GREENSHOOTS? ALBION SECTIONS' UK STEEL CONSTRUCTION SURVEY REVEALS

The recession is perhaps not quite over, but as West Bromwich based custom cold roll-forming manufacturer Albion Sections recent survey suggests, there is a general belief across the construction sector that the worst is finally over. Last year we published the results of a similar survey conducted by Albion, which concluded that competitive pricing was most significant. This translated into reported lower profit margins and higher enquiry levels; with contractors motivated to find the cheapest solution. The survey also indicated that most believed it would take 24+ months for market conditions to return to 2007 levels and 6-12 months for confidence to return. These previous results have provided a helpful basis of comparison eight months on.

After the economic storm, is confidence returning?
The survey results reveal a consensus of thinking across the sector that the worst of the recession is over. However, the construction industry is not bouncing back as soon as most had hoped. In Albion's poll conducted in 2009, 56% of participants believed that by now, the sector would see signs of increased confidence. Although, only 27% in the recent survey are now 'already seeing signs'; we can still be encouraged by an increase of 28% from the previous survey (2009 results: 19%).

There was also more optimism last time around as to how long it would take before market conditions returned to 2007 levels. The results reveal a 21% increase in the majority of participants, 55%, who deem that it will take a further 24+ months for market conditions to resume to how they were in 2007 (2009 results: 44%); this will take us into 2012.

Pricing up the sector
The 2009 poll revealed the extent to which price was playing the major contributing factor towards decisions around placing orders or awarding contracts. The most recent results reveal that price is less of an incentive with 71%; a 10% reduction of participants who considered their customers to find price the most important factor (2009 results: 79%) and 50%; a 21% reduction for their own priority (2009 results: 63%), confirming that price remains the main influence but with a smaller percentage share.

Reliability continues to trail price, its percentage share remaining in similar stead; 32% for their own priority (2009 results: 27%) and 14% for their customers' priority (2009 results: 14%). The requirement for quality has seen a shift, increasing by over 200% for both what participants consider important for their customers; 15% (2009 results: 5%), and themselves; 17% (2009 results: 5%). Not a huge percentage share but encouraging for high quality producers. Delivery remains to have the smallest percentage share for both what participants consider important for their customers; 0% (2009 results: 2%), and themselves; 2% (2009 results: 5%). This result is perhaps misleading and more so indicates delivery to be a fundamental part of the service rather than not important.

As price continues to exert a strong hold on the sector, enquiry levels remain buoyant with 44% reporting 'very good' levels (2009 results: 34%). But as discussed in the 2009 survey article, these high levels translate more to companies 'shopping around' rather than being converted into live projects. This is confirmed when asked regarding potential/confirmed orders for over the next 6-12 months. 43% report order books to be 'low' (2009 results: 39%), however, positively there's a 71% reduction in participants reporting order books to be 'of major concern' with 4% of votes (2009 results: 14%).

In response to the sectors competitive pressures on price, profit margins have seen a cut. When asked to describe margins 89% voted either 'reduced' or 'heavily reduced', similarly to the 91% of voters in the 2009 survey. What is perhaps more concerning is the 25% that have reduced margins to below cost to ensure a contract is won. These desperate measures of work-hungry companies can only mean grave implications for the industry and fatal for many businesses.

The survey also reveals a 29% increased percentage share of participants, 66%, who believe steel prices will remain the same over the next six months(2009 survey: 47%). Following this, 28% sense steel prices will increase (2009 survey: 10%) as opposed to the 2009 survey results where the second majority, 43%, believed prices would decrease up to now (2010 survey: 6%). The results suggest that if price is going to change, it will most likely increase. If material costs were to increase, coupled with a reduced volume of orders, it would put would escalating pressure upon an industry that has now been in decline for two years.

Construction income source
In an addition to last year's survey, Albion asked participants from which sector they are receiving most business. A 24% majority voted education, followed by commercial; 21%, with agricultural narrowly behind with 20% of votes. Not surprisingly residential had a 4% minority of votes.
The results highlight the sectors current reliance on publicly funded projects, the output of which is estimated to have grown by 44% over the last two years. With this year's General Election looming and the Government's need to significantly cut public spending as part of the forthcoming fiscal retrenchment in the UK, it makes concerning news for an already fragile industry. The construction sector is likely to lose a significant supply of demand if as the Chancellor Alistair Darling confirmed in December 2009 that construction spend would half over the next four years. In the mean time, the sector will not be affected due to finances being brought forward from 2010/2011 to 2009/2010 as part of the Government's fiscal stimulus.

However, beyond 2010 there will be few major infrastructure investments outside of the Olympics and Crossrail. The recovery of the construction sector will clearly be driven by the private sector highlighting the importance of industrial and agricultural builds.

Unexpected recovery boost

Albion's survey results were revealed at the same time as the official figures from the Office of National Statistics announced GDP economic output had raised by 0.1% between October and December of 2009. This is the first increase since March 2008. Supporting Albion's findings, the CIPS/Markit construction Purchasing Managers Index (PMI) announced an unexpected climb to 48.6 in January 2010 – up from 47.1 in the prior month and higher than 47 as expected by economists. Marginally short from the 50 threshold that indicates positive growth.

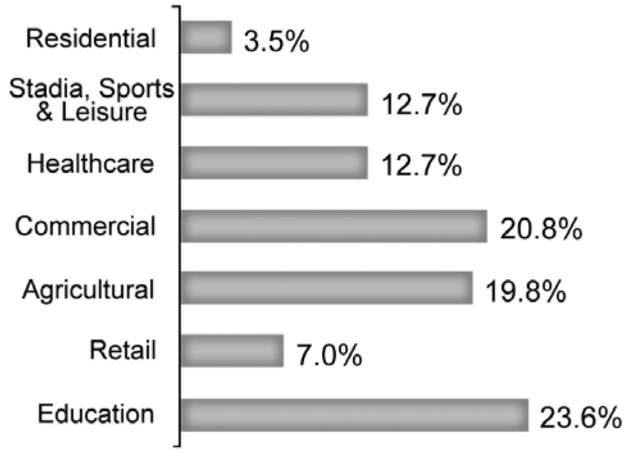
Whilst the wider economy has returned to growth, the UK construction sector remains to decline but at its slowest rate in 23 months. After shrugging off January's snowy weather, these are new and welcomed signs of stability after enduring a major recession. But the sector still faces a very challenging environment. With reports that the recovery was almost exclusively down to last year's discounted VAT rate and Government funded drives, it leaves much doubt to the extent the sector will cope in the coming months and years.

Speaking about the survey, John Jones, Managing Director of Albion Sections commented "the results reflect a sector in a slightly better situation, but still far from providing a reason to expect a strong recovery any time soon. The construction industry is a major driver of the UK economy. Reportedly for every £1 spent in construction, £2.84 is generated. It is hard to see how there can be any significant recovery in the UK economy whilst construction is still in recession. Publicly funded infrastructure projects have offered a temporary lifeline and without continued Government funding it only offers the economy an artificial inflation, in the future we may see the sector go backwards again before it goes forward."

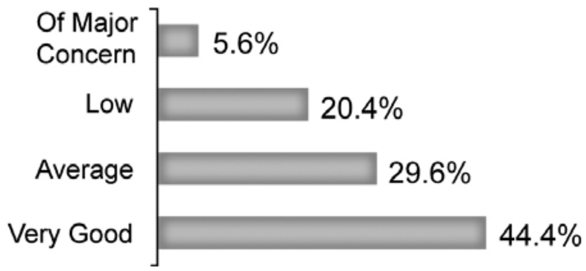
John Jones added "it is our job as an established business in the sector to promote the industry and ensure we add value to products and services. Here at Albion, we have invested in our services and 'Product Development Program'. The recent re-release of Albion Zed Purlins and Albion Cee Section range has been geared around a significantly improved strength to weight ratio, offering added value alongside our industry beating 5-7 working day delivery performance. We will continue to adapt and strive to promote the sector to ensure the quickest escape from this recession."

Note: Survey results were collated at the start of February 2010, steel prices since have risen, such as 28% of voters correctly suggested in Albion Sections' poll.

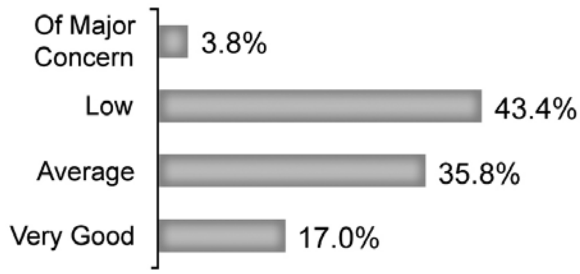
From which sectors are you winning most business?



How are your enquiry levels?



How is your potential/confirmed order book for the next 6 to 12 months?



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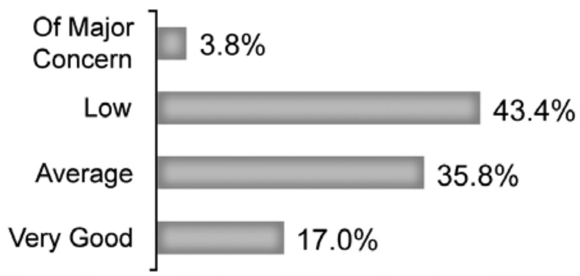
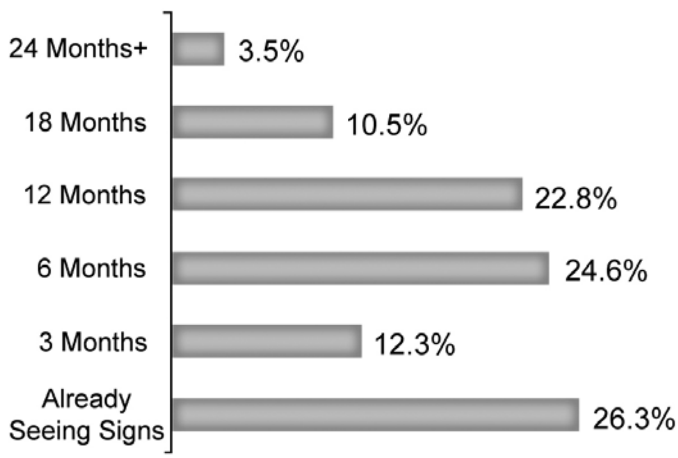
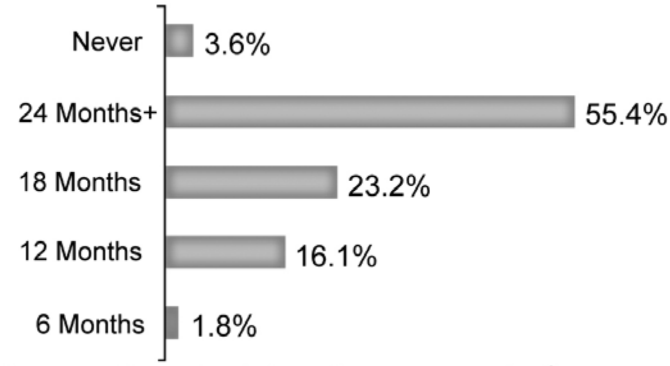


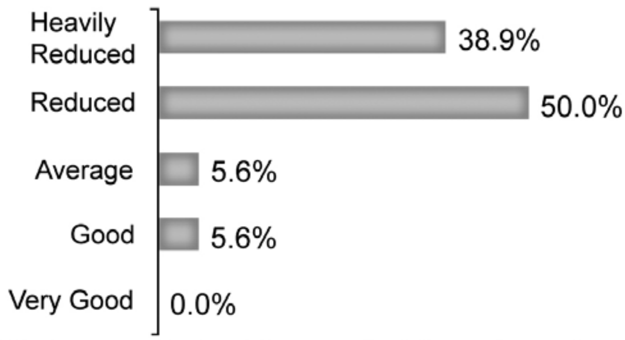
When do you think confidence levels will increase?



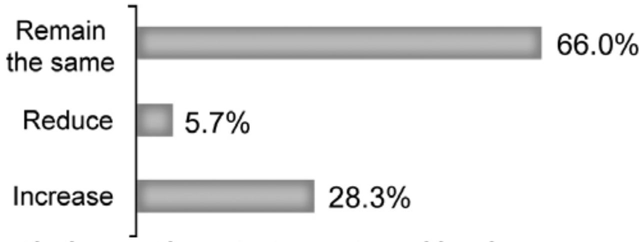
How long do you feel it will take for market conditions resume to how they were in 2007?



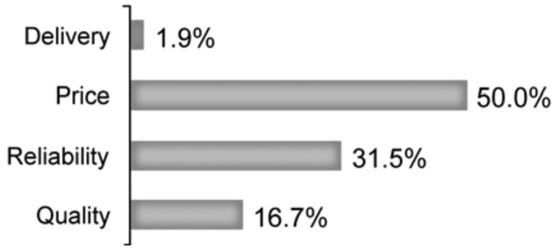
How would you best describe your margins?



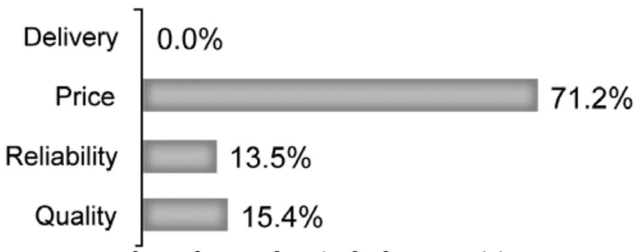
What do you feel will happen to future steel prices in the next 6 months?



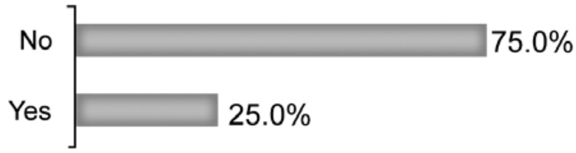
What is the most important aspect considered when you place an order or award a contract?



What is the most important aspect you feel your customers consider when placing an order or awarding a contract?



Have you reduced margins to below cost to ensure winning a contract?



"EVERY FARM IN THE UK WILL HAVE A WIND TURBINE IN FIVE YEARS' TIME"

That's the surprising claim made by wind expert Mark Newton as Farming Futures launches a free guide to wind energy for farmers and land managers today.

With 75% of the UK's land in the agricultural sector, on-farm wind power can represent a significant business opportunity for farmers and land managers, as well as reducing greenhouse gas emissions, which contribute to climate change.

The UK Government is committed to producing 15% of all our energy from renewable sources by 2020, and wind is expected to make a sizeable contribution towards that goal. As a result, financial incentives such as the new Feed-in Tariffs currently under consultation for April 2010 are making the business case for investment stack up for those with the right resources.

Mark Newton from Fisher German is one of the country's leading experts in wind energy. He says, "I believe that every farm in the UK will have a wind turbine in five years' time."

On-farm wind generation can range in size from small systems that power remote farm buildings, through to medium-sized turbines that power local buildings and sell to the Grid, up to multi-million-pound wind farm developments. Turbines must be well sited and have a consistent and adequate wind speed if they are to be a good investment.

This free Farming Futures guide outlines how you can assess your wind resource, what you need to consider when putting together a planning proposal, and where you can go for further sources of information and advice.

Madeleine Lewis from Farming Futures said, "Farmers with the right resources can do well out of renewable energy production. Producing energy on-farm can turn a profit, cushion you against rising oil and gas prices, and provide the UK with a secure, clean and renewable energy supply. It can also give access to new and better markets due to growing consumer interest in 'low-carbon' food."

"In our 2009 survey, 50% of farmers said they were taking action to reduce greenhouse gas emissions from their farm, and we believe that on-farm energy generation could become the norm in the not-too-distant future."

Dr Jonathan Scurlock, the NFU's Chief Adviser on renewable energy and climate change said, "The NFU's aspiration is that every farmer should have the opportunity to be a net exporter of low-carbon energy. National targets and government incentives for renewable energy are creating significant new business opportunities."

"This guide is a great first step to learning about wind power, after which we recommend that farmers talk to a range of different advisers to look at options for making energy production a profitable part of their business."

You can download a copy of the guide from http://www.farmingfutures.co.uk/x360.xml or you can request a paper copy by contacting Madeleine Lewis on m.lewis@forumforthefuture.org or calling 0207 324 3682.

The Farming Futures guide accompanies a series of free workshops about on-farm energy generation throughout the year. Our renewables events have been consistently over-subscribed, with 98% of those attending a recent event saying that on-farm renewable energy generation was, "a very good or excellent business opportunity". You can find more details about these events and download presentations at www.farmingfutures.org.uk/events.