Construction Industry
Focus Survey

Sample Report

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Executive Summary

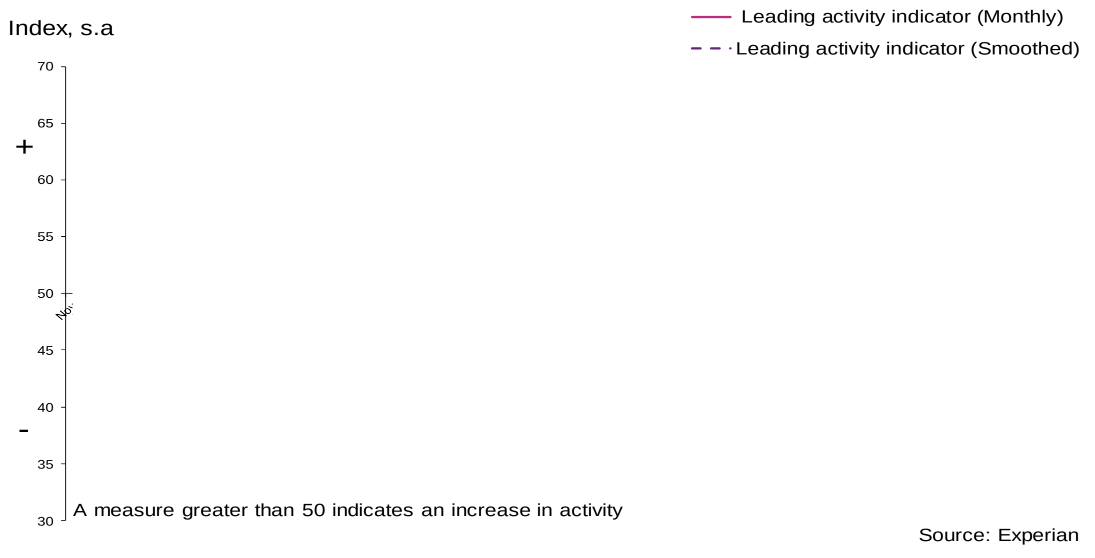
The activity index recorded in July decreased significantly and fell onto contraction territory for the first time since January xxxx. It stood at 48, 8 points below June's figure. Despite the drop, the leading activity indicator is expected to pick up slightly above the no-growth threshold in the next four months.

Orders and tender enquiries remained in positive territory after both of their indices marked small drops. The orders index lost a point and was recorded at 66 in July – the value was slightly below the 2018 average of 68. The tenders index was down by two points and stood at its xxxx average value of 60.

The sectoral orders indices looked comfortably on positive territory in July, as all three of them recorded some growth. The best performing sector in terms of growth was the civil engineering sector which gained 4 points; residential and non-residential sectors grew by 1-2 points each.

The employment prospects decreased by 3 points and fell to 52, only marginally on the expansion side. The figure is the lowest for the 12-month period to July xxxx.

The UK composite indicator recorded a second consecutive month of drop, further moving away for xxxx's high of 60 in May. The regional performance suggested a rather positive situation, as six of the eleven regions recorded growth in their respective indices. Highest growth was recorded in Wales that saw its index jump by 12 points. On the negative side, Yorkshire and the Humber slumped by 14 points into negative territory. Overall, however, only two of the regions stayed below the no-growth threshold of 50.



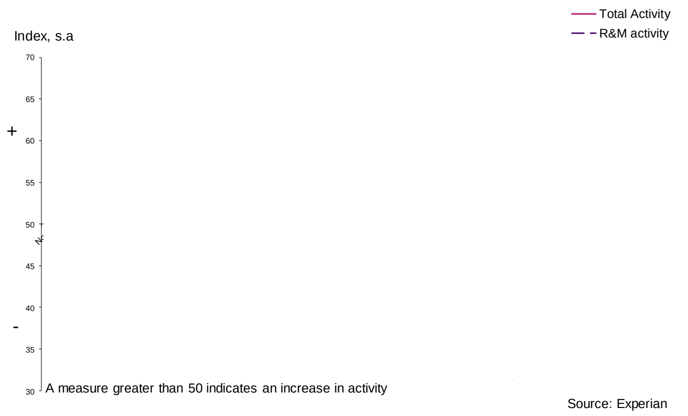
Experian's *Leading Construction Activity Indicator* incorporates a range of factors to assess the construction industry's prospects over the next quarter. The indicator is put together using information about past levels of activity, orders and tender enquiries. The indicator uses a base level of 50 – above that level represents an increase in activity, below that level a decrease.

Activity

Overall

The total activity index showed negative development in July, as it slid into negative territory. It experienced an 8-point drop from the comfortable level of 56 to the current figure of 48. The R&M activity stayed at 51, the same as in June. Its latest figures suggest that R&M still can't recover fully from the decreases in the spring of xxxx.

Construction Activity, Total, Repair and Maintenance

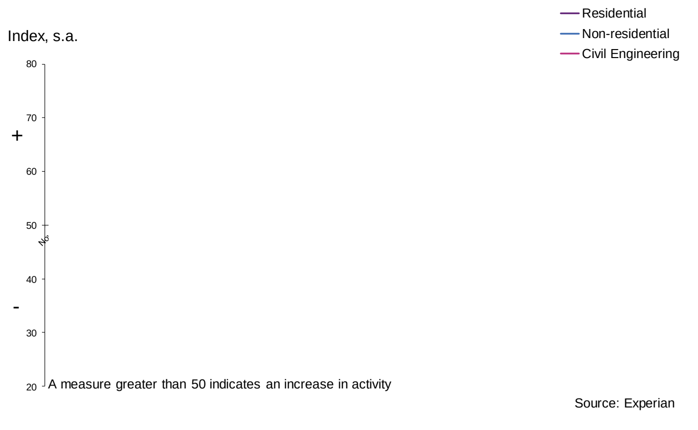


Source: Experian

Sector

The latest data suggest decrease in the contractors' activity, as measured by the respective sectoral indices. Only the residential activity index stood only marginally on positive territory, as it lost 5 points from 56 in June. The non-residential and civil engineering sector indices both were below 50 points. The non-residential index lost 7 points to 47. The civil engineering index, although growing by 6 points, still stayed on negative territory at 43.

Construction Activity by sector



Source: Experian

Activity

Constraints

The share of agents facing constraints increased somewhat – in July it stood at 65%, 3 p.p. higher than June's 62%. The overall number was shaped by two main developments within the individual constraints that for the most part cancelled each other. The share of respondents facing insufficient demand rose sharply by 11 p.p. to 25%, the largest increase in this constraint for more than a year. On the positive side, labour shortage constrains were facing only 13% of the respondents – a 13 p.p. drop from June's 26%. This is a large monthly change as well, considering the dynamics in the last year from July. Among the other constraints, material shortages and financial constraints were reported by, respectively, 3% and 16% of the respondents (increase of, respectively, 3 p.p. and 2 p.p. from June). Bad weather wasn't reported as a constraint for a second consecutive month. 8% of the respondents reported miscellaneous constraints.

Activity Constraints

% Respondents	*Jul-18*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan-18*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul-18*
No Constraint													
Insufficient Demand													
Bad Weather													
Labour Shortage													
Material/Equipment Shortage													
Finance													
Other factors													

Source: Experian

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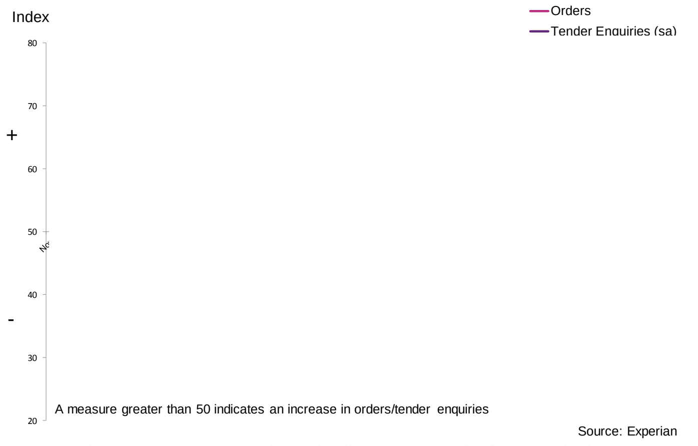
Orders and Tenders

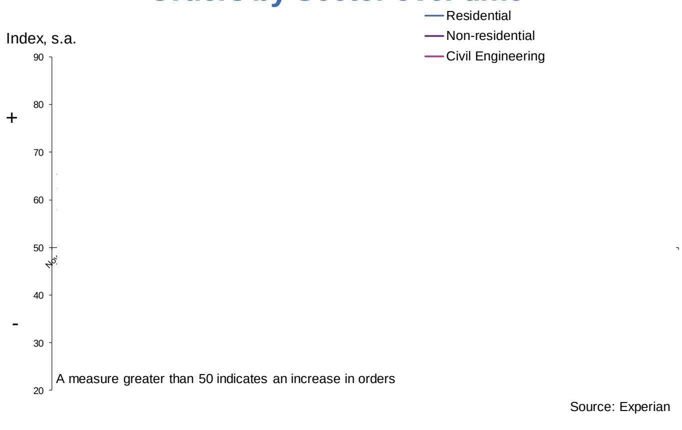
Both orders and tender inquiries lost some ground in July. The orders index ticked down a point to 66, whereas the tenders index lost 2 points and stood at 60. In both cases, the indices are staying comfortably in positive territory, despite the recent losses.

Orders and Tender enquiries over time



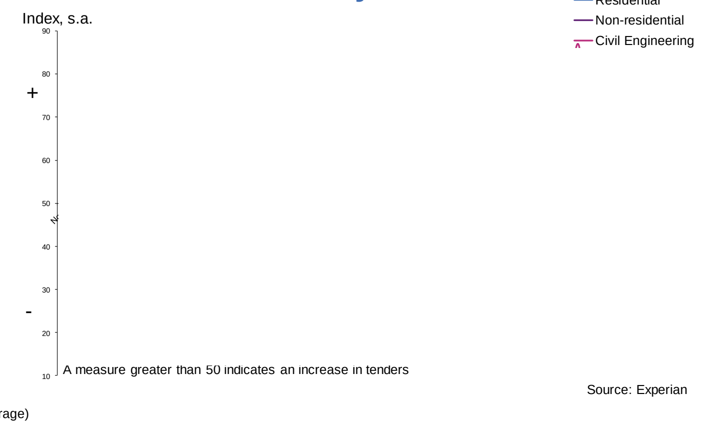
All three sectoral orders indices recorded growth in July. Civil engineering orders index increased at most, gaining 4 points and reaching 60. Residential and non-residential indices grew by, respectively, 2 and 1 point and stood at 67 and 77.

Orders by Sector over time

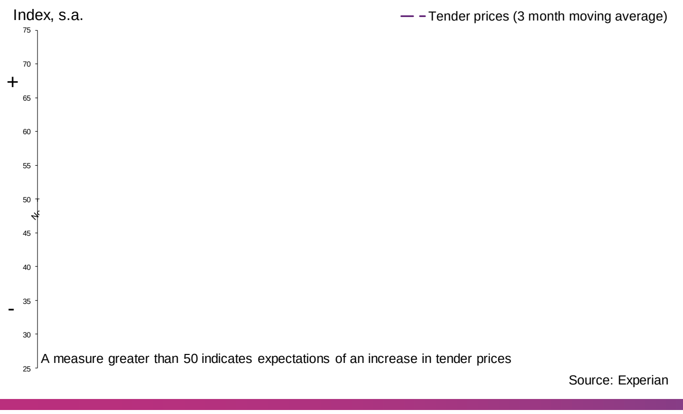


By sectors, the residential and non-residential tenders indices both increased and stood at similar levels. However, residential tenders index grew faster than non-residential – the former was up by 3 points to 66 (following the strong 7-point increase in June), whereas the latter ticked up a point to 68. The civil engineering index was the only one to disappoint – it lost 5 points to 57.

Tenders by Sector



Tender Prices



The tender prices index fell by two points to 61 in July, marking the second consecutive month of decrease. As a consequence, in July the index was 4 points below the xxxx average of 65.

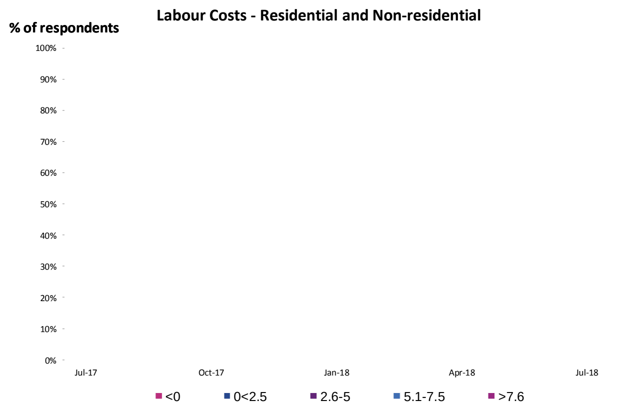
Employment Prospects

Source: Experian

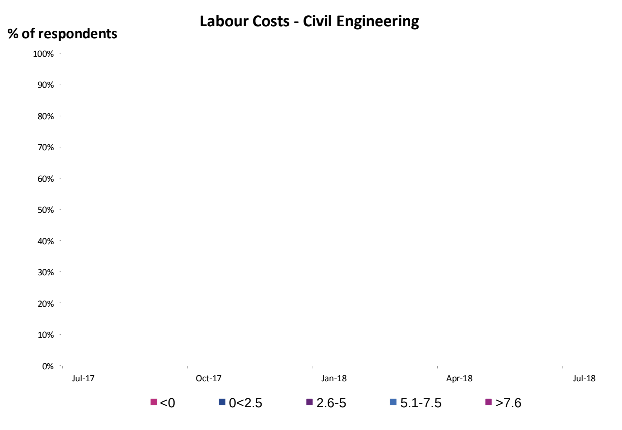
Employment prospects lost three points and stood at 52 in July, thus approaching negative territory.

Labour Costs

The dynamics of the labour costs in the residential and non-residential sectors over the past three months showed rather negative developments. The most significant development is the absence of respondents reporting falling prices. On the second place is the expansion of the share of respondents indicating increases in labour costs of more than 5 percent – from around 17% in April, they increased to about 35% in July.



Source: Experian



Source: Experian

In the civil engineering sector the dynamics were again rather similar to those in the residential and non-residential sectors. All of the respondents reported costs increase in the bounds of 2.6%-5%. This marks some deterioration in comparison to April xxxx, as there was no respondents reporting costs increase of under 2.5% in July.

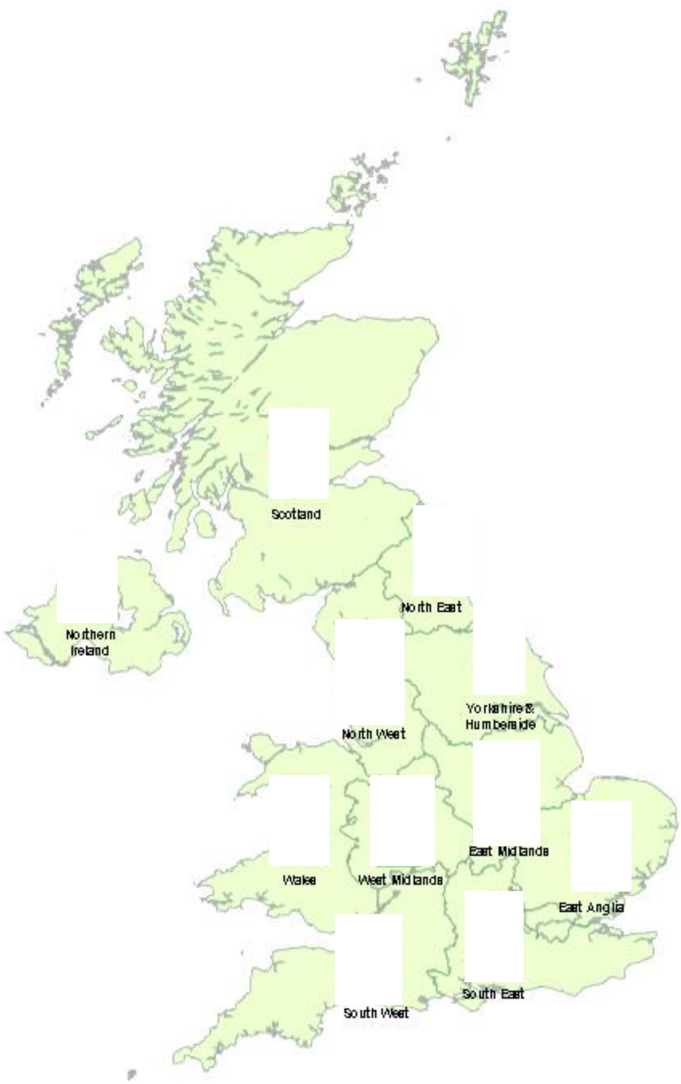
Regional Analysis

Regional Composite Indices													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan-18	Feb	Mar	Apr	May	Jun	Jul-18
North East													
Yorkshire & Humberside													
East Midlands													
East Anglia													
South East													
South West													
West Midlands													
North West													
Wales													
Scotland													
Northern Ireland													
UK													

Source: Experian

Source: Data – ONS, Forecasts - Experian

Regional Analysis



A measure greater than 50 indicates an increase in Regional Construction and Activity and Outlook.
A measure less than 50 indicates a decrease in Regional Construction and Activity and Outlook.

Experian's regional composite indices incorporate current activity levels, the state of order books and the level of tender enquiries received by contractors to provide a measure of the relative strength of each regional industry.

In July most of the regions stood on positive territory, although five of them saw decrease in their respective indices.

Wales was the best performing region in July. It grew by 12 points to 70 and marks the highest index and the highest growth. The two other regions that were at 70 were South West and East Midlands. Both of them, however, grew only marginally – the former by 1 point and the latter by 2 points.

North East showed also a strong performance with its index at 68 in July; however, the figure is 2 points down from the June's 2018 high. Norther Ireland also showed good development, as its index grew by 4 points and reached 61. West Midlands and North West also were stable on the positive side with indices of, respectively, 55 and 56.

Yorkshire and the Humber experienced a large slump for a second consecutive month. After the 11-point drop in June, in July the index was down by 14 points and entered deep into negative territory – the figure for July was 36. This is the region's fourth consecutive month of decrease.

East of England was the other underperformer. It remained further on the negative side, as its index lost 5 points to 42. South East and Scotland also lost points, but their indices remained above 50 at, respectively, 56 and 53.

The UK composite index lost 6 points in July and reached 53, as it moved further away from May's 60 – the best figure for xxxx. July's drop also pushed the UK composite index below its xxxx average of 55.

UK Macro Summary

UK consumer prices: August xxxx

Consumer price inflation (CPI) rose to 2.5% in July, up from 2.4% in June. This is the first rise in the rate since November xxxx.

Transport continued to make the largest upward contribution to the 12-month rate in July, with a 5.7% increase in prices, the largest rise in over a year. The uptick was underlined by growth of 12.4% in the price of fuels and lubricants. Global oil prices have eased back somewhat in recent months after peaking in May, but remain much higher than they were a year ago. Brent Crude is currently trading at over 70 dollars a barrel, compared to less than 55 dollars a barrel last summer. As oil is priced in dollars, the recent weakening in the sterling/dollar exchange rate has put further upward pressure on import costs, adding to the cost of fuel domestically.

Amongst the other components of CPI import cost pressures have generally diminished over the past year, as the much larger depreciation of sterling in xxxx drops out of the annual comparison. This can be seen in the latest producer price data which shows an easing in the headline rate of inflation for goods leaving the factory gate (output prices) to 3.1% in the year to July, down from 3.3% in June. Conversely, prices for materials and fuels (input prices) rose to 10.9%, up from 10.3%. However, more than seven percentage points of this increase is attributable to price movements for crude oil.

Clothing & footwear, a heavily imported good made the largest downward contribution to the 12-month rate in July, with prices falling by 0.4% year-on-year. This is the largest drop since October xxxx, and compares to annual rises of well above 3% in the Spring. Food and non-alcoholic beverage inflation has also eased sharply from over 4% last winter, to 2.3% in July, while furniture, household equipment & maintenance inflation has come down from, over 3% to 1.3% in the same period. Furthermore, core inflation which strips out the more volatile components of the headline index, including fuel, was unchanged at 1.9% in July, compared to 2.7% at the beginning of the year.

Diminishing import cost pressures are expected to continue to exert downward pressure on inflation, however much of this will be offset by higher fuel costs, and this should keep inflation above the Bank of England’s 2% target until the end of the year. Given an easing in total pay growth to 2.4% in the year to April – June, the rise in inflation in July means that real incomes are now contracting once more and with household budgets set to remain tight consumer spending is unlikely to make a recovery until at least xxxx. In xxxx as a whole we expect consumer spending to grow by 1%, down from 1.7% last year.

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Our economic forecasting expertise

Experian's team of 20 economists is a leading provider of global, national, regional and local economic forecasts and analysis to the commercial and public sectors. Our foresight helps organisations predict the future of their markets, identify new business opportunities, quantify risk and make informed decisions.

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Construction Futures is a part of Experian's Economics Team, specialising in economic analysis of the construction and related sectors, and working with clients in the private and public sectors to provide a better understanding of the industry's dynamics.

The Construction Industry Focus draws on the monthly survey of construction activity, which is part of the European Commission's harmonized series of business surveys undertaken on their behalf in the UK by Experian. The survey is conducted by monthly questionnaire among 800 selected firms throughout the UK (including Northern Ireland), and the analysis is broken down by size of firm and Government Office Region. The analysis is also weighted to reflect the size of the respondents.

For the purposes of the Construction Industry Focus, the survey data is seasonally adjusted and turned into an index in which the base line is 50. A value over 50 indicates an increase in the indicator being surveyed, while a value under 50 indicates a decrease.

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ISSN: 0969-3777

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This report has been prepared for publication by the Construction Futures team, which is part of Experian's Market Intelligence Group, utilising data from the European Commission's harmonised business survey for UK construction.

Experian is indebted to the European Commission for its sponsorship and part-funding of the survey.

European Commission

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