

State of Trade Report

2010

Quarter 2

This report was compiled by the School of the Built Environment at Northumbria University



NSCC

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This quarter's report indicates, where appropriate, the actual percentage of respondents reporting increases or decreases for particular variables. However, the 'balance' indicator is retained as the best single measure of a trend.

The 'balance' is the difference between the percentage of respondents answering 'more' or 'increase' of a variable less the percentage answering 'less' or 'decrease'. If 30% of respondents report 'increased orders', 20% 'no change' and 50% 'reduced orders', the balance is -20%.

Generally, a positive balance implies that a variable such as 'orders' has increased and a negative balance implies a decrease. Balances close to zero imply no significant change has occurred.

Introduction

The **National Specialist Contractors Council (NSSC)** brings together the common aims of 32 specialist trade organisations within the construction industry and is the authoritative voice of Specialist Contractors in the UK.

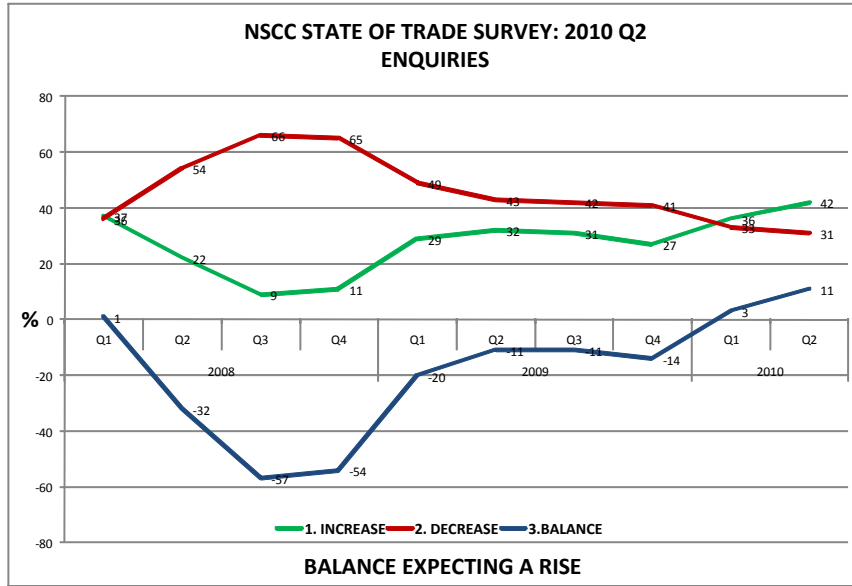
The NSSC State of Trade Survey is circulated quarterly. This report presents the results for the **second quarter of 2010**.

Overview

- The percentage of Specialist Contractors reporting working at over 75% capacity has fallen slightly to 51% of all respondents. The percentage of respondents reporting over 90% capacity utilisation has risen from 22% to 26%.
- 42% of Specialist Contractors report an increase in enquiries, maintaining the growth of the last quarter. 39% report an increase in orders, doubling the result from this time last year (2009 Q2).
- Respondents find little change in labour market recruitment difficulty, with the balance remaining at -23%.
- 63% of Specialist Contractors report decreasing tender prices compared to 70% last quarter. Those reporting increased tender prices have risen from 3% to 9%.
- 64% of Specialist Contractors report increases in suppliers' prices compared to 62% last quarter and 35% in 2009 Q2.
- 58% of Specialist Contractors anticipate reduced margins compared to 63% last quarter and 68% in 2009 Q2.
- 3% of Specialist Contractors are being paid within 30 days, down from 9% in 2009 Q2. 73% of Specialist Contractors received payment between 30 and 60 days compared to 81% last quarter. 24% received payment over 60 days compared to 15% last quarter. Late Payment, Bid Peddling and Dutch Auction remain the most important factors affecting Specialist Contractors' businesses.
- 85% of respondents have money withheld against them in retentions and 48% of these monies are overdue for release compared with 40% last quarter. On average, 17% of outstanding retentions are written off as bad debts.

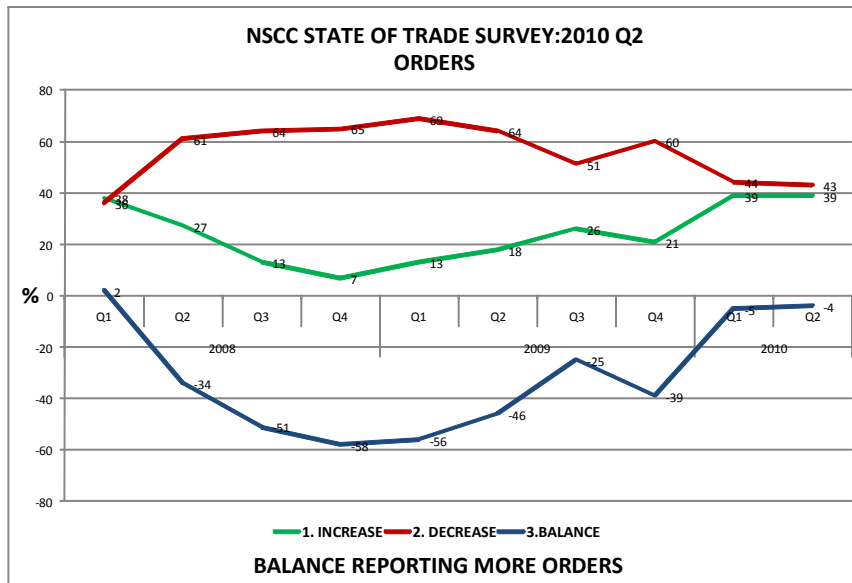
Enquiries

42% of Specialist Contractors report an increase in enquiries, a further improvement on the 36% recorded last quarter and the 32% in 2009 Q2. While 31% of respondents report a decrease in enquiries, it is less than the 43% reported in 2009 Q2. Critically, this quarter saw the second consecutive positive balance recorded for this indicator since 2008 Q1.



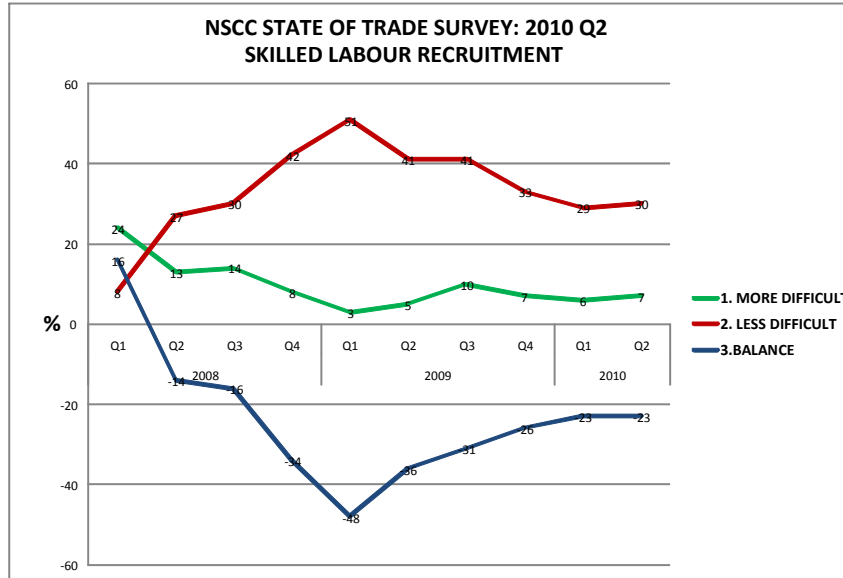
Orders

There was no positive change in the market with regards to orders as 39% of respondents report an increase, the same as last quarter. 43% report a decrease, down marginally from 44% last quarter and down significantly from 64% in 2009 Q2. The balance of orders continues to move towards positive territory and has improved sharply from -46% in 2009 Q2.

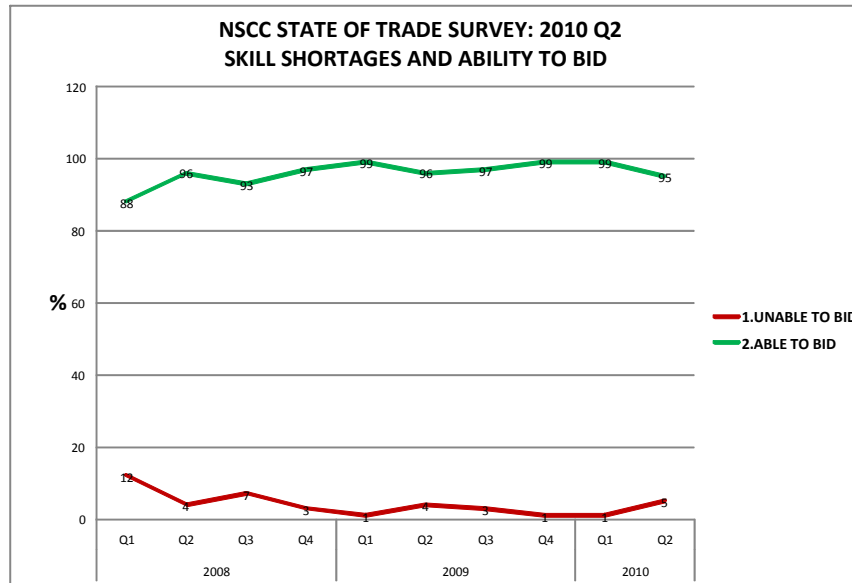


Labour Availability and Change

The percentage of Specialist Contractors reporting more difficulty in recruiting skilled labour has risen slightly from 6% to 7%, and those finding it less difficult has also risen slightly from 29% to 30%. Subsequently, the balance of this indicator remains unchanged at -23% but is an improvement on the -36% seen in 2009 Q2. When asked how total employment levels were expected to change over the next quarter, 27% expected a rise (16% last quarter), 11% expected a fall (10% last quarter), and 62% expected no change (74% last quarter). This quarter, recruitment difficulties have been experienced in mechanic/fitter, electrician and supervisor occupations. The low number of skilled applicants was cited as the principal reason for any recruitment difficulty (78%), with 39% citing the lack of required qualifications and 60% citing the lack of required experience.

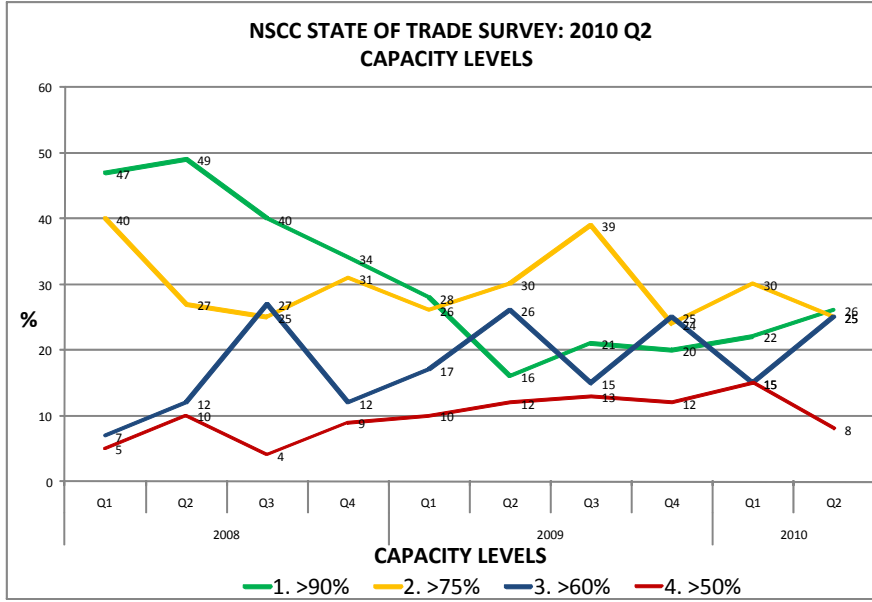


5% of Specialist Contractors report being unable to bid for work because of skills shortages compared to 1% last quarter.

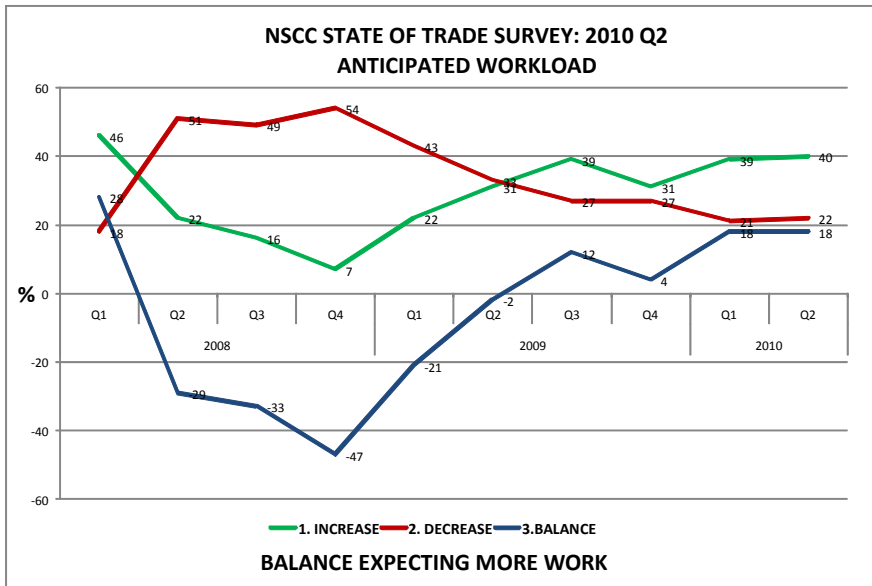


Labour, Capacity and Workload Planning

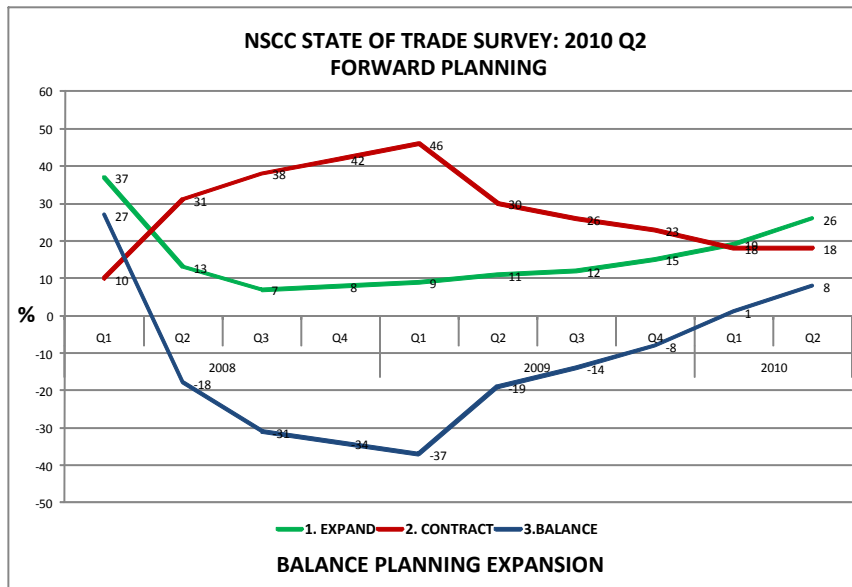
The percentage of Specialist Contractors reporting working at over 75% capacity has fallen slightly to 51% from 52% last quarter. The percentage reporting over 90% capacity utilisation has risen from 22% last quarter to 26% sustaining an upward trend from a low of 16% in 2009 Q2. The average number of direct employees was 45 compared to 37 last quarter, and on average 2% of these employees were apprentices. 33% of respondents reported that they were planning to take on at least one apprentice over the next year, compared to 35% last quarter. The average percentage of the workforce possessing CSCS cards was 77%, compared to 75% last quarter.



The percentage of Specialist Contractors expecting an increase in workload has risen from 39% to 40%, up from 33% in 2009 Q2. Those expecting less workload has also increased slightly from 21% to 22%, but is down almost 10% on the level reported one year ago. This is the fourth consecutive quarter to report a positive balance however some concern is being expressed over the longer term workload outlook with just 38% of Specialist Contractors anticipating an increased workload over the next 12 months compared to 53% last quarter.

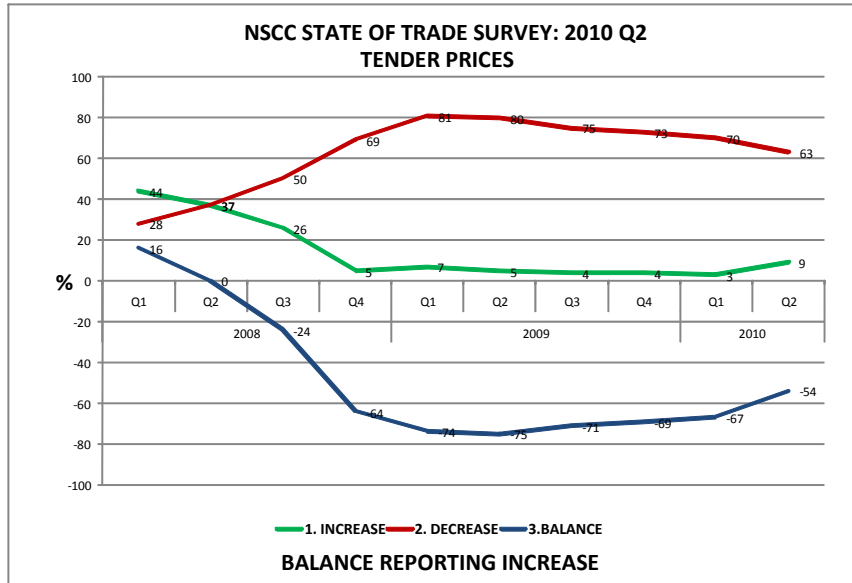


The **percentage of respondents planning expansion next quarter has risen from 19% to 26%**, compared to 11% in 2009 Q2. Again, some pessimism is seen in the longer term forecast with just 28% planning expansion over the next 12 months, down from 38% last quarter. Those **planning to contract remains unchanged at 18%**, although this represents an improvement on the 30% reported in 2009 Q2. The positive balance has been strengthened this quarter, although this will need to be monitored over the next 12 months in line with concern about the longer term outlook. Planning horizons show **the majority of Specialist Contractors looking ahead less than 3 months (54%) with 28% planning their work between 3 and 6 months into the future**. Market demand, the availability of labour and material costs are the most important factors in these plans.

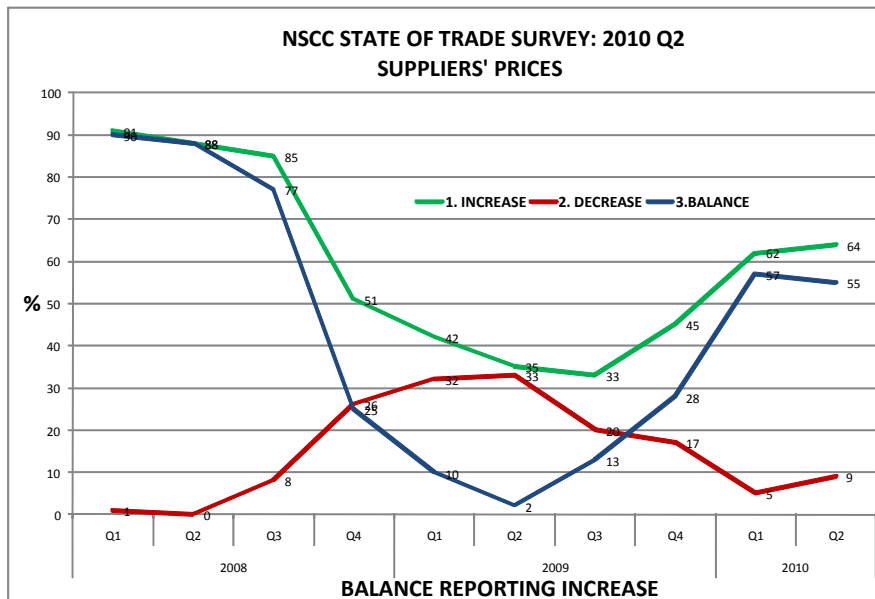


Price and Margin Analysis

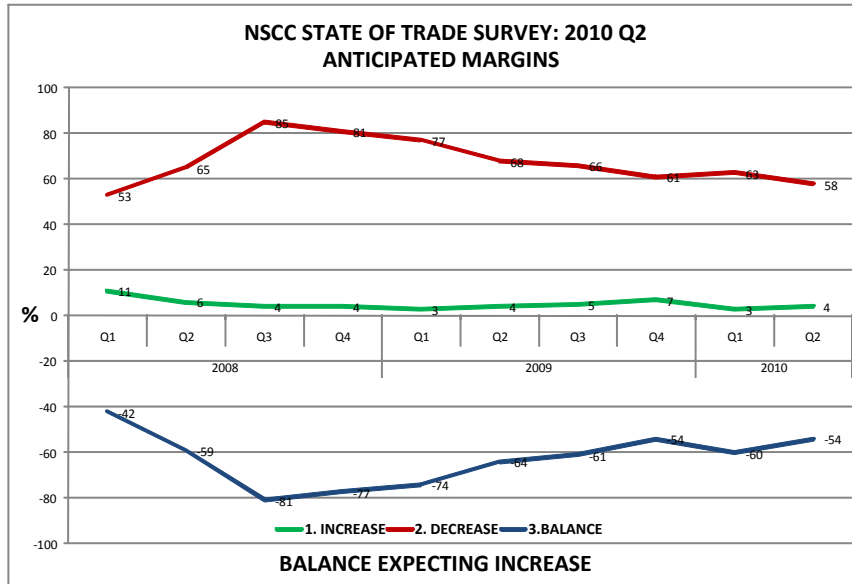
The percentage of Specialist Contractors reporting tender price increases has risen from 3% to 9%, compared with 5% this time a year ago. Those reporting a decrease in tender prices have fallen to 63%, compared with 80% in 2009 Q2. This maintains a large negative balance of -54%, although the balance has been slowly improving over the last four quarters.



64% of respondents report increased suppliers' prices compared to 62% last quarter and 35% in 2009 Q2. 9% report lower prices compared to 33% in 2009 Q2.



4% of respondents anticipate increased margins compared to 3% last quarter, continuing a consistent trend. 58% anticipate falling margins, down from 63% last quarter.



Procurement

72% of contracts are obtained by tender with 14% by appointment, 8% specified and 6% by nomination which continues to challenge the notion of integrated working within the sector.

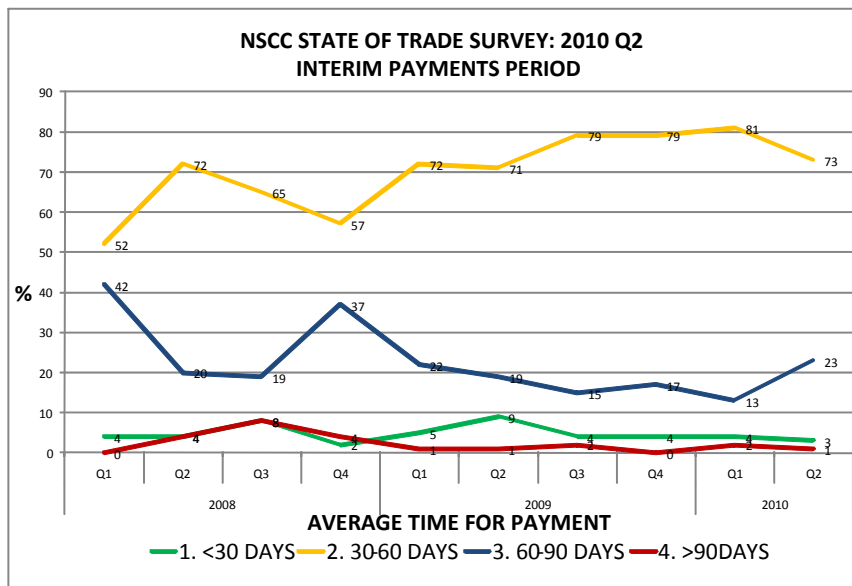
26% of Specialist Contractors do not receive their contract documentation until after they have started the work.

46% of Specialist Contractors use amended standard forms such as the JCT sub-contract (31%) and DOM 1 / DOM 2 (11%) with 25% using contractors' own forms.

Payment Periods

3% of Specialist Contractors are being paid within 30 days. 73% received payment between 30 and 60 days compared to 81% last quarter and, disappointingly, 24% were paid over 60 days compared to 15% last quarter.

Late payment continues to be one of the most important factors affecting Specialist Contractors' businesses and any sign of an increase in delayed payment needs to be closely monitored.



Retentions

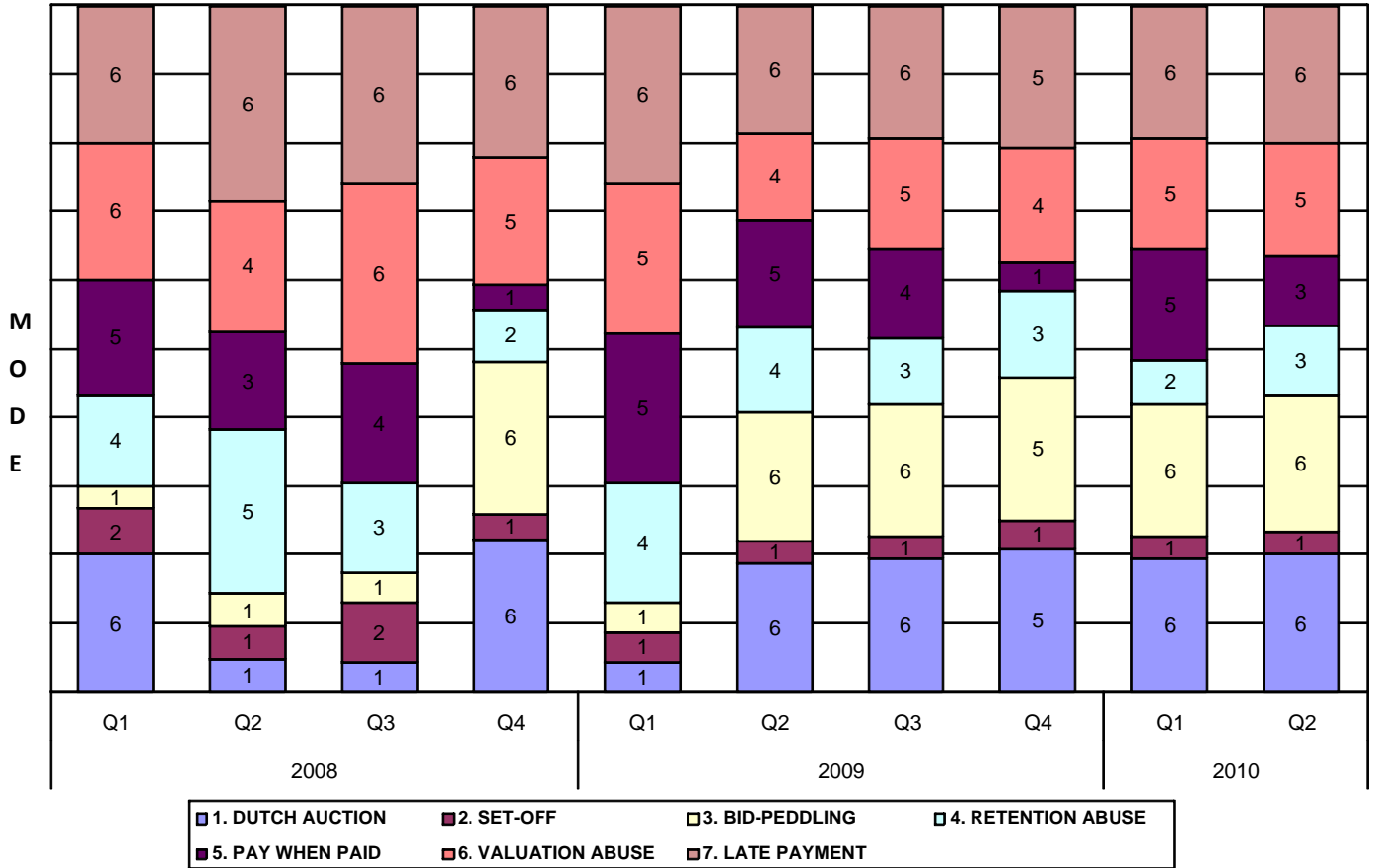
85% of respondents have monies withheld against them in retentions at an average of £115,698 per respondent. Of the monies withheld, an average of £55,946 per respondent is overdue for release. This equates to 48% of all retention monies withheld from Specialist Contractors being overdue for release, compared to 40% last quarter. On average 17% of outstanding retention monies are routinely written off as bad debts.

88% of respondents have never used a retention bond as an alternative to cash retention.

Contract Abuse

Asked to rank (in order of importance) the effects of Bid Peddling, Dutch Auction, Late Payment, Pay when Paid/Certified, Retention Abuse, Set-Off and Under Valuation on their businesses, **respondents reported Late Payment, Dutch Auction and Bid Peddling** as having the most significant effects on their businesses.

NSSC STATE OF TRADE SURVEY: 2010 Q2: EFFECTS OF CONTRACT ABUSE



Comments from Specialist Contractors (with trade association in parenthesis) include:-

What factors are having a significant effect on business planning?

1. Uncertainty on the future of the general economy and predicting when to invest for an upturn. (British Blind and Shutter Association)
2. Severe contraction in construction related infrastructure projects. (British Drilling Association)
3. Lead-times being too short. (Catering Equipment Distributors Association)
4. Financial support from banks. (Contract Flooring Association)
5. Public spending. (Contract Flooring Association)
6. Confidence in the retail market and commercial markets so that our clients start to spend again. (Contract Flooring Association)
7. The banks are still intransigent and inflexible. The management time involved is too great to secure the release of finance. (Fall Arrest Safety Equipment Training)
8. Obtaining credit indemnity insurance on key customers for large contracts. (The National Federation of Roofing Contractors Ltd)
9. Communication, payment, cash flow. (The Tile Association)

What other issues are affecting your business?

1. Companies that think they can circumnavigate the Construction Act and pretty much do what they want. (Association of Concrete Industrial Flooring Contractors)
2. Terms and Conditions are now stating 60-90 day payment. (Association of Technical Lightning & Access Specialists)
3. Accreditation requirements and too many of them. (Catering Equipment Distributors Association)
4. Deduction of CIS tax on equipment as well as labour even though a labour/materials split is given. (Catering Equipment Distributors Association)
5. A lack of withholding notices in conjunction with under valuations and non-payments. (Drilling and Sawing Association)
6. Nervous clients who are waiting for the economy to settle down. (The National Federation of Roofing Contractors Ltd)
7. The agricultural market will have to remain buoyant for the next 12 months to allow us to operate at the business level we are at now. (Rural & Industrial Design & Building Association)

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