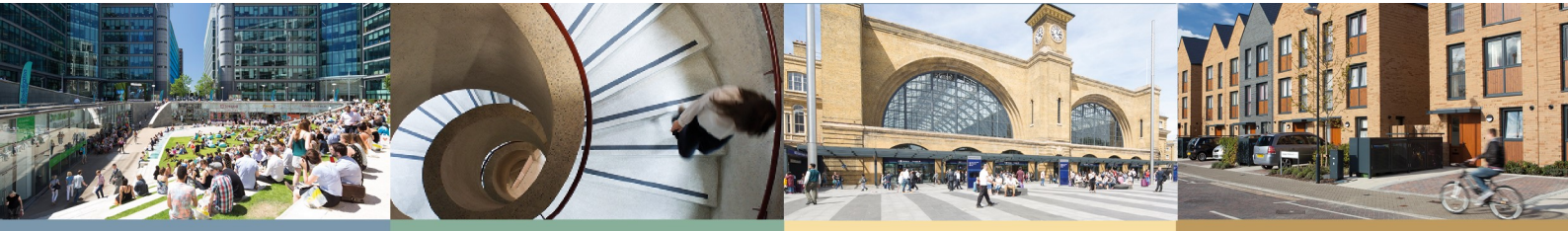


# State of Trade Survey

April 2023 - £90



## Heavy Side Sales Fell for a Third Straight Quarter

### Headlines:

- 7% of heavy side firms reported that **sales fell** in 2023 Q1, the third consecutive quarterly decline
- **Sales rose** for 44% of light side firms, representing an eleventh quarter of growth and the highest balance in a year
- 46% of heavy side manufacturers and 47% of light side manufacturers expect **an increase in sales** over the next 12 months, on balance
- **Demand** was cited as the factor most likely to constrain output in the year ahead
- **Wages & salaries** became the strongest cost pressure for manufacturers

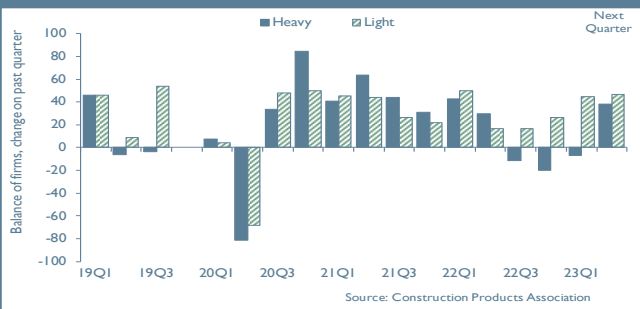
Construction product manufacturers' fortunes continued to be split in the first quarter of 2023, with heavy side manufacturers reporting a fall in sales, on balance, and light side firms reporting that sales rose. For the heavy side this was the third straight quarterly decline in sales activity, contrasting with the light side balance rising to the highest in a year. This is likely to reflect the continued dynamics of construction work taking place, focusing on internal fit-out, refurbishments and maintenance, particularly in the commercial sector, which benefits the light side. However, new build project starts in sectors such as housing, commercial and public non-housing continue to be hampered by the economic backdrop of uncertainty, slowing growth, high inflation and rising interest rates, which in turn is slowing demand for heavy side products. In addition, the varying performance of product sales heading for external and internal works will have been emphasised by heavy rain in January and March limiting demand for heavy side products going into structural and groundworks, whilst internal works and light side sales would largely have been able to continue. Both heavy and light side manufacturers anticipate an increase in sales over the next 12 months, although with consumer-focused sectors of construction expected to bear the brunt of an economic slowdown, activity is likely to be concentrated in infrastructure, energy efficiency retrofit and commercial refurbishments.

In Q1, a balance of 7% of heavy side manufacturers reported a decline in product sales, whilst 44% of light side manufacturers reported an increase. This marked a third quarter that heavy side and light side firms have reported a contrasting performance, which echoes both anecdotal evidence and ONS data about current areas of strong activity that are geared towards light side demand: refit and refurbishment of commercial units to either repurpose vacated retail space or bring offices space up to higher energy efficiency and ESG (Environmental, Social and Governance) standards, as well as to adapt workspaces for less-frequent attendance by office workers. Not only this, but heavy side sales will also have been affected by particularly rainy weather in January and March as external construction work was either slowed or stopped. However, the Q1 survey also marked the first in a year where both the heavy side and the light side anticipated an increase in product sales over the next 12 months. Construction activity in sectors such as new build housing, housing RM&I, new offices towers and industrial factories and warehouses is expected to be constrained by slow economic growth, falling real incomes and interest rates at a 14-year high, but there remains a pipeline of work in infrastructure, public non-housing, energy efficiency retrofit and continued commercial refurbishments.

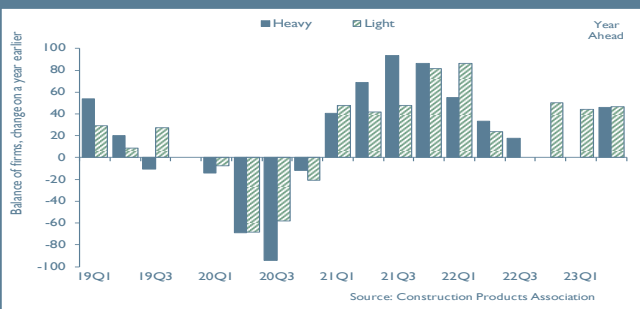
Cost inflation remained elevated in Q1, with annual cost increases reported by 86% of heavy side firms and 88% of those on the light side. Fuel and energy costs moderated slightly, but it was wages & salaries that appeared to be the largest concern in the quarter, rising according to 93% of heavy side manufacturers and all of those on the light side. Certainly, data from the Department for Business and Trade (DBT) showed that whilst materials price inflation remained in double digits in January and February, it was actually the slowest rate since May 2021. Nevertheless, as government support for energy prices reduces from April and OPEC+ has agreed to limit daily oil supply to sustain prices, inflationary pressure on fuel and energy will remain.

## Sales & Constraints

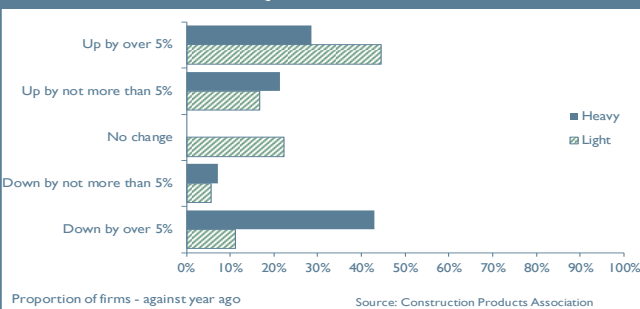
### Sales Volumes - Quarter-on-Quarter



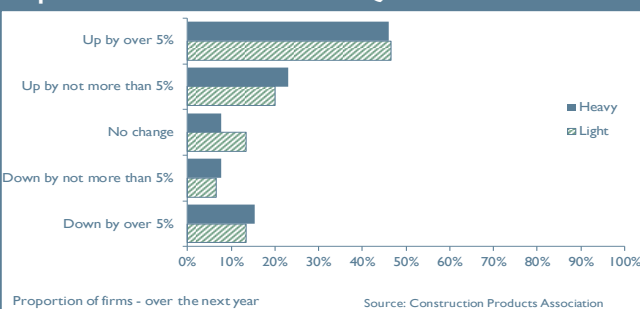
### Sales Volumes - Year-on-Year



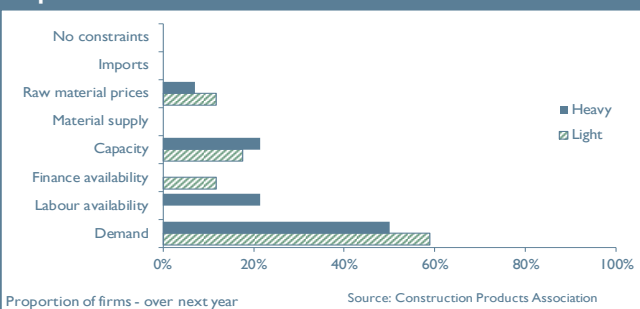
### Sales Volumes - 2023 Q1



### Expected Sales Volumes - 2023 Q1



### Expected Constraints on Sales Over Next 12 Months



### Another mixed quarter for sales in Q1...

Construction product manufacturers' fortunes continued to be split in the first quarter of 2023. On the heavy side, a balance of 7% of manufacturers reported a decline in sales compared to 2022 Q4, improving from a balance of 20% that reported a fall in Q4. For light side firms, growth in sales was reported by 44%, on balance, which is an uptick from a balance of 27% that reported growth in Q4. Looking to the next quarter, views were positive, with 38% of heavy side firms and 47% of light side firms expecting an increase in sales.

### ...and annual growth was mixed too...

In Q1, equal proportions of heavy side manufacturers (50%) reported either an increase or decrease in sales compared to a year earlier, resulting in a zero balance for the second consecutive quarter. It was also the joint-lowest balance since 2020 Q4. For light side firms, 44% reported an annual increase in sales, on balance, down from 50% in Q4. Looking to the next 12 months, 46% of heavy side firms anticipated and 47% of light side firms anticipated an increase.

### ...with a wide variation in performance

In the year to Q1, 29% of heavy side firms reported significant increases in sales (rises of over 5%) compared with a year earlier and 43% reported falls of over 5%. In contrast, 44% of firms on the light side reported an increase of over 5% and 17% reported an increase of up to 5%. Among those reporting a fall on the light side, it was up to 5% for 6% of firms and more than 5% for 11% of firms.

### Manufacturers more positive for the next 12 months...

For heavy side manufacturers, 46% of firms anticipated that sales would rise by more than 5% in the next 12 months and 23% anticipated a rise of up to 5%. On the flipside, 8% of firms anticipated a fall of up to 5% and 15% anticipated a fall of more than 5%. For manufacturers on the light side, 47% anticipated sales rising by more than 5% and 20% anticipated a rise of up to 5% in the next 12 months. However, 7% anticipated that sales would decrease by up to 5% and 13% anticipated a decrease of more than 5%.

### ...with demand the key concern.

Not surprisingly given the slowing UK economy, the strength of demand remained the key concern for sales over the next 12 months. Demand was expected to be the primary constraint on sales for half of heavy side manufacturers and 59% of those on the light side. For heavy side firms, capacity, labour availability and raw materials prices were the other potential constraints cited by respondents. On the light side, manufacturers cited capacity (18%), raw materials prices (12%) and finance availability (12%) as potential constraints on sales over the next 12 months.

# Costs, Employment, Capacity & Investment

## Costs remained elevated in Q1...

Input cost inflation continued across the construction products manufacturing sector in the first quarter of 2023. On balance, 86% of manufacturers on the heavy side and 88% of those on light side reported an annual increase in costs. Balances have been above 80% since early 2021 following the Russian invasion of Ukraine and resulting increase in global energy and commodity prices. Looking at the year ahead, 62% of heavy side firms and 80% of those on the light side anticipated an increase in manufacturing costs.

## ...and input cost inflation remained broad-based.

Costs continued to rise across a wide range of inputs in Q1. All Wages & salaries, energy and raw materials were the biggest contributors to input cost inflation for heavy side manufacturers, with a balance of 93% reporting an increase for each. Fuel costs were higher for 86% of firms, marking the first balance below 100% in five quarters. On the light side, wages & salaries were higher for all firms, with balances of 88% and 82% reported increases in energy costs and raw materials, respectively.

## Hiring prospects remained steady...

29% of firms on the heavy side reported an annual increase in employment in Q1, the lowest balance since 2021 Q3. For light side firms, 60% reported an increase in employment, in contrast marking the highest balance in a year. Looking to the next 12 months, 36% of heavy side firms expected to increase headcount, whilst among light side firms, two-thirds expected to increase employment over the next year. This was the strongest balance in five quarters.

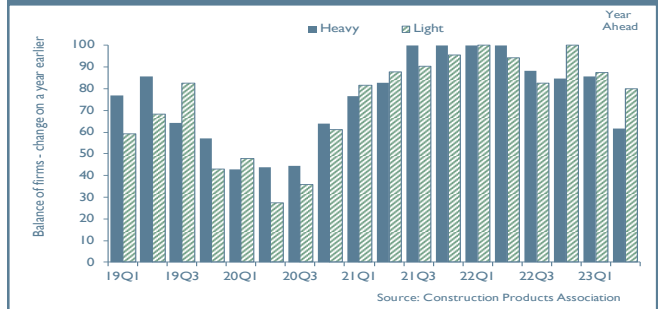
## ...and capacity utilisation remains sufficient.

On the heavy side, 29% of manufacturers reported that they had operated at 90% and full capacity over the last 12 months, down from 31% in Q4. 36% of heavy side firms also reported that they had operated at 81%-90%. On the light side, 27% of firms reported that they had operated at 90% or over and the proportion operating at 81%-90% was 7%. In 12 months' time, 21% of heavy side firms and 20% of light side firms still expect capacity utilisation to be 90% or higher.

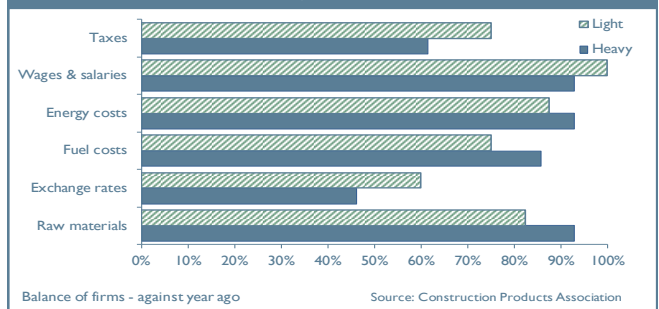
## Capital investment priorities varied...

Product improvement and plant/equipment were the key priorities for heavy side capital investment in Q1, with half of firms reporting increased investment in each of these areas. This was followed by R&D (43%) and customer research (36%). On the light side, a balance of 60% of firms reported that investment in product improvement increased in annual terms, with 53% reporting increased investment in plant/equipment, 50% in e-business and 47% in R&D.

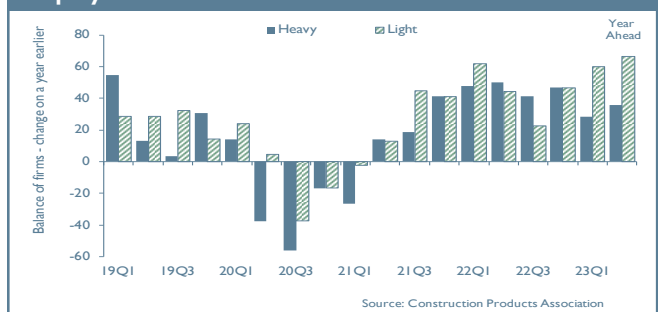
### Unit Costs - Year-on-Year



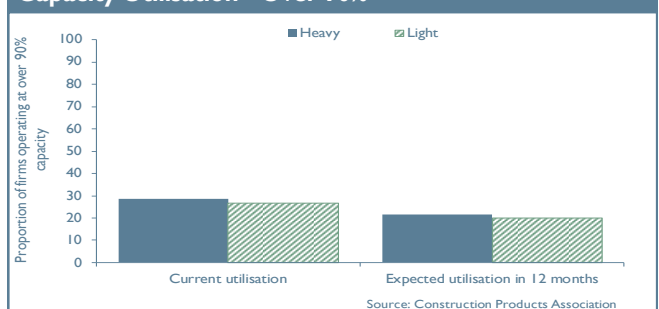
### Cost Breakdown - 2023 Q1



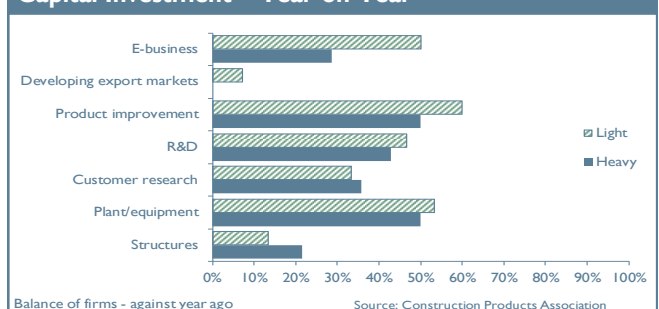
### Employment - Year-on-Year



### Capacity Utilisation - Over 90%

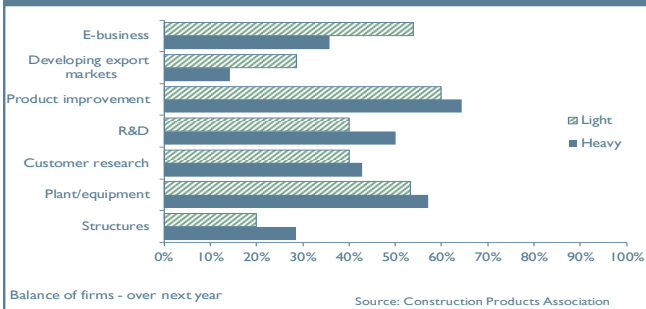


### Capital Investment - Year-on-Year



## Investment Intentions & Exports

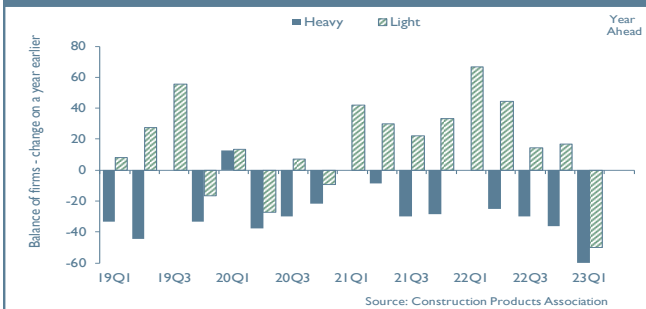
### Capital Investment Intentions - Next Year



...product improvement remained a key focus for 2023.

On the heavy side, product improvement and plant/equipment remained the focus of capital investment intentions for the next 12 months, with 64% and 57% of firms anticipating higher investment in these areas, respectively. Half of firms also anticipated increased investment in R&D, whilst customer research was cited by a balance of 43%. Product improvement was also the key focus on the light side, with 60% expecting to increase investment in this area. Balances of 54% and 53% were reported for e-business and plant/equipment, respectively.

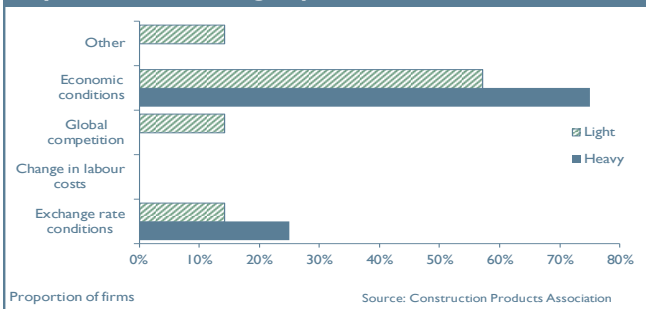
### Exports Volumes - Year-on-Year



Export sales fell in Q1...

Product manufacturers' export sales fell broadly in Q1. On the heavy side, 60% of firms reported an annual decrease in exports, on balance. On the light side, half of firms reported a decline, marking the first fall since 2020 Q4. Uncertainty characterises manufacturers' expectations of export sales over the next 12 months, however, with equal proportions of firms on both the heavy and light side expecting either an increase or decrease, resulting in zero balances.

### Key Factor Influencing Export Volumes - 2023 Q1



...due to economic conditions and exchange rates.

71% of heavy side product manufacturers and 36% of light side manufacturers produced solely for the domestic market in Q1. Of those that did export, for heavy side firms, economic conditions was the key factor influencing export volumes, according to 75% of firms. One-quarter also cited exchange rate conditions as a factor. For the light side, economic conditions was also cited as the key factor, by 57% of firms, along with exchange rate conditions and global competition (14% each).

### Information about the Construction Products Association and the State of Trade Survey

The **Construction Products Association** represents the UK's manufacturers and distributors of construction products and materials. The sector directly provides jobs for 382,500 people across 23,949 companies and has an annual turnover of £62.5 billion. The Association acts as the leading voice to promote and campaign for this vital UK industry.

The State of Trade Survey, conducted quarterly, provides insight into current and expected future industry trends. The survey analysis includes the use of 'balance of respondents' to assess survey results and identify trends. Balance of respondents is a percentage of firms reporting a rise less those reporting a decline. No weighting is given to allow for the extent of the change of the size of the firms involved.

Analysis is divided into heavy and light construction products. **Heavy side products** are typically structural materials used early in the construction process and include materials used in transport and other civil engineering projects. Heavy side materials include: aggregates, cement, ready-mix concrete, structural and reinforcing steel. **Light side products** are typically installed later in the construction process and include internal fittings and services. Light side products include: heating and ventilation systems, plumbing, electrical and lighting, doors and windows, kitchen furniture and thermal insulation.

The State of Trade Survey is one of a range of publications produced by the Association, including the Construction Trade Survey and Construction Industry Forecasts. For further information on the content and availability of these publications please contact:

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