

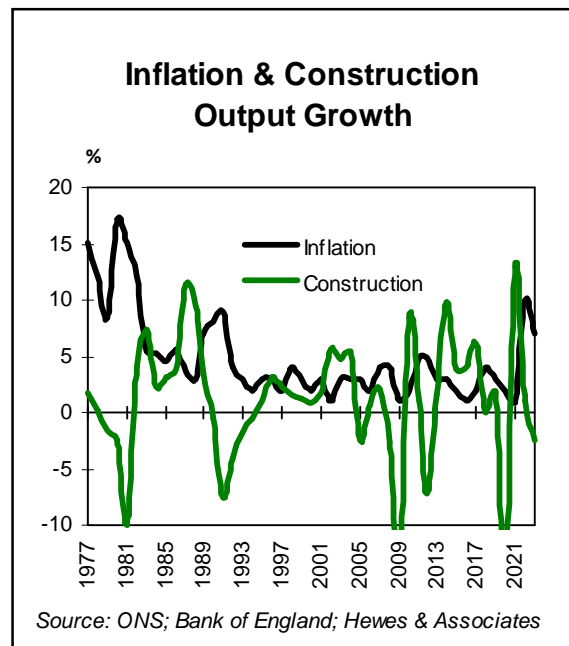
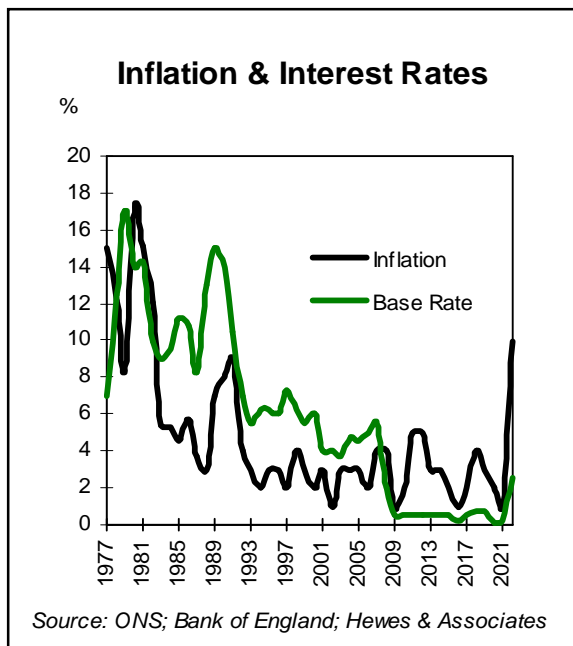
CONSTRUCTION OUTLOOK: JULY 2022

After rising by almost 13% in 2021, we expect total construction output growth to drop below 1% in 2022, while for 2023 we expect a decline of around 3% in the volume of work. Near stability is forecast for 2024. In all we expect a protracted period of weakness - a recession, although not a deep one. The economy is forecast to contract by 1 – 1.5% in 2023, and grow by just 0.5% in 2024.

In all, the outlook is rather dour, with inflation serving to raise business costs, and reduce consumer demand at the same time. It appears that the recession officials feared would be brought on by too aggressive a stance on base rates, is being brought on by inflation. Increased base rates will of course render matters more difficult.

Rapid inflation has in the past been associated with declines in construction output, primarily as base rates – increased to tackle inflation – have resulted in reduced demand. What is different this time is that base rates are being raised slowly, and are significantly below the rate of inflation. However, such is the extent of debt as a share of the economy (public and household debt equates to roughly 185% of GDP, up from 90% in 2000), economic growth is now far more sensitive to changes in interest rates than was the case in the past – therein lies the concern of those tasked with controlling inflation.

Efforts to control inflation will, we expect, result in base rates rising above 2%, while inflation is forecast to peak in 2022/23, and drop back to around 4-5% in 2024. Meanwhile, the delivery of public services will, we expect, be hampered somewhat by the political change currently underway. On that note it is of concern that improvement in public services is not a headline issue under discussion in the Tory leadership contest, while tax cuts are. This mix suggests the return of an austerity mindset, which for public sector building in particular, was markedly unfavourable.



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