State of Trade Report

2009

Quarter 4

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 (NSCC)** brings together the common aims of 30 specialist trade organisations within the construction industry and is the authoritative voice of 7,000 Specialist Contractors in the UK.

The NSCC State of Trade Survey is circulated quarterly. This report is the results of the **fourth quarter for 2009**.

Overview

- **The percentage of Specialist Contractors reporting working at over 75% capacity has fallen to 44% of all respondents. The percentage of respondents reporting over 90% capacity utilisation has fallen slightly from 21% to 20% and is still significantly lower than the 34% reported a year ago (2008 Q4).**

- **27% of Specialist Contractors report an increase in enquiries and 21% report an increase in orders representing a small fall in both indicators since the last quarter. Conversely, 41% report a decrease in enquiries and 60% a decrease in orders. From 2009 Q2 onwards the balance of enquiries appears to be stable, but there is still a little turbulence in the balance of orders.**

- **The percentage of respondents finding it more difficult to recruit skilled labour has fallen from 10% to 7%, while those finding it less difficult has also fallen from 41% to 33%, a balance of -26% compared to -31% last quarter.**

- **45% of Specialist Contractors report increases in suppliers prices, compared to 33% last quarter and 51% a year ago.**

- **73% of Specialist Contractors report decreasing tender prices compared to 75% last quarter and 69% a year ago.**

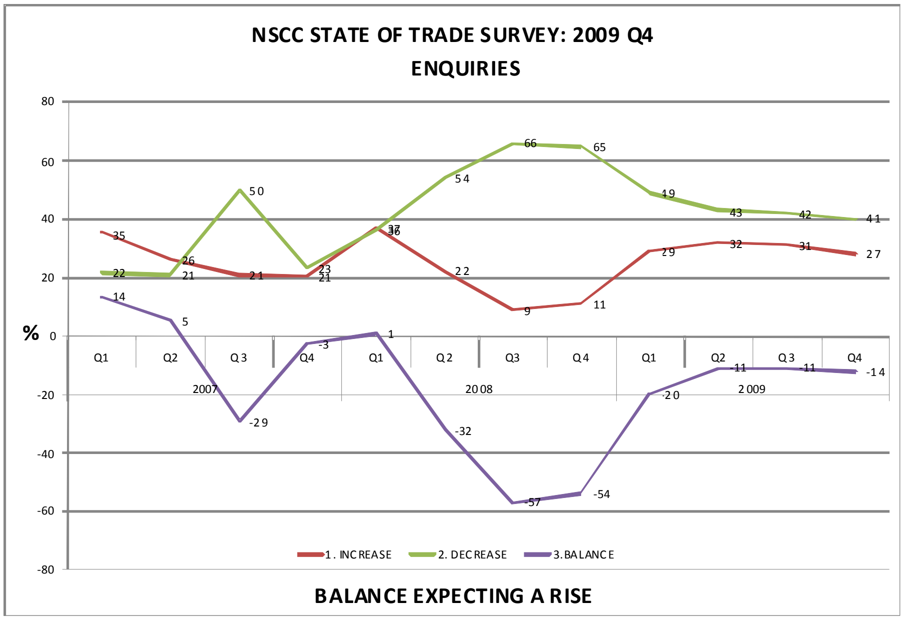
- **61% of Specialist Contractors anticipate reduced margins compared to 66% last quarter and 81% a year ago.**

- **4% of Specialist Contractors are being paid within 30 days, the same as last quarter. The majority (79%) of Specialist Contractors received payment between 30 and 60 days, also the same as last quarter. The percentage of Specialist Contractors receiving payment over 60 days has risen from 15% last quarter to 17% this quarter. "Late Payment", "Bid Peddling" and "Dutch Auction" remain the most significant factors affecting Specialist Contractors' businesses.**

- **84% of respondents have money held against them in retentions and 27% of these monies are overdue for release.**

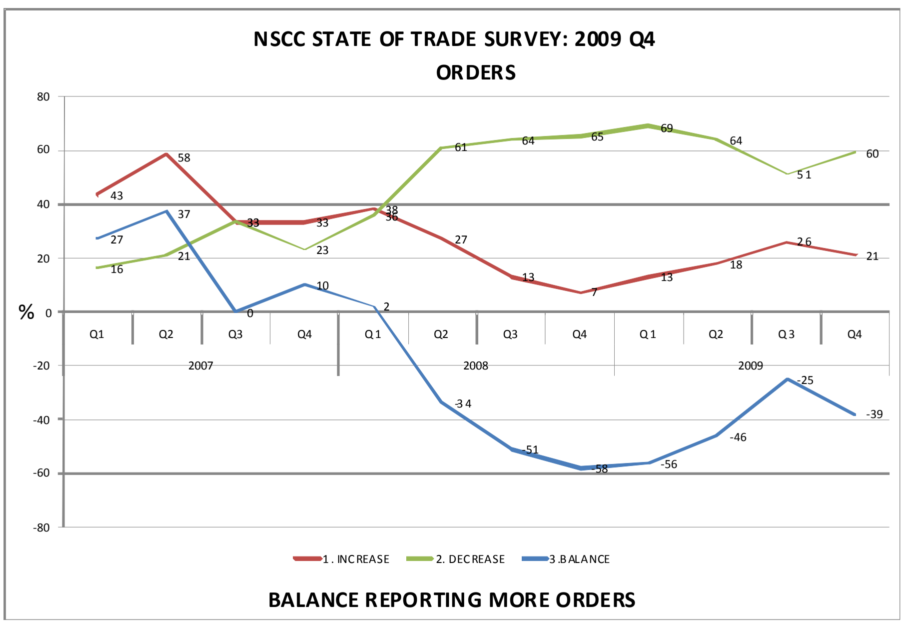
Enquiries

27% of Specialist Contractors report an increase in enquiries which is slightly down on the 31% reported last quarter. **41% of respondents still report a decrease in enquiries**, also slightly down from last quarter (42%), and down significantly from the 65% reported for 2008 Q4. While this may represent a continuation of stability in the market the balance is still -14% compared to last positive balance of +1% reported in 2008 Q1, but nonetheless represents a marked improvement from the balance of -54% seen this time a year ago.



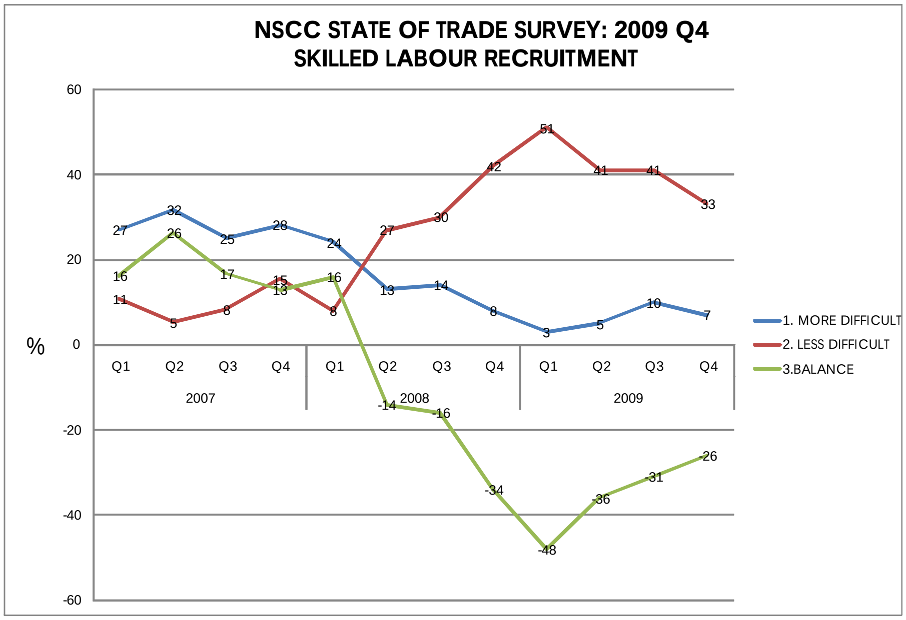
Orders

21% report an increase in orders compared to 26% last quarter and 7% in 2008 Q4. **60% report a decrease**, more than the 51% reported last quarter, resulting in the balance weakening significantly from -25% last quarter to -39% this quarter. This is a setback on the steady improvement the market had seen from the bottom of the trough a year ago, and it still has some way to go to reach the last positive balance of +2% that was recorded in 2008 Q1.

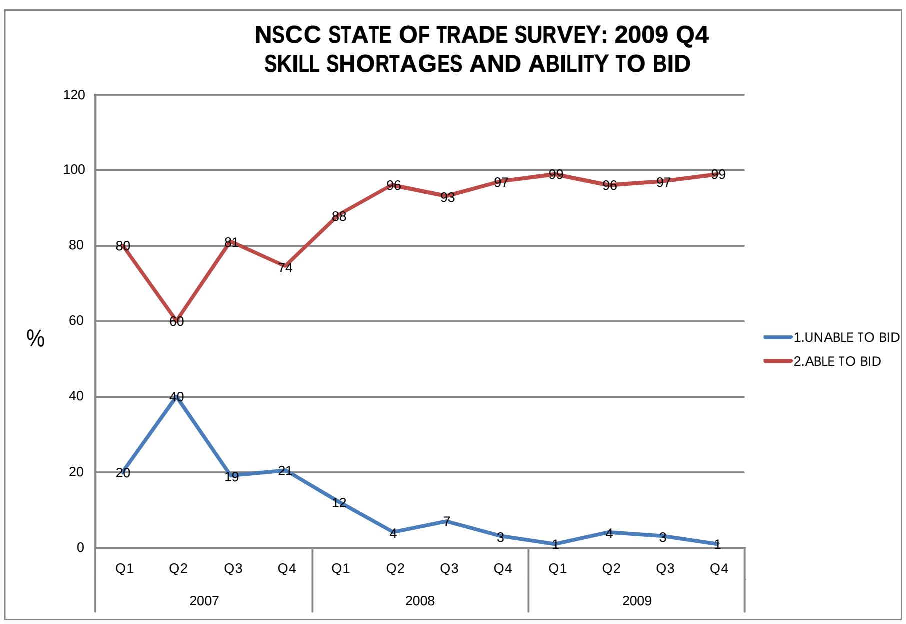


Labour Availability and Change

The **percentage of Specialist Contractors reporting more difficulty in recruiting skilled labour has fallen from 10% to 7%,** and **those finding it less difficult has also fallen to 33%.** This equates to a balance of -26%, with 2008 Q1 again showing the last positive balance of +16% reflecting the greater recruitment difficulty at that time. When asked how **total employment levels were expected to change over the next quarter, 14% expected a rise** (up 1% from last quarter), **18% expected a fall** (down 4%), and **68% expected no change** (up 3%). The section on skills shortages has identified major difficulty in recruiting managerial, clerical and supervisory staff with the **low number of skilled applicants** (77%) and a **lack of required experience** (74%) cited as the major causes behind recruitment difficulty.

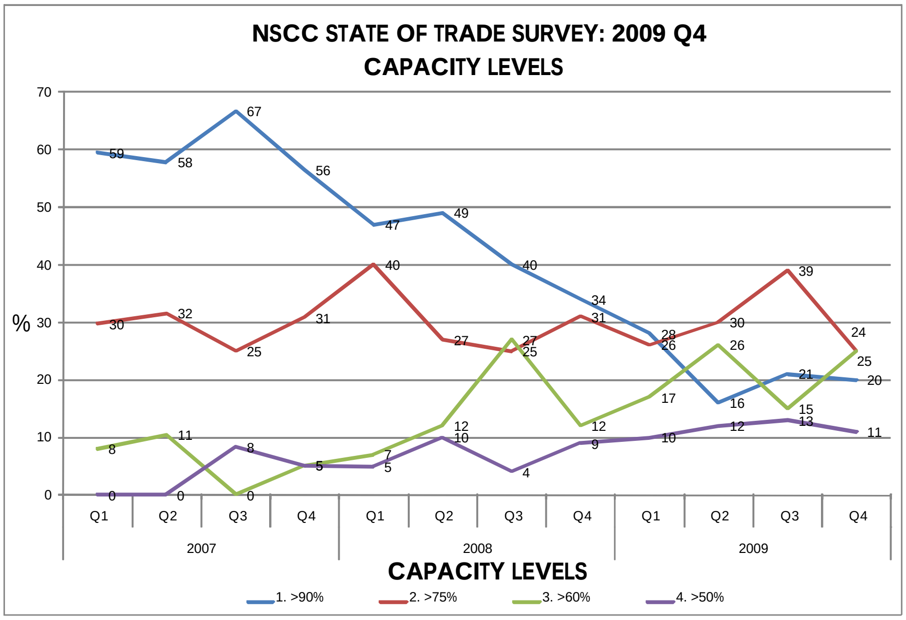


The **percentage of Specialist Contractors unable to bid for work because of skills shortages is only 1%**, compared to 3% this time a year ago and 21% this time two years ago.

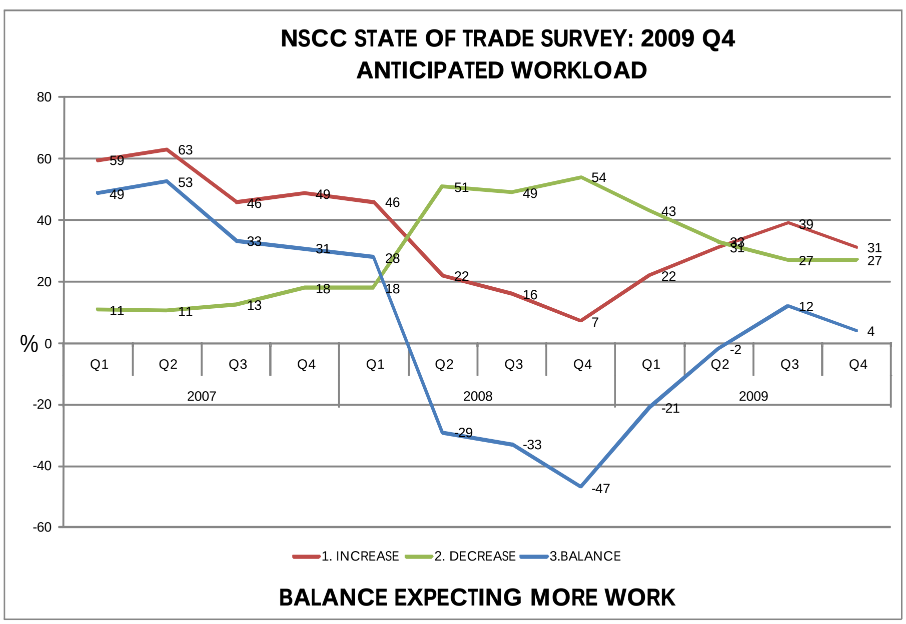


Labour, Capacity and Workload Planning

The **percentage of Specialist Contractors reporting working at over 75% capacity has fallen to 44%**, compared to 60% last quarter. The **percentage of respondents reporting over 90% capacity utilisation moved only slightly, down to 20% from 21% last quarter** and is still much lower than the 34% reported a year ago. Workforce improvements were seen across the board. **The average number of direct employees was 37**, up from 34 last quarter, **and on average 3% of these employees are apprentices**, up from 1% last quarter. **23% of respondents reported that they were planning to take on at least one new apprentice over the next year**, up from 20%. The overall **average percentage of this direct workforce possessing CSCS cards was 72%** compared to the 76% recorded last quarter.



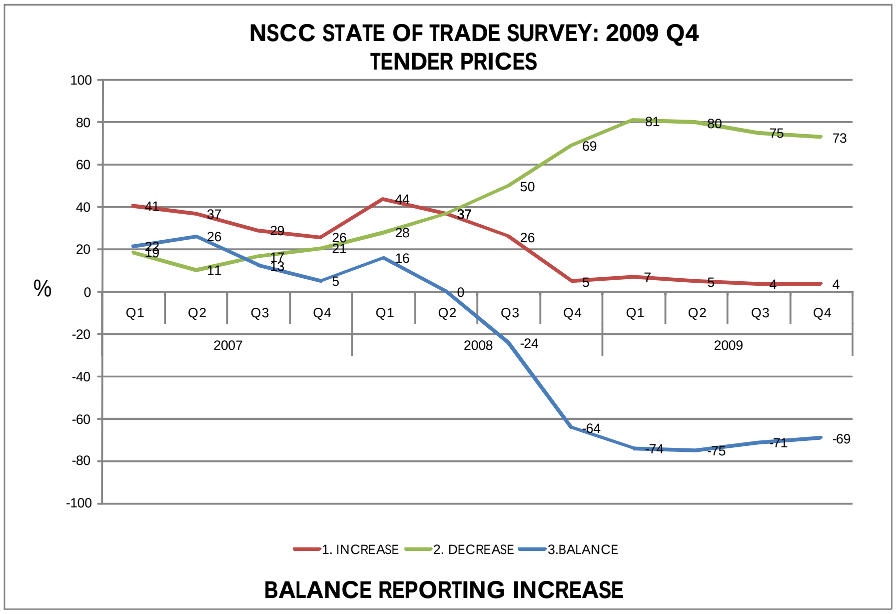
The **percentage of Specialist Contractors anticipating an increase in workload has fallen from 39% to 31%,** but up significantly from 7% a year ago. Those expecting **less workload to come has remained static at 27%**, still much less than the 54% recorded in 2008 Q4.



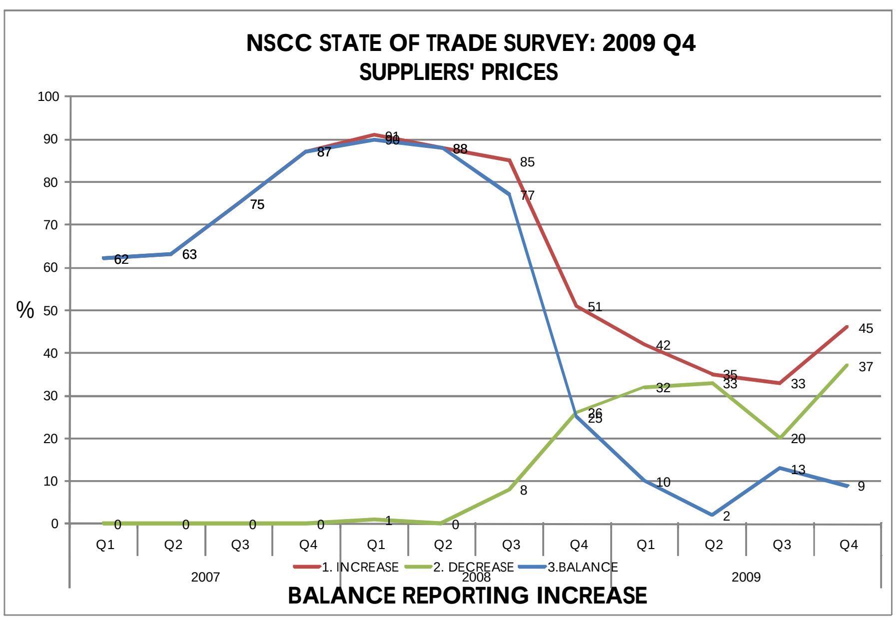
The **percentage of respondents planning expansion next quarter has risen slightly from 12% to 15%** compared with only 7% in 2008 Q4. Interestingly, 37% plan expansion over the next 12 months. Those **planning to contract has declined again from 26% to 23%.** Planning horizons again show **most looking ahead less than 3 months (62%). Market demand** and the **availability of finance** remain the most important factors in these plans.

Price and Margin Analysis

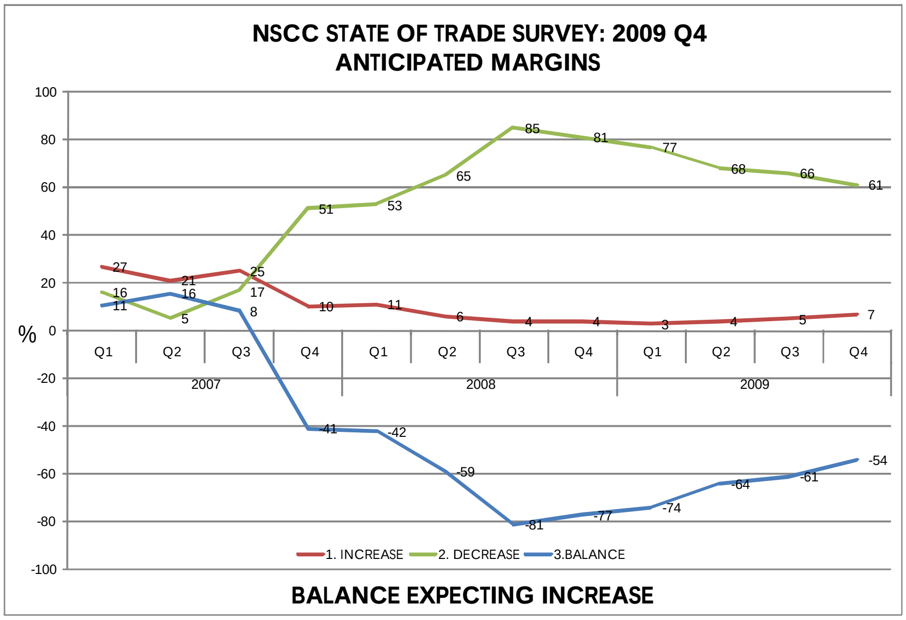
The **percentage of Specialist Contractors reporting tender price increases remains at 4%**, compared with 5% this time a year ago. This has been consistent over the last five quarters. Those reporting a **decrease in tender prices has fallen to 73%**, compared with 69% this time a year ago. This maintains a large negative balance of -69%.



45% of respondents report increased suppliers' prices with **37% reporting lower prices**, leading to a balance of +9%, still well down on the +25% seen this time a year ago.



7% of respondents anticipate increased margins, a slight increase on last quarter but with very little change being seen since mid 2007. **61% anticipate falling margins**, a modest improvement on the 66% reported last quarter but continuing the downward trend from the peak of 85% reported in 2008 Q3.



Procurement

74% of contracts are obtained by tender with **11% by appointment, 9% specified** and **6% by nomination** which continues to challenge the notion of integrated working within the sector.

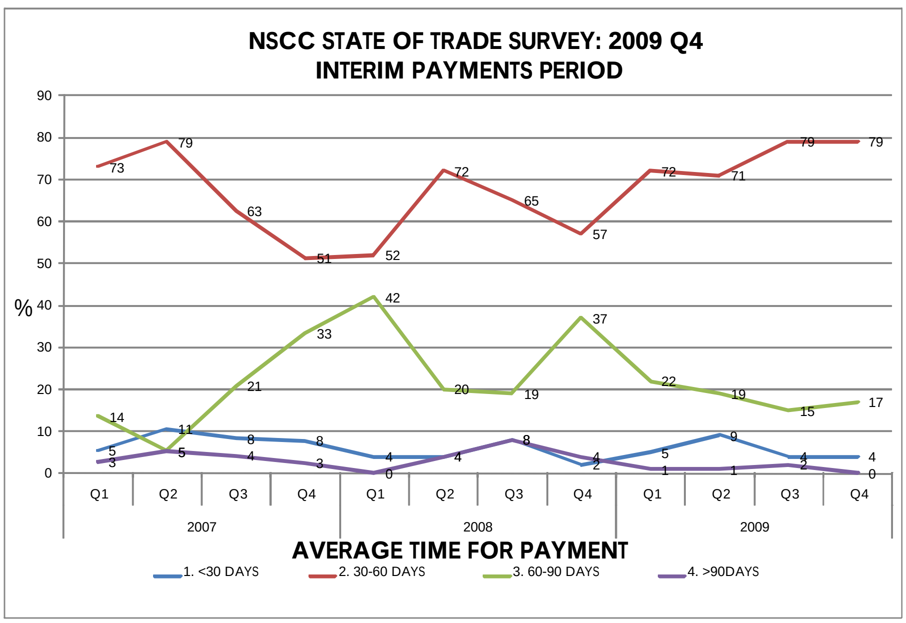
18% of Specialist Contractors do not receive their contract documentation until after they have started the work.

46% of Specialist Contractors use amended standard forms such as the JCT sub-contract and DOM 1 / DOM 2 with the **largest single percentage of respondents using an amended JCT sub-contract (37%). 32% use contractors own forms.**

Payment Periods

4% of Specialist Contractors are being paid within 30 days, the same as last quarter. **79% received payment between 30 and 60 days**, again unchanged from last quarter. **The percentage of Specialist Contractors receiving payment between 60 and 90 days has risen slightly from 15% to 17%.**

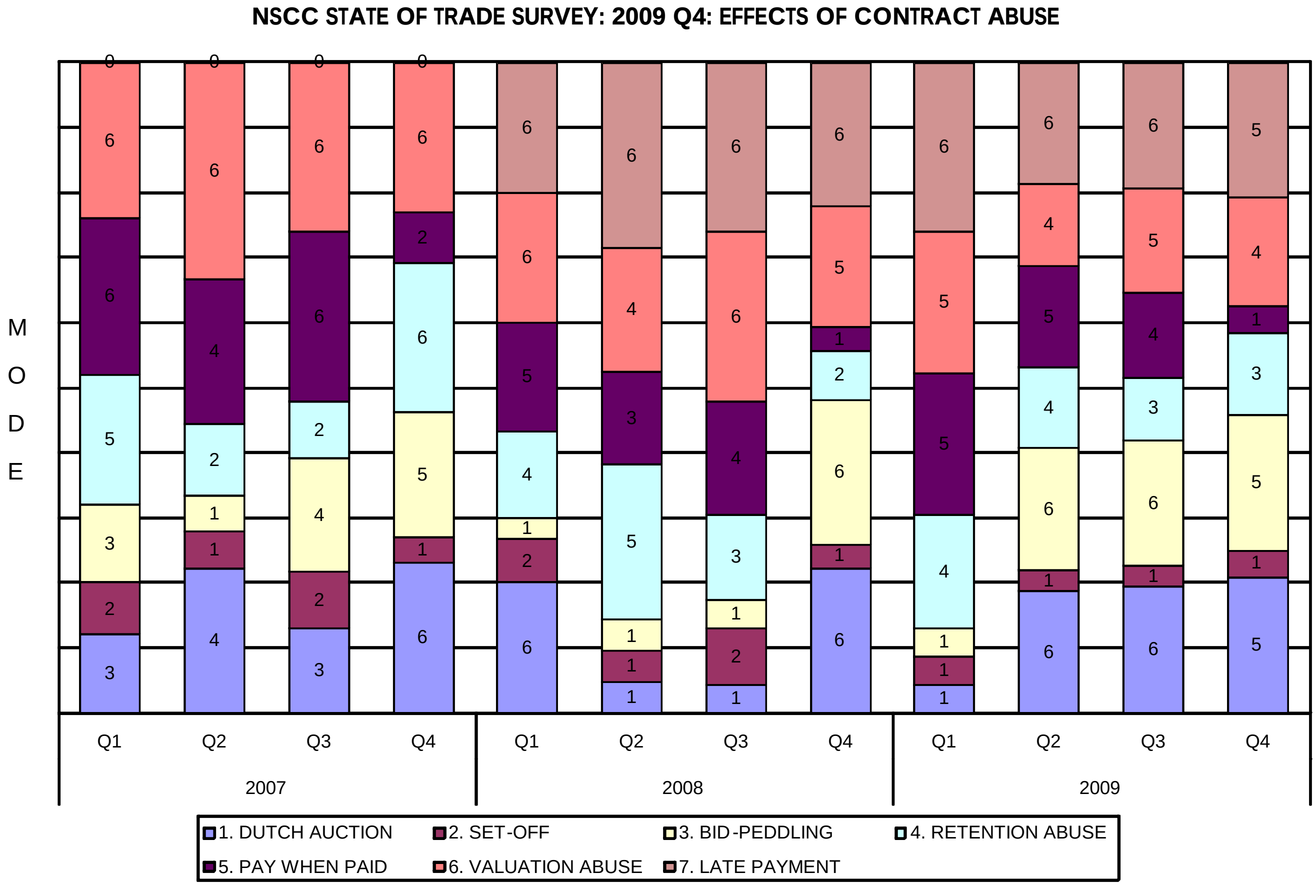
“Late Payment”, “Bid Peddling” and “Dutch Auction” are reported to be the most important factors affecting Specialist Contractors’ businesses.



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** and **Dutch Auction** as having the most significant effects on Specialist Contractors' businesses.

84% of respondents have monies withheld against them in retentions with an average of £125,082 per respondent. Of the monies withheld, **an average of £38,522 per respondent is overdue for release.** This equates to **27% of retention monies withheld from Specialist Contractors being overdue for release**, down 5% from last quarter.



<u>Comments</u> from Specialist Contractors (with trade association in parenthesis) include:-

What factors are having a significant effect on business planning?

1. Availability of government funding for educational projects. (Association of Interior Specialists)
2. Euro/sterling exchange rate. (Association of Interior Specialists)
3. Suicidal tender prices and lowest price wins mentality of clients and the marketplace. (Association of Interior Specialists)
4. Far too much duplication of red tape. (Association for Specialist Fire Protection)
5. The cost of redundancy and reorganisation to cope with the substantial reduction in new contract work. (Association of Technical Lightning & Access Specialists)
6. Start dates being moved (by months in some cases). (Confederation of Construction Specialists)
7. Main contractors are taking longer to pay, therefore creating a cash flow problem for us. (Contract Flooring Association)
8. Insurance companies restricting credit. (Contract Flooring Association)
9. Forecasting government expenditure choices in the run up to the UK general election. (Federation of Piling Specialists)
10. Obtaining credit cover on main contractors through credit insurance. (The National Federation of Roofing Contractors Ltd)
11. Volatility of demand. (The National Federation of Roofing Contractors Ltd)

What issues are affecting your business?

1. Poor credit rating of main contractors and onerous and complicated payment terms. (Association of Interior Specialists)
2. Financial stability of our customers. (Association of Interior Specialists)
3. Reluctance to take on new innovations / better products. (Association of Interior Specialists)
4. Banks not extending overdrafts to small contractors and small builders. (Contract Flooring Association)
5. Repetitious health & safety inductions to sites are costly and ineffective. (Contract Flooring Association)
6. Extended payment terms imposed by main contractors even when the contract is government funded. (Glass and Glazing Federation)
7. Difficulty in getting retentions paid. (The National Federation of Roofing Contractors Ltd)
8. Non-payment through clients going bust. (Rural & Industrial Design & Building Association)

General Comments:

1. Main contractors continue to push prices down and try to continually come up with reasons to chip money off valuations. (Association of Interior Specialists)
2. Abolish retentions and make 30-day payment statutory. (Contract Flooring Association)
3. It is imperative that the government recognises the importance and contribution the construction industry will make to any recovery. Cutting public expenditure after the election by any political party will spell disaster for our industry. (Contract Flooring Association)
4. A common pattern is emerging that interim payments are regular and fine but coming to the last payments monies are being withheld. (The National Federation of Roofing Contractors Ltd)

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