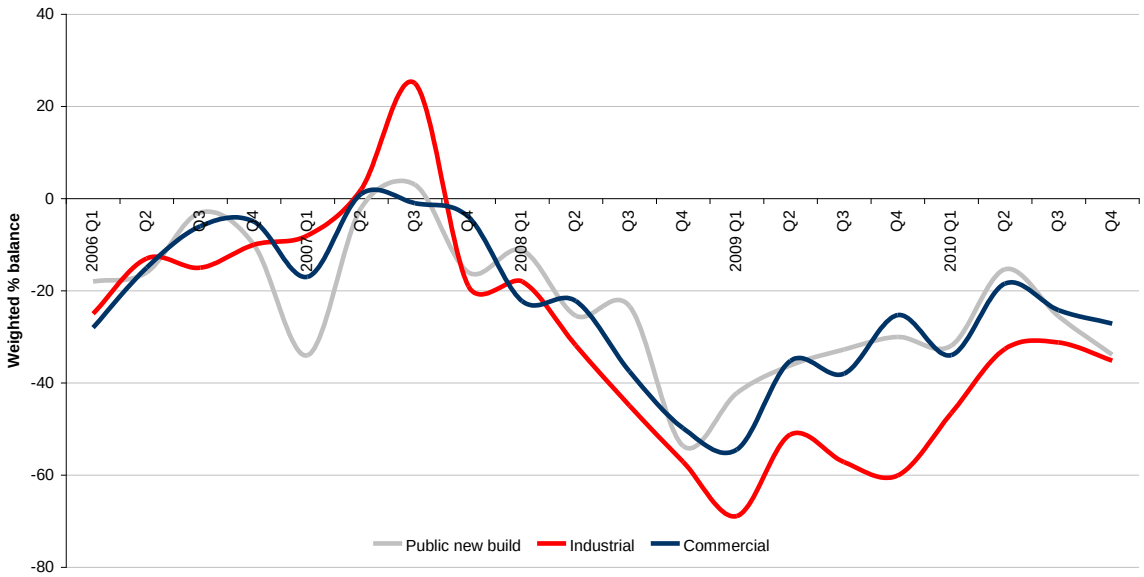
Non-residential workload

Weighted % balances

Workload	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4
Public new build	-42	-36	-33	-30	-32	-15	-26	-34
Public R&M	-47	-53	-43	-14	-38	-29	-22	-41
Industrial	-69	-51	-57	-60	-47	-33	-31	-35
Commercial	-58	-38	-45	-43	-37	-20	-23	-32
Private R&M	-54	-35	-38	-25	-34	-18	-24	-27
Total Non-Residential	-42	-34	-33	-32	-37	-23	-25	-33

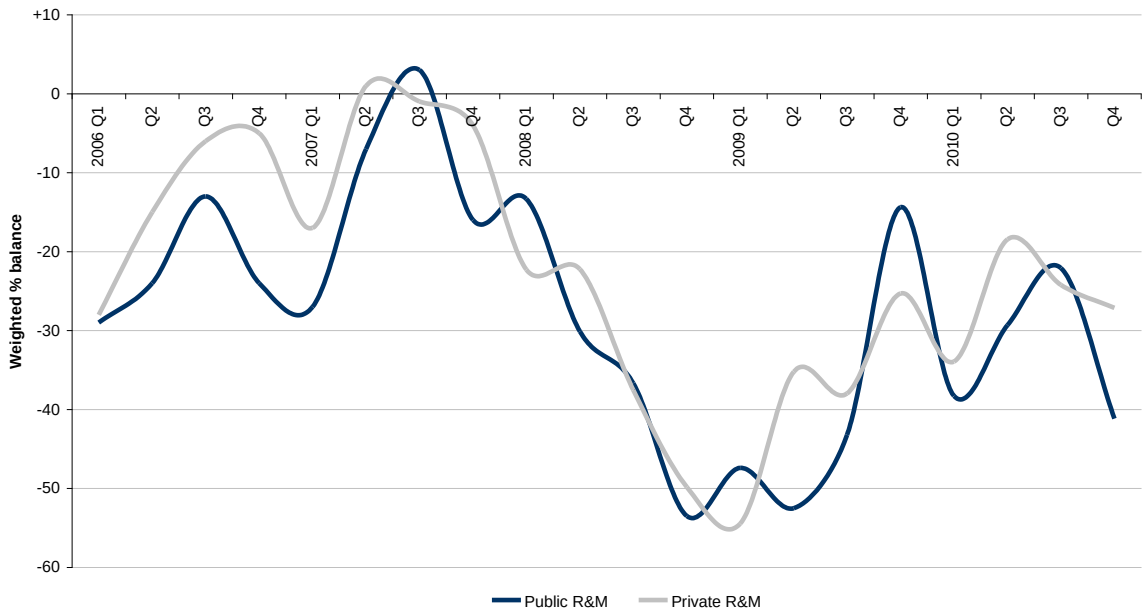
- Following two quarters of improvement, the net balance for the **industrial** sector deteriorated again in the final quarter of 2010. Around 10% of respondents indicated that workloads had increased during the quarter, compared with 17% in the third quarter of the year. The net balance deteriorated by 4 points to -35.
- The net balance for the **commercial** sector deteriorated by 9 points in the three months to December 2010 to -32. Whilst the proportion of firms reporting higher workloads fell to 14% (from 18% three months ago), the percentage of respondents indicating that workloads had fallen increased, rising from 41% in the third quarter of 2010 to 46% in the final three months of the year.
- Around 16% of respondents indicated an increase in workloads for the **public new build** sector but almost half (49%) reported that workloads had fallen in the three months to December 2010. The resulting net balance of -34 was 8 percentage points below the third quarter of the year.

Non-residential historical weighted % balance chart - new work



- After seeing a marked improvement in the third quarter of the year, the net balance for the **public R&M** sector deteriorated by 19 percentage points in the final three months of 2010. This was the strongest deterioration recorded across both the residential and non-residential sectors. The proportion of firms indicating that workloads had fallen during the quarter increased substantially, rising from 40% in the three months to September 2010 to 53% in the final quarter of the year.
- The **private R&M** sector saw a much more modest deterioration in its net balance which fell by 3 points to -27. This reflected positive sentiment from 15% of respondents and negative sentiment from 42% of firms.

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



Expected workload and enquiries

Firms remained gloomy regarding the outlook over the coming three months in the final quarter of 2010, with the net balances for expected workloads deteriorating across the board. The overall expected workloads net balance plummeted by 25 percentage points to -31, the most negative since the first quarter of 2009. The proportion of firms expecting higher workloads fell from 28% in the third quarter of the year to just 16% in the final three months of 2010. At the same time, around 47% of firms anticipated falling workloads, compared with just 34% in the previous quarter.

The net balance for enquiries also deteriorated in the three months to December 2010. It fell by 22 points to -32, the most negative reading for 8 quarters. Just 17% of firms reported that levels of enquiries had increased compared to the third quarter of the year, whilst 49% indicated that they had declined.

Residential expected workload and enquiries

Net balances for expected workloads in the residential sectors remained negative across the board in the final quarter of 2010. The net balances for the social sectors, both new work and RM&I, were the most negative at -44 and -43, respectively. This is not particularly surprising given the announcement of a substantial cut in funding for public housing in last Autumn's Comprehensive Spending Review.

- In the final quarter of 2010, the expected workloads net balance for the **private new** housing sector deteriorated by 10 percentage points to -33, its most negative reading since the first quarter of 2009. This was largely due to a rise in those firms with negative expectations compared with three months ago. In the third quarter of the year around 40% of firms expected falling workloads but this figure increased to almost half of respondents (49%) in the final three months of the year.

- The net balance for the **private RM&I** sector deteriorated by 14 points to -29 but remained the least negative of all the residential and non-residential sectors. Around 14% of respondents had positive expectations whilst 43% thought that workloads in the sector would decline at the beginning of 2011. Firms reported concerns about the effect of the increase in VAT on the sector.

- The **social RM&I** sector saw a particularly marked deterioration in its net balance in the final three months of 2010, which fell by 22 points to -43. The proportion of respondents

expecting higher workloads over the coming three months fell sharply from 17% in the third quarter of the year to just 3% and those with negative expectations increased from 38% in the third quarter of the year to 51%.

- More than half (52%) of respondents had negative expectations regarding workloads in the **social new** housing sector compared with just 40% three months ago. The net balance deteriorated by 16 points to -44, its most negative reading for a year. The government announced that just £4.4bn of funding for public housing would be available over the 2011-2015 period, compared with the £8.4bn that was available under the 2008-2011 National Affordable Housing programme.

Weighted % balances

Expected Workload	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4
Private new	-53	-25	-18	-13	-8	-5	-23	-33
Private RM&I	-46	-17	-20	-24	-9	2	-15	-29
Social new	-25	-25	-30	-48	-24	-20	-27	-44
Social RM&I	-42	-28	-35	-32	-19	-12	-21	-43
Total Residential	-44	-23	-26	-30	-13	-6	-20	-35
Enquiries								
Private new	-64	-40	-31	-30	-13	-23	-33	-44
Private RM&I	-46	-31	-23	-22	-21	-12	-22	-33
Social new	-50	-44	-31	-39	-23	-28	-49	-52
Social RM&I	-52	-49	-43	-32	-29	-25	-37	-56
Total Residential	-53	-39	-40	-32	-21	-20	-32	-43

Non-residential expected workload and enquiries

Net balances for expected workloads deteriorated across the board in the non-residential sectors in the final quarter of 2010. This is not surprising given the wide ranging spending cuts announced by the government, including the axing of the Building Schools for the Future (BSF) programme and various measures in the Comprehensive Spending Review.

- Following a marked deterioration in the third quarter of the year, the net balance for the **public new build** sector declined by just 4 points to -46. However this was the most negative reading since the final quarter of 2008. Just 6% of respondents anticipated an increase in workloads in the sector in the first quarter of 2011, compared with 52% expecting a decline.

- A decline of 15 percentage points took the net balance for the **public R&M** sector to -45, reflecting positive sentiment from just 6% of respondents, compared with 15% three months ago. Those with negative expectations rose from 44% to 51%.

- The **commercial** sector also saw a substantial deterioration in its net balance which declined by 12 percentage points to -33. Around 12% of firms expected workloads to increase over the coming three months whilst 46% anticipated a decline. This compared to 18% and 39%, respectively, in the previous quarter. However it was the least negative net balance of all the non-residential sectors.

- Just 6% of respondents have positive expectations for workloads in the **industrial** sector, half the level three months ago. However, more than half of firms (53%) anticipate no change in workloads compared with a figure of 44% three months ago. The net balance for expected workloads deteriorated by 3 points to -36.

- The **private R&M** sector saw the weakest deterioration across all sectors, with its net balance for expected workloads falling by just 2 points to -36. Whilst 46% of firms have a negative outlook for workloads in the sector, just 10% anticipated that they would increase.

Weighted % balances

Expected Workload	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4
Public new build	-37	-14	-31	-28	-22	-15	-42	-46
Public R&M	-46	-19	-39	-26	-20	-21	-30	-45
Industrial	-58	-26	-45	-36	-29	-17	-32	-36
Commercial	-43	-20	-35	-28	-18	-15	-21	-33
Private R&M	-48	-18	-31	-20	-16	-16	-34	-36
Total Non-Residential	-46	-19	-37	-28	-20	-17	-31	-38
Enquiries								
Public new build	-44	-41	-46	-41	-18	-21	-35	-58
Public R&M	-54	-39	-39	-26	-17	-34	-29	-65
Industrial	-65	-49	-44	-49	-29	-29	-31	-42
Commercial	-58	-39	-35	-35	-23	-13	-25	-30
Private R&M	-55	-38	-38	-27	-22	-18	-30	-47
Total Non-Residential	-55	-41	-40	-35	-22	-22	-30	-47

Materials

A large number of firms continued to indicate that weak demand for materials had reduced delivery times, but some delays were reported for a range of materials. The majority of firms reported shorter delays, but longer delays of more than 2 months were reported for steel, pre-cast concrete and black top.

Shorter delays of between 2 weeks and 2 months were reported for timber, brick/blocks and steel.

Employment and labour

Employment levels continued to decline in the three months to December 2010. The net balance deteriorated by 3 points to -14. The proportion of firms reporting that employment levels had increased fell to 17% from 20% three months ago. However, those reporting that staffing levels had remained unchanged during the quarter increased slightly from 49% to 52%.

The outlook for construction employment during the first half of 2011 remains downbeat, with a negative net balance of -17. Around 14% of firms have a positive outlook for employment, down from 19% in the third quarter of the year, whilst 31% expect to reduce staffing levels. However, more than half of respondents (55%) anticipate no change in employment levels over the coming 6 months.

Both specialist and general builders continued to report declining employment levels during the final three months of 2010, the 10th successive quarter that this has been the case. However, whilst the net balance for general builders deteriorated by just 1 point to -14, the net balance for specialists dropped by 9 points to -15, its most negative reading since the first quarter of the year. The proportion of specialists reporting an increase in employment declined to 13% from 20% in the previous quarter, but those indicating that their workforces had remained unchanged edged up from 56% to 59%. Around 18% of general builders reported higher levels of employment, whilst 32% indicated falling staffing levels during the quarter.

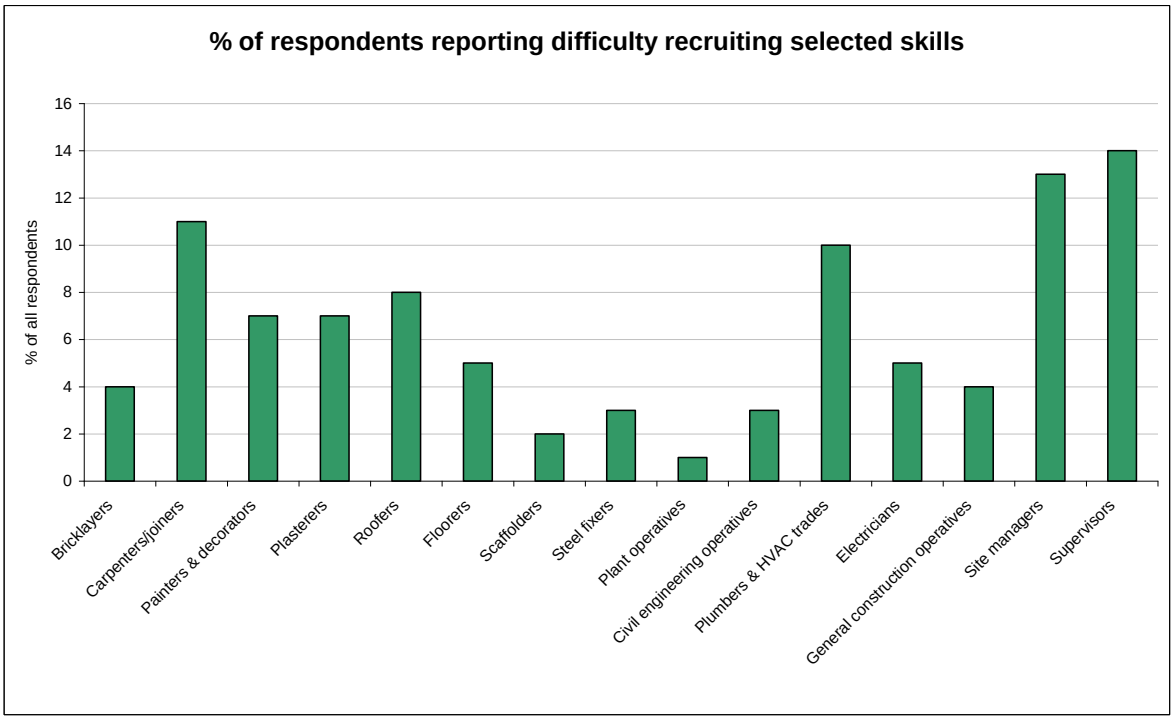
Employment among both specialist and general builders is expected to decline over the coming six months. The net balance for specialists was only slightly negative at -1, following 3 quarters of non-negative readings. The majority of firms (59%) anticipate no change in specialist employment, but one-fifth anticipate an increase. The net balance for general builders deteriorated by 10 points to -21, its most negative reading since the first quarter of 2009. Around 34% of firms anticipate a fall in employment, up from 28% three months ago.

Weighted % balance

Employment	*2009 Q1*	*Q2*	*Q3*	*Q4*	*2010 Q1*	*Q2*	*Q3*	*Q4*
All builders	*-41*	*-34*	*-24*	*-23*	*-26*	*-17*	*-13*	*-14*
All specialists	*-41*	*-17*	*-10*	*-23*	*-22*	*-1*	*-4*	*-15*
Total	*-41*	*-31*	*-22*	*-23*	*-25*	*-14*	*-11*	*-14*

Expected employment	*2009 Q1*	*Q2*	*Q3*	*Q4*	*2010 Q1*	*Q2*	*Q3*	*Q4*
All builders	*-33*	*-19*	*-17*	*-6*	*-3*	*-7*	*-11*	*-21*
All specialists	*-34*	*-4*	*-4*	*-22*	*+4*	*+0*	*+0*	*-1*
Total	*-33*	*-16*	*-15*	*-15*	*-2*	*-5*	*-9*	*-17*

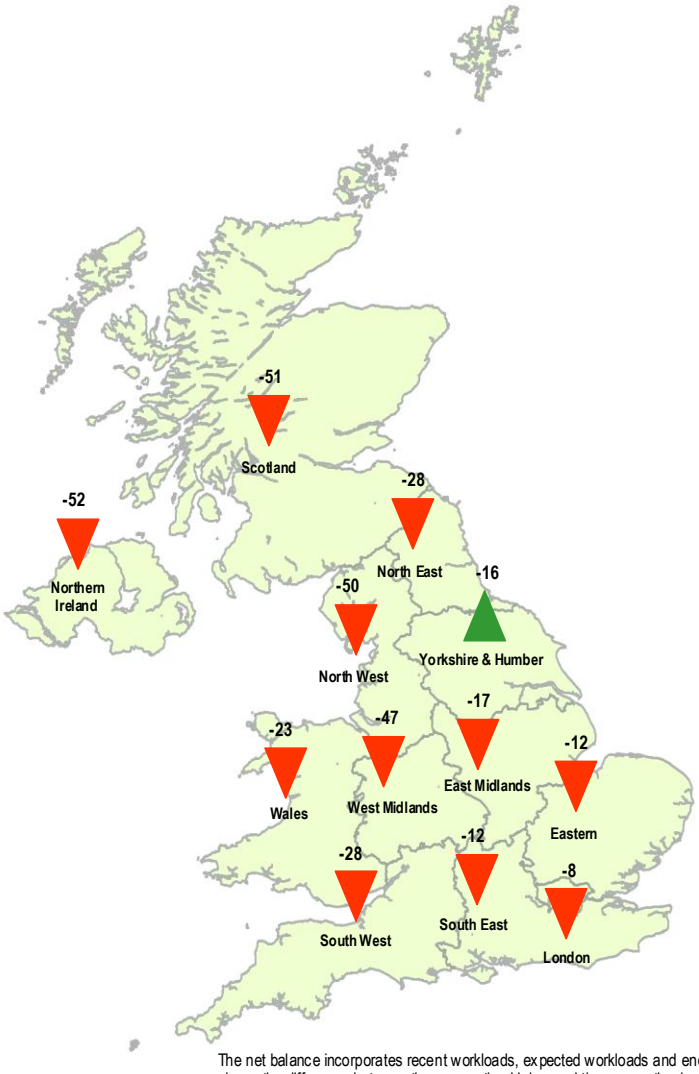
There were some reports of skill shortages across a number of trades, even as employment and output continued to fall across the industry. There were difficulties reported recruiting supervisors, site managers, carpenters/joiners and plumbers & HVAC trades.



Regional perspective

Net balances were negative across all 12 regions and devolved nations in the final quarter of 2010. Yorkshire & Humber was the only region to see an improvement in its net balance, whilst still remaining negative, following a marked deterioration in the third quarter of the year. The strongest falls in net balances were seen in Scotland and the West Midlands, declining by 40 and 35 points, respectively.

The most negative net balance was for Northern Ireland at -52, a fall of 11 points on the previous quarter's figure. Around 7% of weighted responses were positive, almost half the proportion three months ago (13%), whilst 59% were negative. A 40-point deterioration took Scotland's net balance to -51, its most negative since the first quarter of 2009. Sentiment deteriorated markedly during the final quarter of the year, with positive sentiment reported by just 6% of weighted responses, compared with 26% just three months ago. Around 57% of weighted responses were negative, an increase from 36% in the third quarter of the year. Following a marked improvement in the three months to September 2010, the net balance for Wales deteriorated by 21 percentage points to -23. This reflected a substantial decline in the proportion of weighted responses that were positive – just 11% were positive in the final quarter of the year compared with 32% in the previous quarter. Just over 15% of weighted responses were positive in England, compared with 24% three months ago. The proportion of negative weighted responses increased to 39%, resulting in a net balance of -24, 13 percentage points below the previous quarter.



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

	2009 Q1	*Q2*	*Q3*	*Q4*	*2010 Q1*	*Q2*	*Q3*	*Q4*
East Midlands	-55	-14	-36	-58	-14	-13	-15	-17
Eastern	-43	-9	-14	+6	-4	-0	+6	-12
London	-48	+3	-29	+5	-1	+12	+6	-8
North East	-55	-24	-14	+5	-24	-27	-6	-28
North West	-53	-38	-9	+6	-15	-6	-26	-50
South East	-53	-44	-13	-0	-28	-10	-5	-12
South West	-60	-19	-22	-39	-12	+9	-16	-28
West Midlands	-43	-15	-28	-64	-22	-26	-12	-47
Yorks & Humber	-42	-33	-19	-6	-14	+3	-32	-16

Weighted % balance

	2009 Q1	*Q2*	*Q3*	*Q4*	*2010 Q1*	*Q2*	*Q3*	*Q4*
England	-50	-35	-24	-26	-16	-6	-11	-24
Northern Ireland	-68	-31	-64	-65	-51	-41	-41	-52
Scotland	-52	-38	-37	-19	-39	-4	-11	-51
UK	-48	-23	-25	-24	-19	-9	-12	-29
Wales	-30	-24	-25	-41	-6	-31	-2	-23

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 and is the only survey of its kind to focus exclusively on SMEs throughout the construction industry. The survey is dispatched to a rolling stratified sample of 2,000 FMB Members each quarter. Around 400 responses are received and these are weighted according to turnover.

The typical firm responding is either a general builder or building contractor directly employing 9 people, and turning over between £100,000 and £249,999 per annum. The SME house builders responding are smaller in number but still statistically significant and able to provide robust market data.

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