



# Outlook for Construction

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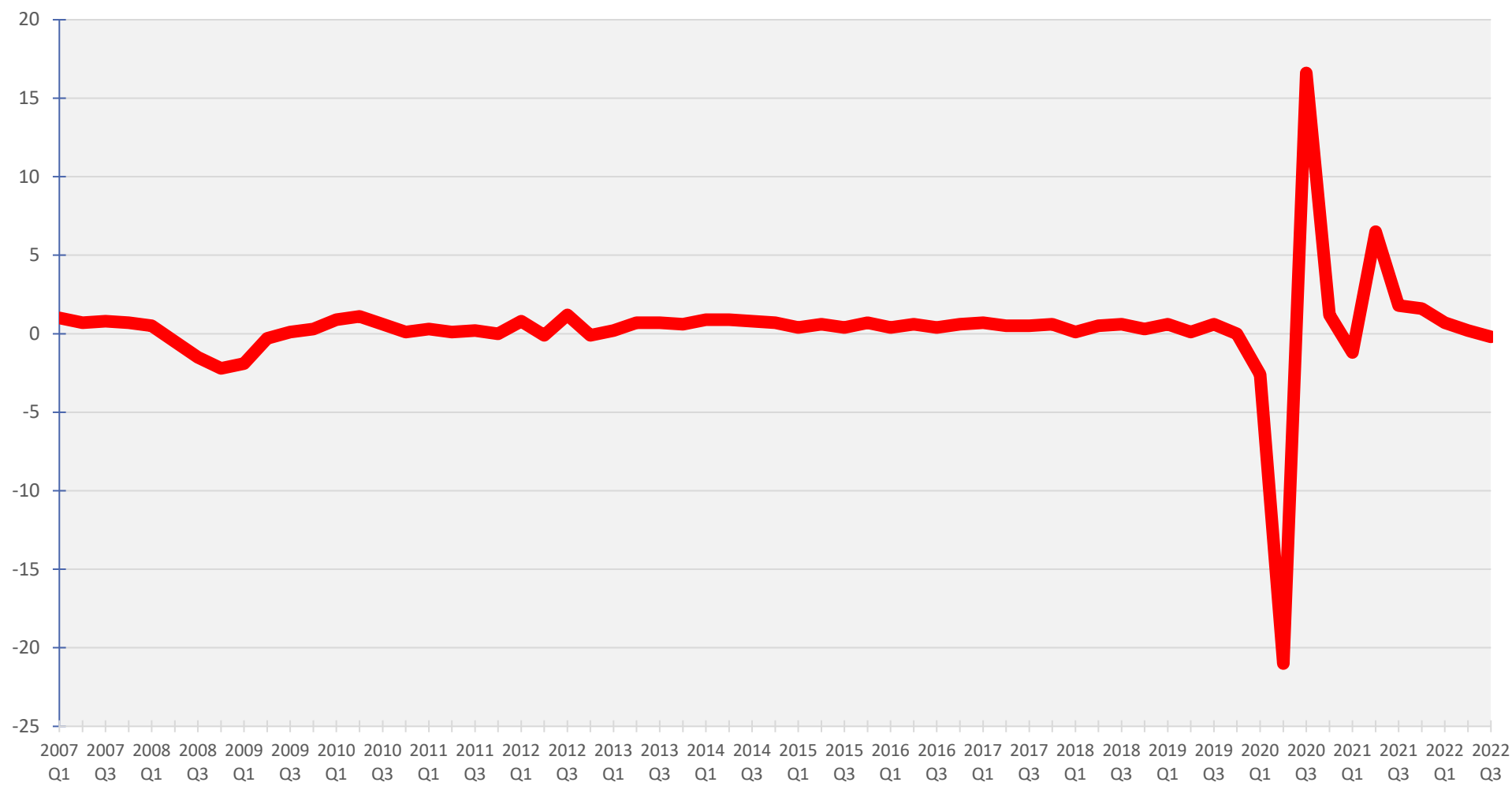
December 2022



# Setting the scene

- Following the shocks of Brexit, Covid and the war in Ukraine, over the last few years, it was always likely that there would be a difficult period to overcome the crises caused
- The question is how long will the crisis last?
- Today we're going to look at the outlook for construction....but first we need to examine the context of the wider economy

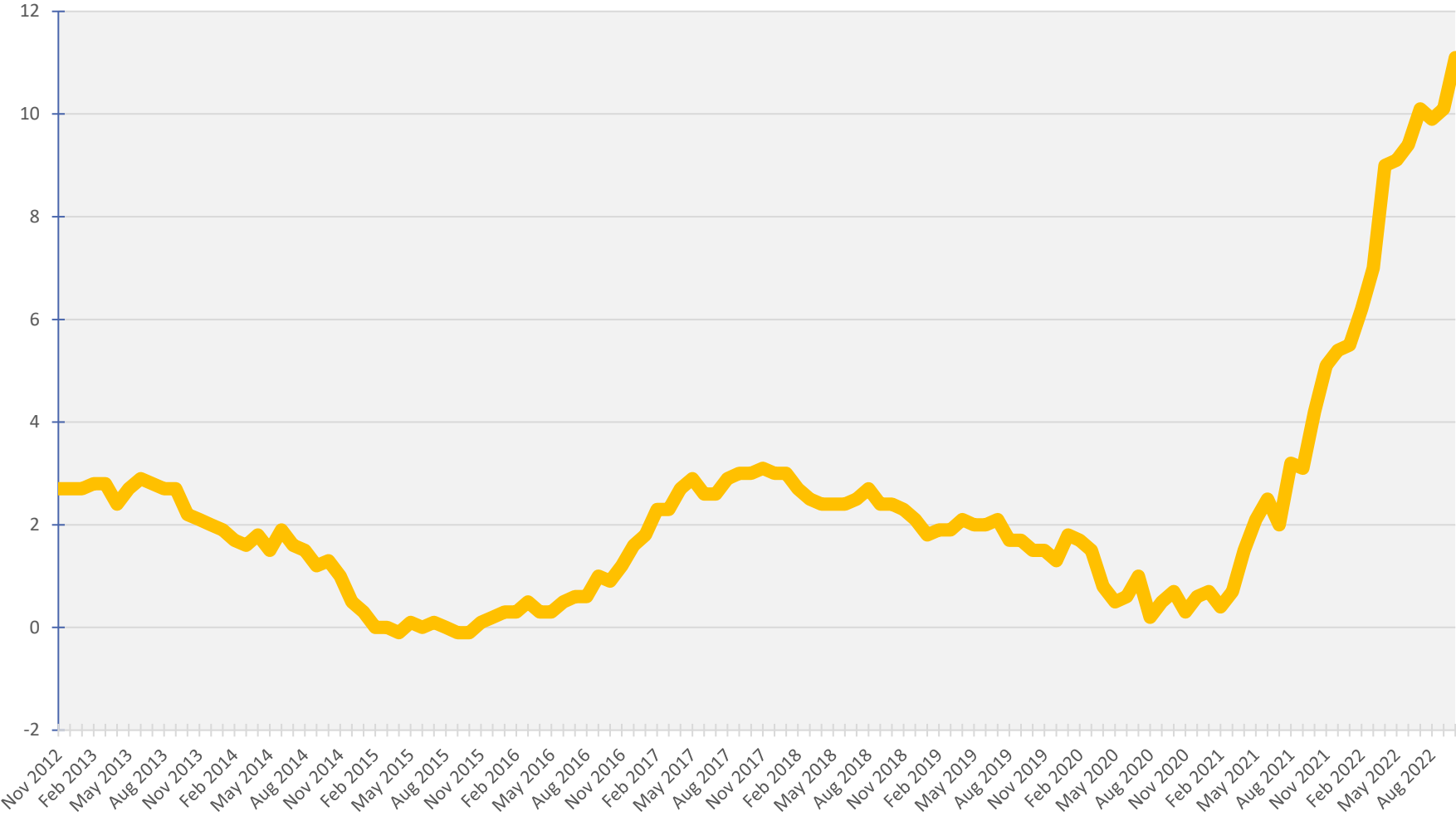
# Wider context: GDP Q on Q growth % (ONS, 2022)



BoE forecasts 2-years  
of negative growth:

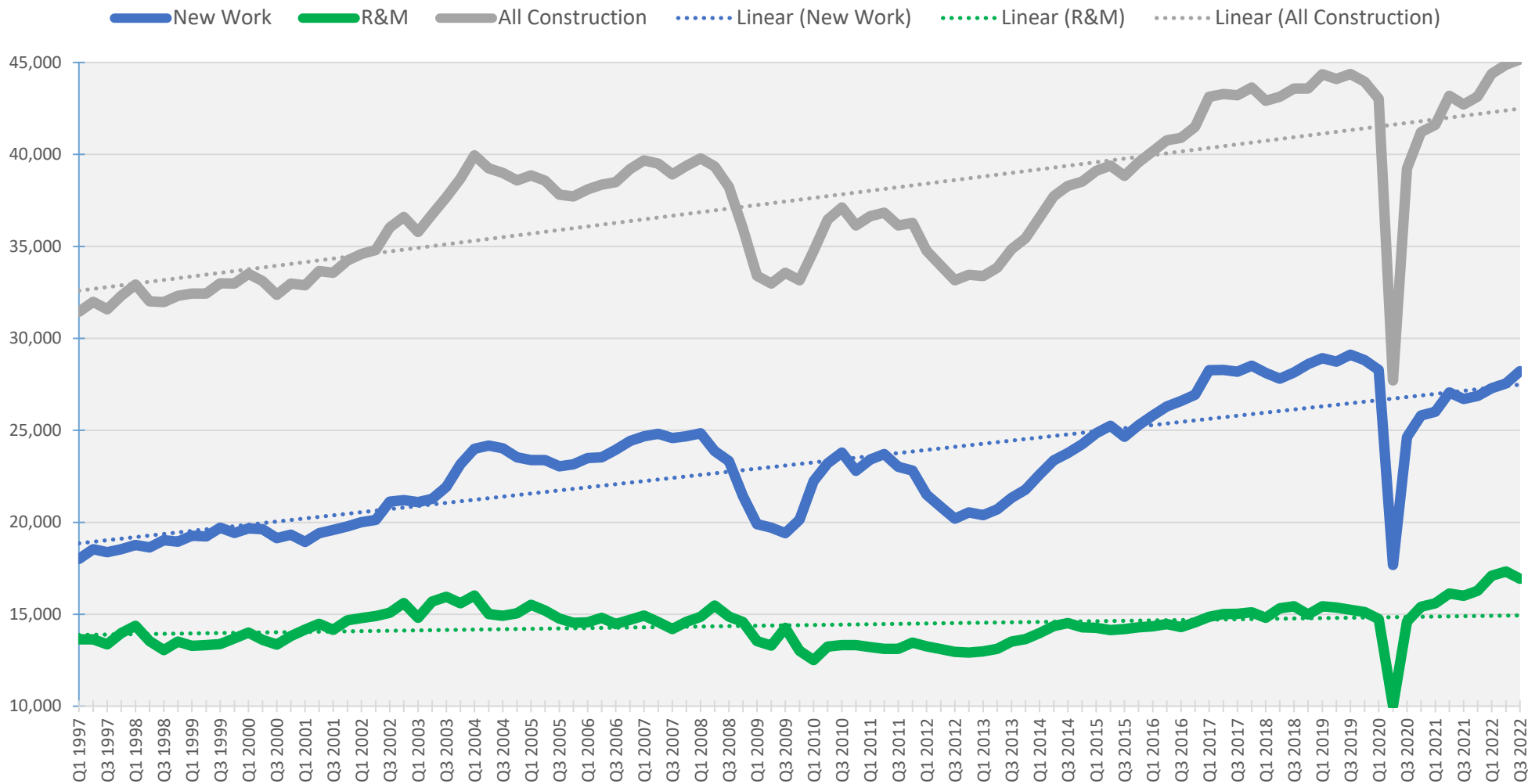
- 2022 = 4.3%
- 2023 = -1.5%
- 2024 = -1.0%
- 2025 = 0.5%

# Consumer price inflation monthly % (ONS, 2022)



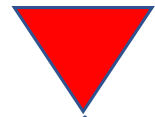
Inflation peak passed?  
BoE expects CPI to fall sharply from mid-2023. Almost halving from today's levels to 5% and returning to trend by 2024

# 25-years of construction output (ONS: Quarterly volume, seasonally adjusted £m)



Total output has just reached pre-pandemic levels largely driven by growth in R&M. New work is still below 2019 levels

# Near-term growth predictions by sector following Autumn statement



**New Housing:** unfavourable investment climate



**New Infrastructure:** limit to public spending



**New Public non-housing:** limit to public spending



**New Commercial:** unfavourable investment climate



**New Industrial:** unfavourable investment climate



**Repair and Maintenance Housing:** increased spending expected on energy efficiency retrofit



**Repair and Maintenance Infrastructure:** increased spending due to lack of new work investment



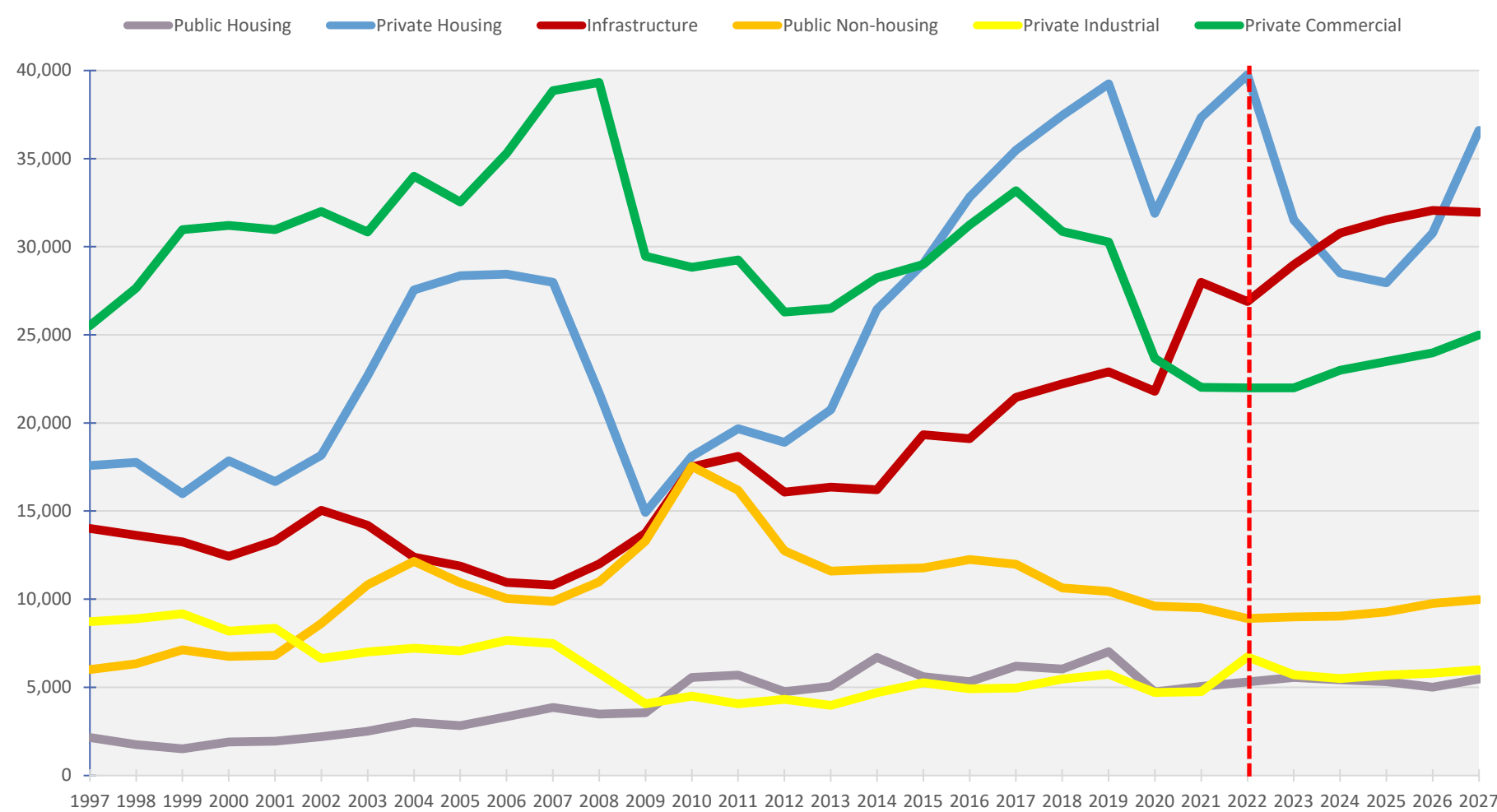
**Repair and Maintenance Public non-housing:** increased funding announced for health and schools



**Repair and Maintenance Private non-housing:** less investment available in the commercial/industrial sectors

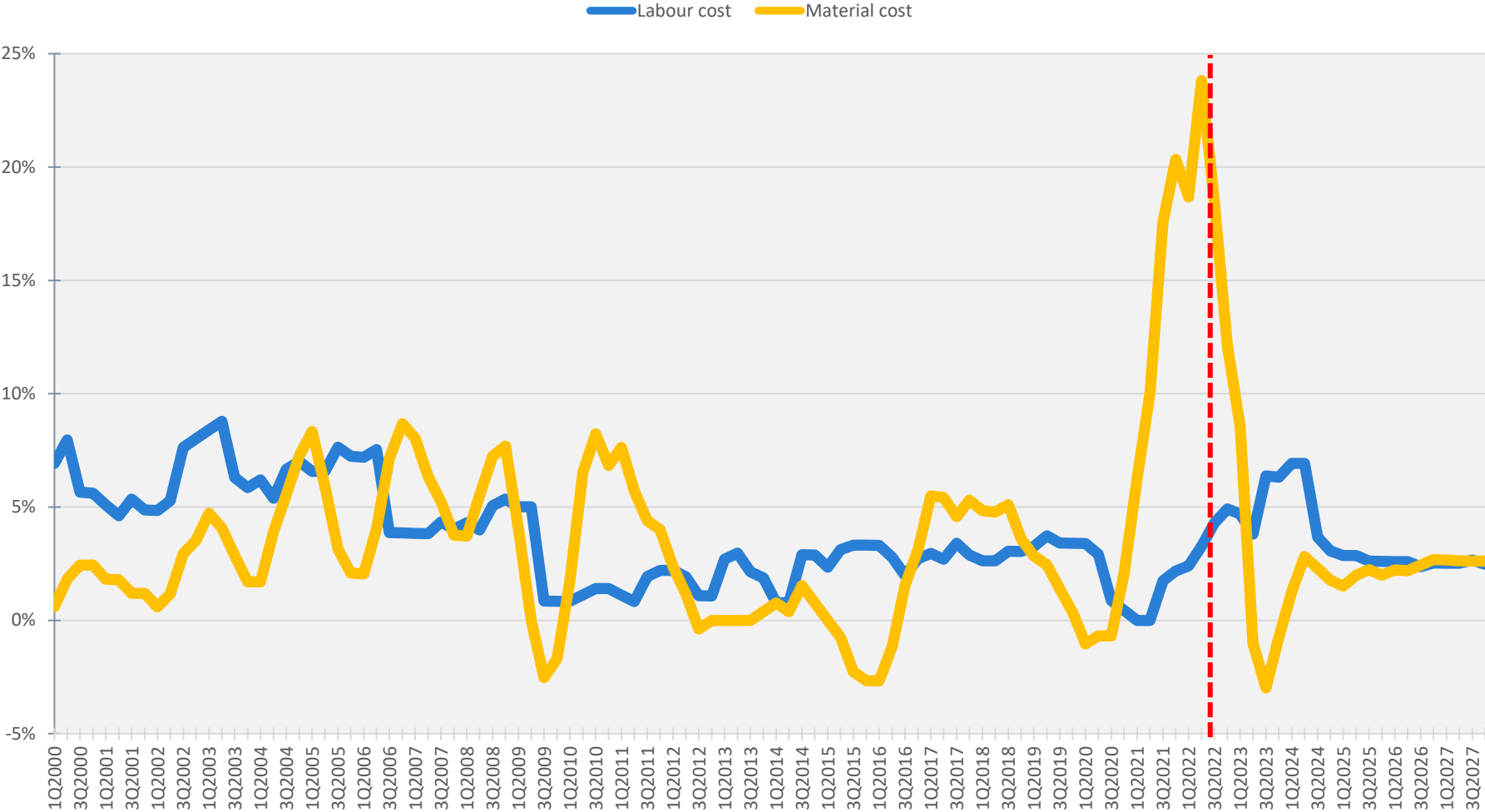


# Longer-term forecast for new construction output by sector (ONS/BCIS, 2022 £m)



Some growth in infrastructure forecast; most other sectors either stagnant or declining from previous peaks

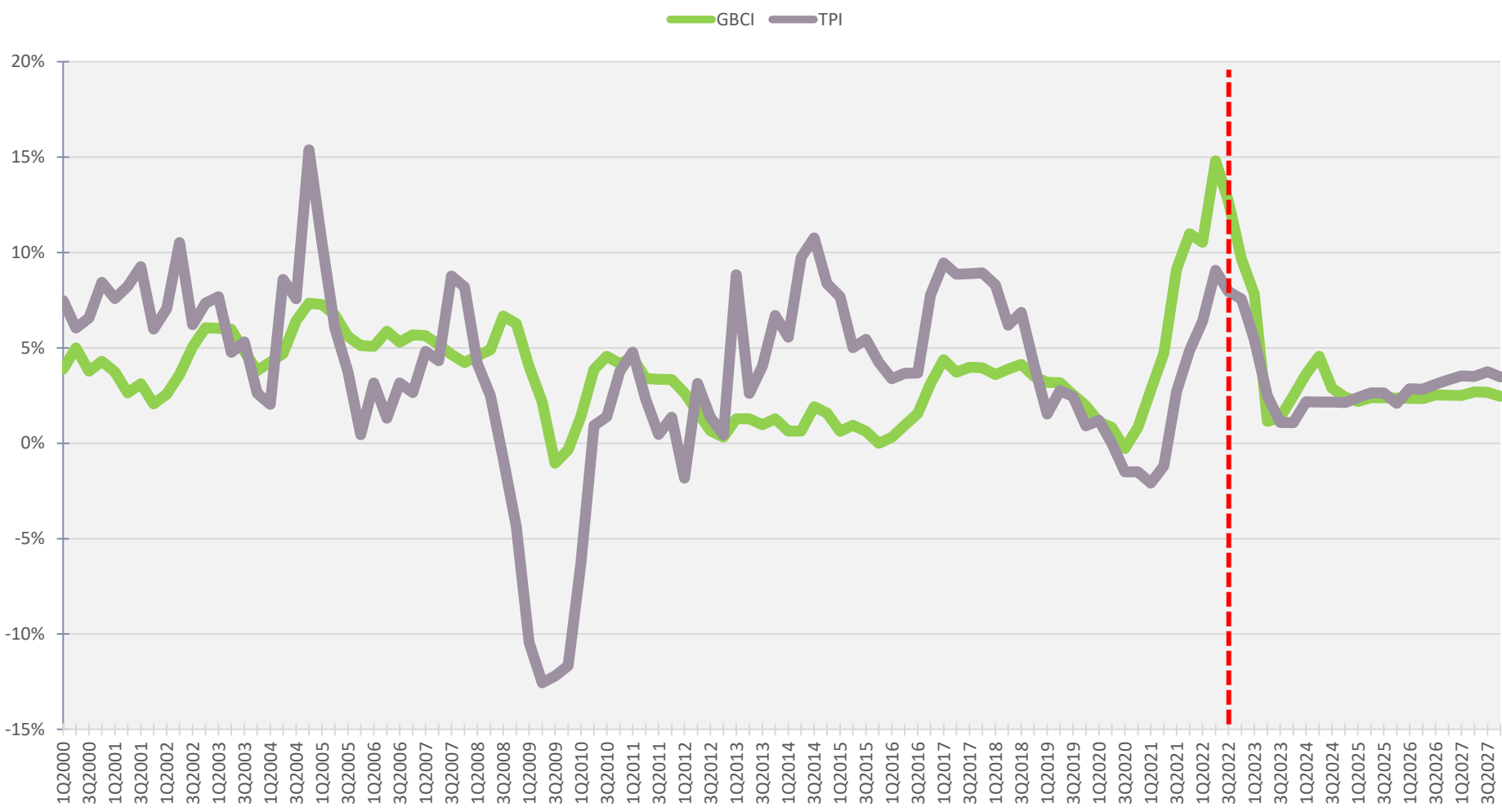
# Growth in BCIS material & labour cost indices (BCIS 2022)



Cost increases in materials have far outstripped labour cost increases, although forecast to rapidly return to trend. Labour cost increases to persist for slightly longer into the forecast



# Growth in BCIS GBCI & TPI (BCIS 2022)



Tender prices broadly tracking costs if at slightly reduced levels, expected to return to trend late next year

# BCIS Industry panel (View on the ground)

Heat beginning to come out of the market and tendering conditions starting to ease compared to a year ago

## Price increases slowing

- Annually, prices at commit to construct stage increased by an average of 8.6% between 4Q 2021 and 4Q 2022
- Quarterly, prices at commit to construct stage increased by an average of 1.2% between 3Q 2022 and 4Q 2022
- The inputs which we are continuing to see some inflationary pricing are:
  - Steel;
  - Concrete;
  - Plasterboard;
  - Insulation; and
  - some specialist labour

# BCIS Industry panel (View on the ground)

## Supply & logistics

- Logistics challenges mostly resolved
- Material supply does not appear to be a significant issue anymore. Transit is being booked in earlier and holding areas are being used to guarantee materials can arrive when they are required. However, consolidation centres do add to project costs and the price of transport is still rising
- Any material or component which is energy intensive in production is seeing inflationary pressures
- Long-lead-time goods a particular issue, as some are affected by delays and price-hikes
- Contractors would like to see relaxation on delay clauses aligned to material availability

## Tender climate

- The appetite to tender has increased with softening of the market and the imminent downturn
- Contractors beginning to see a slowing down in some sectors, in particular private sector, which is making them think more carefully about turning down tender opportunities

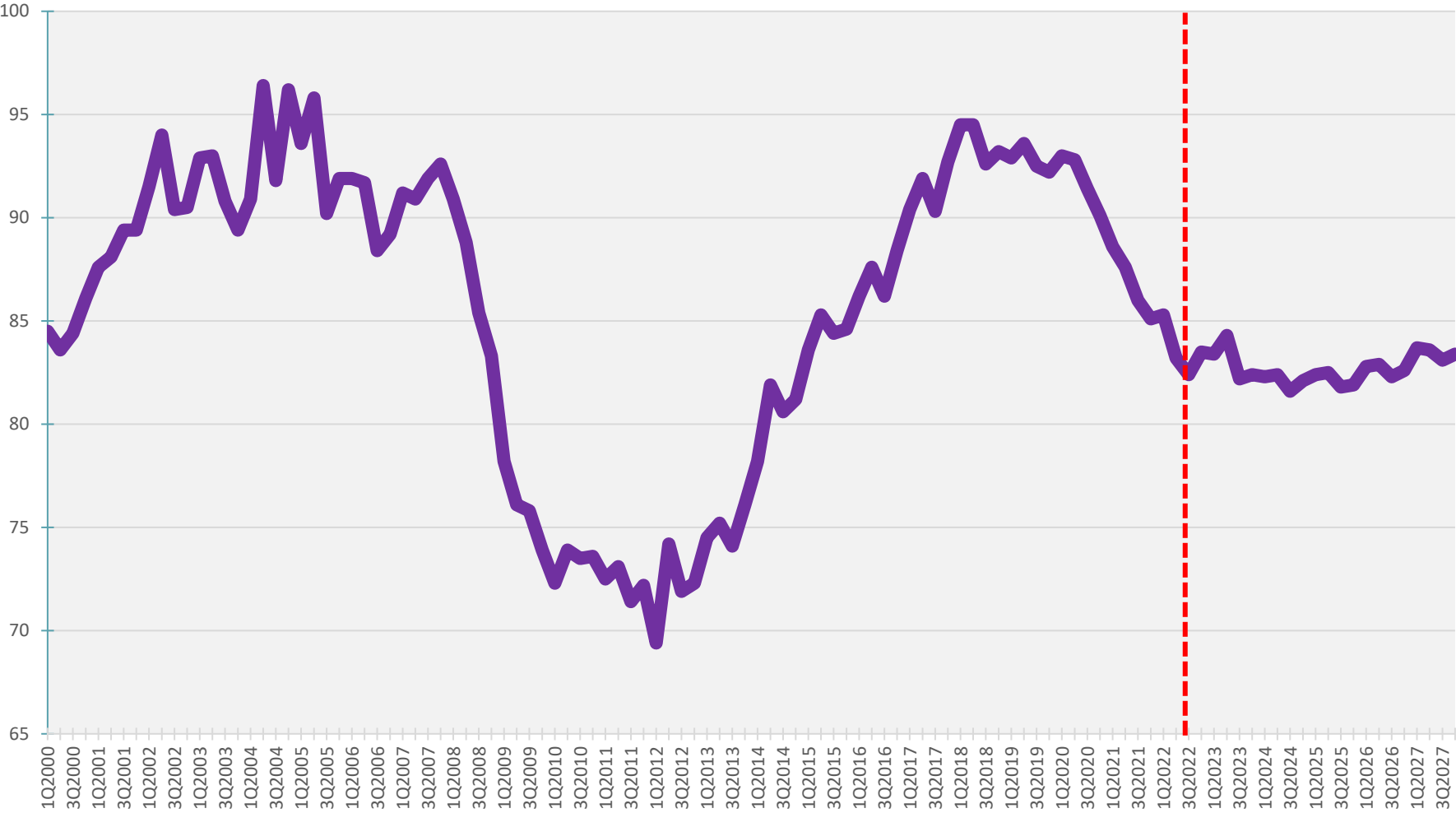
## BCIS Industry panel (View on the ground)

- In general, feedback from contractors suggests near to full order books for 2023, with the focus on 2024/early 2025. However, there is still interest in the right types of projects although some remain very nervous about price inflation and supply chain insolvencies

### Procurement

- With long programmes of work, where the risk of inflation is more likely to be felt, tenderers are either looking to limit their risk or including large provisional amounts to cover the risk, which impacts on their tender levels
- We are seeing higher levels of inflation being pushed through on projects with target price-based procurement models. In the opposite direction, we are seeing more 'carve-outs' of inflationary components like steel, where the price is subject to later adjustment. This reduces the level of inflation at the point of the tender but still impacts outturn

# Market conditions index (BCIS MCF 2022)



The MCF suggests the impact of the latest crises have been less severe than that seen after the financial crash of the late 2000s

# Outlook

- Despite construction weathering the economic headwinds over the last few years reasonably well, new work output is still below the pre-pandemic levels recorded in 2019
- The question is, how long will it take for growth to return and for new work output to exceed pre-crisis levels?
  - Levels of investment are likely to remain constrained in the immediate future
  - Forecasts suggest that new work output won't return to the previous peak until the end of 2027, that's eight years of no real growth in the sector
- Stagflation is a very real possibility (see Japan's lost decade in the 1990s) with little or no growth coupled with high inflation, a very poor environment for construction investment
- Supply constraints of both labour & materials are easing leading to costs and prices stabilising in the long-run
- So while inflation may have peaked all eyes are now turning to the length and depth of the recession
- The outlook for construction certainly looks challenging in the immediate future