CONSTRUCTION OUTLOOK: OCTOBER 2017

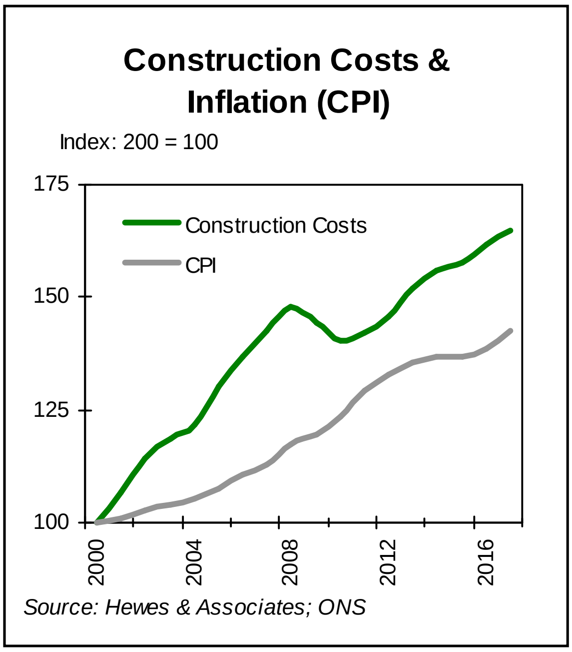
Our latest forecasts take account of revised and rebased (to 2015 prices) construction output data. The data show the volume of output rising by almost 5% during the twelve months to June 2017 – up from 3.8% six months earlier. Less encouragingly, the volume of new orders declined by 1.2% over the twelve months to June 2017 – the first decline since 2012.

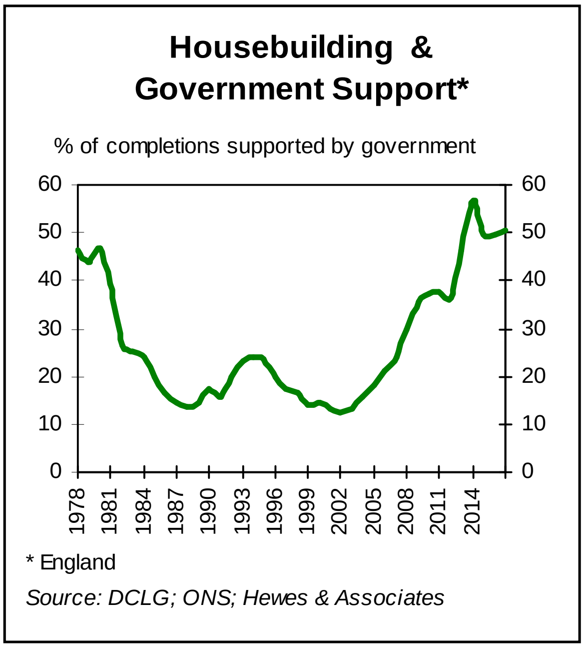
A weakening in business confidence alongside frailty in consumer finances is currently affecting both the commercial and residential property markets, which combined with public sector austerity suggests a less robust outlook for GB construction. We expect output growth in 2017 to be followed by modest decline in both 2018 and 2019.

Private housing is now the largest GB construction market, having overtaken commercial building (traditionally the largest market) in 2016. That reality renders construction uncomfortably reliable on a typically cyclical market, which over the next few years faces challenges in the form of unaffordability, weaker economic growth, and an end to house price increases.

In the commercial sector output continues to increase, although the situation concerning orders is less sound – the volume of orders fell by 11% during the twelve months to June 2017. London office building, which has underpinned recent commercial growth, is now hampered by Brexit uncertainty and rising supply. In the retail sector construction remains in a state of decline, but in the leisure market workloads are strong.

Underpinned by a robust roads investment programme, and large projects (such as Hinkley, HS2 and Thames Tideway), infrastructure has a fine outlook. Public non-housing is afflicted by austerity-induced capital budgets and output volumes in this sector are now 32% or £5 billion below the 2010 peak. They are forecast to fall further.





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