EQUINOX GLOBAL NEWS

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Before I introduce our newsletter I would like to thank all of those who were able to attend our Spring drinks party in March and the opening of our New York office in April. It was great to see so many of you at these events and we hope you enjoyed them.

Equinox has had a successful start to the year, thanks to the support of our clients and brokers and have increased our gross written premiums by 43% compared to 2013. Our team is also growing; so far this year we've been delighted to welcome Genevieve Ahinful, as a senior underwriter, John Joseph, as a senior credit analyst, Duncan Davies, as a portfolio account manager and Vicki Harrison, as our Finance Director and expect to announce more appointments in the coming months.

Our growth reflects the tangible and consistent improvement we are seeing in the economy which brings with it a number of opportunities. This growth is, however, accompanied by the consequences of underinvestment since the 2008 credit crunch. Marian Berden and Kuljeet Ubhi, both senior credit analysts, will explore this topic in their article on the construction industry.

Mike Holley, CEO of Equinox

The UK Construction Industry, has the corner been turned?

The construction industry has been one of the worst affected sectors of the economic crisis. In 2007 the construction sector accounted for 8.9% of the UK's GVA but by 2011 the sector contribution had decreased to 6.7% and since 2009 there has been a steady decline in employment - yet it is all expected to change this year. 2014 has already got off to a more positive start with The Construction Product Association forecasting a 3.4% rise in construction output for 2014 and a further 5.2% in 2015.

The expected growth resides in residential projects notably the government's 'Help to buy' scheme, which the Chancellor has extended until 2020 and infrastructure projects, such as nuclear power stations. The latter is expected to be the single largest regional recruitment impetus in the UK. Hinckley Point C power station is the first nuclear power plant to be commissioned in Britain for 25 years and will be worth £16bn to the British economy, whilst the Wylfa Newydd nuclear power station in Anglesey, Wales is expected to be worth £8bn. Crossrail, which is the largest construction project currently underway in Europe, will continue to benefit the sector and is expected to add an estimated £46bn to the UK economy.

Yet this growth does not come without the legacy problems of the credit crunch, where a serious lack of funding to the industry since 2008 has resulted in some companies, which look poised to reap the rewards of the return to the property boom, actually being much more financially precarious than they appear.

Related industries such as the steel industry, which is vital to the construction of most housing and infrastructure projects, has also suffered and been left structurally impaired by the boom and bust, with a unhealthy mix of excess production and lower pricing power. 2012 was a very difficult year as the industry was affected by the drop in demand from Europe and the slowdown from China causing concern about the availability of construction materials.

Many of the problems in the construction sector stem from a chronic lack of bank lending, which has left many firms of all sizes unable to fulfil orders as they do not have the required credit in place. In 2011 CECA, the Civil Engineering Contractors Association, commissioned a survey, '**Unlocking growth in UK construction**' which concluded that the biggest issue preventing the industry from delivering growth was the availability of funding. Project Merlin, the Chancellor's initiative to assist lending to smaller companies, has failed and the systemic cost cutting by the government has led to delays, or the cancellation of projects.

The underinvestment in the industry also means there is a skills shortage. Research by the CITB, the industry training board for the construction industry, has predicted that more than 182,000 additional construction jobs are needed across the country from 2014 to 2018 as output continues to progress. However, therein lies a concern that the lack of investment over the last few years could lead to an inflated cost of labour as contractors struggle to employ skilled workers.

To capitalise on the opportunities that present themselves to the industry, the government needs to be more supportive; the cost of credit needs to become more affordable and access to finance less restricted. The private sector also has a leading role to play. A recent report by Linklaters entitled, '**Set to revive: Investing in Europe's infrastructure**' found that there is significant investment expected from Canada, the Middle East and Europe, with the UK eligible to receive as much as £120m.

At Equinox we are seeing more and more enquiries from contractors looking for alternative sources of funding and for us this is an exciting sign that the industry is growing. Throughout the economic crisis we carefully analysed the risks and continued to support our clients in construction, as we understand the vital role that construction plays in helping the wider economy recover. Many construction firms now rely on trade credit funding, particularly as the banks are discouraged from lending to the riskier firms, so it is playing a vital part in financing the industry's growth. However, to continue upon this upwards trajectory governments need to continue the impetus and commission projects that will spark funding from banks and private investors. There is a lot of private money available to use but we need to make sure that we capitalise on these opportunities.

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