State of Trade Report

2011

Quarter 3

This report was compiled with the support of the School of the Built and Natural Environment at Northumbria University

NSCC

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This report indicates, where appropriate, the actual percentage of respondents reporting increases or decreases for particular variables, with the 'balance' indicator offering 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'. For example, 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 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 (NSCC)** 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 NSCC State of Trade Survey is circulated quarterly. This report presents the results for the **third quarter of 2011.**

Overview

- **39% report a decrease in enquiries, up from 29% last quarter. 37% report a decrease in orders, down from 38% last quarter. 28% report an increase in enquiries and 31% report an increase in orders.**

- **11% report more difficulty in recruiting skilled labour, down from 19% last quarter. 15% found it less difficult to recruit. 11% were unable to bid for work due to skills shortages.**

- **67% report working at over 75% capacity, up from 63% last quarter. 34% report working at over 90% capacity, up from 30% last quarter.**

- **22% expect an increase in workload, a sharp fall from 41% last quarter. 32% anticipate a decrease in workload, up from 14% last quarter. 51% have a business planning horizon of less than 3 months.**

- **22% expect to contract their businesses compared to 12% last quarter. 12% expect to expand their businesses compared to 19% last quarter.**

- **50% report falling tender prices compared to 51% last quarter. 13% report increasing tender prices compared to 15% last quarter.**

- **71% report increased suppliers' prices compared to 83% last quarter. 6% report lower prices compared to 3% last quarter.**

- **46% anticipate falling margins compared to 53% last quarter. 12% anticipate increasing margins compared to 10% last quarter.**

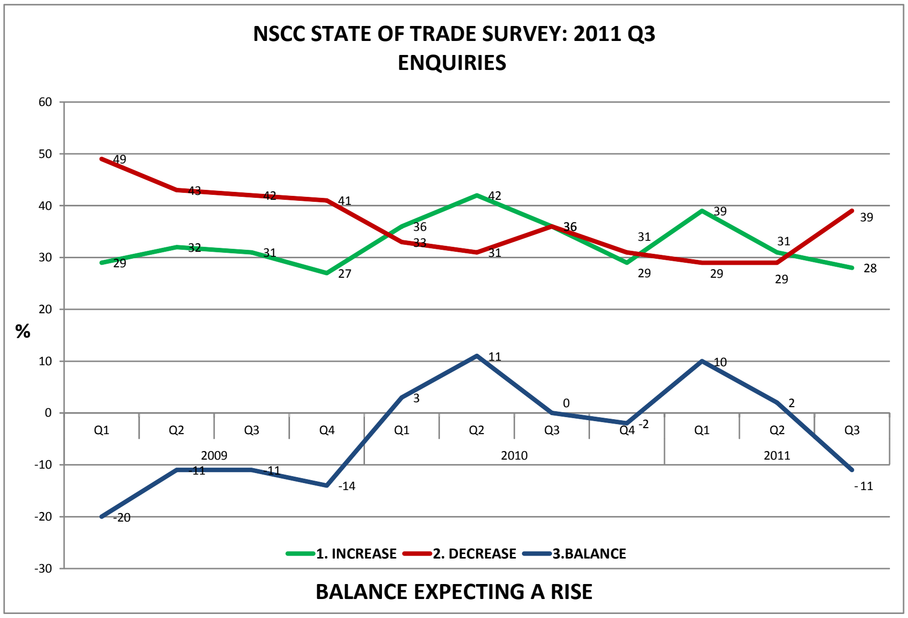
- **2% are being paid within 30 days, the same as last quarter. 77% received payment between 30 and 60 days and 18% were paid between 60 and 90 days. 3% wait over 90 days to get paid.**

- **67% reported that they had carried out public sector work in the last quarter and of those, 32% said that they had been paid within 30 days on all these contracts.**

- **80% have retention monies withheld from them and 33% of these retention monies are overdue for release. On average, 18% of outstanding retentions are written off as bad debts. 12% have used a retention bond as an alternative to cash retention.**

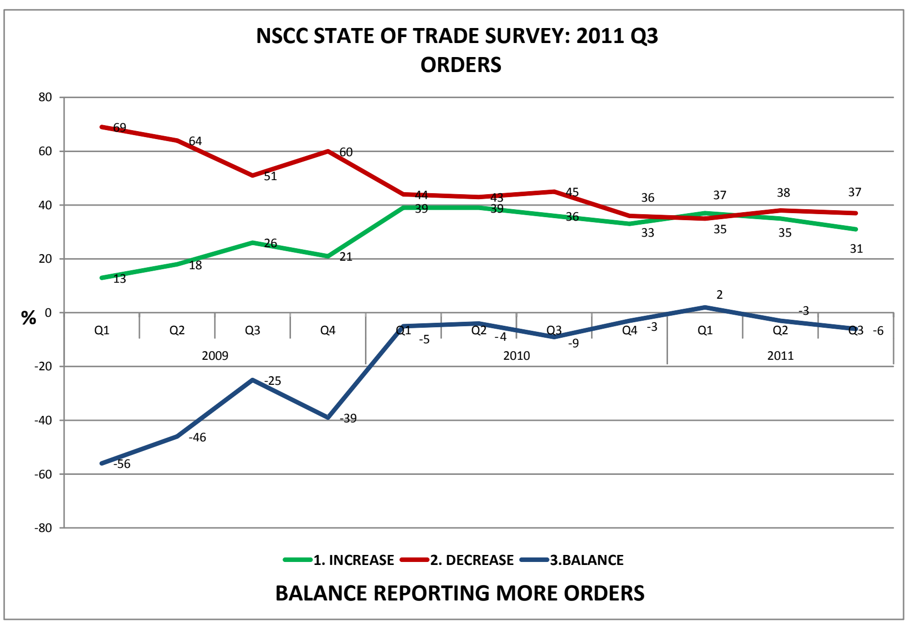
Enquiries

28% of Specialist Contractors report an increase in enquiries, down from 31% last quarter. **39% report a decrease in enquiries**, up from 29% last quarter. The downward trend has been maintained with the balance of enquiries deteriorating to -11%, the first negative balance in 2011 and the worst result since 2009 Q4.



Orders

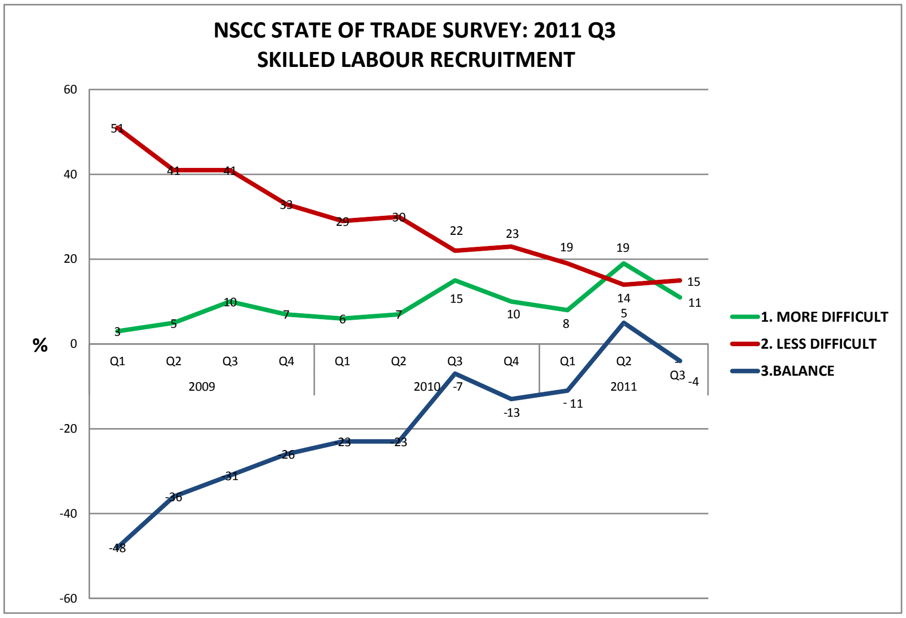
Order levels also continue to slide with **31% report an increase in orders**, down from 35% last quarter. **37% report a decrease in orders** compared to 38% last quarter. The balance of orders maintains shallow downward movement, slipping to -6%. Attracting enquiries and then converting these into orders remains problematic for Specialist Contractors and concerns are deepening over a lack of investor confidence, Government budget cuts resulting in fewer tender opportunities and the overall inconsistency of market demand.



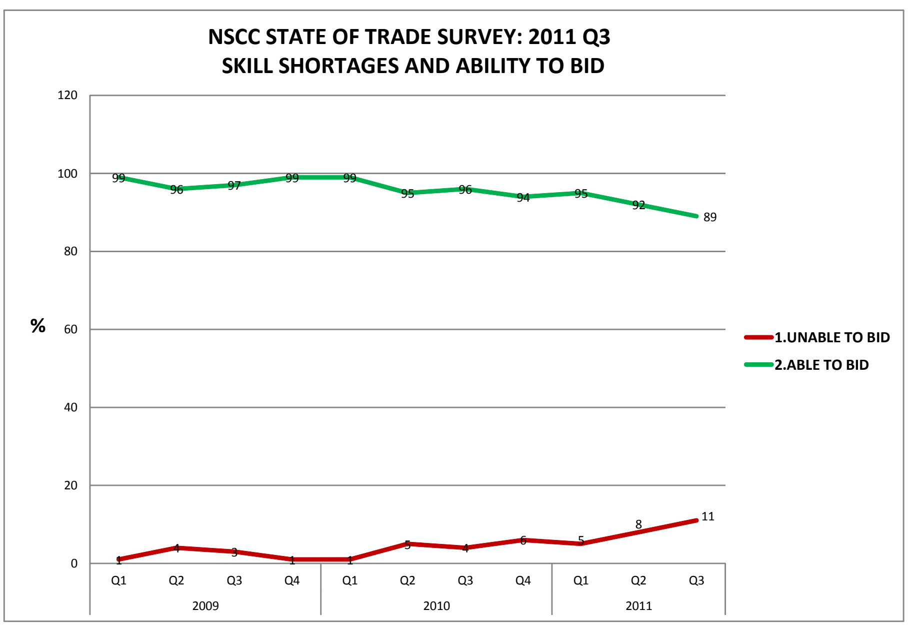
Labour Availability and Change

The **percentage of Specialist Contractors reporting more difficulty in recruiting skilled labour has fallen to 11%** from 19% last quarter, and **those finding it less difficult has increased to 15%** from 14% last quarter.

When asked how **total employment levels were expected to change over the next 12 months**, **14% expect a rise** (29% last quarter), **17% expect a fall** compared (18% last quarter) and **69% expect no change** (53% last quarter). Clearly, employers are revising their outlook of future workload and following a more cautious approach to recruitment. This quarter, recruitment difficulties have been experienced in steel fixer and erector, sealant applicator and fire proofer occupations. A **low number of applicants with the required skills** (85%) and a **lack of required experience** (74%) were cited as the principal reasons for this recruitment difficulty.

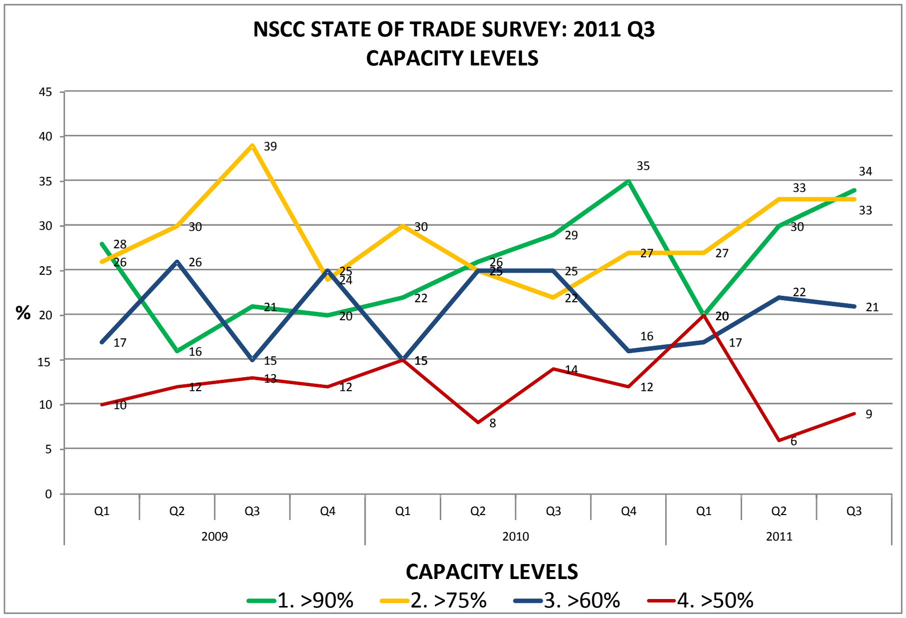


11% of Specialist Contractors report being unable to bid for work because of skills shortages, compared to 8% last quarter and 4% this time a year ago (2010 Q3).

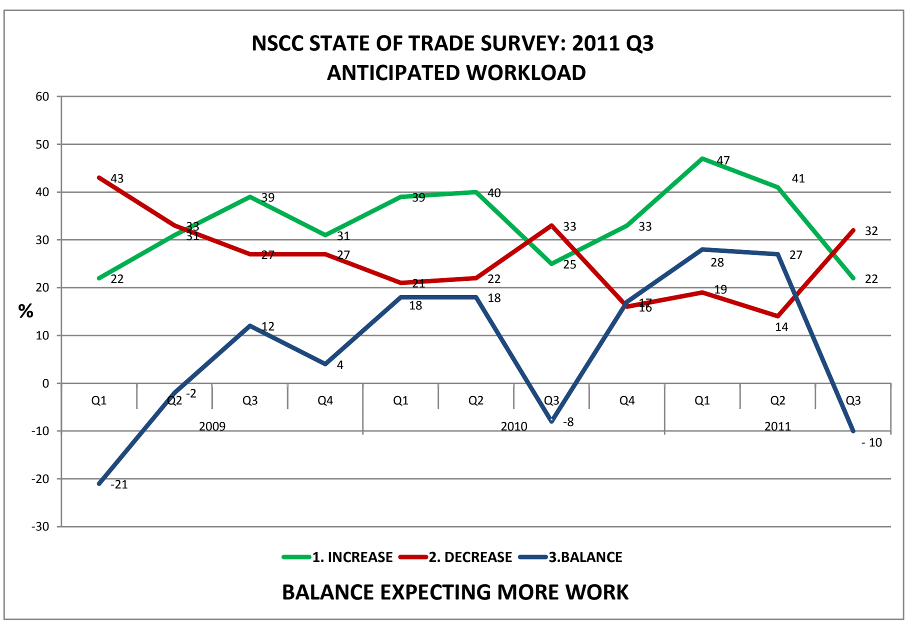


Labour, Capacity and Workload Planning

The **percentage of Specialist Contractors reporting working at over 75% capacity has risen to 67%** compared to 63% last quarter. The **percentage reporting over 90% capacity utilisation has also risen to 34%** compared to 30% last quarter. The **average number of direct employees was 35**, down from 36 last quarter, and on average 2% of these employees were apprentices. **25% of Specialist Contractors expect to take on at least one apprentice over the next 12 months** down from 34% last quarter. The **average percentage of the total workforce possessing CSCS cards was 78%.**

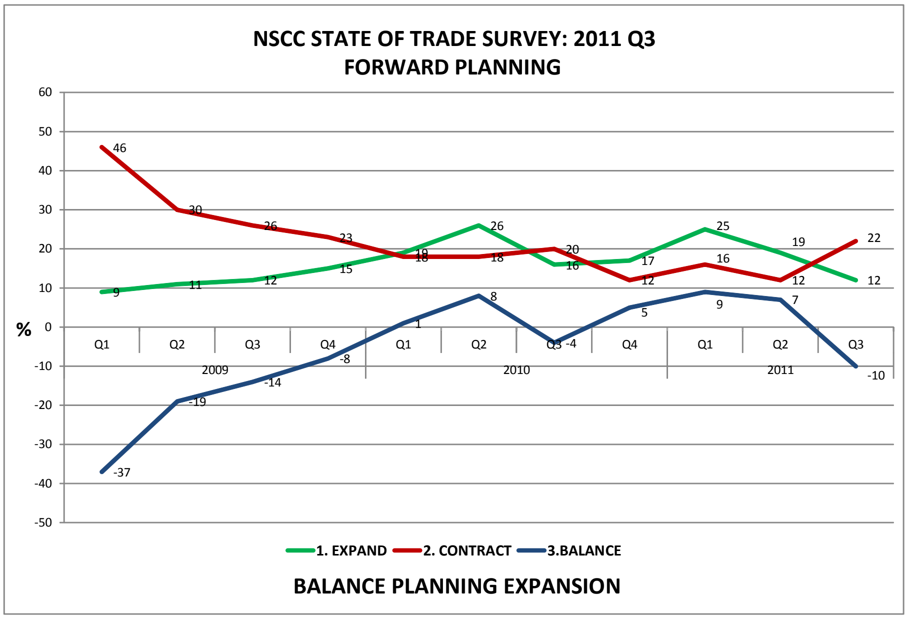


The **percentage of Specialist Contractors expecting an increase in workload has fallen sharply to 22%** compared to 41% last quarter. The percentage **anticipating a decrease in workload has risen sharply to 32%** compared to 14% last quarter. The package of Government budget reductions is now being severely felt across the industry with Specialist Contractors unable to predict where any future work is going to come from. This has caused the balance of this indicator to plunge to **-**10%, the worst result since 2009 Q1.



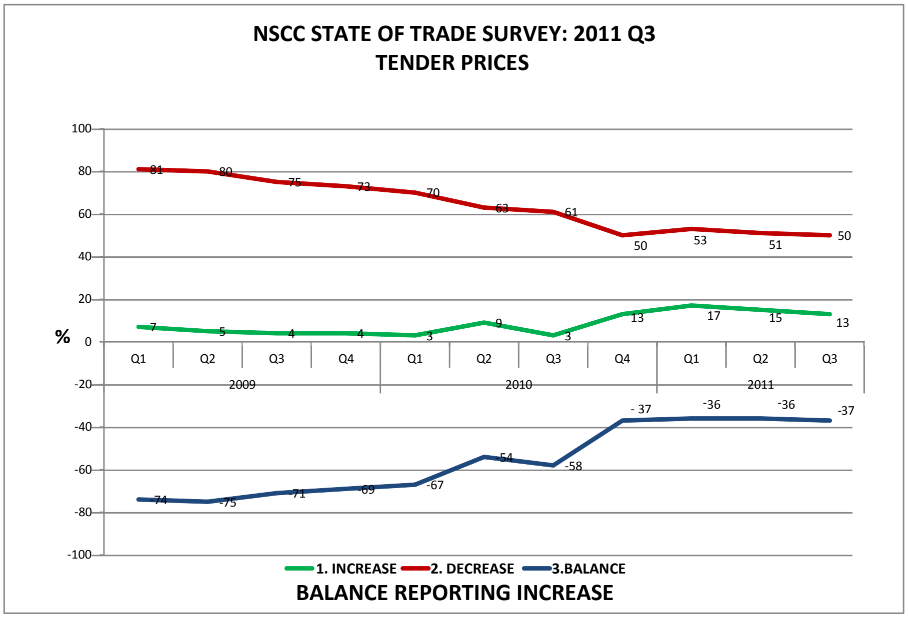
Over the next quarter, **the percentage of respondents planning expansion has fallen further to 12%** from 19% last quarter and 25% in Q1. **22% expect to contract their businesses** (up 10%) and **66% expect their businesses to remain the same size** for at least the next quarter (down 3%)**. Over the next 12 months, 29% of Specialist Contractors expect their businesses to expand** (up 1%), **24% expect to contract** (up 4%) and **47% expect to be the same size as they are now** (down 5%). The uncertainty surrounding future workload levels is having a significant impact on expansion plans with the balance of expansion now the largest negative balance seen since 2009 Q3.

This extends into planning horizons with **the majority of Specialist Contractors looking ahead less than 3 months (51%)** and **31% planning their work between 3 and 6 months into the future**. **Market demand**, the **cost of materials** and the **availability of finance** are the top factors that are currently influencing these plans.

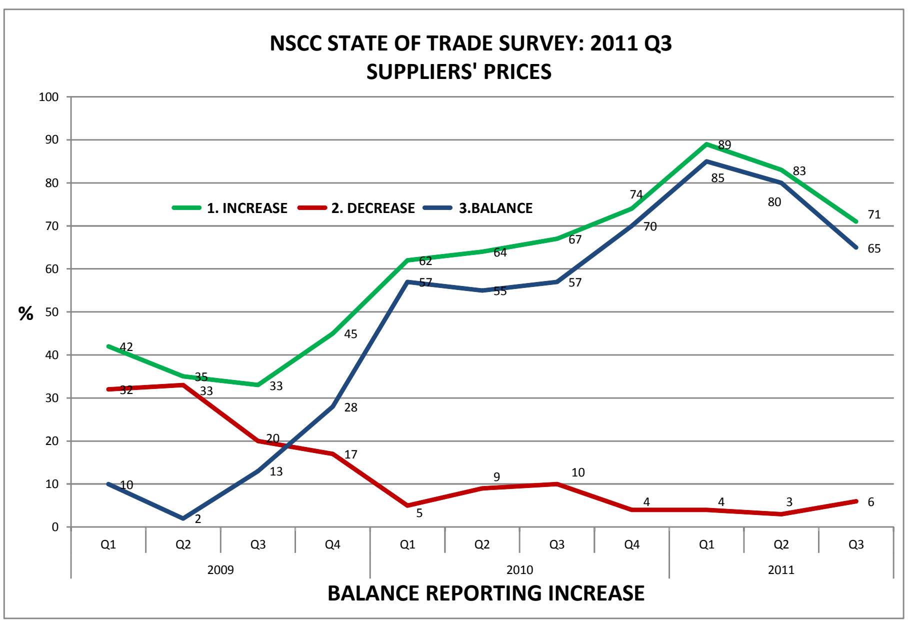


Price and Margin Analysis

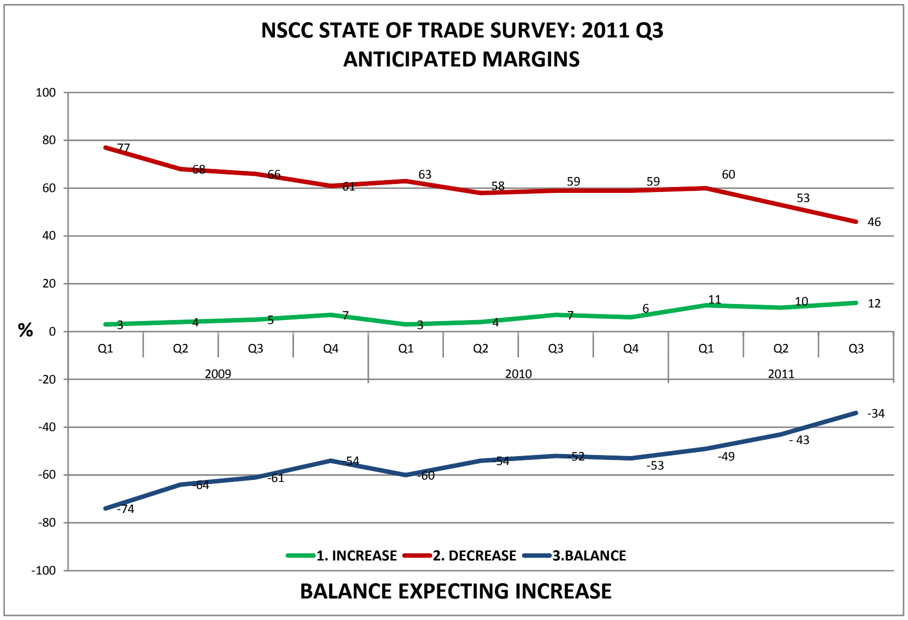
The **percentage of Specialist Contractors reporting tender price increases has slipped to 13%** from 15% last quarter. **50% of respondents reported falling tender prices** compared to 51% last quarter. The balance of tender prices has seen little change in the last year and currently sits at -37%.



71% of respondents report increased suppliers' prices compared to 83% last quarter. **6% report lower prices** compared to 3% last quarter. Whilst there seems to be some minor relief from recent incessant price increases by suppliers, the high costs of raw materials continue to be cited as a major factor that is hampering the businesses of Specialist Contractors.



12% of respondents anticipate increased margins compared to 10% last quarter. **46% of respondents anticipate falling margins** compared to 53% last quarter. The balance of margins continues to slowly improve, but still remains deeply negative.



<u>Procurement</u>

80% of contracts are obtained by tender with **13% by appointment**, **4% specified** and **3% by nomination**, which indicates consistent procurement practice and continues to challenge the notion of integrated working within the sector.

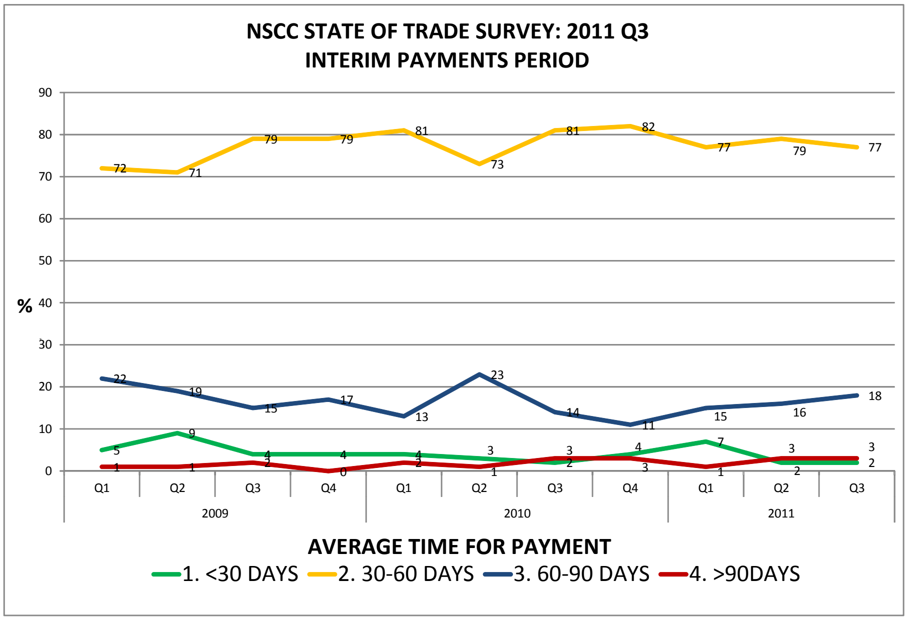
24% of Specialist Contractors do not receive their contract documentation until after they have started the work.

42% of Specialist Contractors use amended standard forms such as the JCT sub-contract (34%) and **DOM 1 / DOM 2 (8%)** with **29% using contractors' own forms**.

Payment Periods

2% of Specialist Contractors are being paid within 30 days, the same as last quarter. **77% received payment between 30 and 60 days** and **18% were paid between 60 and 90 days**. **3% wait over 90 days to get paid**. Late payment continues to be the most important factor affecting Specialist Contractors' businesses.

67% of Specialist Contractors reported that they had carried out public sector work in the last quarter and of those, **32% said that they had been paid within 30 days on all these contracts**. It would appear that the Government's commitment to 30-day payment is not flowing down the supply chain as intended.



Retentions

80% of respondents have monies withheld against them in retentions at an average of £90,697 per respondent. Of the monies withheld, **an average of £30,326 per respondent is overdue for release**. This equates to **33% of all retention monies withheld from Specialist Contractors being overdue for release** compared to 29% last quarter.

On average, **18% of outstanding retentions are written off as bad debts**.

12% of specialists have 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, bid peddling, Dutch auction and pay when paid/certified** as having the most significant effects on their businesses.

Adjudication

25% of respondents have used adjudication to resolve disputes, with **83% of those who have undergone adjudication using lawyers or consultants to represent their company.** The **average minimum contract value considered for adjudication is £20,591**.

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

1. There are three things affecting our business at the moment and they are demand, demand & demand. (Association of Interior Specialists)
2. Contractors going into administration owing money, but they are up and running again the following day with a very similar company name, same staff, same office and same phone numbers. (Association of Interior Specialists)
3. There are no signs of any growth in demand in the near future which is causing a lack of confidence and optimism. Shrinking margins are also becoming a real problem. (British Drilling Association)
4. Availability of short term loans. (Catering Equipment Distributors Association)
5. The market place is weak, margins are virtually non-existent and clients have optimistic expectations that more often than not are unreasonable and unachievable. Other than that we're having a ball! (Confederation of Construction Specialists)
6. Constant and increasing requests for ever more health & safety information and unnecessary bureaucracy. (Contract Flooring Association)
7. The media's constant predictions of doom and hardship are making the general public uncertain and insecure. (Contract Flooring Association)
8. The market is very tight and very much price driven (more so than usual). (Glass and Glazing Federation)
9. Suicidal tenders from competitors who are even more desperate than us. Main Contractors are now more likely to contra charge/ set off/ delay payments than they were before. (The National Federation of Roofing Contractors Ltd)
10. With the changes to the default retirement age we cannot take on any new apprentices or younger trainees. (The National Federation of Roofing Contractors Ltd)
11. Customers are struggling to get funding from banks and planning regulations are slowing new developments to a snail's pace. (Rural & Industrial Design & Building Association)
12. Spiralling material costs in certain restricted supply areas. (Single Ply Roofing Association)
13. Increasing complexity in building form and design and the associated planning constraints. (Specialist Access Engineering and Maintenance Association)
14. Unqualified and inexperienced labour taking on specialist work. Main contractors who place orders on price rather than quality. (The Tile Association)
15. Late payments from some clients and installation dates are being put back when we need to pay for materials prior to being paid by client which affects our cash flow drastically. (Unattributed)

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