



CONSTRUCTION OUTLOOK: what's next for the industry?

September 2025

AGENDA

What are the prospects for the construction sector this year and beyond?

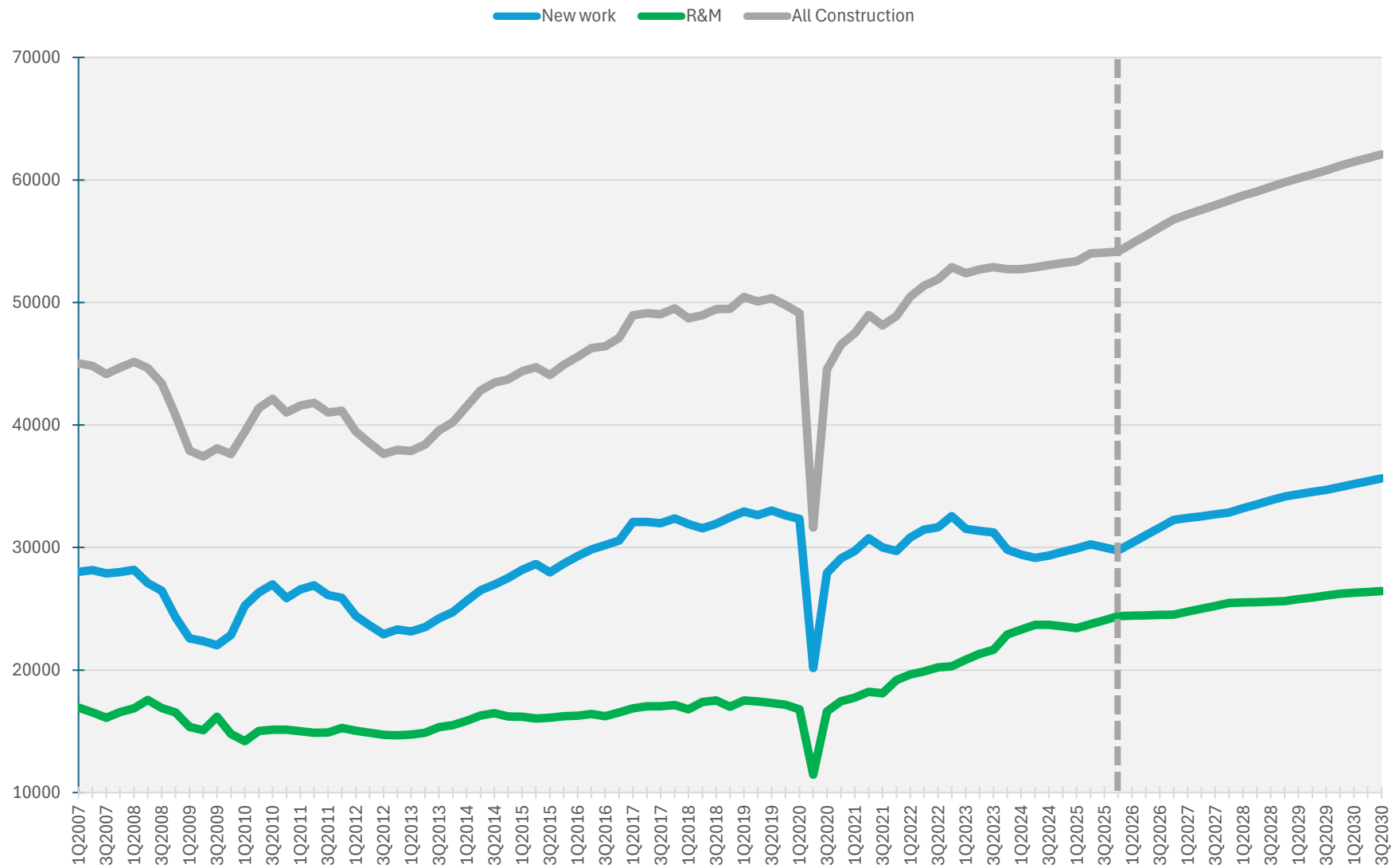
- ▶ Forecasts of future demand levels
- ▶ Cost & price movement in construction
- ▶ Industry views
- ▶ Conclusions
- ▶ Questions

SETTING THE SCENE

- ▶ The spectre of stagflation
- ▶ Unlike more conventional downturns, stagflation exerts pressure from both demand and supply sides
- ▶ = Combination of reduced workloads, rising project costs and squeezed margins that threaten the financial resilience of firms across the sector

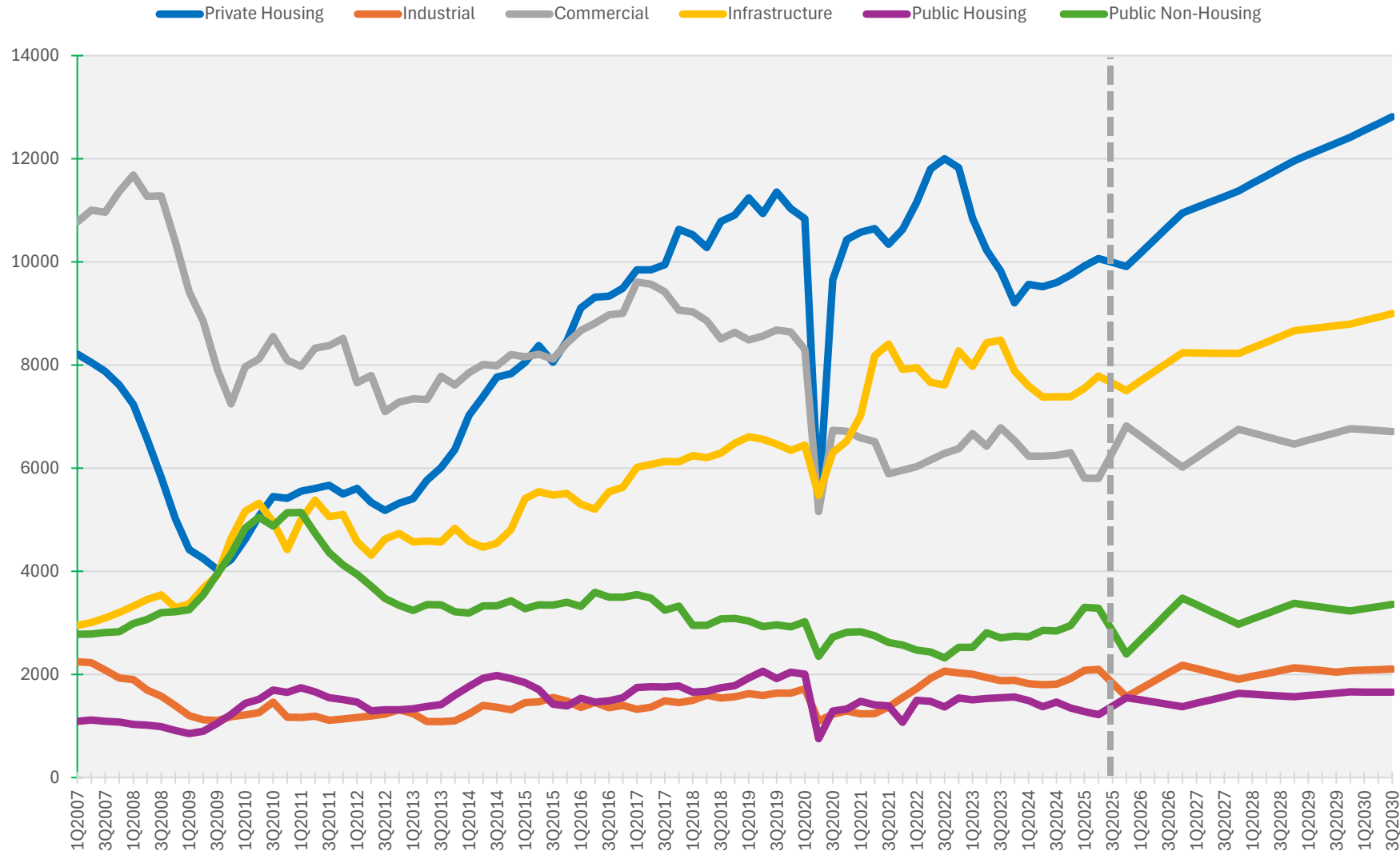
Output & orders

CONSTRUCTION OUTPUT FORECAST (ONS/BCIS, 2025 £M)



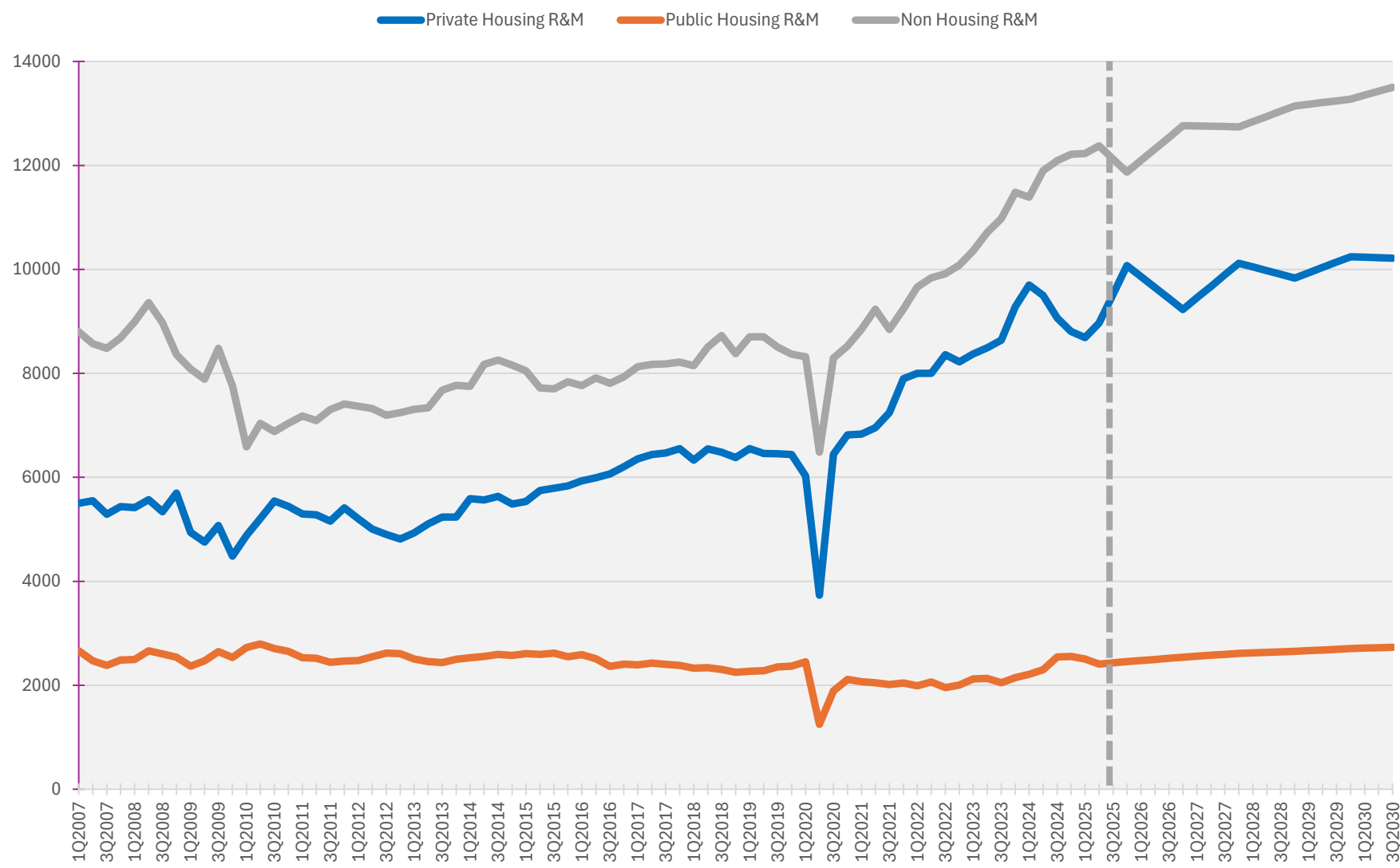
After period of stagnation, total output forecast to increase, driven by growth in both new work and, to a lesser extent, repair and maintenance

NEW WORK OUTPUT FORECAST BY SECTOR (ONS/BCIS, 2025 £M)



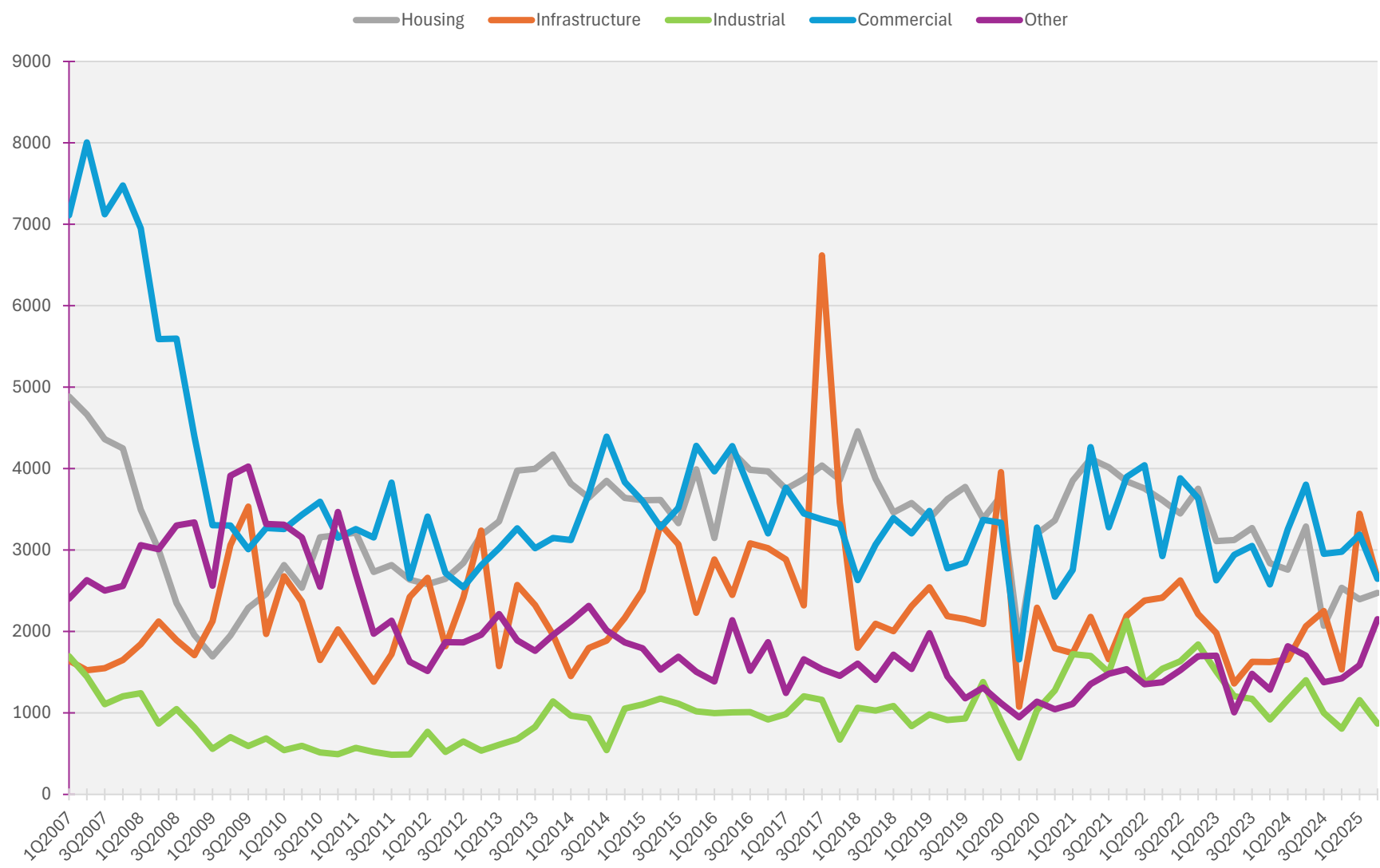
Private housing output to recover, with robust growth predicted through forecast period. Outlook for infrastructure also positive

R&M OUTPUT FORECAST BY SECTOR (ONS/BCIS, 2025 £M)



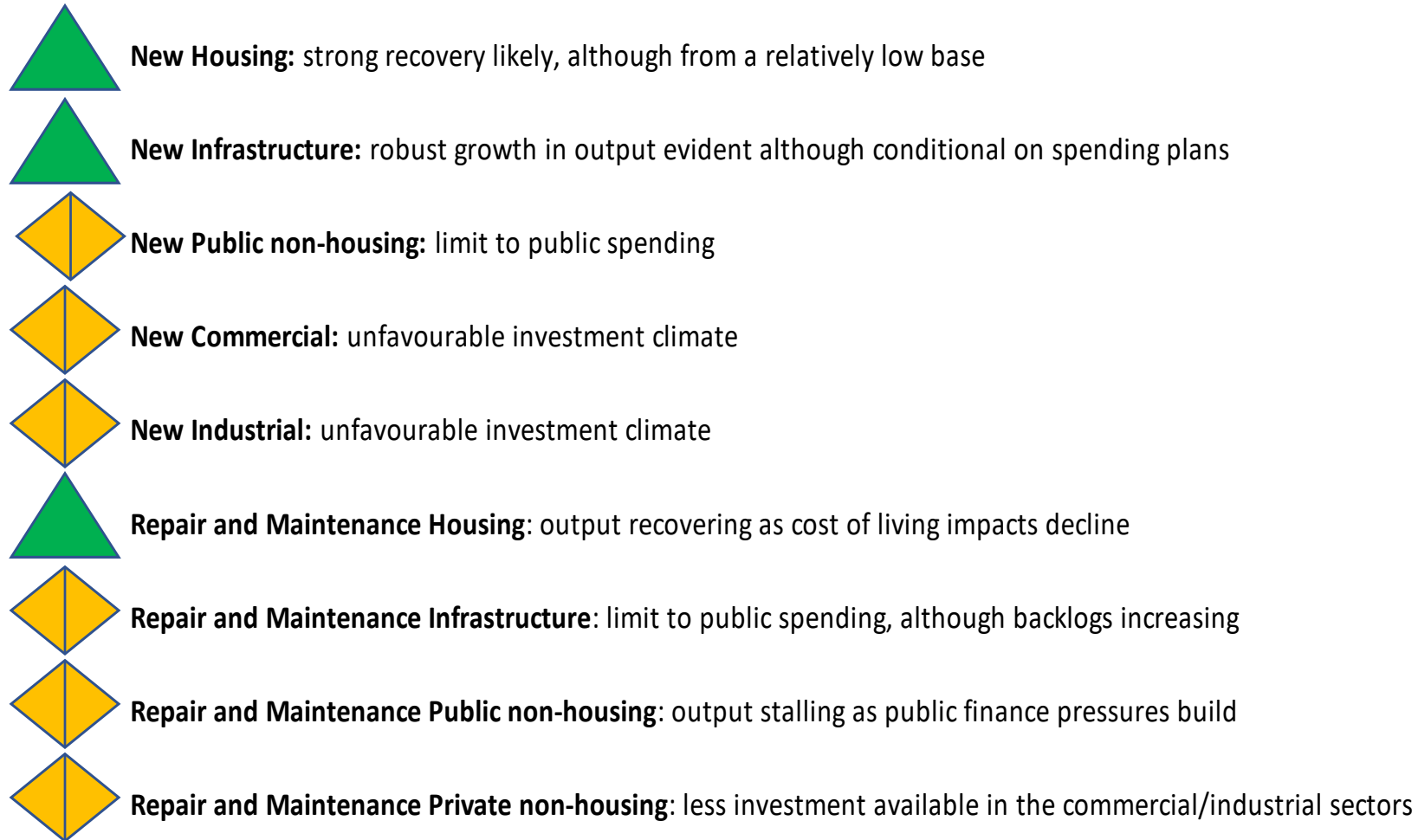
Repair & maintenance output has fallen recently but BCIS forecasting some growth through 2025, particularly in private housing R&M

CONSTRUCTION NEW ORDERS (ONS 2025: QUARTERLY VOLUME £M) **BCIS®**



Latest new orders data show fall across most sectors, suggesting future pipeline of work may be shrinking

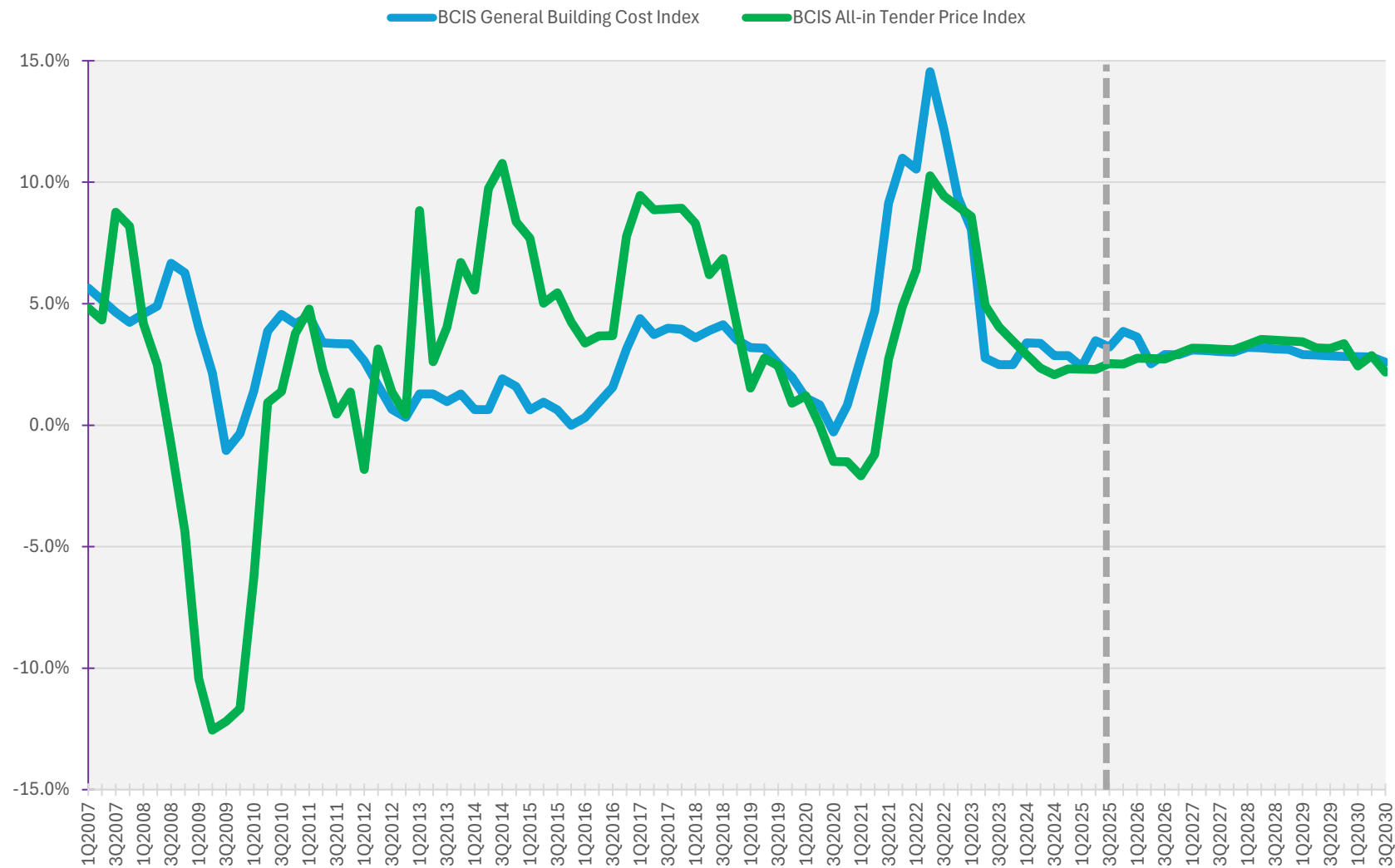
SUMMARY OF GROWTH PREDICTIONS BY SECTOR



As last quarter, some positive signs in new housing, infrastructure and housing R&M. Most other sectors remain subdued

Costs & prices

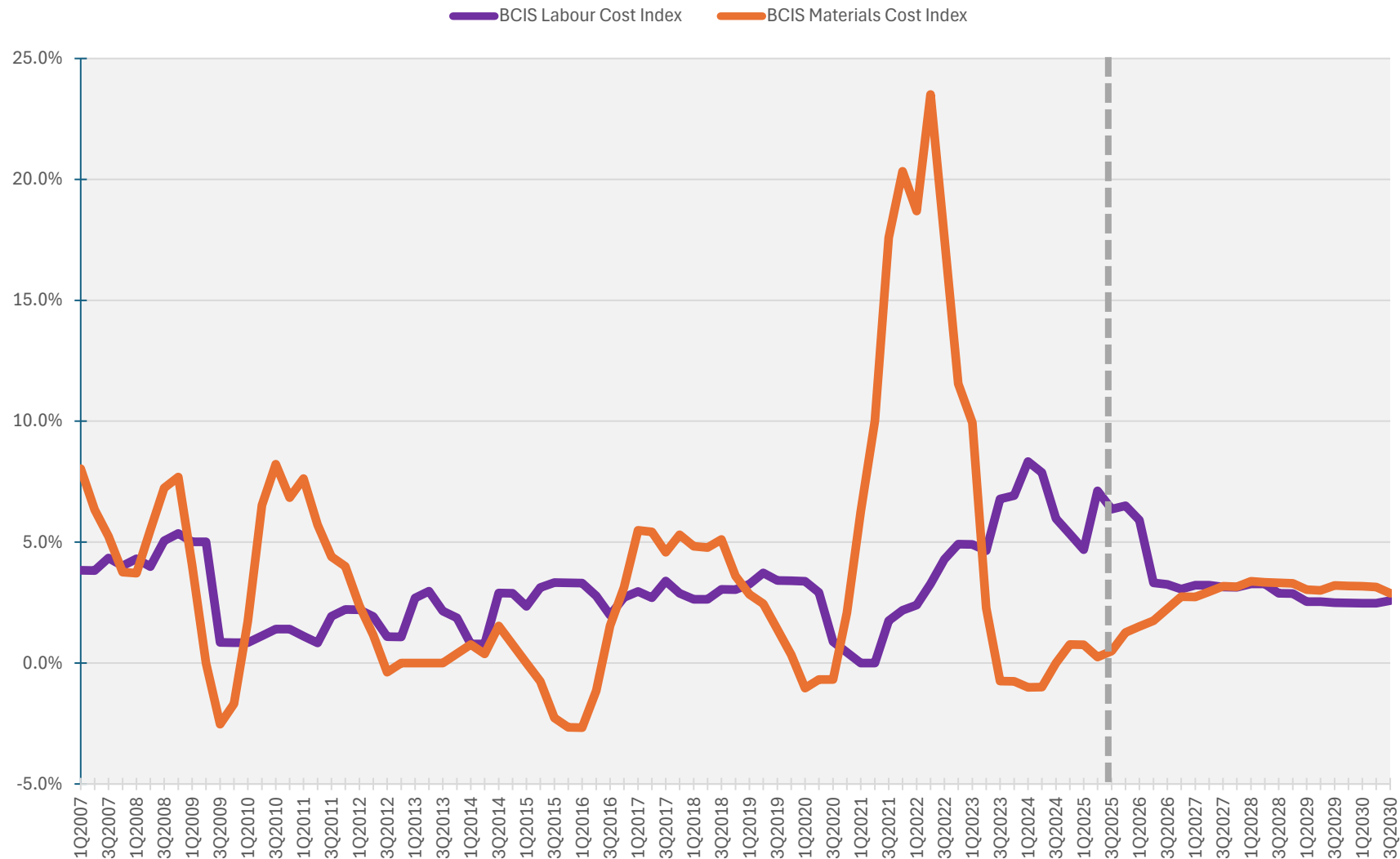
GROWTH IN BCIS BUILDING COSTS & TENDER PRICES (BCIS 2025)



Growth in building costs up marginally but expect to flatline through 2026.

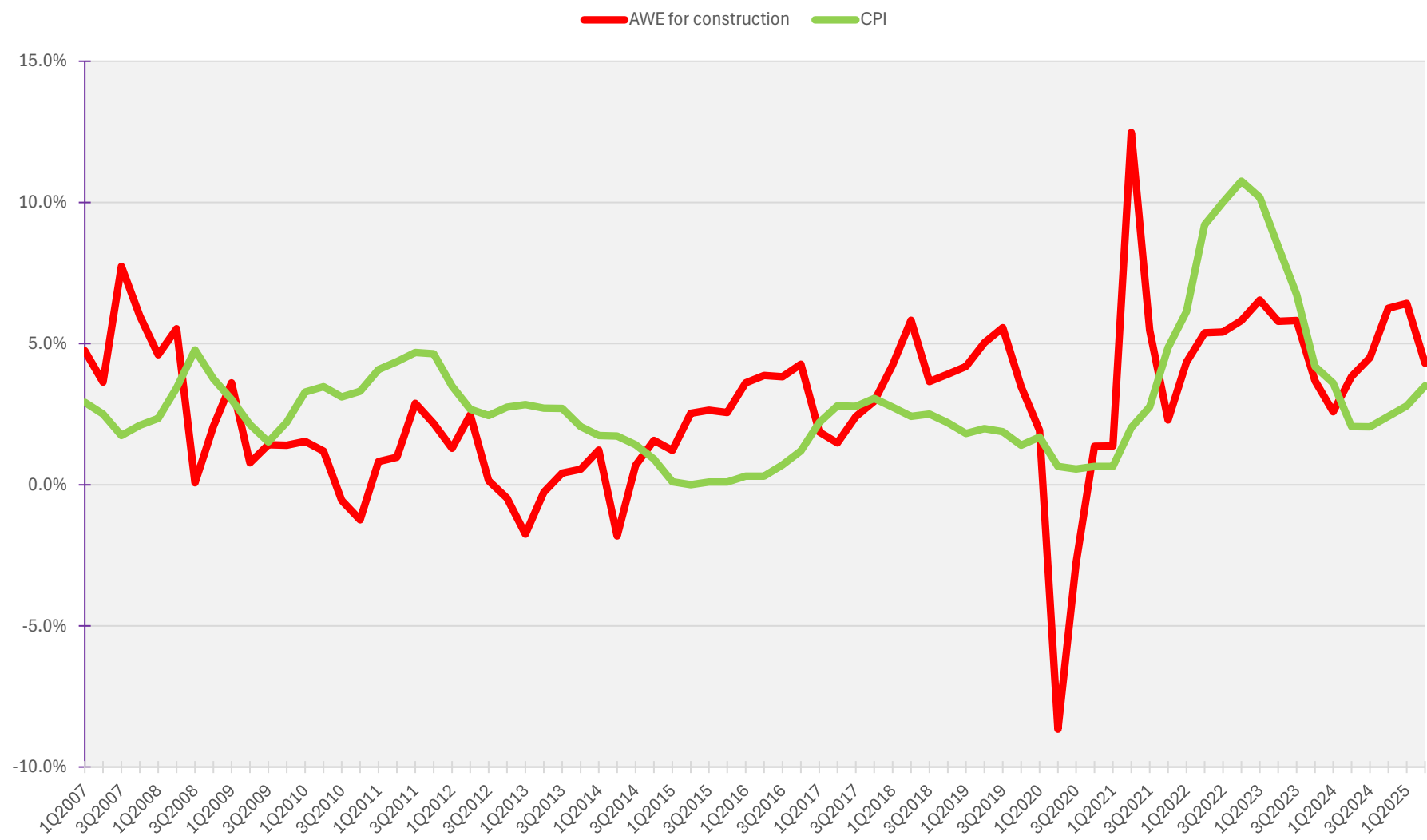
Tender price growth remains subdued for the entire forecast period

GROWTH IN BCIS INPUT COSTS (BCIS 2025)



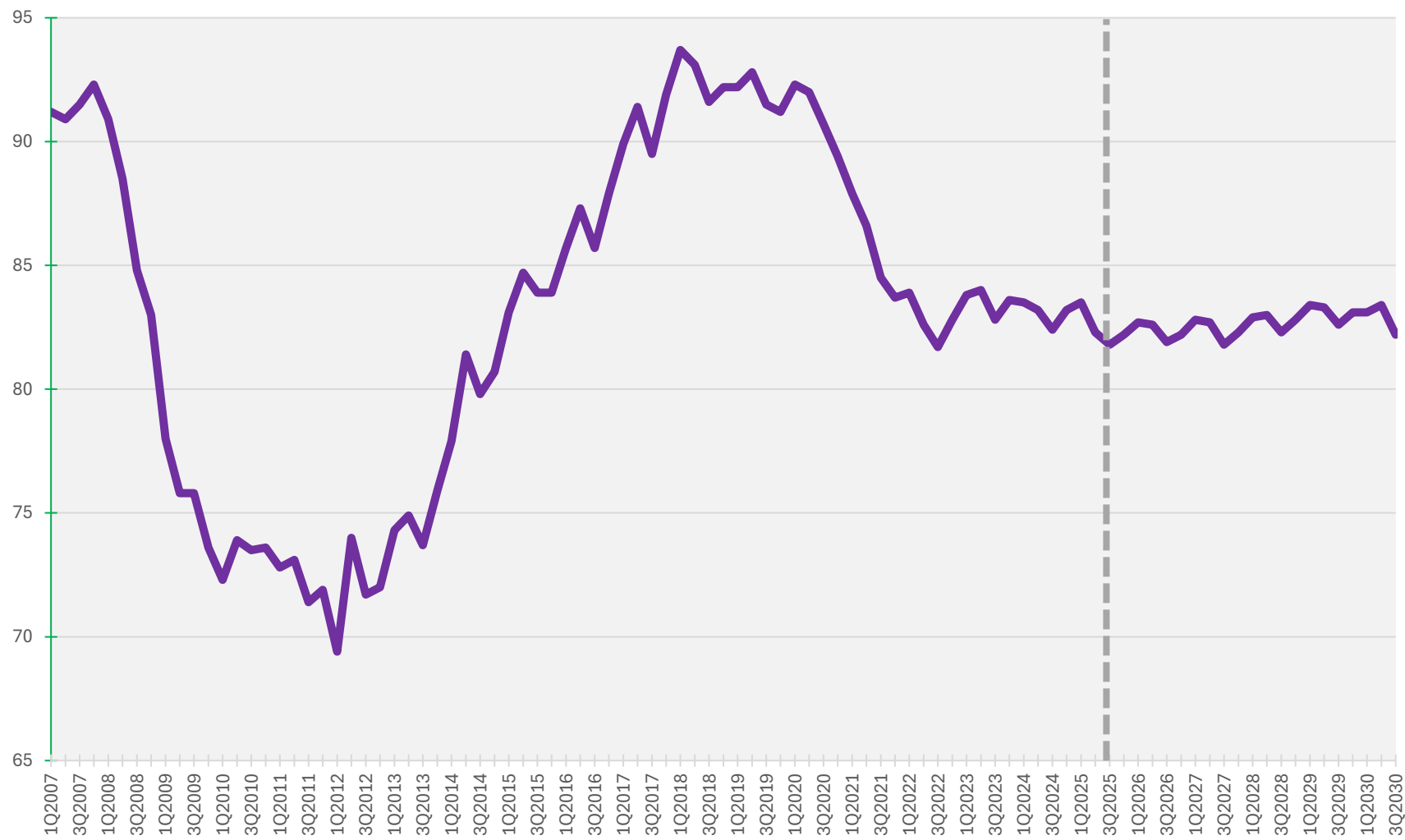
Materials cost increases have slowed, although predicted to pick up again next quarter. Labour costs are on the rise but likely to tail off from 2026 onwards

GROWTH IN CONSTRUCTION EARNINGS VS CPI (ONS, 2025)



Earnings growth declined last quarter and is currently at 4.3%, just above CPI inflation

MARKET CONDITIONS INDEX (BCIS 2025)



MCI currently falling = costs rising faster than prices. By the end of the year, expect the position to reverse

Industry views

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Procurement

- ▶ Slightly more pessimistic this quarter, although reasonably positive re getting contractors to tender
- ▶ Risk of volatility still being priced into fixed price contracts, particularly ones with long programme
- ▶ Two-stage routes still showing higher increases. However, seeing less resistance to use of single-stage procurement outside of major markets and London & South-East region

Trades

- ▶ MEP market in demand and pressured, but to lesser extent than 9-12 months ago
- ▶ Pull of M&E towards data centre work could lead to difficulty securing competitive M&E contractors in other sectors, e.g. offices, where projects can be trickier and have a tighter margin
- ▶ New build housing contractors looking into remediation opportunities, due to volume of work provided by Registered Providers

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Sectors

- ▶ Residential bids getting more competitive due to lack of work
- ▶ Data centre work influencing market for MEP activity in other sectors
- ▶ Future Homes Standard schemes have increased cost of residential buildings. Impacted supply chain and increased inflation in sector

Project size

- ▶ Risk-aversion along supply chain as contractors opt for smaller/simpler projects to mitigate cash flow exposure
- ▶ Reluctant to go to lump-sum model or design and build, moving to target cost or cost reimbursable model
- ▶ Small projects or simple trade packages have good supply and are more competitive. Larger projects have more constrained supply and are less competitive

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Logistics

- ▶ BSA in relation to HRBs
- ▶ Accessing connection to the grid is growing concern
- ▶ Shift in preliminaries composition as more staff time spent on regulatory compliance
- ▶ Performance bonds remain expensive and scarce. Most mature clients seeking different forms of security assurance

Summary

WHAT'S THE OUTLOOK FOR CONSTRUCTION?

- ▶ Output predicted to grow robustly in 2026 and onwards
- ▶ Orders declining, which could negatively impact demand levels
- ▶ Building costs largely driven by increasing labour costs
- ▶ Tender price growth stagnating, but for how long if demand picks up?
- ▶ Materials costs are increasing, albeit slowly
- ▶ Labour cost increases have picked up, but expected to slow

CONCLUSION

Returning to our original question: what next?

- ▶ Picture has changed significantly since our last outlook
- ▶ Things appear more negative
- ▶ Government announcements regarding construction broadly positive, with significant investment in built assets announced.
- ▶ However, these haven't translated into increased demand, yet...
- ▶ Serious challenges remain

Questions

Ask a question:



What single government action would most improve confidence in the construction sector over the next 12 months?

- A. Increase investment in housing delivery (e.g. affordable housing, first-time buyer support)
- B. Boost infrastructure spend (e.g. transport, energy, digital projects)
- C. Support net zero and retrofit programmes (e.g. retrofit incentives, decarbonisation grants)
- D. Reduce business costs (e.g. payroll taxes, wage requirements, business rates)
- E. Ease financing for construction projects (e.g. loan guarantees, targeted funding schemes)

Following the cabinet reshuffle after the resignation of Angela Rayner, the main driving force behind the housing initiatives, do you think the target of building 1.5 million homes in five years will be met?

1.5 MILLION HOMES TARGET

Barratt Redrow – *Full year results,
published 17/09/25*

...it is vital that government policy is focused on **reforming the planning system, removing barriers to investment** and supporting purchasers, particularly **first-time buyers**, if the sector is to build the homes the country needs.

...to drive rapid and sustained private development growth across the housebuilding industry, Government should consider **demand-side support for first-time buyers**, a feature of the housing market for many decades.

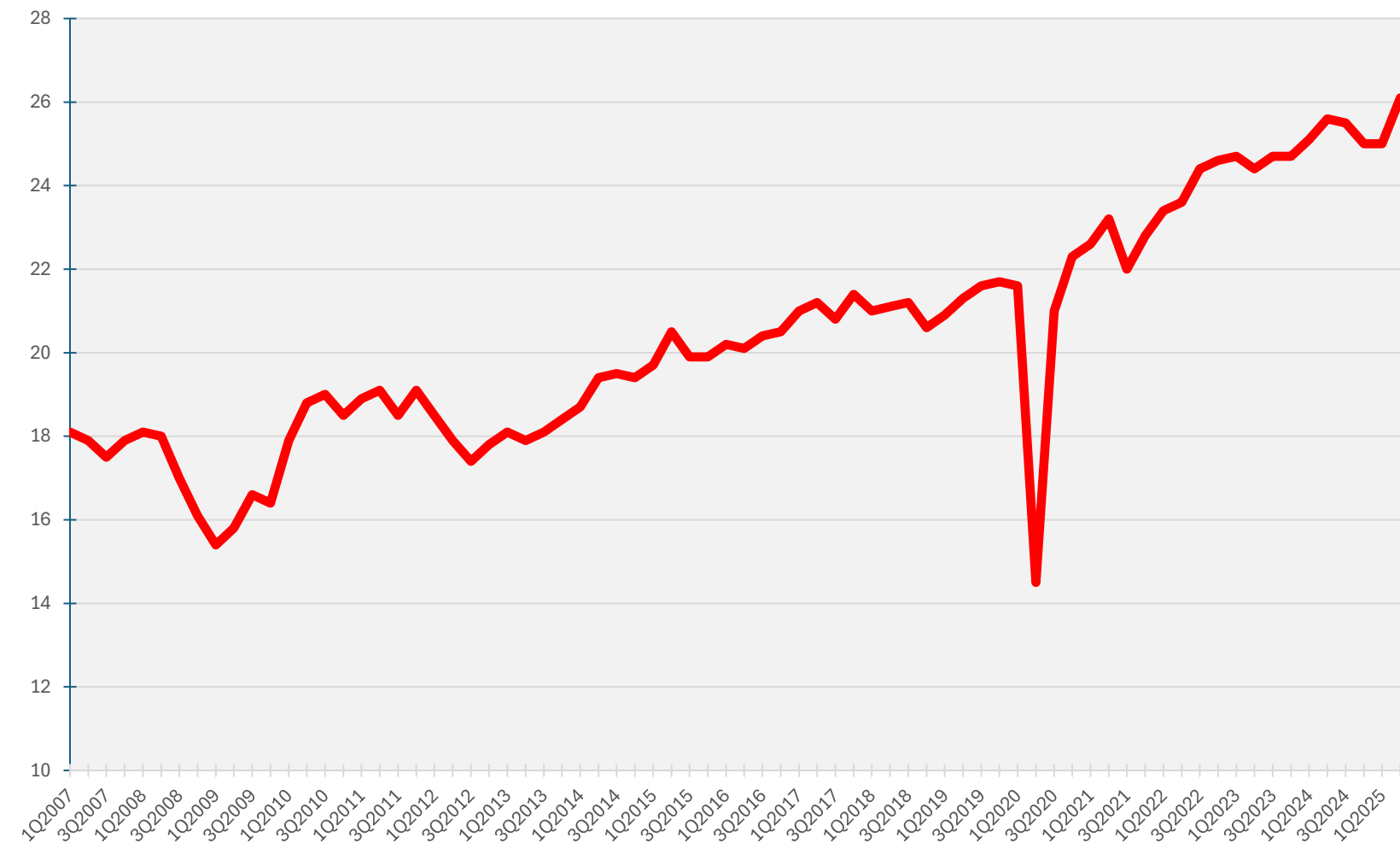
MJ Gleeson PLC – *Full year results,
published 16/09/25*

A lack of recovery in the wider housing market, flat selling prices, **lack of funding for Housing Associations** and higher than anticipated build costs resulted in both lower volumes and lower margins than we had expected at the beginning of the financial year.

...with the pace constrained only by a **planning system** that continues to be **under-resourced**.

Do you feel that the lack of a skilled workforce is having a detrimental effect on the industry?

LABOUR PRODUCTIVITY RATIO



44% increase in labour productivity since 2007. In other words, the sector is delivering more output with less labour input. Why might that be?

What would be your three best tips for the viability of small and medium-sized businesses in the current economic conditions of the construction market?

Spring Budget, Spending Review, Pipeline, Strategies, Autumn Budget - through a succession of announcements and fiscal events, what should construction firms do to just get on and build if we can't rely on economic stimulus from Government?

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