

## Construction Product Sales Bounce Back in Q2

### Headlines:

- **Heavy side sales** volumes rose on a quarterly basis but contracted year-on-year, on balance.
- **Light side product** sales were broadly unchanged compared to Q1 but fell on an annual basis, according to 7% of firms, on balance.
- Market sentiment improved in Q2 with 38% of **heavy** and 31% of **light** side companies, on balance, expecting sales to rise in Q3.
- **Export** growth continued to boost sales in Q2 with 30% of **light** and 20% of **heavy** side companies reporting a rise in exports quarter-on-quarter, on balance.
- **Cost inflation** remained prevalent across the industry with energy and transport costs making the main contribution towards higher unit costs.

Q2 saw a predicted bounce back in quarterly construction product sales following a weak performance during the first three months of 2013. Export sales continued to provide a lifeline for many product manufacturers, whilst the domestic construction industry remained subdued. Both heavy and light side sales continued to decline on an annual basis even if the pace of these falls showed signs of slowing down from Q1.

Looking ahead, product manufacturers remain optimistic about sales growth. Recent data releases on the UK economy have fuelled optimism over growth prospects. Also market conditions are expected to improve as the year progresses with private housing one of the key sectors expected to boost domestic demand. Export sales are anticipated to continue providing a boost even if most European economies, the UK's main export markets, remain firmly in negative territory.

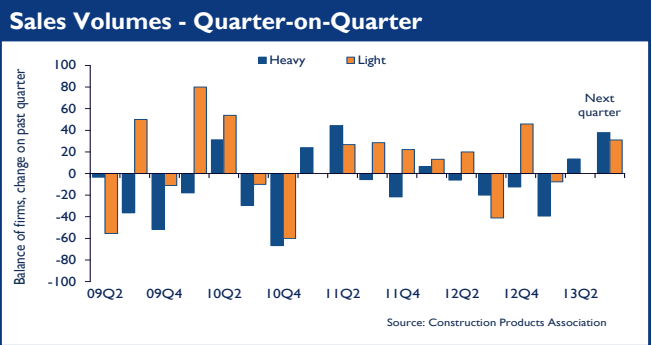
Heavy side construction product sales bounced back in Q2 following the weather-affected Q1. 14% of heavy side respondents indicated that sales increased on a quarterly basis, on balance, and 30% of firms stated that sales were up by over 5%. However, the rebound in light side sales was less noticeable. After a fall in quarterly sales in Q1, activity was broadly flat in the three months to June. Furthermore, both heavy and light side sales continued to fall year-on-year reflecting the tough domestic construction market conditions.

Exports remained a key contributor towards sales in Q2 with higher exports recorded compared to both 2012 Q2 and 2013 Q1. Despite the recession in the Eurozone (where 71% of light side exports go), around a third of light side firms stated that exports rose both year-on-year and quarter-on-quarter, on balance. Similarly, 20% of heavy side companies indicated that international sales were higher than in Q1, on balance, and 10% reported a rise on an annual basis.

Pressure on unit costs remained a key issue for building product manufacturers and, on balance, 57% of heavy and 62% of light side firms stated that costs were higher than a year ago. Higher industrial gas and electricity prices and elevated road transport fuel prices remained the key drivers of unit costs.

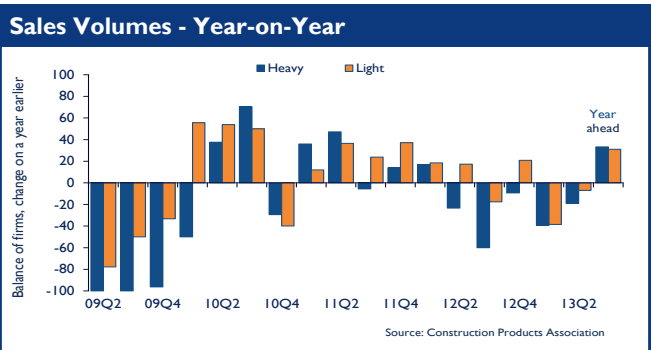
The near-term outlook remains optimistic with around a third of both heavy and light side firms expecting sales to rise over the next quarter and year. Exports are expected to play a key role in enabling sales with 35% of heavy and 45% of light side firms anticipating exports to rise year-on-year, on balance. However, with most of Europe in recession and emerging economies showing signs of cooling down the export opportunities remain uncertain. The sector conditions are unlikely to improve significantly before the UK construction industry returns to growth with private sector holding the key to recovery.

## Sales & Constraints



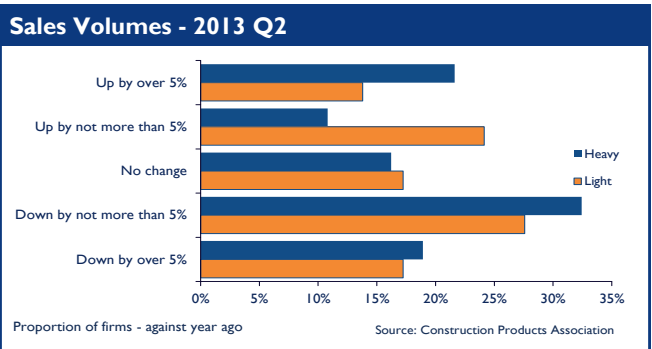
### Quarterly sales improved in Q2...

Following a weather-affected Q1, when sales of both heavy and light side products fell, market conditions improved in Q2. 14% of heavy side companies saw sales increase on a quarterly basis in Q2, on balance, compared to a balance of -39% reported in Q1. Trading conditions for light side manufacturers were unchanged from Q1, when 8% of respondents indicated that sales fell quarter-on-quarter, on balance. The outlook is set to improve in the second half of the year with 38% of heavy and 31% of light companies expecting a rise in sales in Q3, on balance.



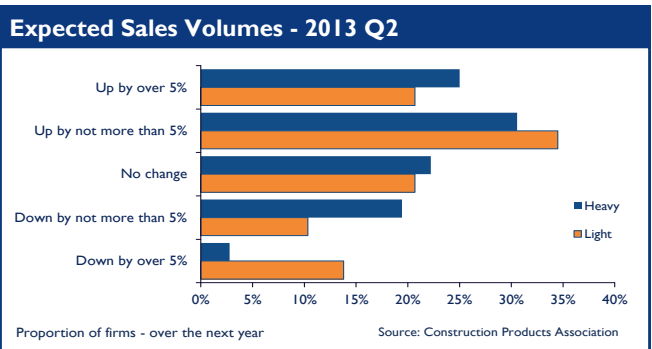
### ...but activity deteriorated compared to 2012 Q2...

After a challenging 2012, during which construction output contracted by 8%, trading conditions for product manufacturers remained difficult in the first six months of 2013. In 2013 Q2, sales volumes of both light and heavy side declined compared to 2012 Q2 but the rate of decline slowed slightly from Q1. 19% of heavy and 7% of light side product manufacturers reported a fall in sales compared to a year ago, on balance. Prospects over the next 12 months are more optimistic with 33% of heavy and 31% of light side companies anticipating sales to rise, on balance.



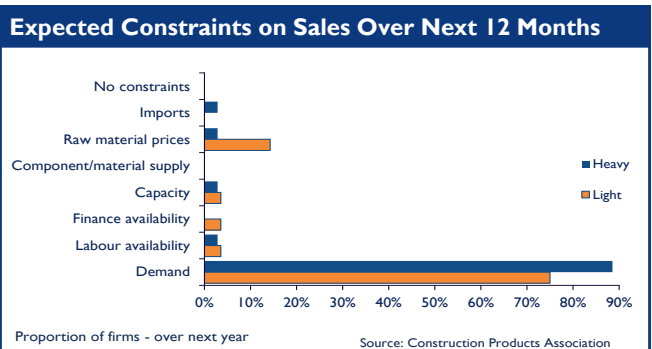
### ...even if rises in sales were more widely reported.

The proportion of heavy side firms reporting higher sales on an annual basis rose to 32% from 18% in Q1. Furthermore, 22% of heavy side firms indicated that sales were up by over 5% from a year ago. However, 32% of heavy side firms reported up to 5% decline in sales year-on-year and 19% stated that sales fell by over 5%. Higher annual sales were also more widely reported among light side firms with 24% of firms stating that sales were up to 5% higher, compared to 15% in Q1. Yet, 28% of light side firms stated that sales fell by up to 5% and 17% reported a fall of over 5%.



### Sentiment improves among product manufacturers...

Optimism among heavy side firms rose slightly in Q2. 25% of heavy side firms predict a rise of over 5% in sales and 31% of respondents anticipate that sales will be up to 5% higher in the next 12 months. However, 22% of heavy side firms still foresee a further fall in sales. Light side firms are slightly more optimistic about future sales with 21% of respondents expecting over 5% rise in sales and 34% predicting that sales will be up to 5% higher. However, the proportion of respondents expecting further falls in sales increased to 24% compared to 16% in Q1.



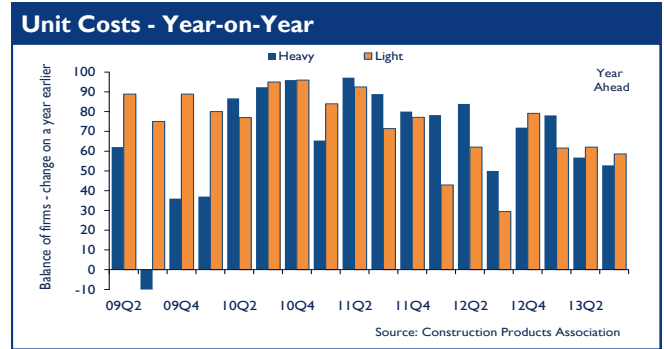
### ...with demand still the key concern.

Demand has been consistently cited as the main constraint on expected sales and, in Q2, 89% of heavy side companies and 75% of light side firms predict that lack of demand will hinder sales growth over the next 12 months. 14% of light side firms anticipate that raw material prices are likely to constrain sales, whilst demand, labour availability and capacity are concerns raised by a small proportion of firms (4%). Similarly, 3% of heavy side firms indicate that labour availability, capacity, raw material prices and imports could adversely impact sales over the next 12 months.

# Costs, Employment, Capacity & Investment

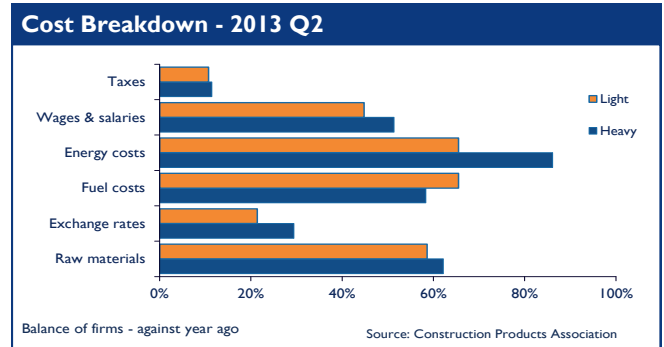
## Cost pressures prevail in Q2...

Unit costs continued to rise for the majority of product manufacturers in Q2 with 57% of heavy and 62% of light side companies indicating higher costs year-on-year, on balance. Cost pressures eased slightly among heavy side firms and nearly a third of respondents stated that costs were unchanged from a year ago. However, 51% of heavy side firms reported that costs were up by up to 5%. Cost inflation among light side respondents was broadly unchanged from Q1. 69% of light side firms indicated that unit costs increased compared to 65% in Q1.



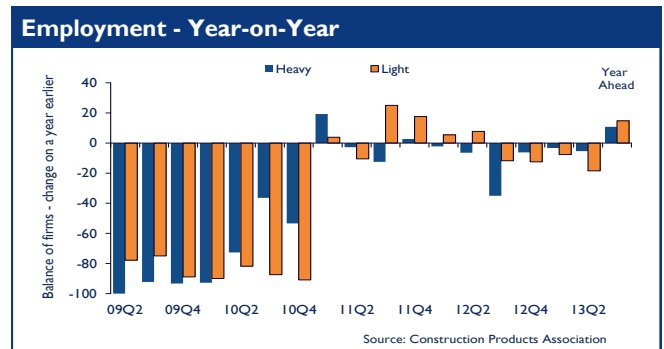
## ...energy, fuel and materials drive up cost inflation.

Energy prices remained the key factor driving cost inflation with 86% of heavy and 66% of light side companies indicating that higher energy costs had made a significant contribution towards unit costs. The price of fuel continued to drive up transport costs with 58% of heavy and 66% of light side companies stating that fuel costs were higher on an annual basis, on balance. The importance of raw materials as a part of the cost base remained significant and 62% of heavy and 59% of light side respondents indicated that costs increased, on balance.



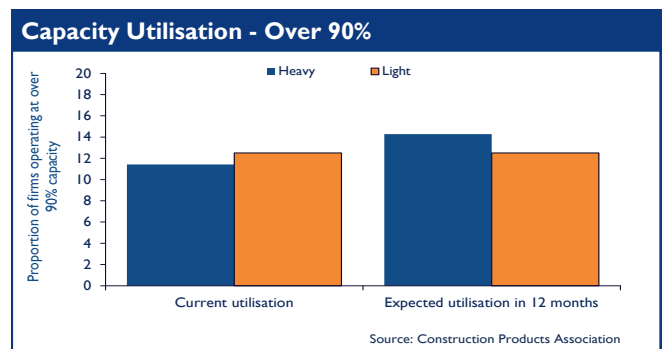
## Employment continued to fall...

Labour market conditions remained challenging with 5% of heavy and 19% of light side firms continuing to lay off staff in the 12 months to 2013 Q2, on balance. Among heavy side companies employment fell on an annual basis for the sixth consecutive quarter following a weak sales performance in 2012. However, 57% of firms stated that headcount was unchanged suggesting that labour market continued to stabilise. Prospects over the next 12 months remain more upbeat with 11% of heavy and 15% of light side firms predicting employment to rise, on balance.



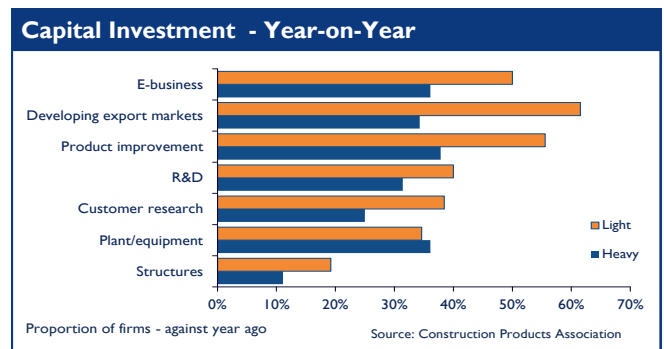
## ... whilst underutilised capacity remains high.

As a result of the sluggish UK construction market, building product manufacturers' production capacity remained widely underutilised in the year to Q2. Almost half of heavy side companies reported capacity utilisation of 70% or less in the year to 2013 Q2, a slight decrease compared to Q1. In contrast, in Q2, the proportion of light side firms producing at 70% of the capacity or below increased to 54%, compared to 39% in Q1. 11% of heavy and 13% of light side companies reported that over 90% of capacity was in use in the previous 12 months.



## Capital investment remains one of the key priorities...

Capital investment priorities diverged slightly in the year to Q2 even if funding generally increased. Heavy side companies tended to focus on product improvement with 38% of respondents, on balance, increasing investment, whilst the sluggish domestic construction market drove 62% of light side manufacturers to invest in the development of export market opportunities, on balance. 36% of heavy side firms increased investment in plant and equipment, on balance, whilst product improvement was the second highest priority among light side firms (56%).



## Investment Intentions & Exports

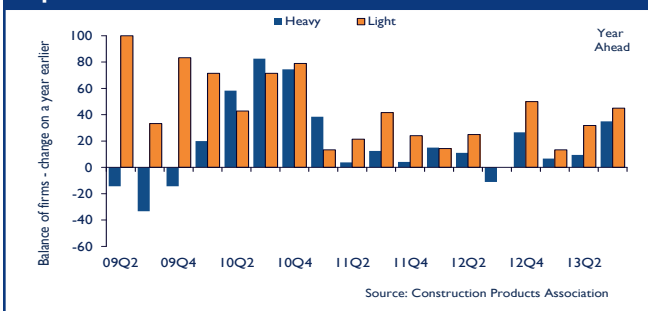
### Capital Investment Intentions - Next Year



...with priorities unlikely to change in the next 12 months.

Feedback from both heavy and light side companies suggest that these investment priorities are unlikely to change significantly over the next 12 months. 53% of heavy side companies expect to increase investment in product improvement, on balance, and 62% of light side firms anticipate to direct additional funding towards developing export market opportunities. 40% of heavy side firms expect to direct more investment towards developing export markets, on balance, and 54% of light side companies anticipate a rise in research & development.

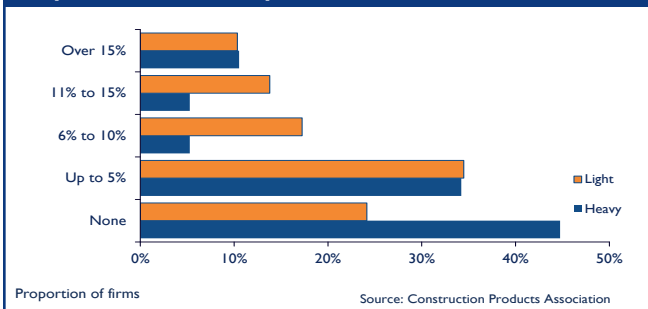
### Exports Volumes - Year-on-Year



### Export growth continued in Q2...

International sales of construction products grew again in Q2 with both heavy and light side companies reporting higher exports with annual basis. 10% of heavy and 32% of light side respondents indicated that exports increased in the 12 months to 2013 Q2, on balance. 29% of heavy and 41% light side respondents stated that exports were over 5% higher than a year ago despite the fact that Europe remained the key export destination for 63% of heavy and 71% of light side firms. 35% of heavy and 45% of light side companies expect exports to rise over the next 12 months.

### Proportion of Sales Exported - 2013 Q2



...most firms still produce only for the domestic market.

Historically, the majority of heavy side manufacturers have produced solely for the domestic market. However, in Q2, 45% of heavy side companies did not export at all, compared to 61% in 2012 Q2 and a reduction from 50% in Q1. The proportion of heavy side firms exporting over 15% of their output increased to 11% in Q2, the highest recording since 2010. In the last couple of years, light side companies have been more actively seeking export opportunities and, in Q2, only 24% of firms did not export at all, compared to 31% in 2012 Q2 and 41% in Q1.

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

The Construction Products Association represents 85% by value of all manufacturing and suppliers of construction products in the UK, including the largest companies in the industry, as well as 42 sector trade associations. Collectively, the industry provides 10% of all goods manufactured in this country. Collectively the industry provides over 1/3 of total construction output.

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.

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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