



OUTLOOK FOR CONSTRUCTION

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AGENDA

What are the prospects for the construction sector in 2024 and beyond?
Recession or recovery?

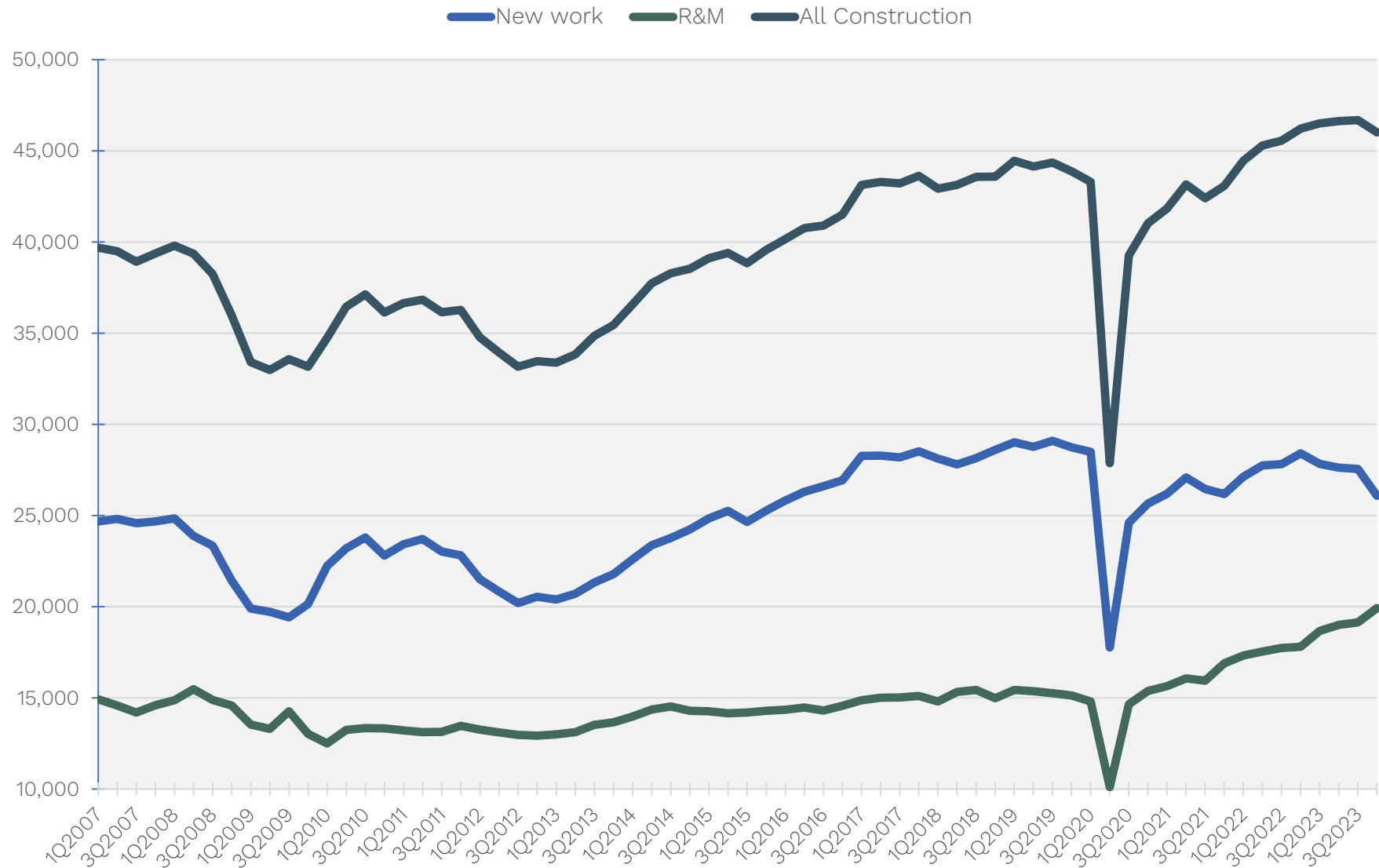
- ▶ Forecasts of future demand levels
- ▶ Cost and price movement in construction
- ▶ Draw some conclusions
- ▶ Questions

SETTING THE SCENE

- ▶ Construction probably in recession, although latest monthly data suggests slight uptick in output
- ▶ Broadly positive news, particularly regarding new work output on monthly basis, although quarterly and year-on-year output numbers still concerning
- ▶ February one of the wettest months on record, expecting slight downturn in next set of numbers for construction output
- ▶ Recent Spring Budget and publication of National Infrastructure and Construction Pipeline did nothing to allay industry fears that 2024 likely to be challenging year for the sector

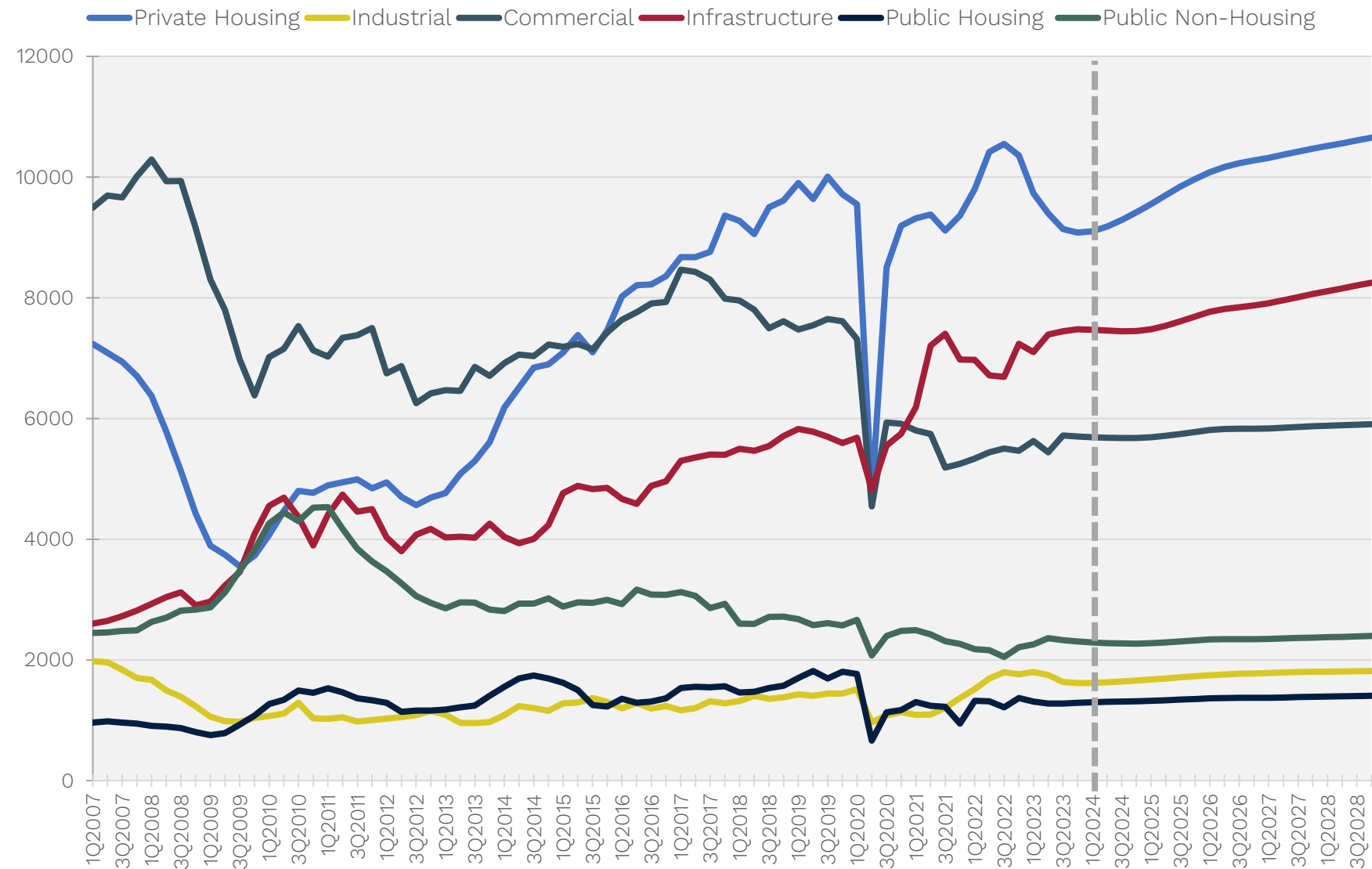
OUTPUT & ORDERS

CONSTRUCTION OUTPUT (ONS: QUARTERLY VOLUME, SEASONALLY ADJUSTED £M)



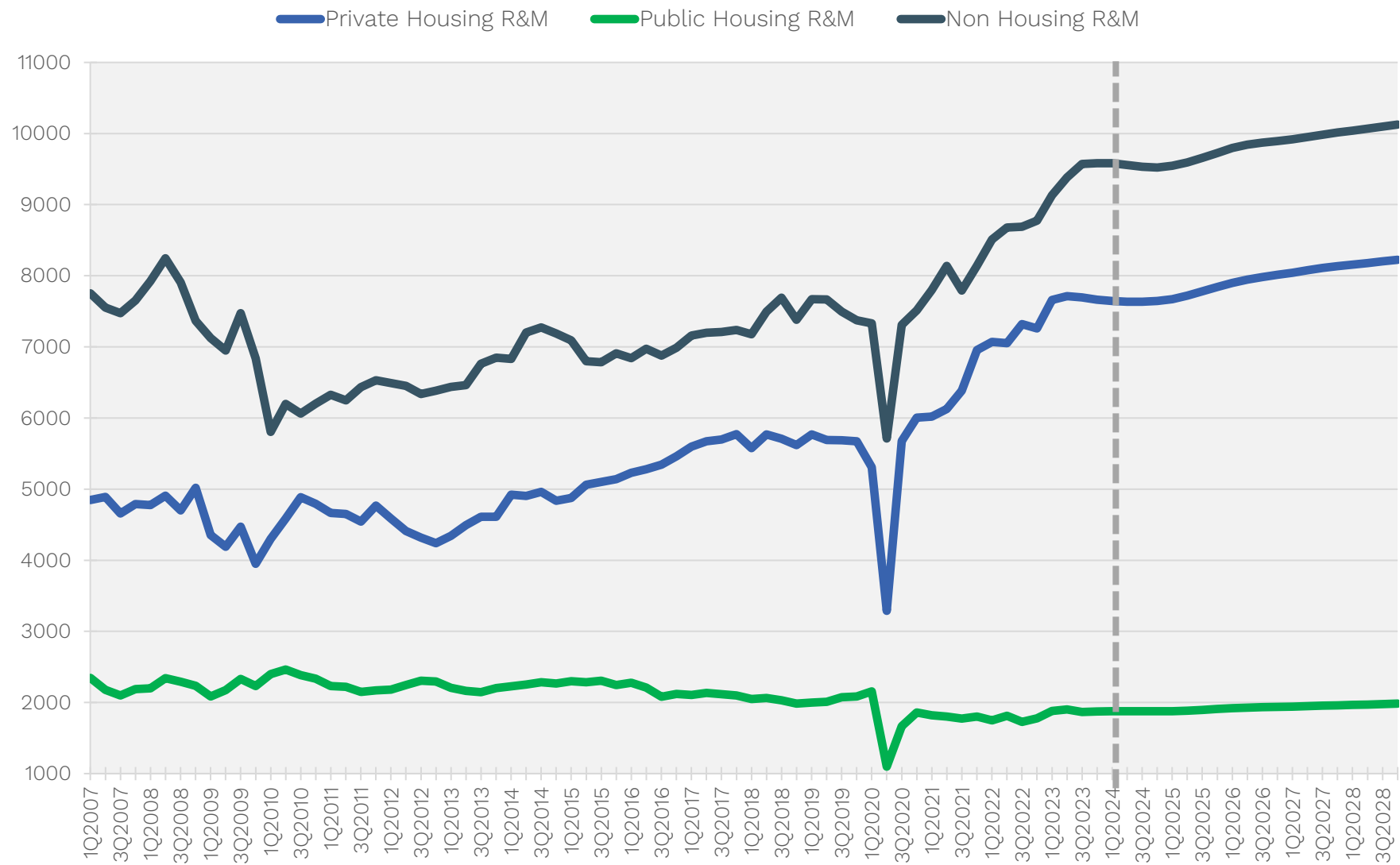
- ▶ Total output remains above pre-crisis levels but growth is falling
- ▶ New work growth declined significantly over the last year
- ▶ Repair and maintenance output continued growing strongly

FORECAST OF NEW CONSTRUCTION OUTPUT BY SECTOR (ONS/BCIS, 2024 £M)



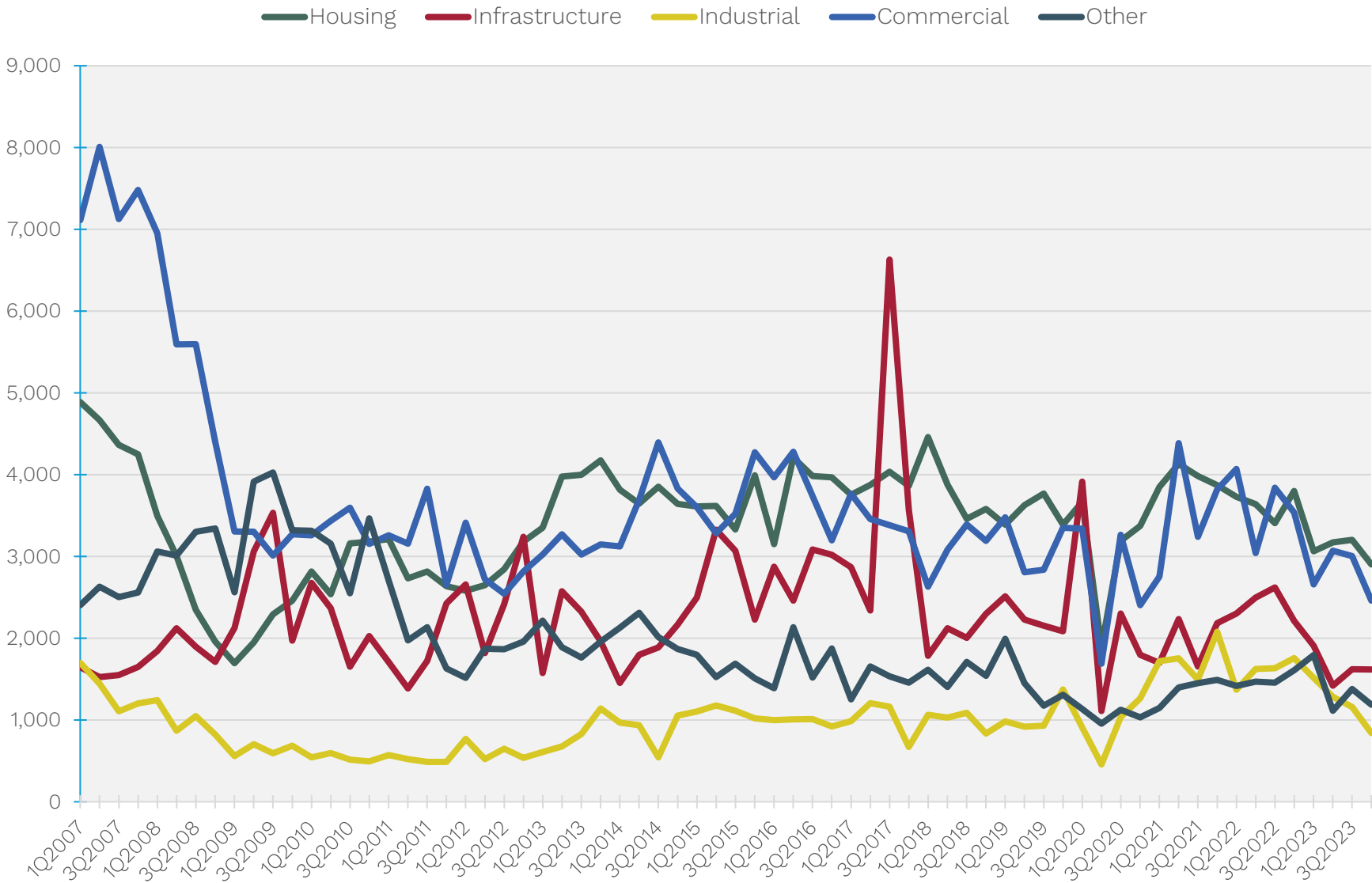
- ▶ New work output is expected to decline in 2024, primarily from decreasing output in housing sector
- ▶ Subdued growth is likely in infrastructure, while all other sectors are stagnating

FORECAST OF R&M CONSTRUCTION OUTPUT BY SECTOR (ONS/BCIS, 2024 £M)



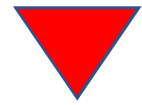
► Repair and maintenance (R&M) output is forecast to plateau through 2024 before recovery in 2025, driven by growth in Private housing & Non-housing R&M

CONSTRUCTION NEW ORDERS (ONS: QUARTERLY VOLUME, SEASONALLY ADJUSTED £M)



► New orders trending down, suggesting the future pipeline of work may be shrinking

SUMMARY OF GROWTH PREDICTIONS BY SECTOR FOLLOWING LATEST DATA



New Housing: unfavourable investment climate, developers stalling projects



New Infrastructure: limit to public spending, projects being delayed or amended



New Public non-housing: limit to public spending



New Commercial: unfavourable investment climate



New Industrial: unfavourable investment climate



Repair and Maintenance Housing: output recovering as cost of living impacts diminish



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



Repair and Maintenance Public non-housing: increased spending due to RAAC remedial work

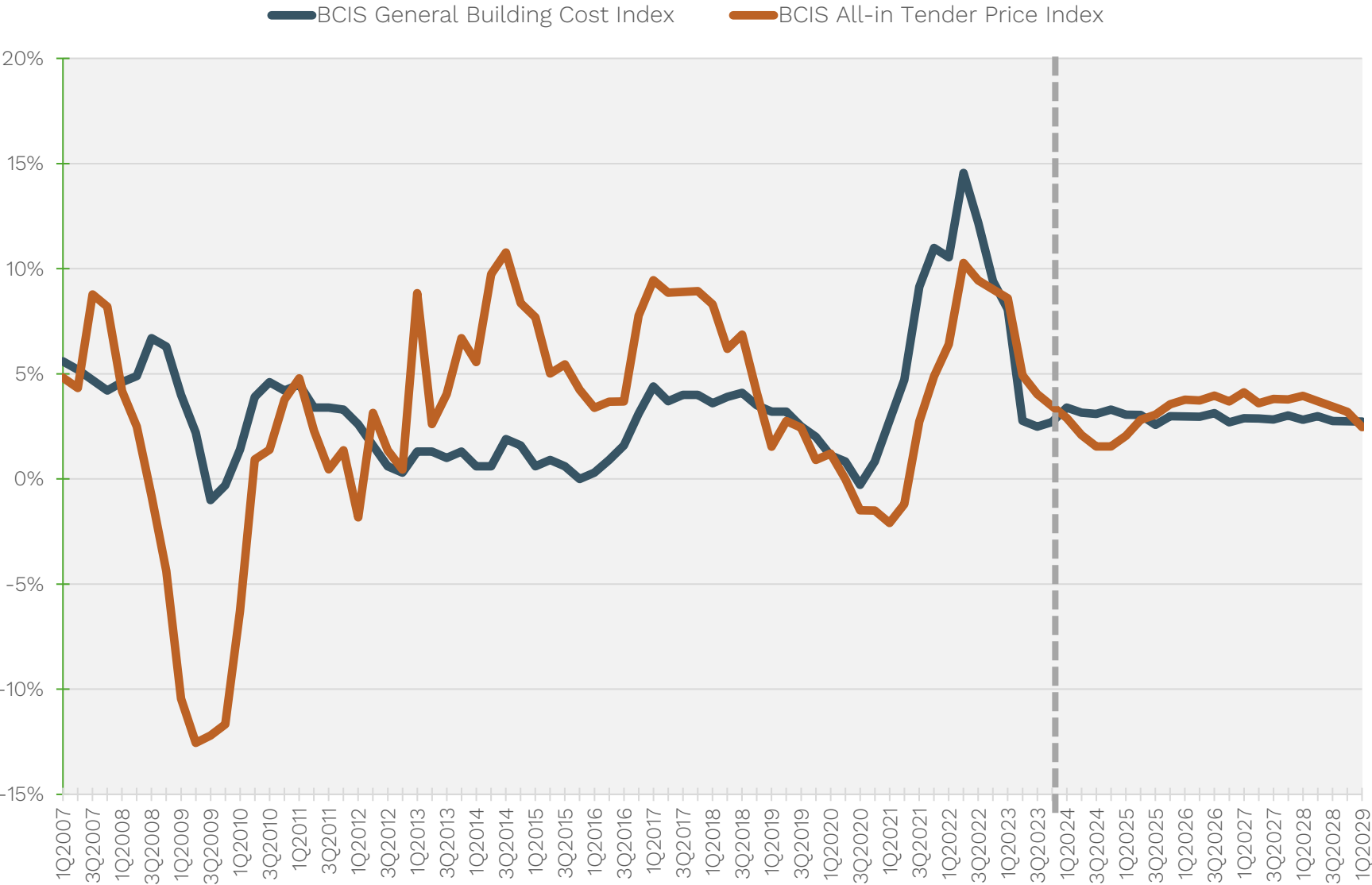


Repair and Maintenance Private non-housing: less investment available in the commercial/industrial sectors

- ▶ The unfavourable investment climate continues to impact new work output

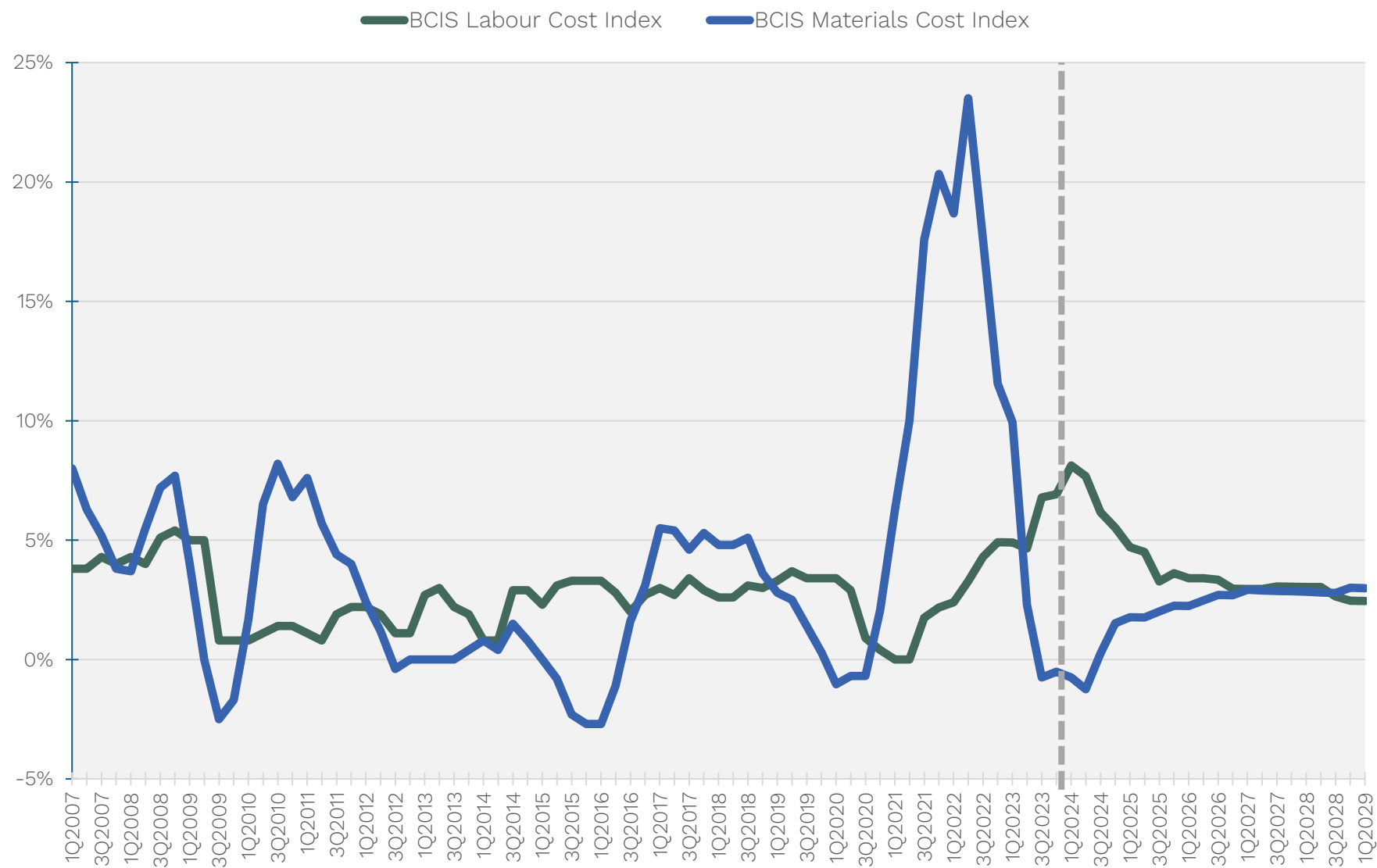
COSTS & PRICES

ANNUAL GROWTH IN BCIS GBCI & TPI (BCIS 2024)



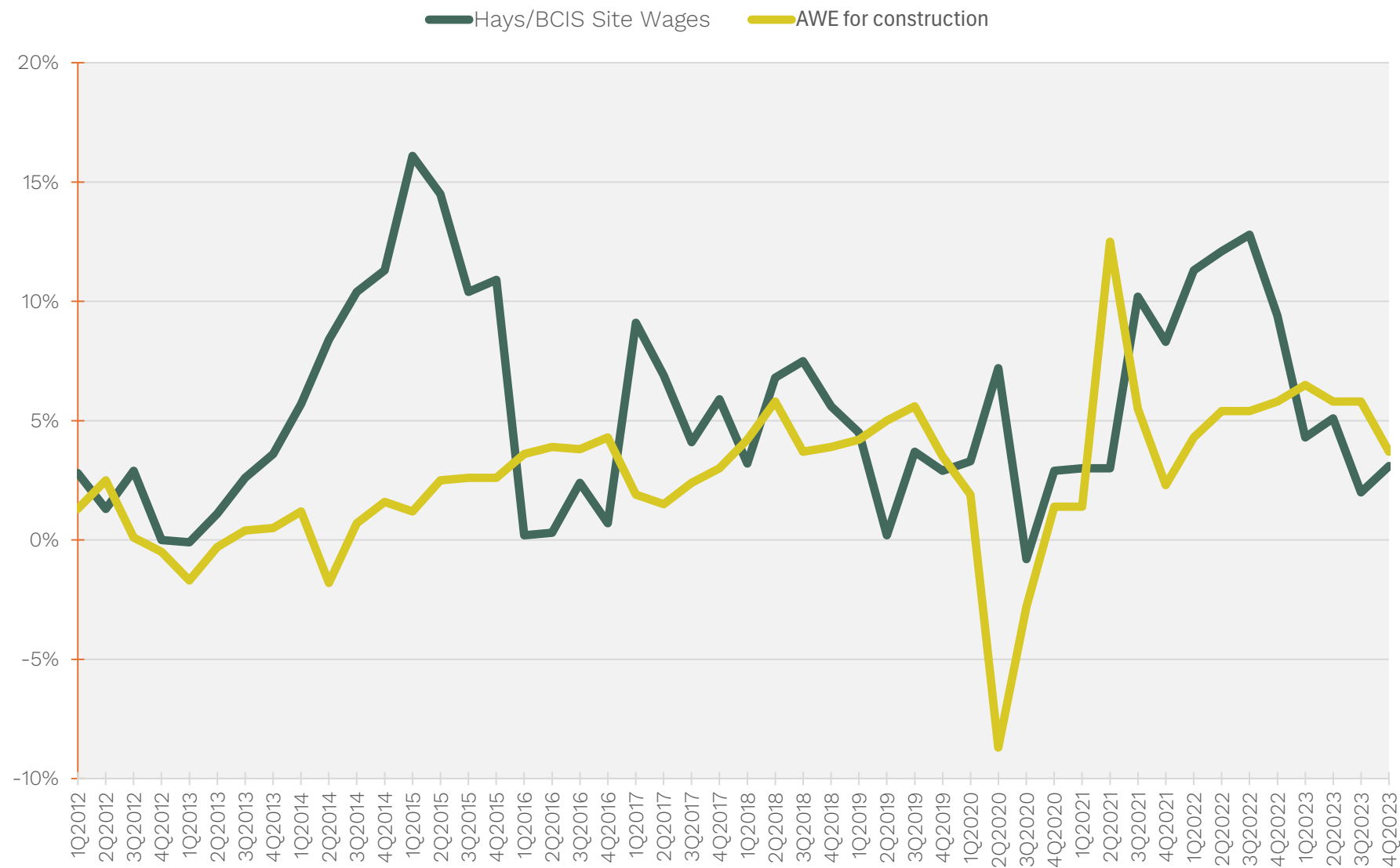
► Forecasts relatively benign compared to recent past. Evidence of decline in tender prices in 2024, followed by minor uptick in TPI next year, while CI returns to some stability

ANNUAL GROWTH IN BCIS MATERIALS & LABOUR COST INDICES (BCIS 2024)



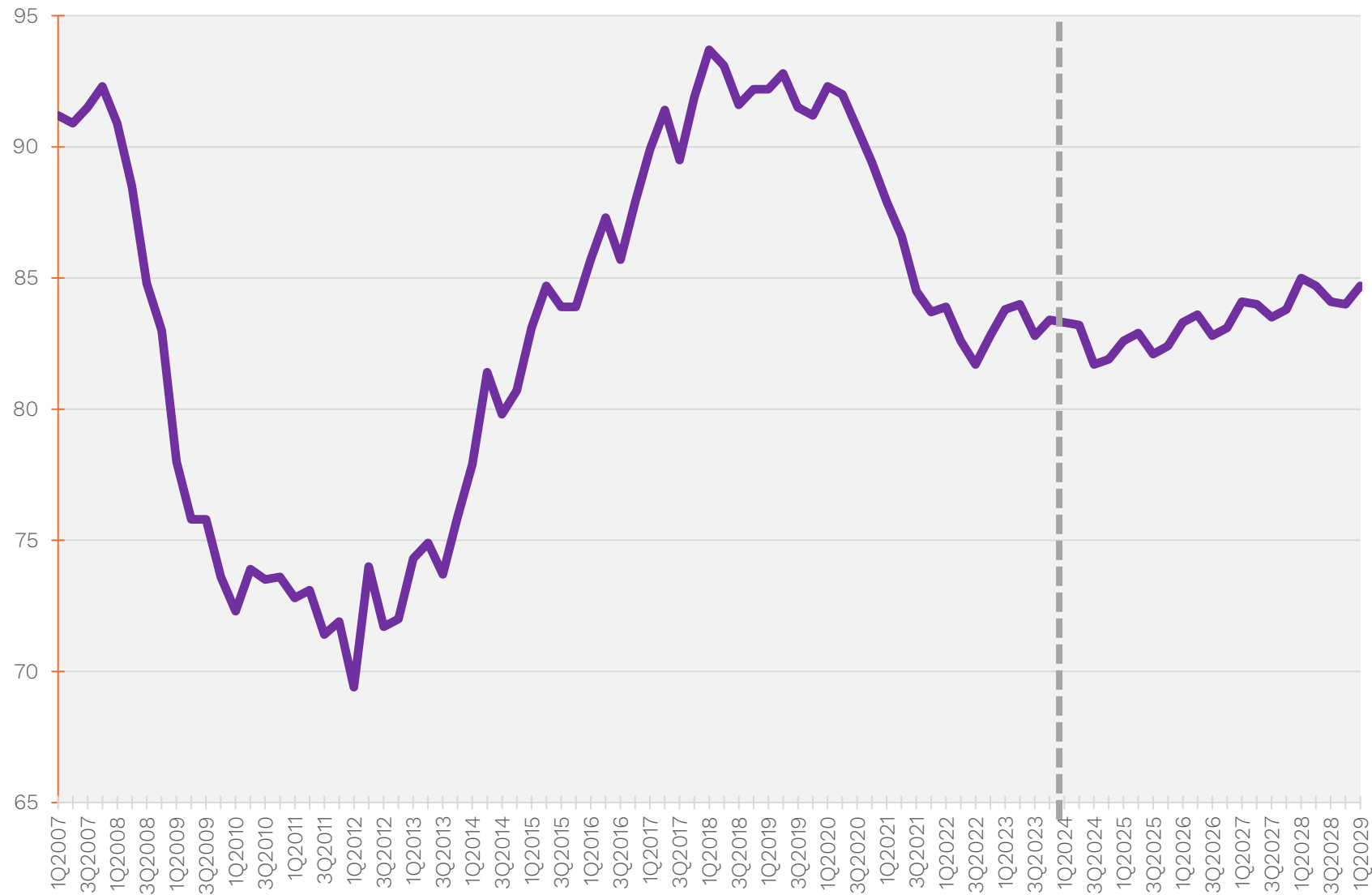
► Labour costs have overtaken materials costs as key cost driver. Although growth will be much more subdued, peaking at 7% before declining

ANNUAL GROWTH IN CONSTRUCTION EARNINGS (BCIS/ONS, 2024)



▶ Declining trend in wage growth evident

MARKET CONDITIONS INDEX (BCIS 2024)



► MCI currently falling = costs rising faster than prices. Prices forecast to rise faster than costs through 2025 as demand picks up

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

PROCUREMENT

- ▶ Contractors more inclined to bid for simpler projects, aiming to mitigate cash flow exposure
- ▶ Large and complex projects sometimes seen as risky and attract a smaller tender list, and therefore higher tender prices
- ▶ Contractors more selective on tender routes they are willing to work, preferably two-stage or target cost contracts. No appetite for single stage tender
- ▶ Negative inflation on some D&B projects, particularly where integrated contractor has direct control over their supply chain
- ▶ Supply chain is highly cautious. Some Tier One contractors focusing on public sector and frameworks, which is influencing the market

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

PACKAGES

- ▶ MEP market continues to see higher than average costs, driven by supply chain pressures and skilled labour availability
- ▶ MEP pricing carrying premium of 5 to 7.5% over general building trade inflation
- ▶ Still seeing long-term trend of MEP pricing running couple of percentage points above non-MEP elements overall. Driven, for the most part, by resource constraints on skilled operatives, and greater impact of regulatory change on MEP services
- ▶ MEP items affected by the Red Sea crisis. Freight prices from China to Northern Europe more than tripled between December 2023 and February 2024. Affecting prices of imported products, e.g. electrics, white goods, lighting, kitchen and bathroom products, fixtures and fittings, ironmongery and plywood

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Other

- ▶ Investor pressures (high interest rates, inflation, and upcoming election) causing project delays and raising concerns about potential insolvencies within supply chain
- ▶ Contractors adjusting procurement strategies to manage cash flow. Opting for simpler projects and more two-stage or target cost contracts to manage risks for larger projects
- ▶ Slowdown on new builds, however starting to see more opportunities coming through, so renewed optimism things will improve this year. More bids for cost consultancy services, suggesting schemes will still be developed to tender
- ▶ Risk of contractor insolvency - continues to be major issue on projects. Main contractors also price in risk for supply chain insolvencies
- ▶ Material supply and lead-times - some issues with overseas materials due to foreign conflicts, though generally returned to pre-Covid norms

SUMMARY

WHAT'S THE OUTLOOK FOR CONSTRUCTION?

- ▶ Construction sector shows clear signs of recession as demand softens and effects of monetary tightening continue to build
- ▶ Government's plans for construction remain unclear, despite recent publication of pipeline and budget
- ▶ Doubts over private sector/institutional investors' appetite for investment in UK construction may delay projects from getting off, or indeed out, of the ground
- ▶ The past four years unlike anything I've experienced in the industry before...but there might be light at the end of the tunnel

CONCLUSION

- ▶ Returning to our original question: recession or recovery?
- ▶ What does the data tell us?
- ▶ While rampant inflation appears to be behind us, it's been replaced by falling demand as uncertainty rises and investment levels continue to fall
- ▶ Conflict in the Middle East and attacks in the Red Sea adding to increasing uncertainty
- ▶ Fall in demand has released resources. Capacity issues therefore less of an issue
- ▶ Dramatic fall in orders in 2023 has led contractors to look to their order books to secure future work. They remain careful when selecting projects to bid on and difficulty reported in finding contractors to bid on large complex contracts
- ▶ Although 2024 will remain challenging for the construction sector, we expect muted recovery in 2025 before more robust growth from 2026 onwards

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