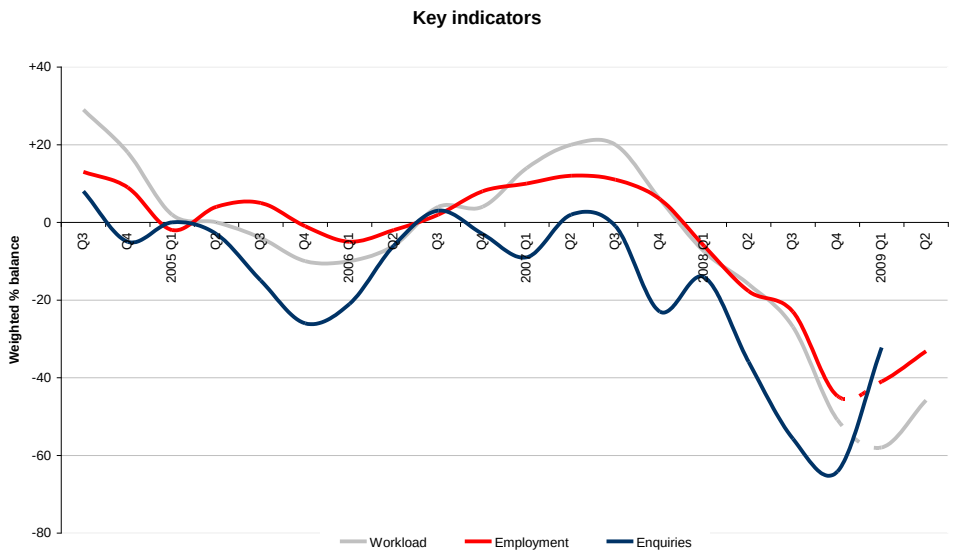
Federation of Master Builders

State of Trade Survey
Q1 2009

Summary

The first quarter of 2009 has shown a slight fall in the rate of deterioration in activity in some sectors of the construction industry, according to the latest FMB survey. However, conditions remain very tough and any positive changes are from a very low base. Uncertainty remains an important factor constraining demand, particularly in the housing market, although workload balances did improve slightly for the private housing new build sector. Employment conditions picked up marginally, but were still solidly negative, despite some firms reporting skills shortages for certain trades.

- **Workloads continue to decline:** As a whole, the workload balance was seven points lower at -58, with almost 65% of firms reporting a decline. However, although workloads remained negative across the board in Q1 2009, three of the nine sectors did see a slight improvement in the balance, indicating a slowing in the rate of decline.
- **Industrial sector badly hit:** the industrial sector was the worst hit, with the net balance dropping 12 points to -69. Almost three-quarters of respondents (73%) reported a decline in work. The social housing and commercial sectors continued to suffer, with 65% and 66% of respondents reporting lower workloads respectively.
- **Firms have slightly less pessimistic outlook:** the net balance of -45 in Q1 2009 for workloads is still highly negative, but was a seven point improvement on the previous quarter as slightly fewer firms (57%) predicted a further decline over the coming quarter.
- **Employment situation remains downbeat:** employment levels continued to fall, although there was a slight improvement in the net balance (-41). Fewer than half of respondents (42%) expected to cut staffing levels over the coming six months, better than in the previous quarter.



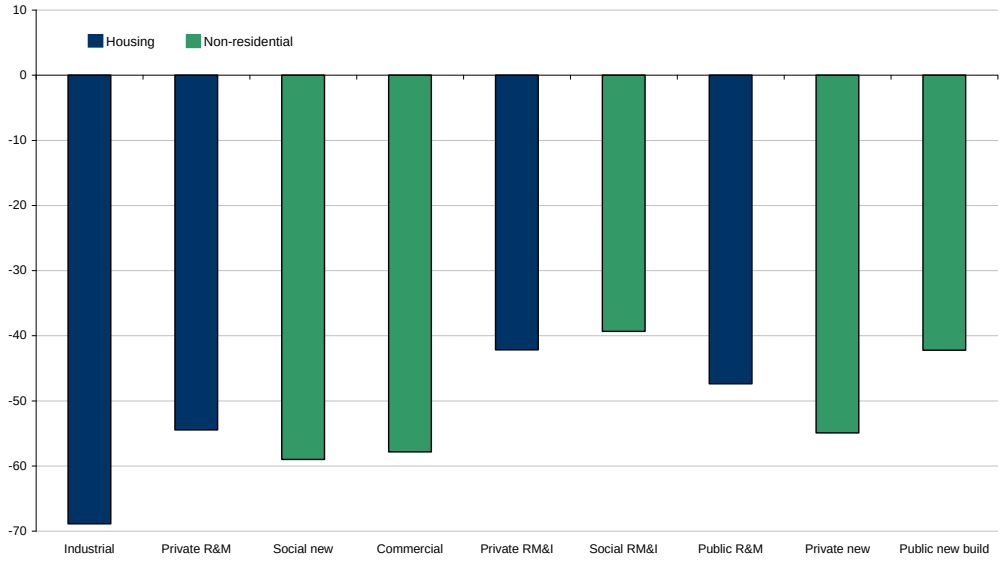
Please note: Q2 2009 reflects respondent's expectations for workload and employment.

Workload

Although net balances remained negative across the board in Q1 2009, they improved in three of the nine sectors – private housing, public non-residential new build and public non-residential R&M. The improvement in the balance indicates a slowing in the rate of decline rather than an increase in activity, as the balance remains negative. The public non-residential new build sector saw the strongest improvement in its net balance, rising to -42. This reflected 14% of builders indicating an increase in workloads. Industrial workloads were the worst hit, with the net balance falling sharply to -69, as 73% of respondents reported lower workloads in the first quarter of the year.

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 - Q1 2009



Residential workload

Weighted % balances

Workload	2007 Q3	Q4	2008 Q1	Q2	Q3	Q4	2009 Q1
Private new	-6	-15	-23	-34	-54	-61	-55
Private RM&I	+12	+8	-38	-25	-32	-41	-42
Social new	-28	-12	-17	-31	-27	-55	-59
Social RM&I	+1	-9	-18	-30	-22	-38	-39

- The rate of deterioration in the **private housing** sector slowed slightly in the three months to March as more than 30% of firms indicated that workloads in the sector had stabilised, remaining unchanged from three months ago. However, the net balance still remained strongly negative at -55. Mortgage conditions remain tough and there is a general feeling that house prices may fall further, compounding already weak demand in the sector, as potential buyers continue to hold fire. Until confidence returns, demand is unlikely to pick up.

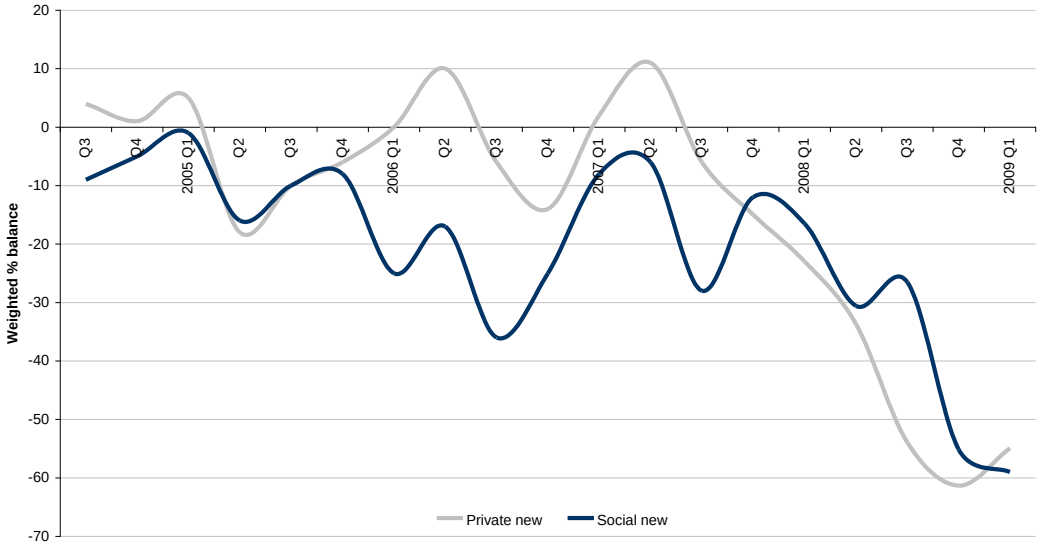
- The net balance for the **social housing** sector fell to -59 in Q1 2009, with 65% of respondents reporting lower workloads; this was more than the 61% three months ago. Increases in government funding for social housing are taking time to filter through, as delivery methods need to be looked at in light of the reduction in section 106 agreements.

- Workloads in the **private housing RM&I** sector continued to decline in Q1 2009, as consumers remained reluctant to spend on “big ticket” improvements in light of the ongoing

economic uncertainty. However, over 13% of respondents reported higher workloads, whilst almost 56% indicated a decline.

- The **social housing RM&I** sector was the strongest of the four housing sectors, although, at -39, the net balance still pointed to a deterioration in workloads. Around 44% of firms saw no change in workloads in the sector, whilst 48% experienced a fall.

Residential historical weighted % balance - new work



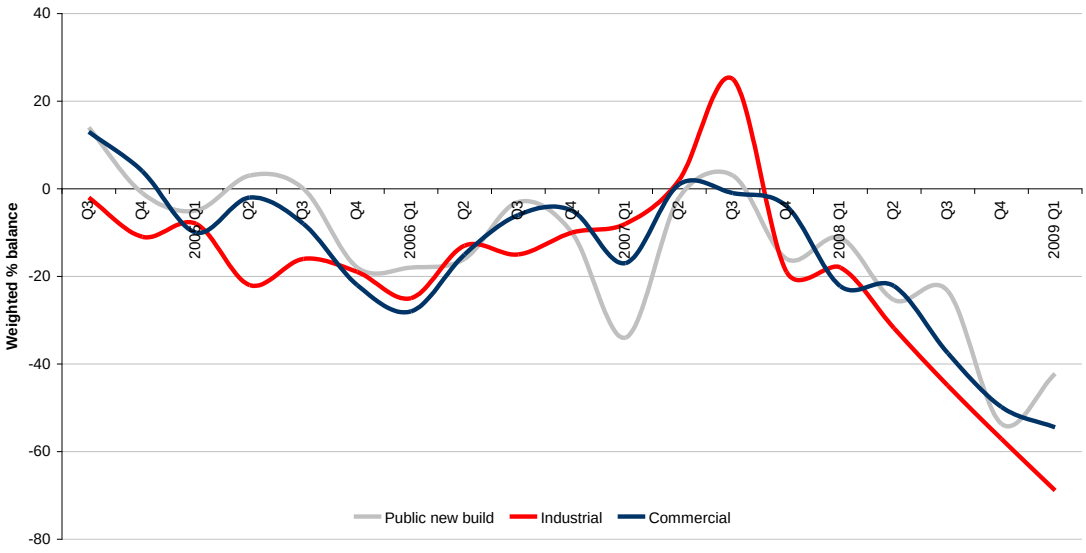
Non-residential workload

Weighted % balances

Workload	2007 Q3	Q4	2008 Q1	Q2	Q3	Q4	2009 Q1
Public new build	+3	-16	-11	-25	-23	-54	-42
Public R&M	+3	-16	-13	-30	-37	-53	-47
Industrial	+25	-19	-18	-32	-45	-57	-69
Commercial	+22	+2	-21	-19	-24	-55	-58
Private R&M	-1	-4	-22	-22	-38	-50	-54

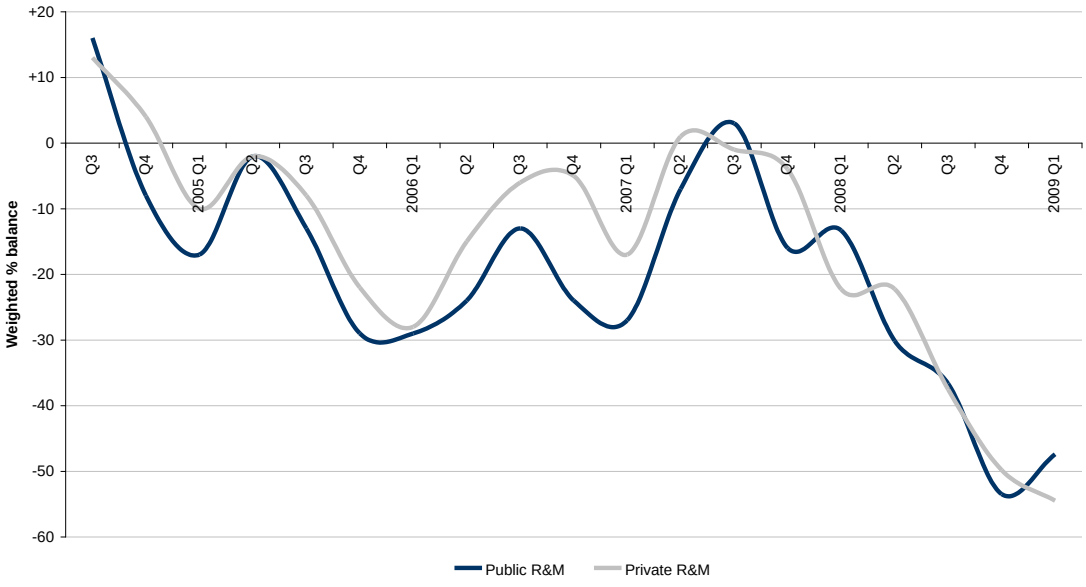
- The warehouse boom came to an end during 2008 and, even with a weak pound, manufacturers are struggling. These factors, coupled with a very poor outlook, have contributed to a marked reduction in workloads in the **industrial** sector. Almost three quarters of firms reported a drop in work, compared with just 4% that indicated an increase. This gave a net balance of -69, 12 points below the previous quarter's figure.
- In contrast, the **public new build** sector saw a solid reduction in the rate of deterioration in Q1 2009. Despite the net balance remaining significantly negative at -42, this was 12 points above Q4 2008's reading. Workloads increased for almost 14% of respondents, whilst 31% reported no change compared with the last quarter.
- Given the weak economic outlook, the negative net balance for the **commercial** sector is hardly surprising, as planned company expansions and new office moves are likely to have been put on hold for the foreseeable future. A reduction in workloads was reported by 66% of firms.

Non-residential historical weighted % balance chart - new work



- The **public non-residential R&M** sector saw a slight improvement in its negative net balance, as 31% of respondents reported no change in their workloads from three months ago. However, 56% saw a decline, giving a net balance of -42.
- **Private non-residential R&M** workloads fell for a seventh consecutive quarter in Q1 2009, with the net balance deteriorating slightly to -54. This reflected 63% of firms reporting a reduction in workloads.

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



Expected workload and enquiries

It would be premature to say that firms are optimistic with regards to future conditions in the construction industry, but companies are definitely less pessimistic. The net balance for expected workloads is -45 in Q1 2009, improving on the -52 in the previous quarter. Around 57% of companies have a negative outlook for the industry (compared with 61% three months ago), whilst one-eighth of firms expect an improvement over the coming quarter (just 9% were optimistic in Q4 2008). Some 30% anticipate no change.

Residential expected workload and enquiries

Although housing market conditions are still incredibly difficult, sentiment is improving, particularly for the social housing sector. However, workloads are still expected to fall across the housing sector, both public and private.

- The expected workload balance of -53 for the **private new build** sector reflected a pessimistic outlook by 61% of companies, whilst 8% anticipated an increase in workloads in the second quarter of the year. This is a slight improvement on three months ago, when the net balance was -54 and 67% of respondents expected workloads to decrease.

- Expectations for the **social new housing** sector rebounded strongly in Q1 2009, although the net balance remained negative at -25. However, this was 36 points above the previous quarter's reading of -61. Almost one-fifth of respondents predicted an increase in workloads over the coming quarter compared with 45% anticipating a decline. Social housing providers have been struggling with the fall-off in private development affecting the delivery of social housing through section 106 agreements. This situation is now changing, with registered social landlords (RSLs) and the Homes and Communities Agency (HCA) looking to work around this, which may account for the improvement in sentiment.

- The **social RM&I** sector also saw a significant uplift in sentiment, with the net balance improving by 21 percentage points to -42. However, around 48% still anticipate a reduction in workloads in this sector, whilst 46% predict no change.

- The **private RM&I** sector remains badly affected by low consumer confidence and spending cut backs as a result of continued uncertainty, with new job losses across the economy announced almost every week. The net balance has improved slightly to -46, reflecting positive expectations from almost 10% of companies and expected reductions in workloads in the sector by around 56%.

Weighted % balances

Expected Workload	2007 Q3	Q4	2008 Q1	Q2	Q3	Q4	2009 Q1
Private new	+17	-8	-23	-40	-57	-54	-53
Private RM&I	+5	-1	-2	-21	-36	-52	-46
Social new	0	-14	-8	-17	-47	-61	-25
Social RM&I	+3	-11	-11	-26	-43	-63	-42
Enquiries							
Private new	-17	-22	-33	-53	-65	-66	-64
Private RM&I	+4	-16	-26	-36	-51	-65	-46
Social new	-30	-21	-15	-46	-53	-65	-50
Social RM&I	-6	-16	-20	-35	-50	-71	-52

Non-residential expected workload and enquiries

Expectations improved across the non-residential sectors, although there was still an overall pessimistic outlook. Sentiment was slightly more positive in the public sector.

- The **industrial** sector saw the most negative balance in Q1 2009, although at -58, it was a slight improvement on the end of last year. Conditions remain bleak in the manufacturing sector, with shorter working weeks and redundancies widespread. Around 65% of firms predict falls in construction work in this sector over the coming three months, and just 7% anticipate an increase.

- The **private non-residential R&M** sector expected workload balance was also significantly negative at -48, but it was a 23 percentage-point improvement on last quarter's dire figure. A decrease in workloads was anticipated by 56% of respondents.

- The expected workload balance also improved substantially for the **public non-residential R&M** sector, increasing 21 percentage points to -46, but nevertheless remained pessimistic. Workloads were expected to remain unchanged by 38% of firms, whilst 54% predicted a decline.

- The outlook for the **commercial** sector is still fairly downbeat, with 57% of companies expecting a reduction in workloads. That said, the net balance of -43 was a strong improvement on Q4 2008's figure.

- Around 48% of firms predicted a fall in workloads in the **public non-residential new build** sector, whilst 40% expected no change. The resulting net balance of -37 was the least negative of the non-residential sectors. However, these gloomy figures are surprising given the latest official orders data, a fairly good barometer of future activity; public non-residential construction orders jumped 31% during 2008, according to the ONS (Office for National Statistics). One explanation of these differences could be due to FMB members being further down the sub-contractor chain, and thus they may be yet to receive the work.

Weighted % balances

Expected Workload	2007 Q3	Q4	2008 Q1	Q2	Q3	Q4	2009 Q1
Public new build	-12	-13	-9	-15	-40	-53	-37
Public R&M	-6	-13	-5	-30	-37	-67	-46
Industrial	+2	-11	+0	-25	-44	-64	-58
Commercial	+9	-6	-15	-19	-42	-61	-43
Private R&M	-7	-10	-12	-21	-44	-71	-48
Enquiries							
Public new build	+1	-17	-17	-27	-49	-55	-44
Public R&M	+5	-19	-13	-38	-51	-65	-54
Industrial	+1	-22	-11	-39	-54	-61	-65
Commercial	+11	-10	-24	-32	-55	-64	-58
Private R&M	-1	-23	-14	-36	-56	-64	-55

Materials

Shortages of materials were not commonly reported during Q1 2009, with the majority of firms indicating that lower levels of activity had led to reduced demand and had therefore helped improve delivery times. Shorter delays of between two weeks and two months were more common than longer delays.

Respondents reported delays across a range of materials, with aggregates and roofing materials having slightly longer delays.

Employment and labour

Employment levels across the industry continued to decline in the first quarter of 2009, although the net balance was somewhat less negative at -41, suggesting that conditions may have improved very slightly. Nevertheless, this still pointed to a gloomy employment situation in the industry. Around 49% of firms reported lower staffing levels compared with the previous quarter, whilst just 8% indicated that they had hired additional staff.

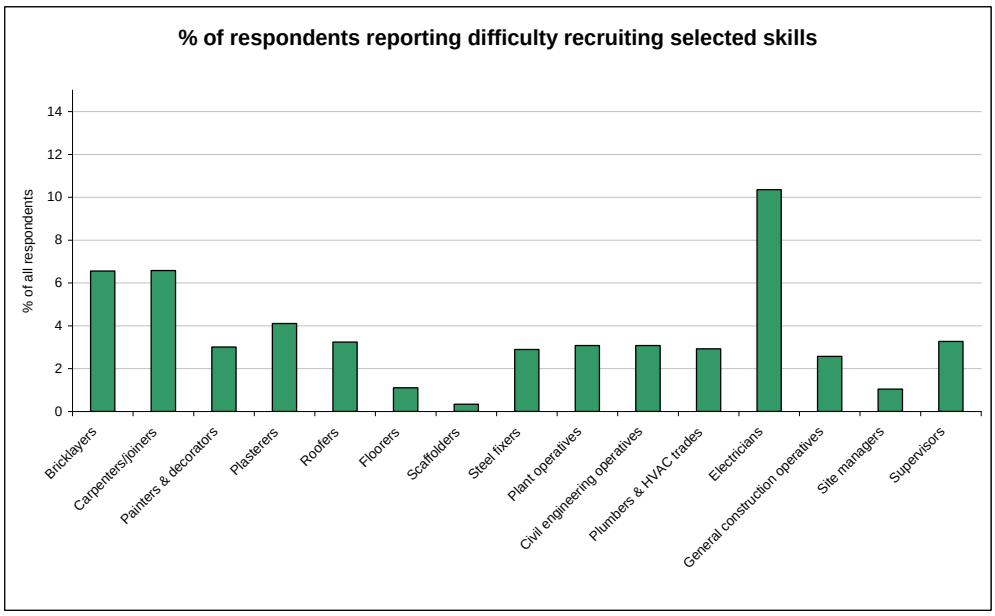
The outlook for employment in the construction has improved since the last quarter, with just 42% of firms anticipating a reduction in staffing levels at their company over the coming six months (compared with 52% in Q4 2008). However, although 10% of respondents expected to add to their workforces, 47% predicted no change.

The picture was similar for both specialist and general builders over the past quarter, and the same is expected going forward, looking at the net balances. However, these similar net balances mask differing trends; 13% of specialist builders reported higher employment and 54% indicating lower staffing levels; for general builders, the figures were 7% and 48%, respectively. Over the next six months, just 5% of specialist builders anticipate adding to their workforces, compared to a figure of 11% for general builders.

					Weighted % balance		
Employment	*2007 Q3*	*Q4*	*2008 Q1*	*Q2*	*Q3*	*Q4*	*2009 Q1*
All builders	*+13*	*+4*	*-6*	*-22*	*-22*	*-41*	*-41*
All specialists	*+3*	*+18*	*-5*	*+1*	*-27*	*-58*	*-41*
Total	*+11*	*+6*	*-6*	*-18*	*-23*	*-44*	*-41*

Expected employment	*2007 Q3*	*Q4*	*2008 Q1*	*Q2*	*Q3*	*Q4*	*2009 Q1*
All builders	*+11*	*0*	*+5*	*-25*	*-38*	*-45*	*-33*
All specialists	*+18*	*+11*	*+17*	*-1*	*-6*	*-43*	*-34*
Total	*+12*	*+2*	*+8*	*-20*	*-32*	*-44*	*-33*

There is much commentary on the falls in construction activity and employment, but a number of firms are still reporting skills shortages for a number of core trades, such as electricians, bricklayers and carpenters/joiners. However, these shortages have only been reported by a small number of respondents, and most firms are experiencing no difficulties finding workers with the necessary skills. These findings are still surprising considering the number of 'reported' job losses – it seems to back up the theory that firms are trying to retain skilled workers even as workloads fall.

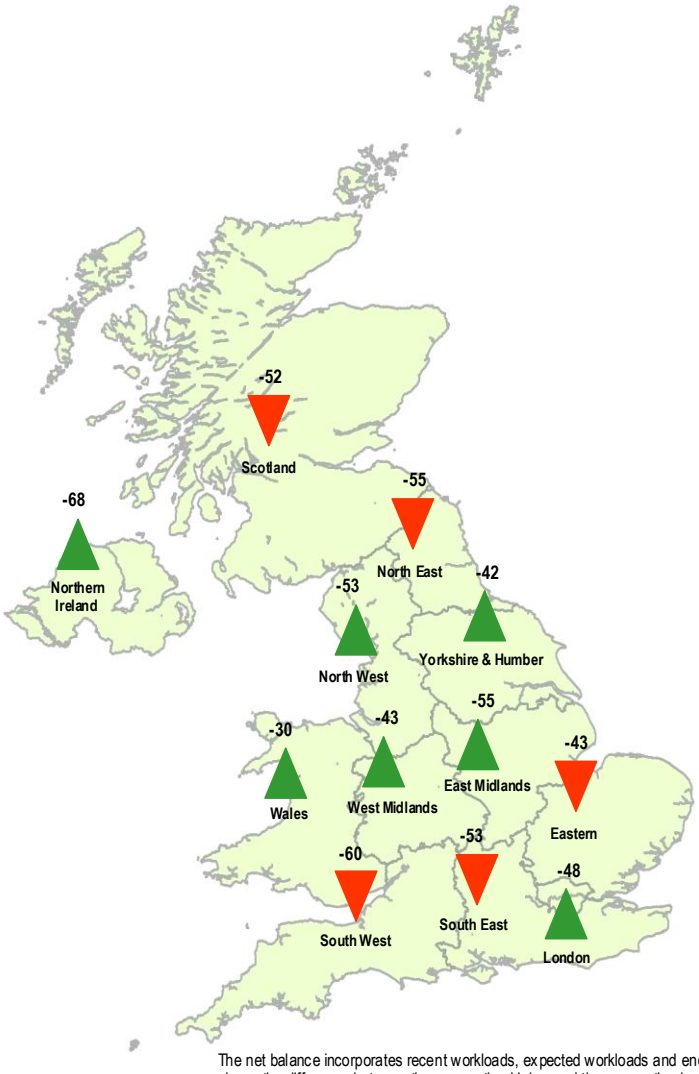


Regional perspective

There were strong variations in regional performances in the first quarter of 2009, although net balances remained negative across the board.

The net balance in Wales was -30, significantly less negative than the previous quarter, as 11% of weighted responses were positive. This was higher than the all-UK figure of 9% of weighted responses. Firms in the principality reported the best trading environment of the 12 regions and nations. Strong improvements in opinion were also seen in Yorkshire & Humber and the East Midlands, although around 46% of weighted responses in both regions were still negative. At the other end of the scale, those in Northern Ireland saw the least conducive trading conditions, although, again, the net balance was slightly less negative at -68. Around 64% of weighted responses from the province were negative, the highest figure across all the regions. In Scotland, the net balance fell 21 points to -52 in the first quarter of the year, as 56% of weighted responses were negative. This was surprising considering that output in Scotland rose by almost 2%, year-on-year, in 2008, in contrast to the decline seen across Great Britain as a whole, and the 12% fall in new orders during 2008 was a less strong decline than the national figure of 16%.

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.

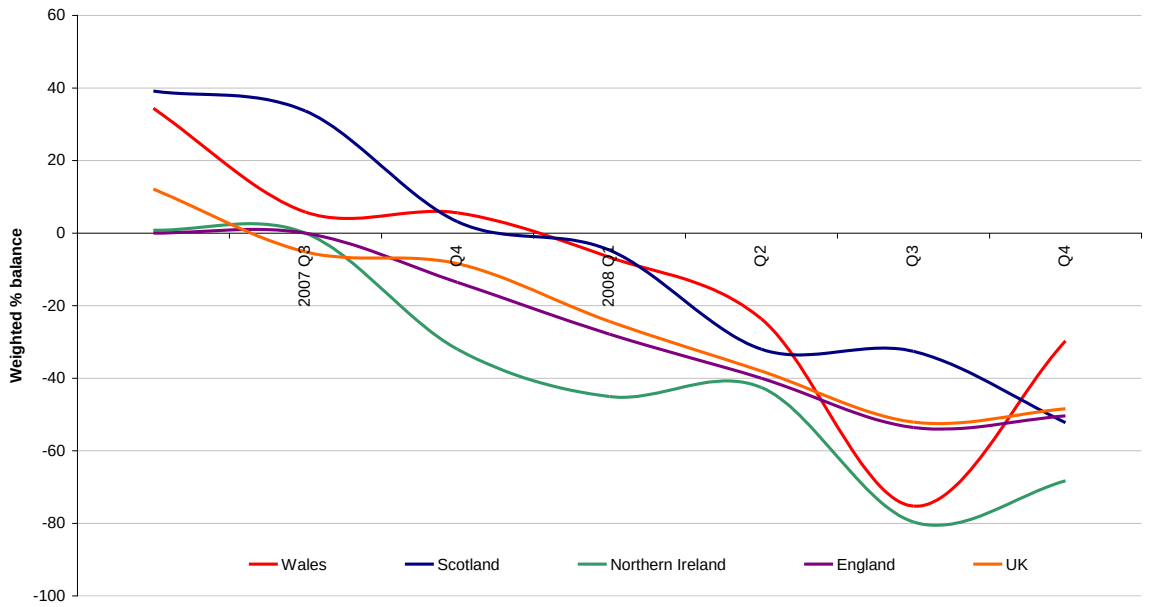


The net balance incorporates recent workloads, expected workloads and enquiries. It shows the difference between those reporting higher and those reporting lower.

Weighted % balance

	2007 Q3	*Q4*	*2008 Q1*	*Q2*	*Q3*	*Q4*	*2009 Q1*
North East	+9	-23	-17	-14	-23	-50	-55
Yorks & Humber	+20	+24	-1	-11	-27	-58	-42
East Midlands	+3	-13	-8	-37	-59	-72	-55
Eastern	+24	+0	-24	-47	-61	-28	-43
London	+37	+5	-20	-4	-1	-54	-48
South East	+11	-4	+3	-7	-26	-40	-53
South West	-3	-19	+6	-9	-48	-57	-60
West Midlands	+23	-23	-13	-41	-32	-52	-43
North West	-25	-14	+25	-38	-70	-68	-53
Wales	+34	+6	+6	-7	-24	-75	-30
Scotland	+39	+34	+3	-5	-32	-33	-52
Northern Ireland	+1	0	-32	-45	-43	-80	-68
England	-	-	-14	-28	-40	-54	-50
UK	+12	-5	-8	-24	-38	-52	-48

Regional historical weighted % balance chart



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