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CONSTRUCTION SECTOR POISED FOR BUOYANT 2007

The construction industry is poised for a buoyant 2007, with rising numbers of firms pledging to raise prices on the back of rising orders, according to the **Business in Britain survey** from **Lloyds TSB Corporate Markets**.

Thirty-five per cent of firms plan to raise prices over the next six months while only 8 per cent expect to lower them. While the 27 per cent balance – the percentage of raising firms minus the percentage of lowering firms – only represents a slight improvement on June's 25 per cent level, it remains high on a survey-average basis, suggesting that demand for output will remain robust in the months ahead.

One of the key drivers behind companies' bullishness is the strength of their order books, which improved in the second half of 2006. Forty-nine per cent of firms reported stronger orders over the period while 20 per cent reported a fall: the 29 per cent balance improves on H1 2006¹ and is set to advance further over the next six months, with 36 per cent of firms expecting orders to rise rather than fall.

With order books filling rapidly, construction companies are increasingly willing to invest. Twenty-eight per cent of firms plan to hike investment in the next six months while 13 per cent plan to rein spending back. Although the 15 per cent balance, up from June's 13 per cent balance, is fairly low on a historical basis, it is higher than every major UK sector except for business services, at 21 per cent.

Despite construction firms' optimism about the next six months, however, fewer companies expect to boost their bottom line profits.

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¹In H1, the balance stood at 27 per cent

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Thirty-nine per cent of firms expect to see higher profits compared to 18 per cent who expect to see lower profits: the 21 per cent balance is down from June, when it stood at 23 per cent - a probable consequence of the higher wages firms have been forced to pay due to shortages of skilled workers.

Trevor Williams, chief economist, Lloyds TSB Corporate Markets, says: "Lack of skilled labour in the construction industry has forced firms to hike wages but immigrant workers have taken up some of the slack, helping companies to meet strong demand with only a marginal reduction in profits.

"The sector should enjoy another good year, with commercial property booming and individuals increasingly renovating or converting instead of moving house. House prices are buoyant but it is remarkable – and very encouraging for the sector - that construction firms' order books are so strong after such a good run in the last few years."

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Notes to editors:

- The Business in Britain survey has been carried out twice a year since 1992. Responses from 2,541 firms with turnover over £1 million were collated in December 2006.
- Data available by region, sector and company size from the Lloyds TSB Press Office.
- Lloyds TSB Corporate Markets provides comprehensive expert financial services to businesses ranging from privately-owned firms to multinational corporations and financial institutions. The wide range of services and innovative solutions includes: dedicated relationship banking, capital market funding, debt and equity finance, treasury and risk management services, structured finance solutions, import and export trade finance and structured credit investments and securitisation facilities.
- <http://www.lloydstsbcorporatemarkets.com/>

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