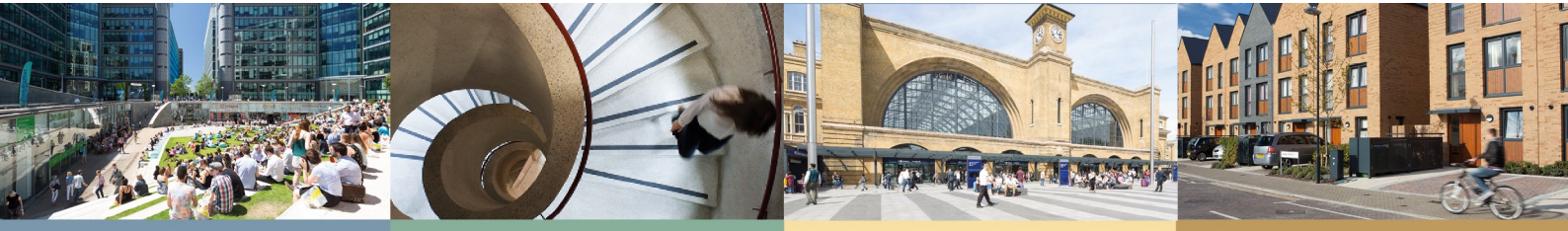


State of Trade Survey

October 2022 - £90



First Fall in Sales in Two Years as Economic Outlook Deteriorates

Headlines:

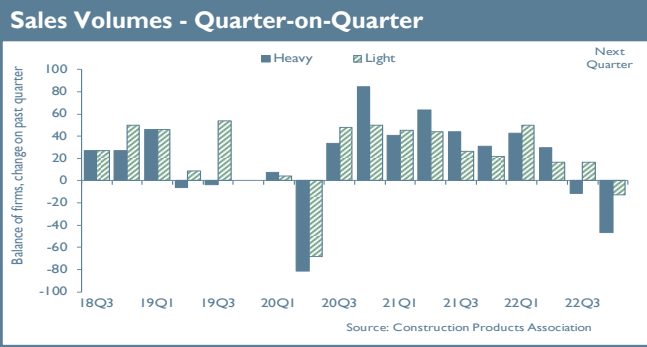
- 12% of heavy side firms reported that **sales fell** in Q3, the first quarterly fall since pandemic-related restrictions in 2020 Q2
- Both heavy side and light side manufacturers, anticipated **a decline in sales** over the next 12 months, on balance
- **Inflationary pressures** showed signs of easing but remained high for fuel and energy
- **Demand** was cited as the factor most likely to constrain output in the year ahead
- **Hiring intentions** softened for light side manufacturers and remained weak for the heavy side

A two-year run of sales growth for construction product manufacturers ended in Q3, with heavy side manufacturers reporting the first decline since activity was stalled by the nationwide Covid-19 lockdowns in 2020 Q2. Light side product manufacturers, whose products tend to be used towards the end of the building process, reported growth in sales, although the balance remained at the lowest in two years. Official ONS data has shown that construction output fell in July and August for public housing, public non-housing and across housing and non-housing R&M. Moreover, the new Chancellor's 'mini-Budget' at the end of the quarter in September has led to a broad deterioration in economic forecasts, and forward-looking indicators in the survey point, unsurprisingly, to a more pronounced decrease in sales over the next 12 months. Public and private sector clients, as well as households, are already affected by high inflation, and a downturn in the economy is likely to worsen the headwinds for consumer-focused sectors such as housing and RM&I. Demand was flagged as likely to be the primary constraint on manufacturers' sales over the next 12 months, with both heavy side and light side manufacturers anticipating a decrease in sales in both Q4 and the year ahead. Alongside this deterioration in the outlook for construction demand, manufacturers continue to experience input cost inflation. Cost balances moderated slightly in Q3, which suggests that inflation rates have peaked, although there is still clear pressure from fuel and energy costs. There is expected to be some temporary relief for manufacturers who had not already fixed energy prices in the form of the government's Energy Bill Relief Scheme initially in place 1 October 2022 and 31 March 2023, but the prospect of an abrupt end adds to supply chain uncertainty.

In Q3, a balance of 12% of heavy side product manufacturers reported that sales fell compared to Q2, ending the eight quarters of growth recorded since 2020 Q2 when activity was affected by widespread restrictions related to Covid-19. Sales growth continued for light side manufacturers, although the balance of 17% remained the lowest since the same period in 2020. Output in the construction industry began to slow over Summer, with ONS data showing a fall in output across the publicly-financed and R&M sectors since July. Q3 also marked a change in government and a 'mini-Budget' at the end of September that has raised concern over future borrowing. In turn, this has led to a sharp depreciation in Sterling and a downgrade in economic forecasts to a recession in 2023. With construction activity already set to slow due to the prevailing inflationary backdrop constraining demand from household-focused sectors and stalling decision-making on public and commercial projects, it is not surprising that combined with recent policy announcements, construction product manufacturers now anticipate a fall in sales. Both heavy and light side firms expect sales to decrease over the next 12 months, according to balances of 53% and 13%, respectively. Consequently, hiring expectations have softened, with only 6% of heavy side firms and 9% of those on the light side, on balance, anticipating an increase in headcount over the next 12 months.

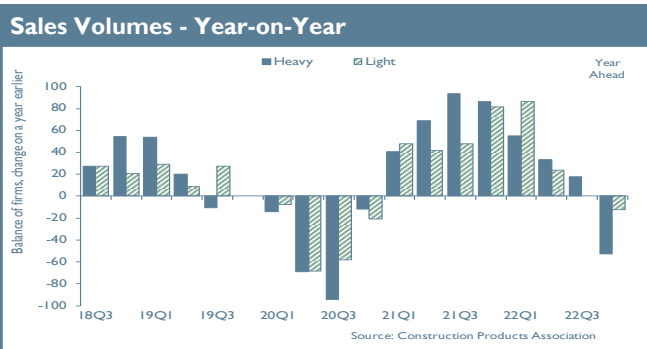
On a positive note, the Q3 survey echoed data from BEIS/ONS that suggests input cost inflation has peaked outside of fuel and energy. Overall, costs were reported to have increased by 88% of heavy side manufacturers and 83% on the light side. Although still historically high, this marked the first quarter in a year that the heavy side balance has been below 100%. The Energy Bill Relief Scheme that began on 1 October should help energy-intensive manufacturers in the near-term, but its scheduled end in March will coincide with a period of lower activity and do nothing to lift the cloud of uncertainty that hangs over 2023.

Sales & Constraints



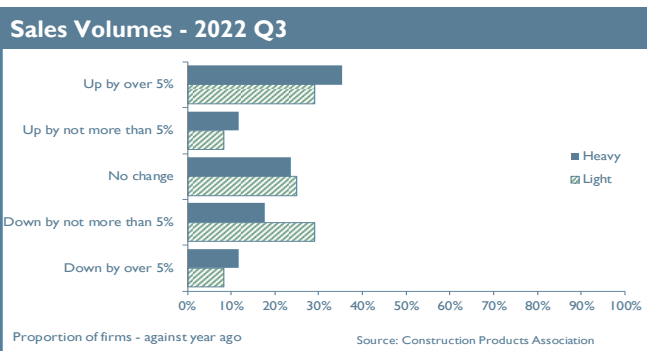
A mixed quarter for sales in Q3...

Construction product manufacturers experienced mixed fortunes in Q3. On the heavy side, a balance of 12% of manufacturers reported a decline in sales compared to Q2, ending a run of two years of growth. For light side firms, growth in sales was reported by 17%, on balance, which matches Q2 as the weakest balance in two years since the first nationwide lockdown in 2020 Q2. Looking to the next quarter, 47% of heavy side firms and 13% on the light side anticipate a fall in sales in Q4.



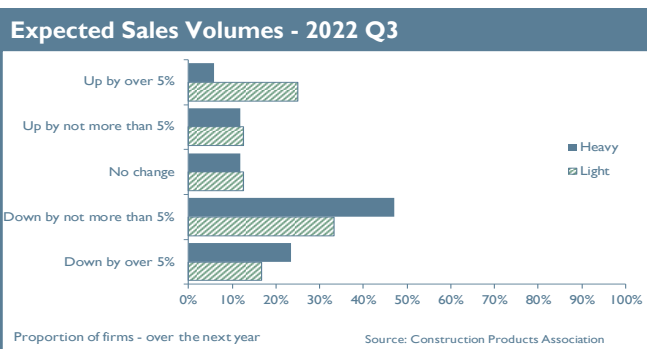
...and annual sales growth slowed...

In Q3, 18% of heavy side manufacturers reported an increase in sales on an annual basis, but equal proportions of light side manufacturers (38%) reported either an increase or decrease, resulting in a zero balance. The heavy side balance fell from 33% in Q2 and the balance for light side firms fell from 24%. Both marked the lowest balances since 2020 Q4. Expectations for the next 12 months have also worsened, with 53% of heavy side firms and 13% of light side firms anticipating a decrease in sales.



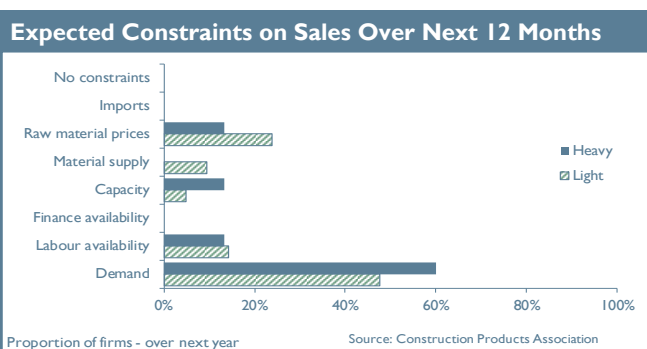
...with a wide variation in performance

In the year to Q3, 35% of heavy side firms reported significant increases in sales (rises of over 5%) compared with a year earlier and 12% reported increases of up to 5%. In contrast, 18% of firms on the heavy side reported a decrease in of up to 5% and 12% reported a fall of over 5%. On the light side, 29% of firms reported a rise in sales of over 5% and 8% reported an increase of up to 5%. Among those reporting a fall, it was up to 5% for 29% of light side firms and more than 5% for 8% of firms.



Manufacturers more negative on the 12-month view...

For heavy side manufacturers, around half of firms (47%) anticipated that sales would fall by up to 5% in the next 12 months and 24% anticipated a fall of more than 5%. Only 18% expected an increase. For manufacturers on the light side, one-third anticipated sales falling by up to 5% and 17% anticipated a fall of more than 5% in the next 12 months. However, one-quarter anticipated that sales would increase by more than 5% and 13% anticipated an increase of up to 5%.



...with demand the key concern.

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 60% of heavy side manufacturers and 48% of those on the light side. For heavy side firms, capacity, labour availability and raw materials prices were the other potential constraints, each cited by 13% of respondents. On the light side, manufacturers cited raw material prices (24% of respondents), labour availability (14%), material supply (10%) and capacity (5%) as potential constraints on sales over the next 12 months.

Costs, Employment, Capacity & Investment

Cost pressures remained intense in Q3...

Input costs remained elevated across the construction products manufacturing sector in Q3, albeit with signs of inflation having now peaked. 88% of manufacturers on the heavy side and 83% of those on light side reported an annual increase in costs. This marked the first quarter that the heavy side balance has dropped below 100% since 2021 Q2. Looking at the year ahead, 82% of heavy side firms and 61% 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 Q3. All manufacturers reported an annual increase in fuel costs during the quarter, with balances of 94% and 96% of heavy side and light side firms, respectively, also reporting an increase in energy costs. On the heavy side, a balance of 76% of respondents also reported an increase in costs for raw materials and wages & salaries. On the light side, raw materials were higher for 91% of manufacturers, whilst wages & salaries were reported to have increased by 82%, on balance.

Hiring prospects weakened for the year ahead...

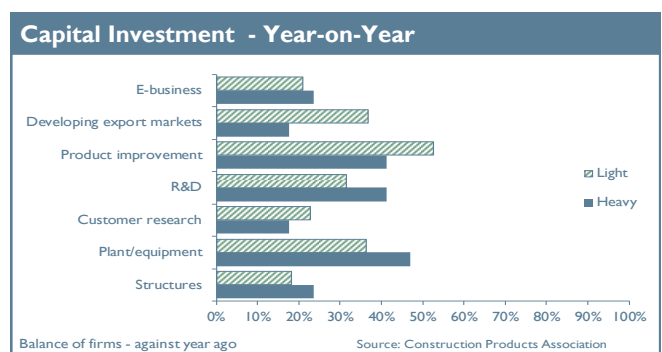
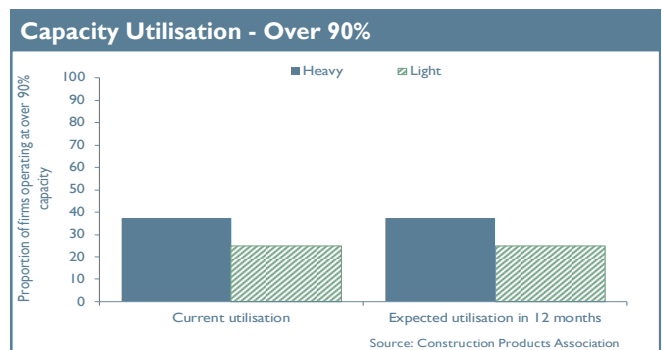
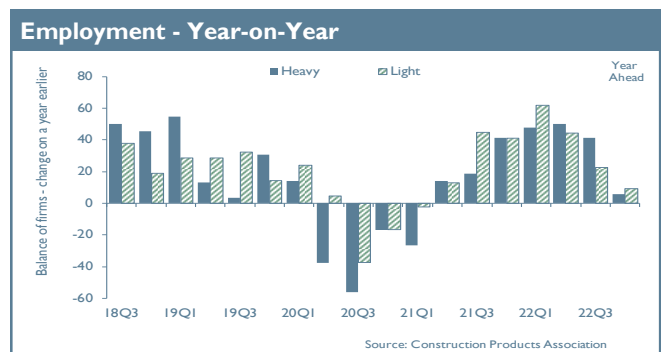
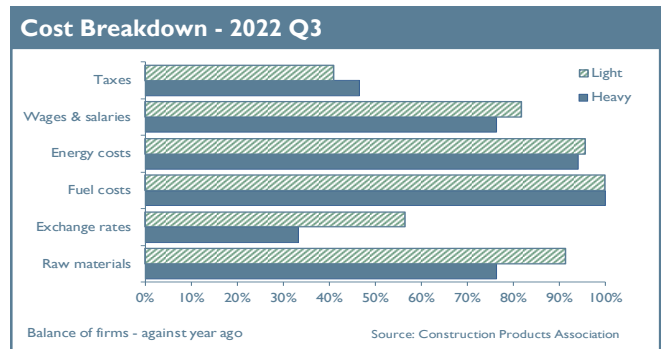
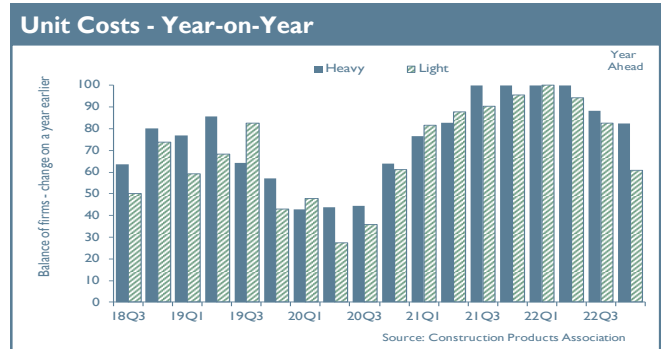
41% of heavy side firms and 23% of light side firms reported an annual increase in employment in Q3. This was the lowest balance in a year for the heavy side and lowest since 2021 Q2 on the light side. Moreover, in line with expectations of a fall in sales over the next 12 months, hiring intentions softened for the coming year in Q3. On balance, 6% of heavy side manufacturers anticipated an increase in employment over the next 12 months, similar to the 9% of light side firms that were expecting to increase headcount.

...and capacity utilisation remains sufficient.

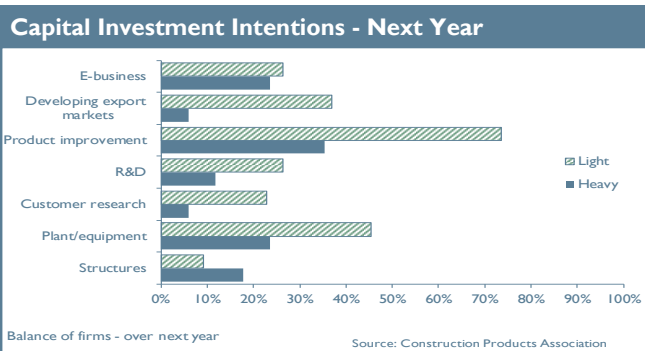
On the heavy side, 38% of manufacturers reported that they had operated at 90% and full capacity over the last 12 months, down from 63% in Q2. Half of heavy side firms also reported that they had operated at 81%-90%, with the total proportion of firms operating at above 80% capacity the same as in Q2. On the light side, 25% of firms reported that they had operated at 90% or over and the proportion operating at 81%-90% was 30%. In 12 months' time, 38% of heavy side firms and 25% of light side firms still expect capacity utilisation is to be 90% or higher.

Capital investment priorities varied...

Plant/equipment was a key priority for heavy side capital investment in Q3, with 47% of firms reporting increased investment in this area. This was followed by product improvement and R&D (both 41%). Investment in both structures and e-business also rose, according to a balance of 24%. On the light side, a balance of 53% of firms reported that investment in product improvement rose in annual terms, with 36% reporting increased investment in plant/equipment and 37% in developing export markets, which was the highest balance since 2016 Q1.

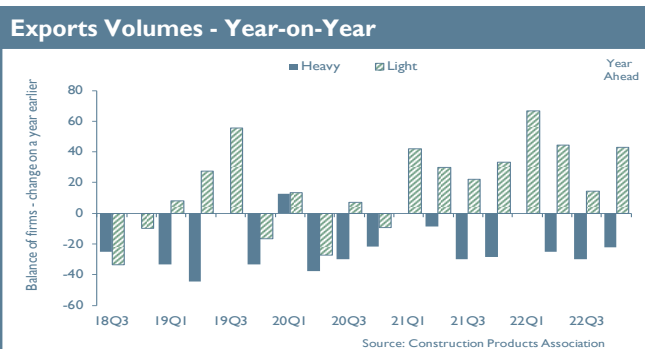


Investment Intentions & Exports



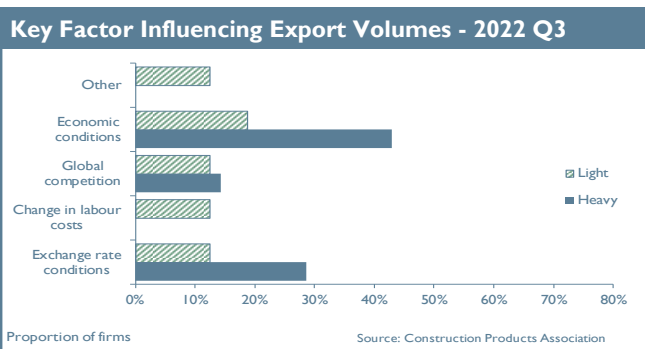
...and year-ahead priorities remained mixed.

On the heavy side, product improvement was the focus of capital investment intentions for the next 12 months, with 35% of firms anticipating higher investment in this area. 24% also anticipated increased investment in each of e-business and plant/equipment. On the light side, 74% expected investment to increase investment in product improvement. Balances of 45% and 37% were reported for plant/equipment and developing export markets, respectively and a balance of 26% was reported for both R&D and e-business.



Another mixed performance for export sales in Q3...

It was another quarter of mixed performance for exports in Q3. On the heavy side, 30% of firms reported an annual decrease in exports, on balance. On the light side, however, 14% of firms reported an annual rise in exports. Looking ahead, 22% of heavy side firms anticipated a fall in exports over the next 12 months, with concern over economic conditions outweighing a weaker Sterling (see below). In contrast, a balance of 43% of firms on the light side anticipated an increase in exports over the next 12 months.



...due to economic conditions and exchange rates.

47% of heavy side product manufacturers and 43% of light side manufacturers produced solely for the domestic market in Q3. Of those that did export, for heavy side firms, economic conditions was the key factor influencing export volumes, according to 43% of firms. 29% also cited exchange rate conditions as a factor, with a weakening in Sterling occurring at the end of Q3. For light side firms, economic conditions was the most-cited factor influencing export volumes in Q3, according to 19% of respondents.

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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