

# CONSTRUCTION OUTLOOK: what's next for the industry?

15 Jan 2026

# AGENDA

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

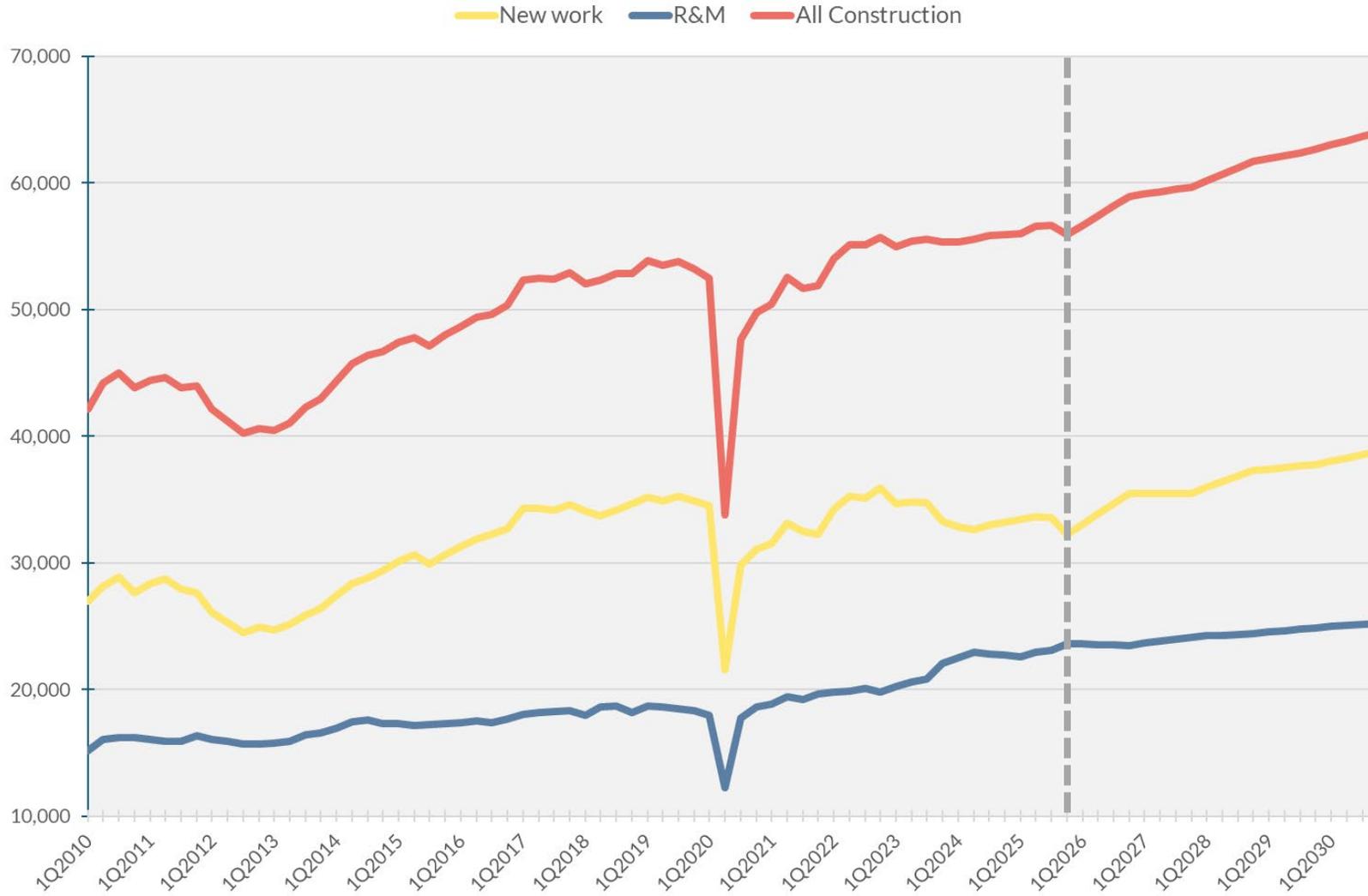
- Forecasts of future demand levels
- Cost & price movement in construction
- Industry views
- Conclusions
- Questions

## SETTING THE SCENE

- 2025 - a real challenge for the sector
- 2026 – more positive?
- Business confidence + increased investment in built assets
- But, bad weather doesn't help and geopolitical backdrop is fraught

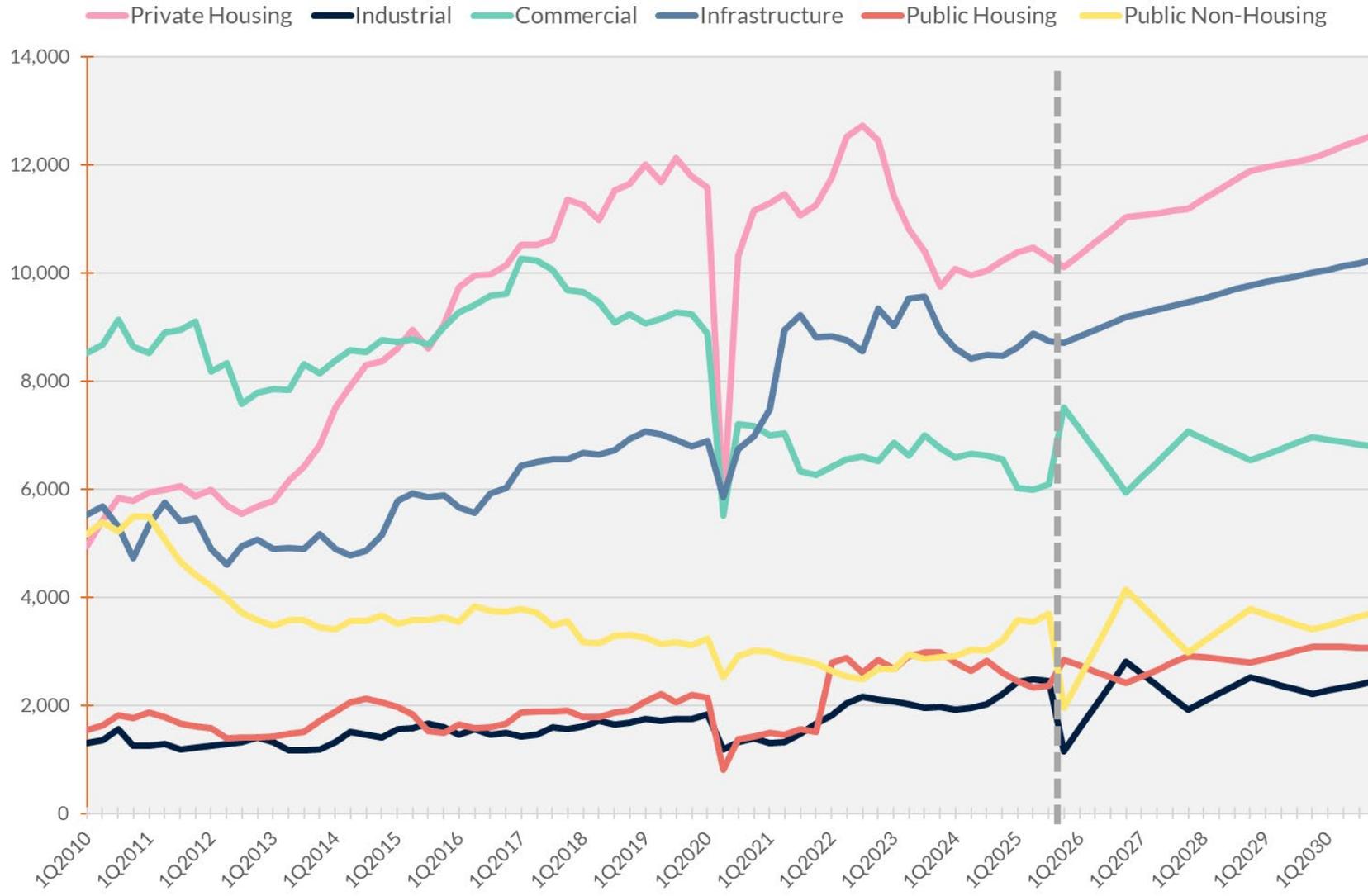
# OUTPUT & ORDERS

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



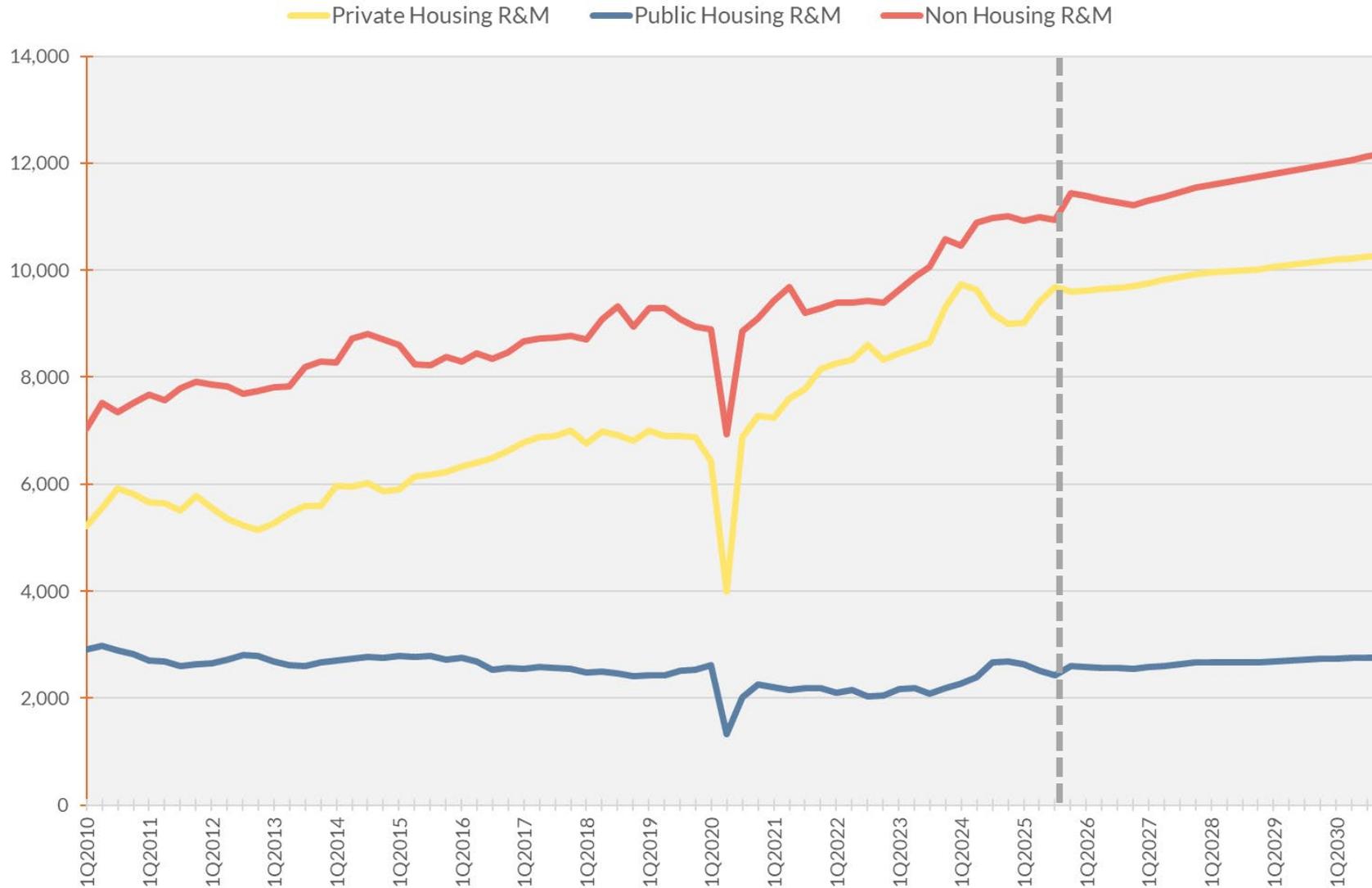
After flatlining, total output forecast to increase this year, driven by growth in new work

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



Private housing and infrastructure output to lead growth, with robust growth predicted through forecast period

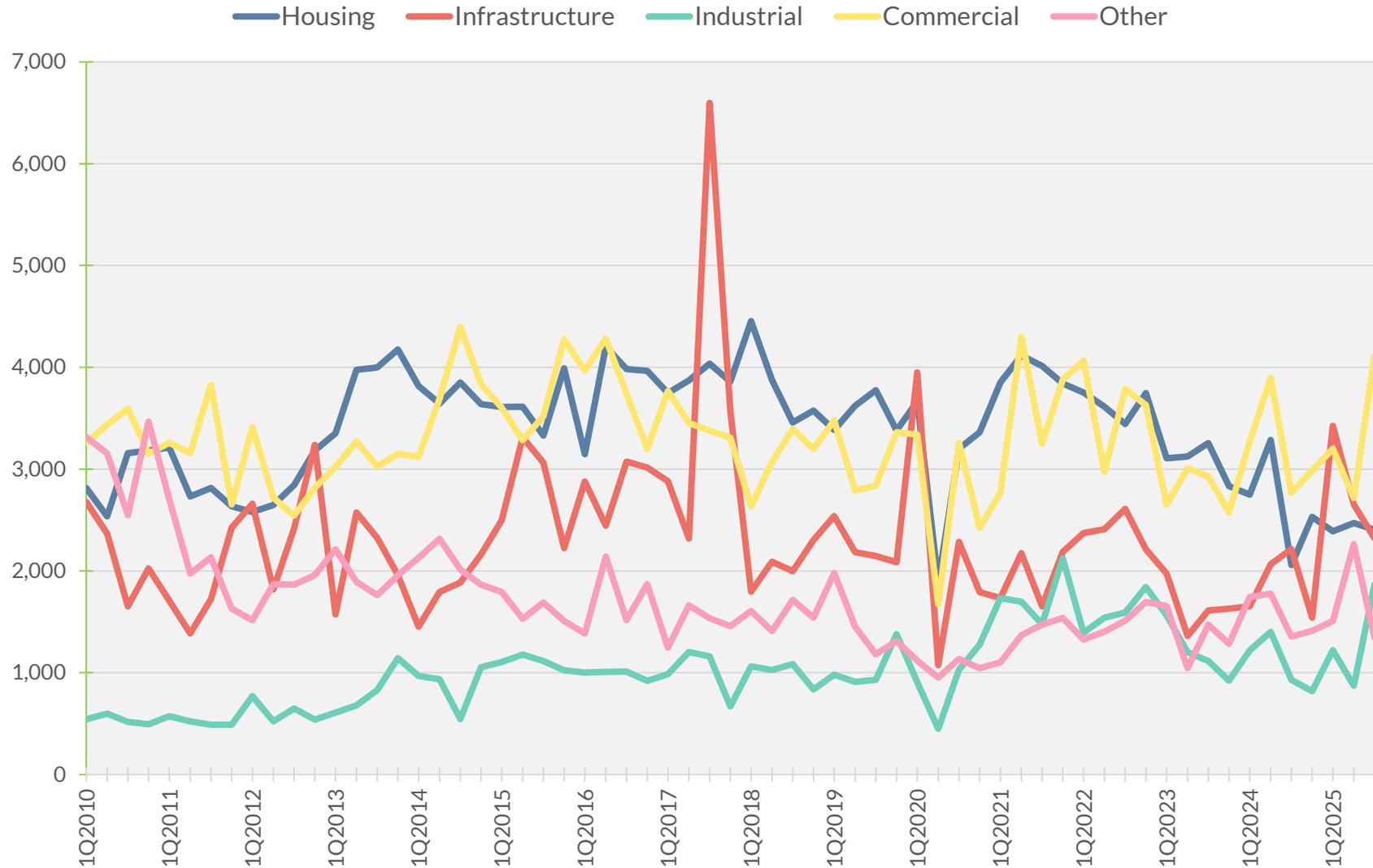
# R&M OUTPUT FORECAST BY SECTOR (ONS/BCIS, 2025 £M)



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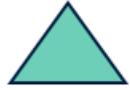
Repair and maintenance output has increased recently, but BCIS forecasts a decline in output through 2026, particularly in non-housing R&M

# CONSTRUCTION NEW ORDERS (ONS, 2025: QUARTERLY VOLUME £M)



Latest new orders data show an uptick in industrial and commercial orders, suggesting future pipeline of work may be growing

# SUMMARY OF GROWTH PREDICTIONS BY SUB-SECTOR



**New Housing:** strong recovery likely, although from a relatively low base



**New Infrastructure:** robust growth in output evident although conditional on spending plans



**New Public non-housing:** recovery likely as spending plans unwind



**New Commercial:** recovery as speculative investment levels increase



**New Industrial:** recovery as investment levels increase



**Repair and Maintenance Housing:** output stalling as cost of living impacts persist



**Repair and Maintenance Infrastructure:** limit to public spending, although backlogs increasing



**Repair and Maintenance Public non-housing:** output stalling as public finance pressures build

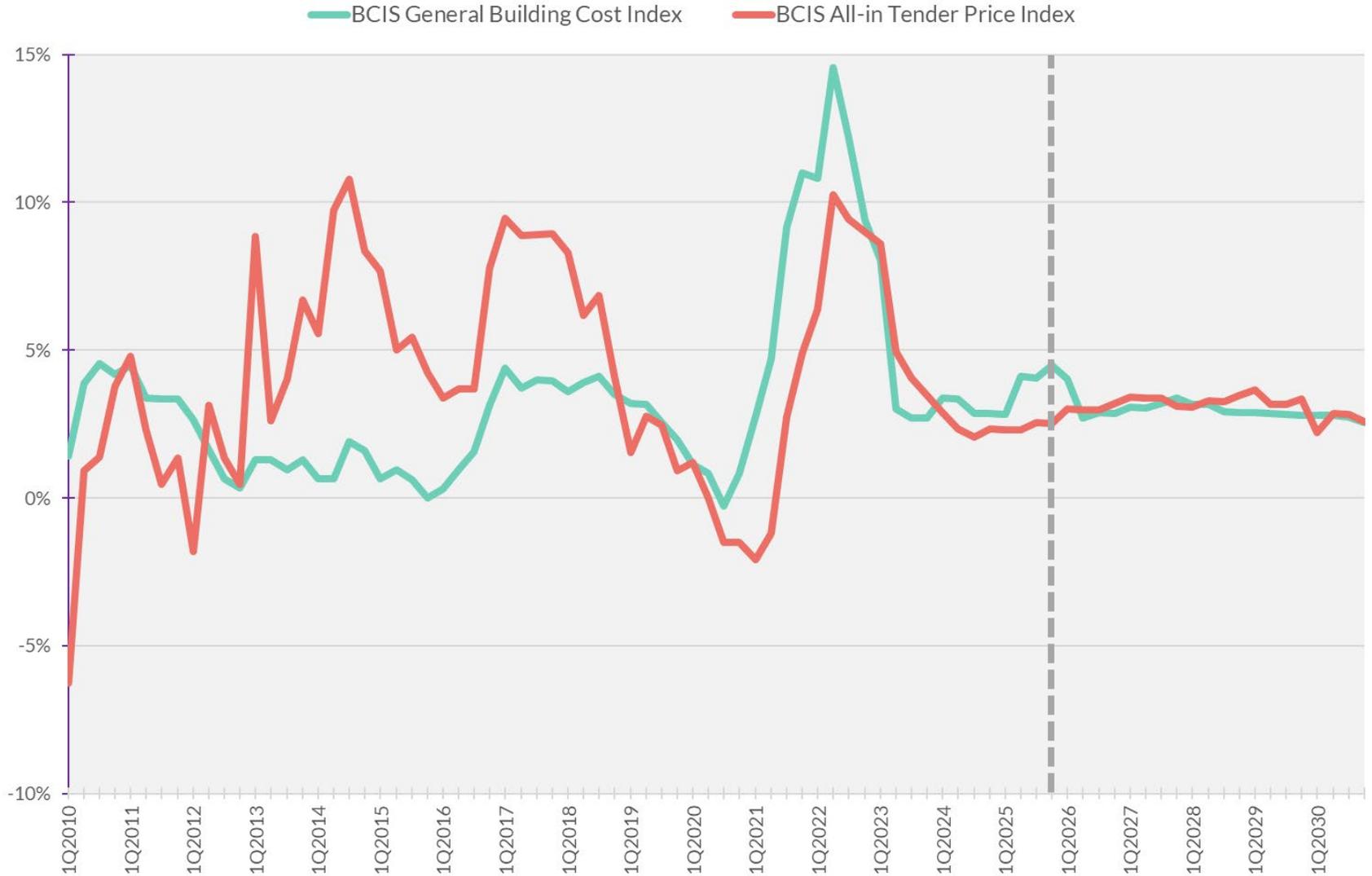


**Repair and Maintenance Private non-housing:** less investment available in the commercial/industrial sectors

Positive signs of growth in all new work sectors, while R&M remains subdued

# COSTS & PRICES

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

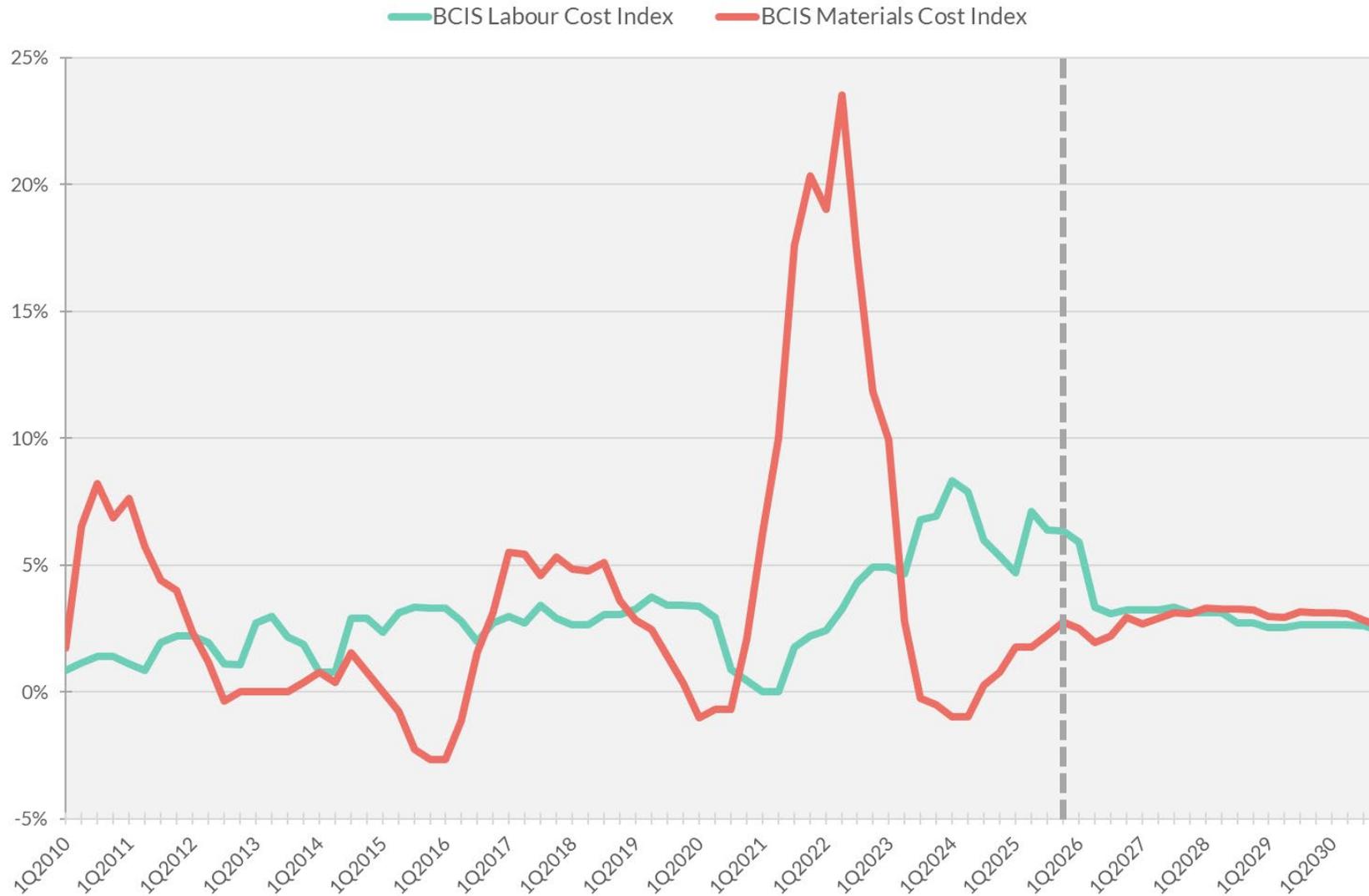


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Growth in building costs up marginally, but expected to fall through 2026.

Tender price growth remains subdued for entire forecast period

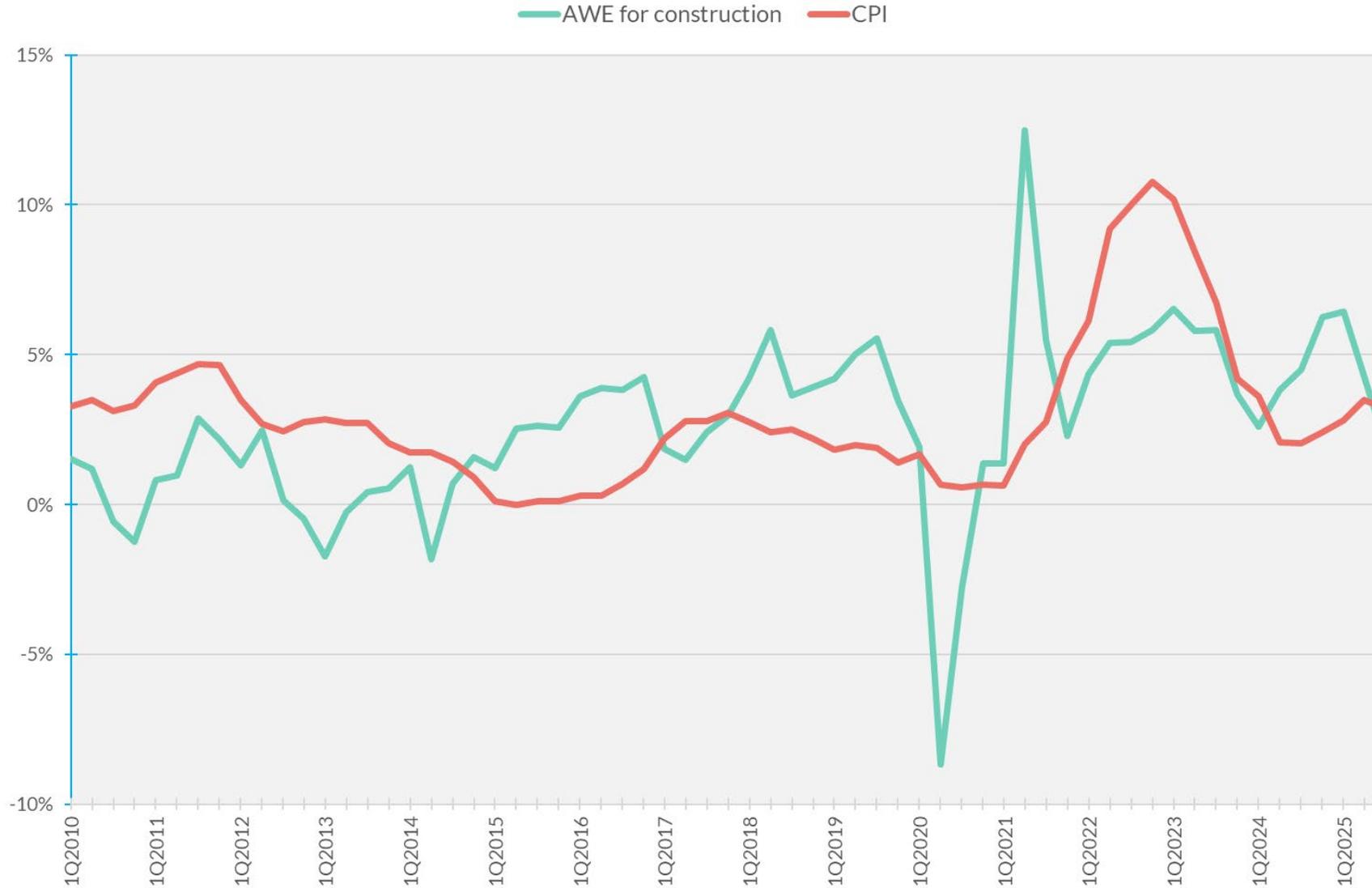
# GROWTH IN INPUT COSTS (BCIS, 2025)



Materials cost increases have slowed and are expected to remain subdued through forecast period.

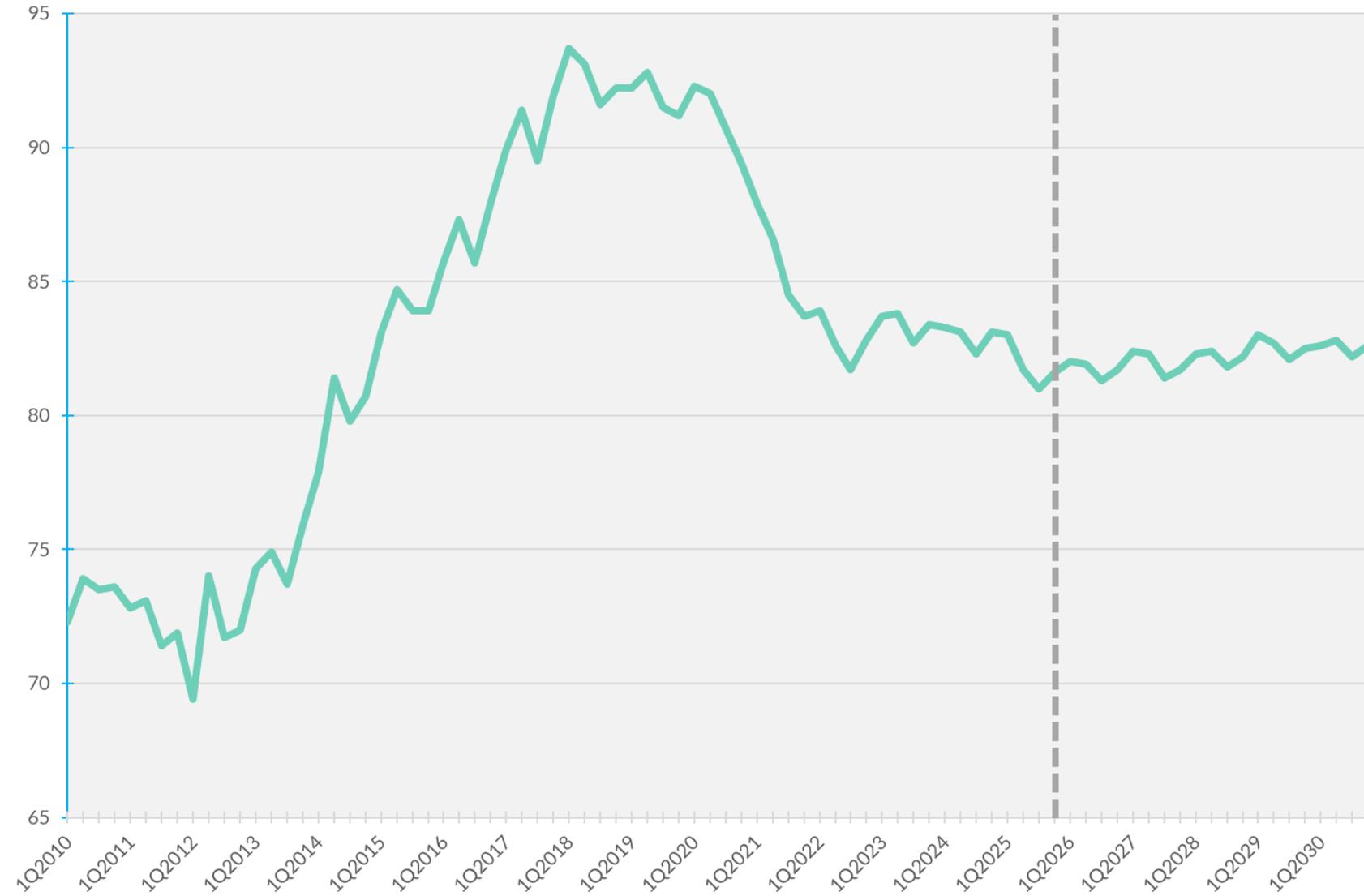
Labour cost growth is falling to trend levels

# GROWTH IN CONSTRUCTION EARNINGS VS CPI (ONS, 2025)



Earnings growth declined last quarter and is currently below growth in CPI

# MARKET CONDITIONS INDEX (BCIS, 2025)



MCI currently rising = prices rising faster than costs, but only marginally

# INDUSTRY VIEWS

## BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

### Sectors

- Sluggish market conditions = fewer tender opportunities in private sector; better prospects in public sector
- Data centres still large and growing sector, but signs of a slow down on roll outs
- Investment in defence and New Hospital Programme gathering pace
- Education and sports, leisure and hospitality, and Ministry of Justice also strong, depending on location
- Corporate fit-out buoyant. Industrial driven by warehouses and distribution centres
- Focus shift from new build residential to asset management with budget/funding being eroded and prioritised for building safety

## BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

### Trades & materials

- MEP rates cooling compared to earlier in 2025
- MEP work still tracking higher than general building work
- MEP materials inflation stabilised – not dropped, but stopped growing at rate seen in recent years - labour costs expected to rise
- Insulation and roofing materials – still under pressure, driven by retrofit and ESG requirements
- Electrical/M&E components – delays and cost hikes from global supply chain issues
- Timber and aggregates – largely stabilised compared to previous spikes
- Early packages (groundworks, piling etc) procured below cost plan levels

## BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

### Procurement

- Risk aversion to complex and very large projects
- Tier 1 contractors in two-stage or negotiated approach; single-stage approach avoided unless heavily de-risked

### Logistics

- Connection to grid is continuing concern
- BSR gateways still biggest cause of delay

## BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

### General

- Viability testing back on the table; previously unviable developments being retested
- 2H26 before any upturn. Viability remains challenging
- Labour costs primary driver of tender price inflation, although wage increases slowing
- 2026 outlook broadly positive
- Some schemes that were on hold now moving forward

# SUMMARY

## WHAT'S THE OUTLOOK FOR CONSTRUCTION?

- New work output predicted to grow robustly this year and throughout the forecast
- Orders increasing, which should increase the pipeline
- Building costs still driven by increasing labour costs, but the impact diminishing
- Tender price growth stagnant, but for how long if demand picks up?
- Materials cost increases stabilising
- Labour cost increases slowing

# CONCLUSION

Returning to our original question: what next?

- More optimistic
- Government announcements regarding construction broadly positive
- Significant investment in built assets announced
- Stability seems to be returning

However...

- Challenges remain
- Notably, how to attract private finance to fund major infrastructure

# QUESTIONS



## QUESTIONS

**Does the sector have the workforce to deliver an uptick in demand?**

# UK CONSTRUCTION WORKFORCE (THOUSANDS), NOT SEASONALLY ADJUSTED



# UK CONSTRUCTION VACANCIES (THOUSANDS), SEASONALLY ADJUSTED



## QUESTIONS

**What are the main things still propping up construction prices, even though demand has softened in parts of the market?**

## QUESTIONS

**When clients ask, 'Are we past the worst yet?' what economic signals do you think Qs should rely on, and which headlines should we be more cautious about?**

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