

CONSTRUCTION OUTLOOK: what's next for the industry?

26 March 2026

THE PANEL



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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

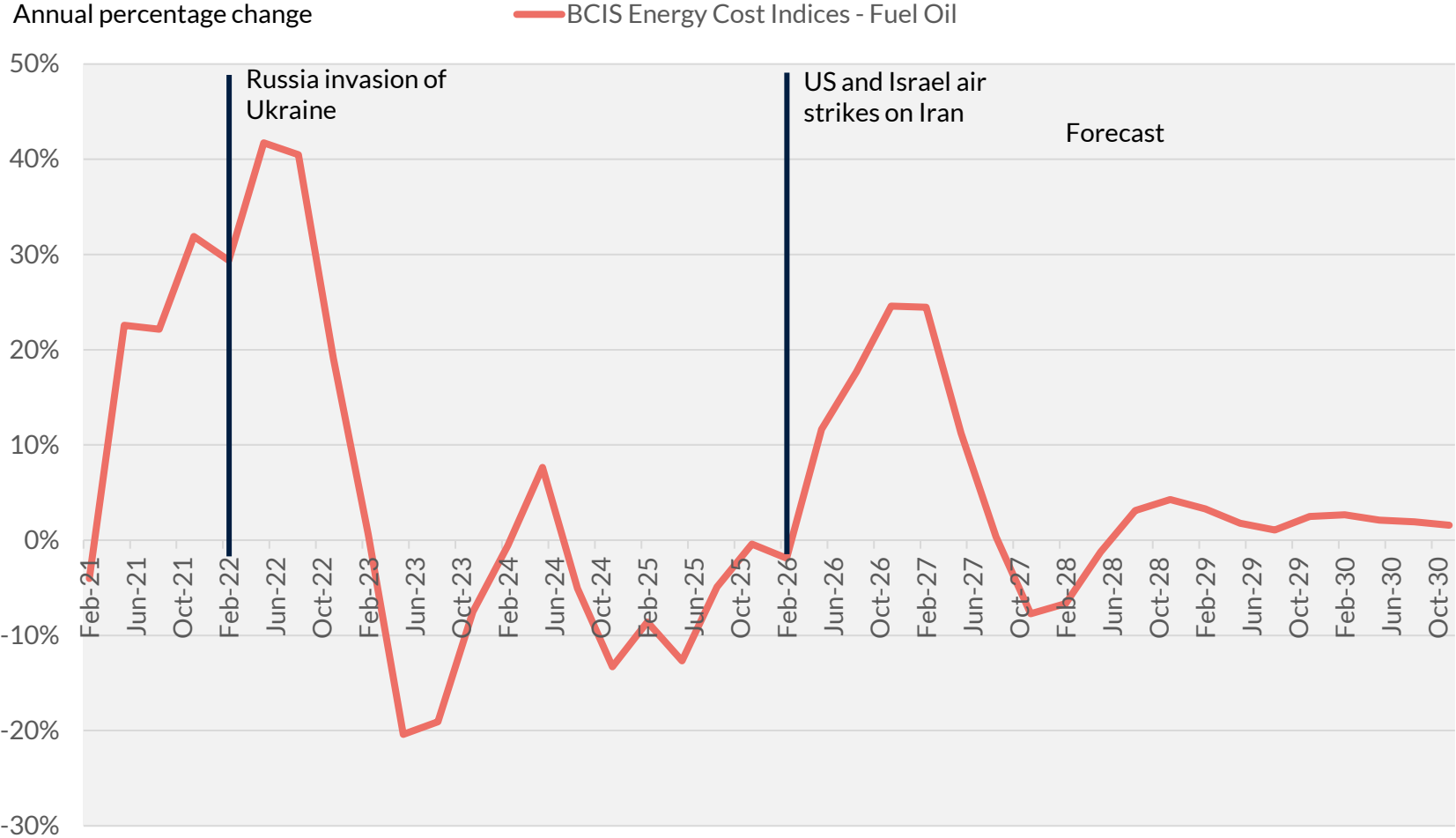
SETTING THE SCENE

- Last outlook webinar in January was relatively positive
- Spectre of stagflation has returned
- Persistent low growth and higher inflation likely to combine
- Quarterly construction output saw significant fall
- Perhaps our optimism last time was unfounded...

CONFLICT IN THE MIDDLE EAST

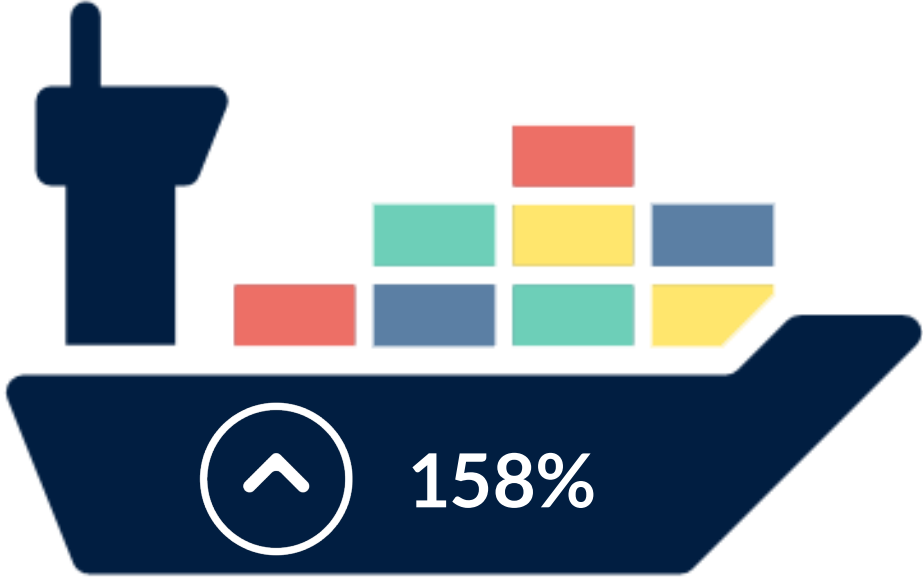
- Inflation increases potential of base rate hike next month
- Elevated cost of borrowing stalls investment in fixed capital
- Reduced investment in new projects
- Increased energy costs feed through to energy-intensive materials and products
- Severity of effects conditional on length of conflict

BCIS 5-YEAR FORECAST OF FUEL OIL INDEX, 1Q2026

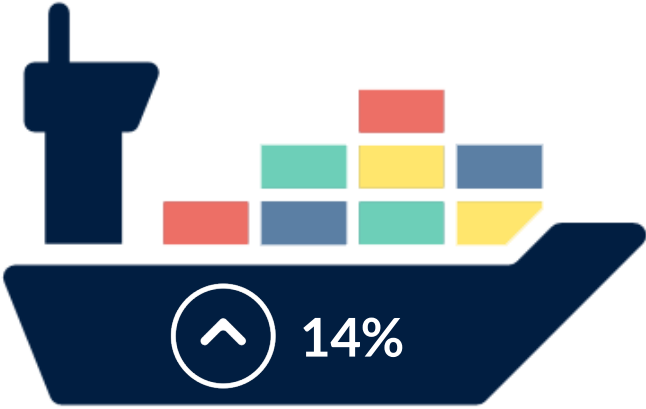


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DREWRY WORLD CONTAINER INDEX



Red Sea attacks on shipping –
increase between 16 November 2023 and
8 February 2024

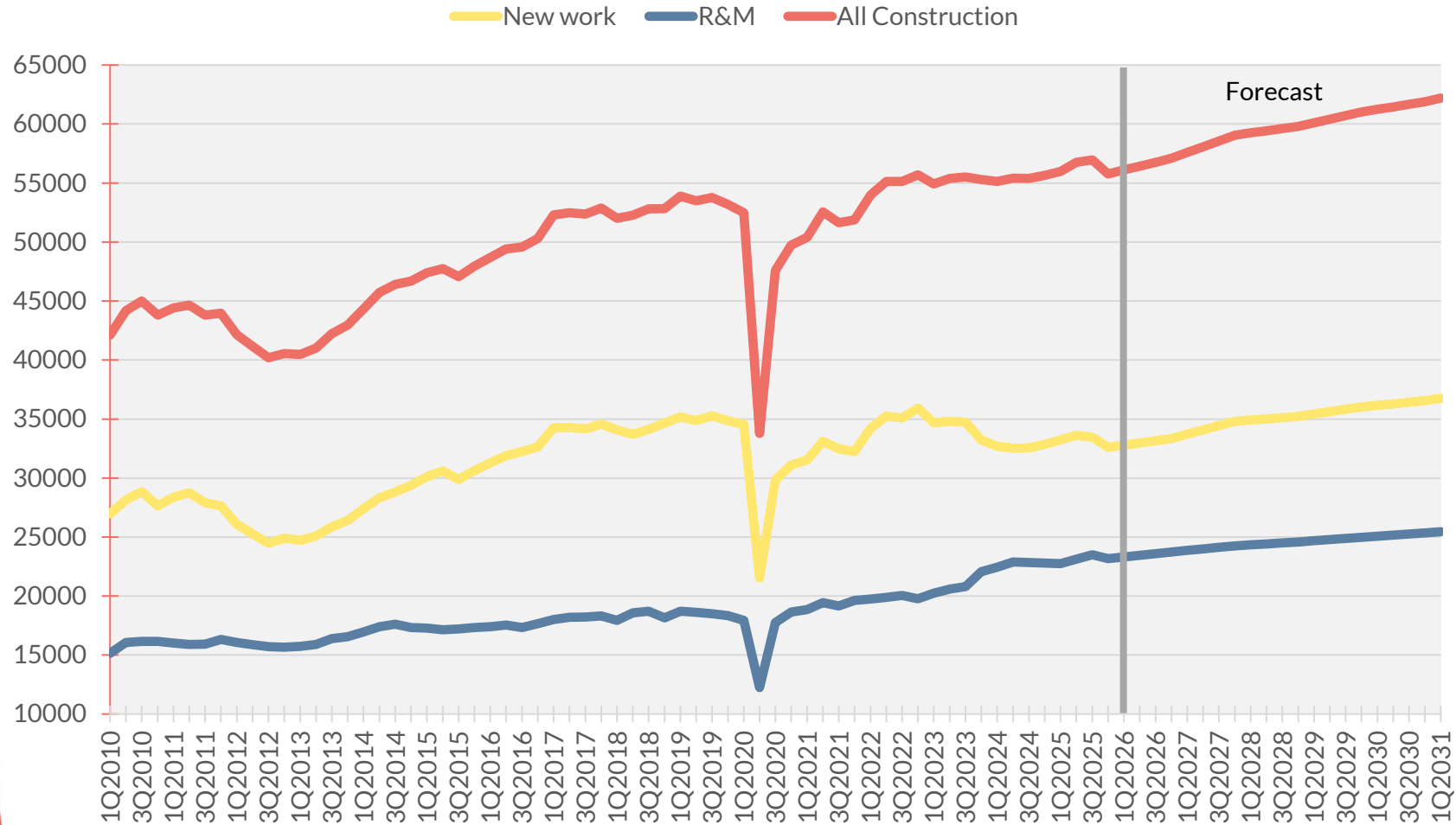


Restrictions in Strait of Hormuz –
increase between 26 February 2026 and
19 March 2026

Source: Drewry World Container Index, which tracks the freight costs of 40-foot containers via eight major routes

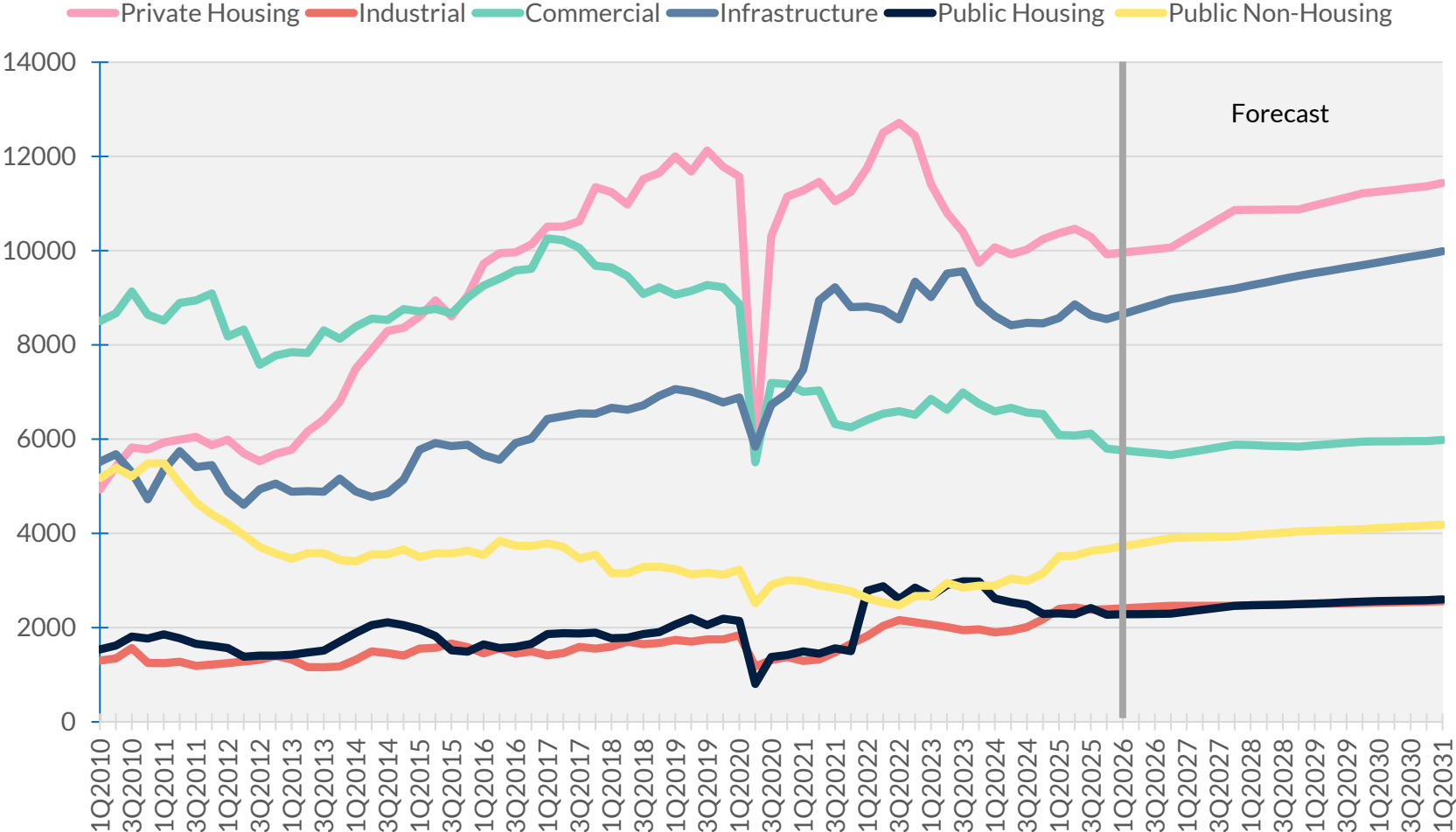
OUTPUT & ORDERS

CONSTRUCTION OUTPUT FORECAST (ONS/BCIS, 2026 £M)



After recent falls, total output forecast to increase this year, driven by growth in new work, albeit more slowly than previous forecasts

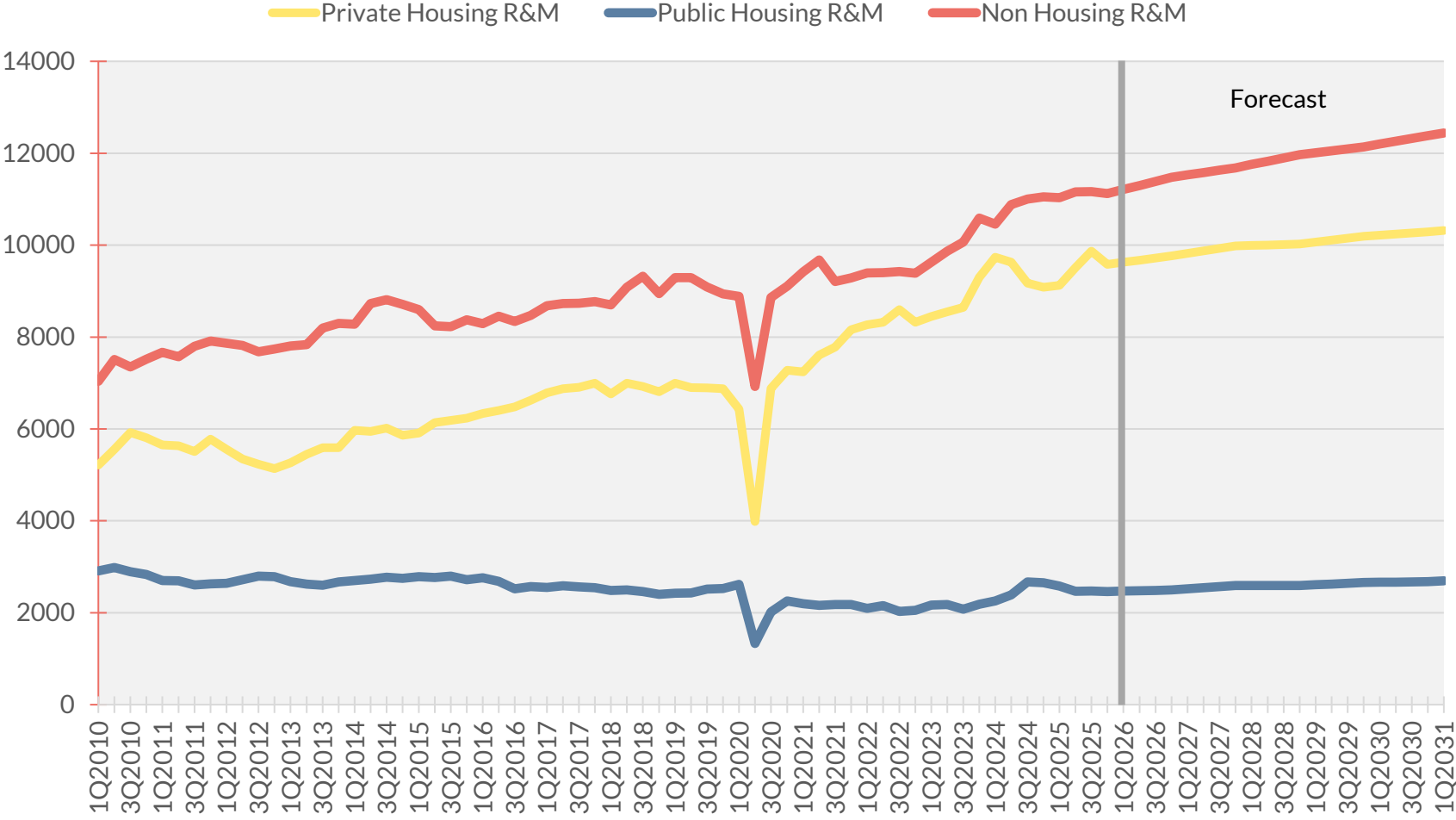
NEW WORK OUTPUT FORECAST BY SECTOR (ONS/BCIS, 2026 £M)



Infrastructure and public non-housing output to lead growth, with robust growth predicted throughout the forecast period

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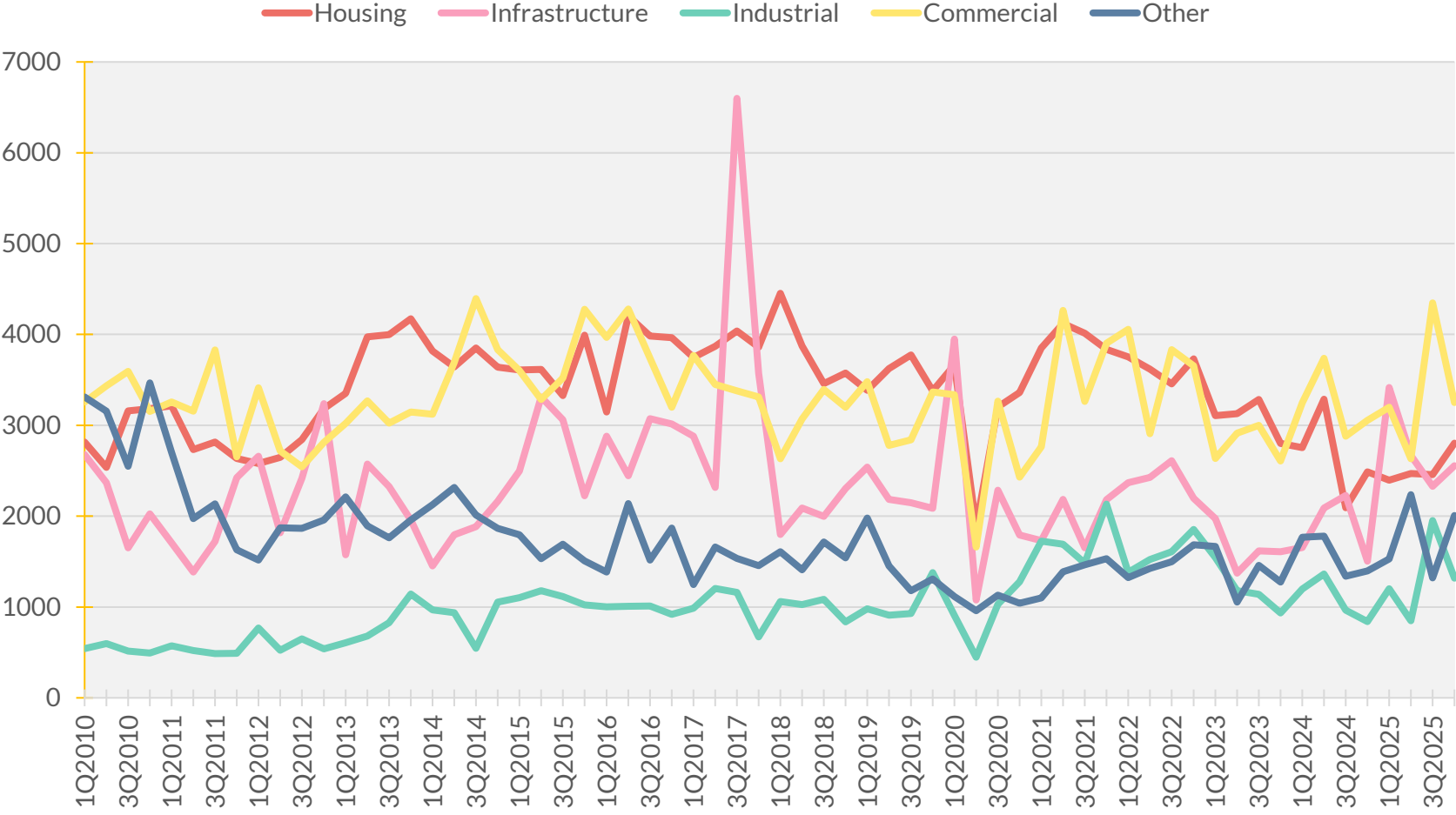
R&M OUTPUT FORECAST BY SECTOR (ONS/BCIS, 2026 £M)



Repair & Maintenance (R&M) output forecast to increase, albeit more slowly than new work. Driven by growth in non-housing R&M

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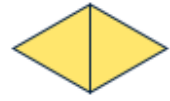
CONSTRUCTION NEW ORDERS (ONS 2026: QUARTERLY VOLUME £M)



Latest new orders data show fall in total orders, although orders in public non-housing saw significant increase

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SUMMARY OF GROWTH PREDICTIONS BY SUB-SECTOR



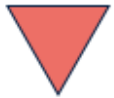
New Housing: growth flatlining, recovery from a relatively low base postponed until next year



New Infrastructure: robust growth in output likely although conditional on availability of private finance



New Public non-housing: recovery expected as spending plans unwind



New Commercial: growth stalling as speculative investment climate weakens



New Industrial: growth flatlining as investment climate weakens



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



Repair and Maintenance Infrastructure: growth in output evident although conditional on spending plans



Repair and Maintenance Public non-housing: growth in output evident although conditional on spending plans

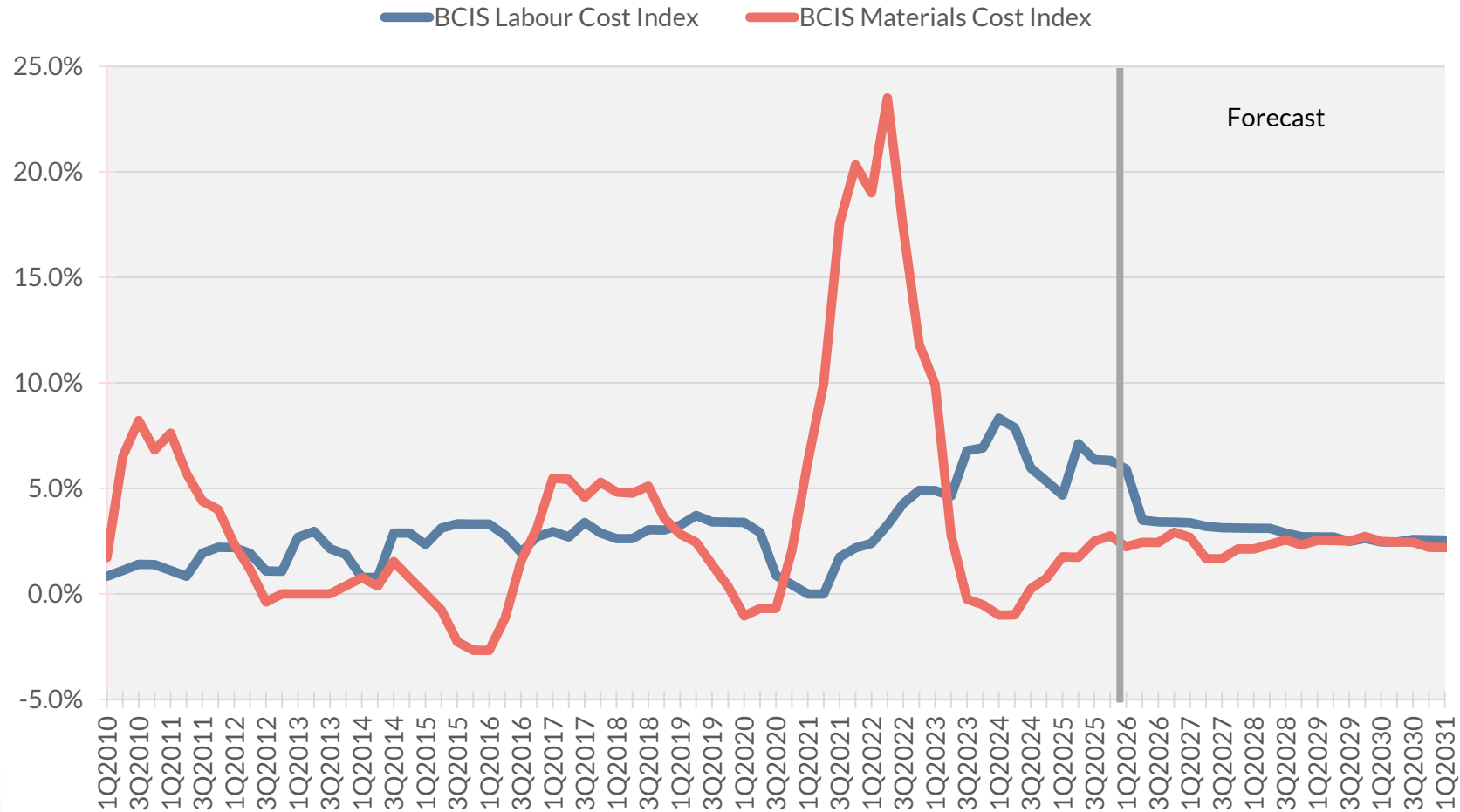


Repair and Maintenance Private non-housing: less investment available in the commercial/industrial sectors

Positive signs
of growth in
infrastructure
and public
non-housing
sectors for
both new work
and R&M

COSTS & PRICES

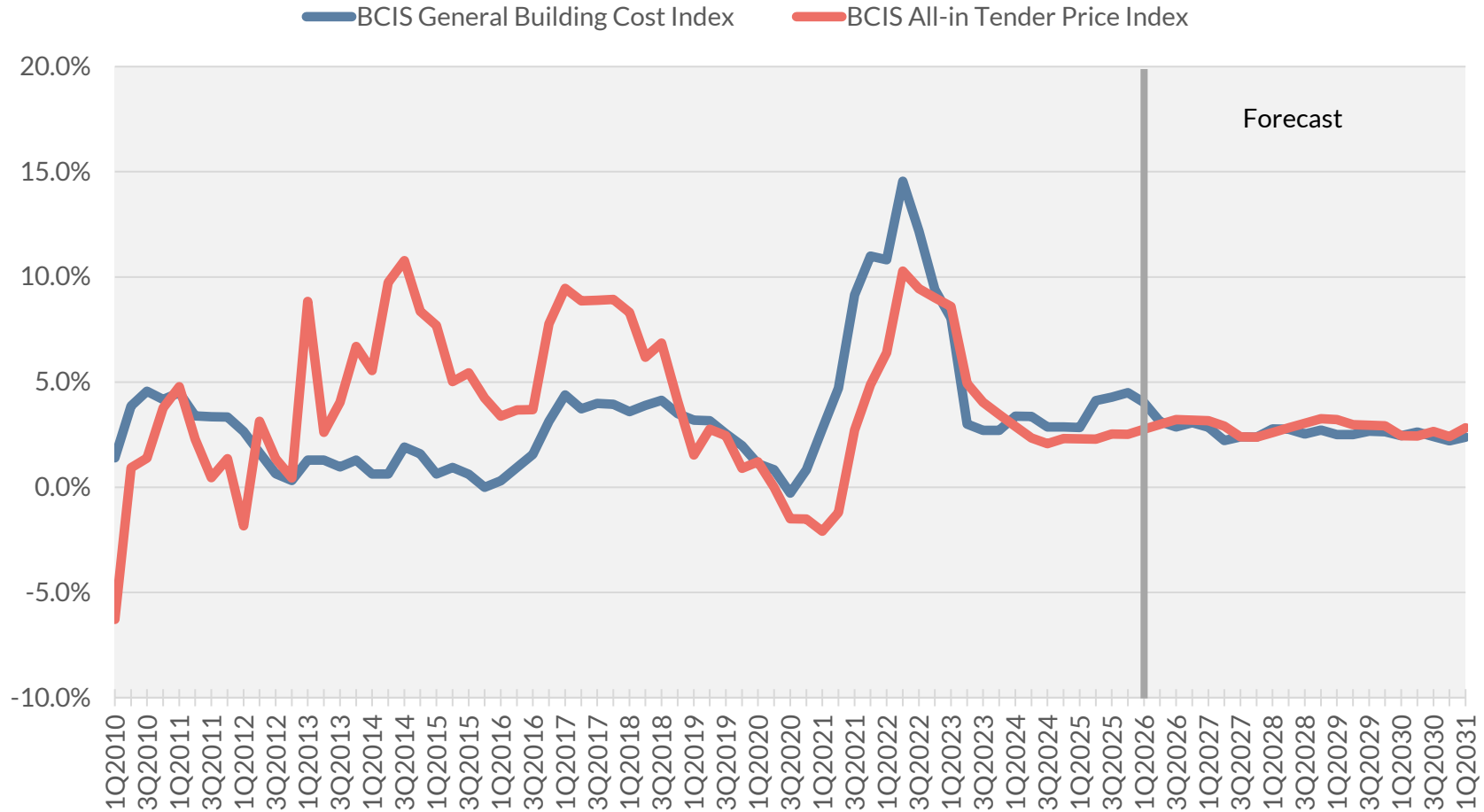
GROWTH IN INPUT COSTS (BCIS, 2026)



Materials cost increases have slowed but are likely to see inflationary pressure going forward

Labour cost growth is falling to trend levels

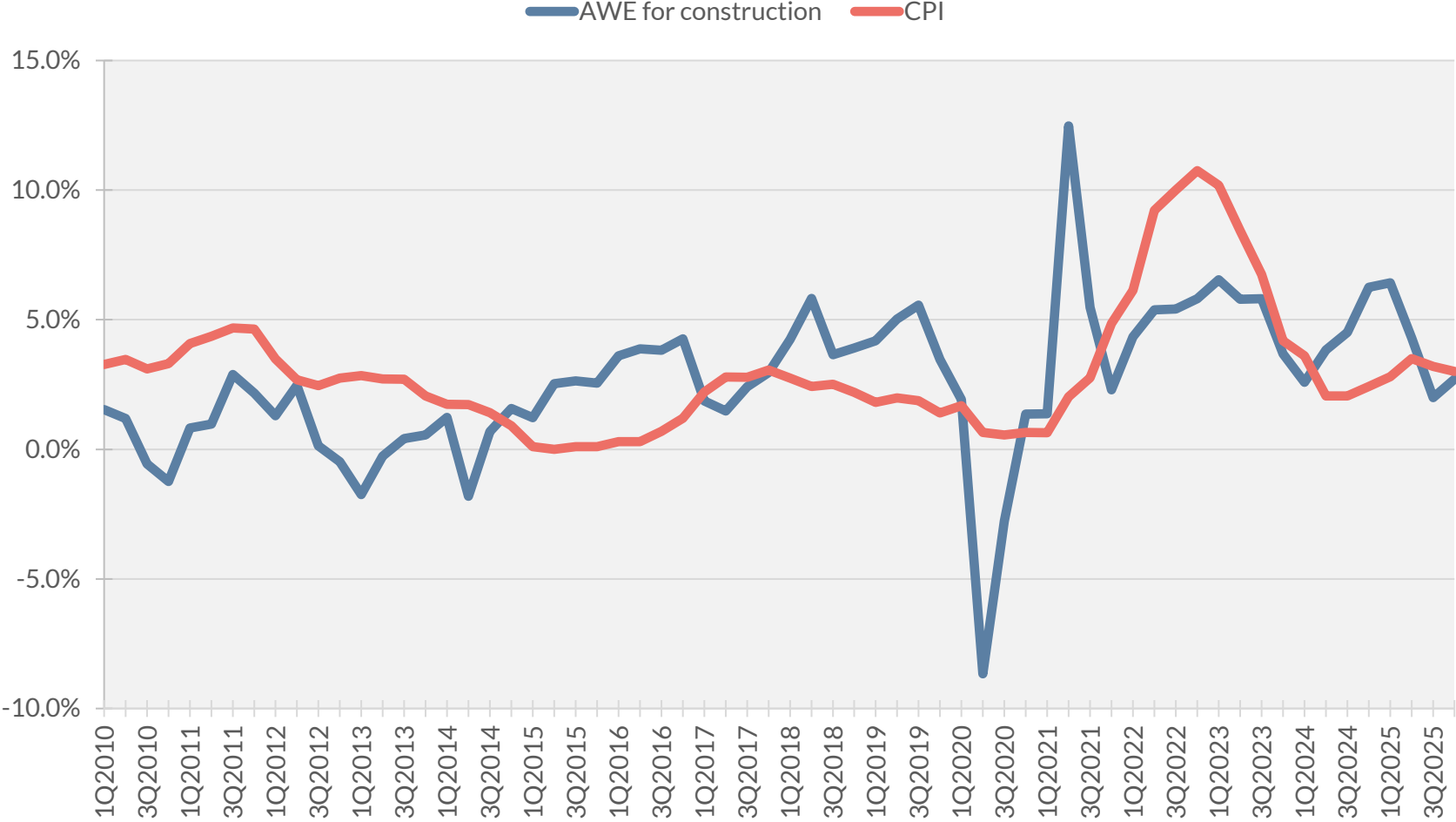
GROWTH IN BUILDING COSTS & TENDER PRICES (BCIS, 2026)



Growth in building costs slowing, although risks remain on upside

Tender price growth remains subdued for the forecast period

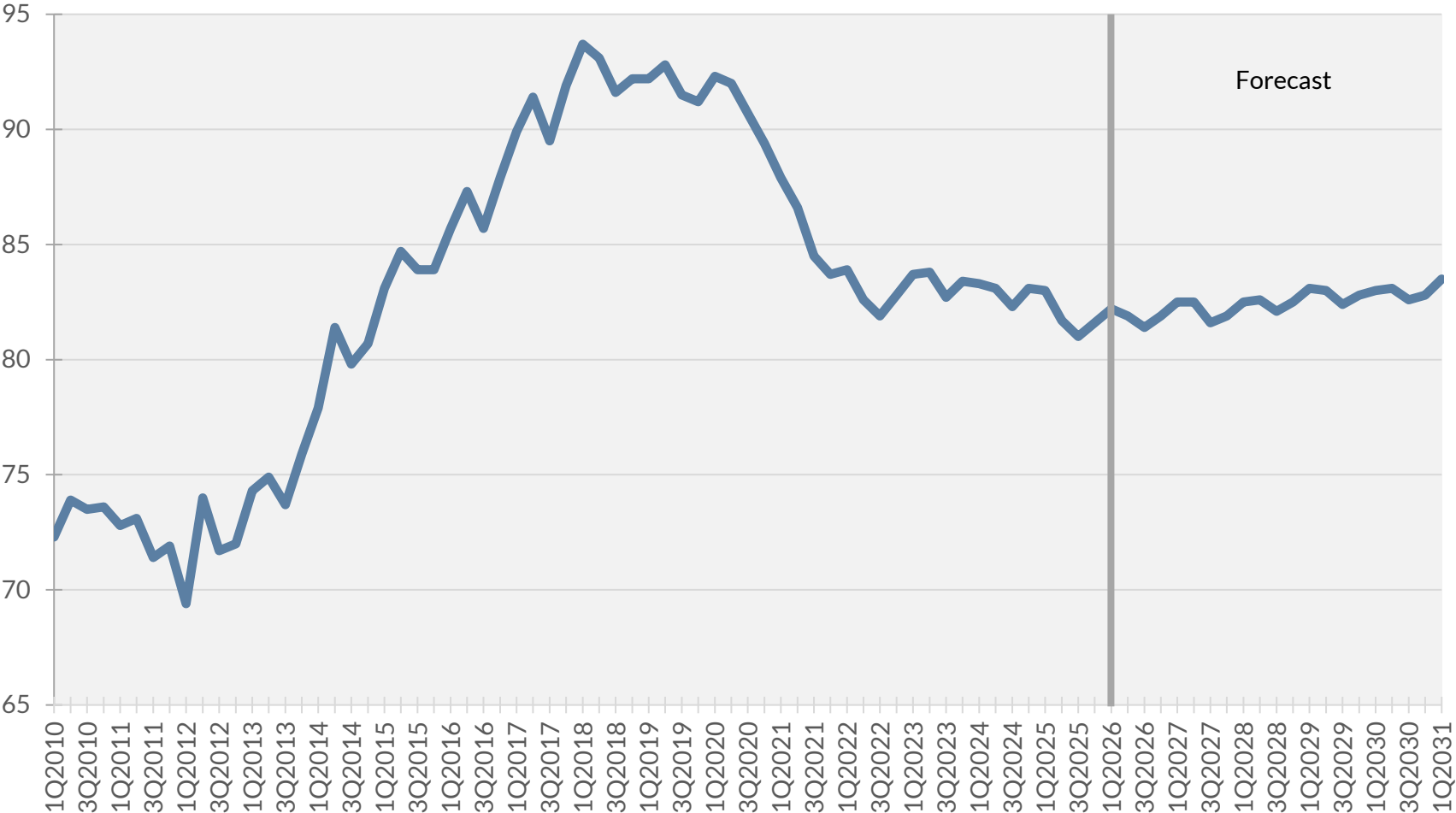
GROWTH IN CONSTRUCTION EARNINGS VS CPI (ONS, 2026)



Earnings growth increased last quarter and is currently at parity with growth in CPI

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MARKET CONDITIONS INDEX (BCIS, 2026)



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

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INDUSTRY VIEWS

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BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Middle East conflict

- Impact not yet reflected in tender prices. Likely consequences include projects stalling, reduced workloads, increased input costs and potential decrease in tender prices
- If unrest is resolved relatively quickly, disruption subsides within six months
- If unrest continues to end of March, impact significant and simplest response for many clients would be to pause decision-making activity
- Investors continue to favour relatively safe assets, such as government gilts and bonds

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Sectors

- Infrastructure, civils and utilities slightly higher price increases due to labour and specialist supply pressures
- Housing and commercial subdued, but housing showing recovery signs
- Public non-housing buoyant, especially in sectors like defence
- Transport and transit mainly driven by repair and maintenance work
- Public sector programmes, such as healthcare and education, will see greater inflationary pressure as the need to deliver programmes at scale hits reality of capacity constraints

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Trades

- M&E higher price increases than building due to ongoing specialist labour shortages and supply chain pressures
- MEP labour reportedly the most difficult to recruit and maintain
- Most notable changes in labour-intensive and specialist trades, particularly M&E, civils, groundworks and steelwork, where labour availability and wage pressure continue to drive increases
- Significant price increases with specialist MEP packages, such as sprinkler installations. Hospitals and data centres taking up available MEP capacity

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Materials

- Metal prices a particular concern; copper saw biggest annual increase since 2009, rising over 33% due to mine accidents and trade tariffs
- Material MEP costs have settled but tender prices vary dependent on procurement route, tier of MEP contractor and appetite of contractors due to forward order book
- High metal prices, e.g. for copper and aluminium, could have direct impact on cost of specialist components, including electrical components, cladding and curtain walling

Procurement

- In more competitive markets, single stage is predominant route.
- In less competitive markets, increase in two stage and hybrid procurement routes
- Premium for two-stage or negotiated process that is still the preference of Tier 1 & 2 contractors.
- If a project is able to be opened up to single-stage tendering and a lower tier of contractor, significant cost efficiencies can be gained

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

General commentary

- Prior to the Middle East conflict there was a more positive outlook for 2026, fuelled by public sector investment, commercial sector growth and a stabilisation of Building Safety Regulator-related pressures for higher-risk building schemes. This has now been tempered
- Need to maintain cashflow in protracted period of low opportunity is fuelling contractor appetite
- Increasingly competitive tendering environment based on reasonably challenging market conditions
- Accessing connection to the grid is rising concern, as well as planning and regulatory delays driving up costs, pushing back project milestones and harming viability and industry confidence

SUMMARY

WHAT'S THE OUTLOOK FOR CONSTRUCTION?

- Substantial downgrade to previous output forecast, particularly for new work
- Orders declining, which could negatively impact future output levels
- Materials cost increases stabilising, but risk is on upside, particularly for materials with energy-intensive production processes
- Labour cost increases slowing
- Building costs still driven by increasing labour costs, but impact diminishing
- Tender price growth stagnant, but could fall if demand declines

CONCLUSION

Returning to our original question: what next?

- Cautious optimism that characterised early part of the year has increasingly been overshadowed by concerns over supply disruption and cost pressures
- At this stage, it remains too early to fully assess the economic implications, but...
- If the conflict is relatively short-lived, disruption should be manageable
- If it's protracted, then the 1970s spring to mind



James Fiske



Karl Horton



Dr David
Crosthwaite



Sam Parkin

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