

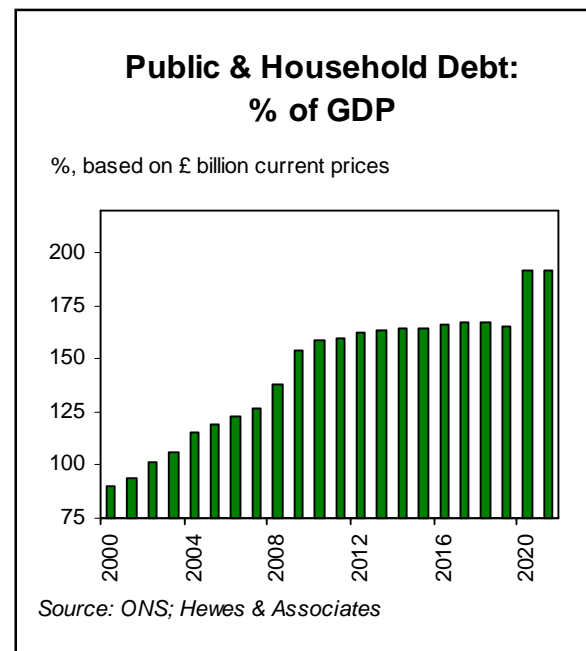
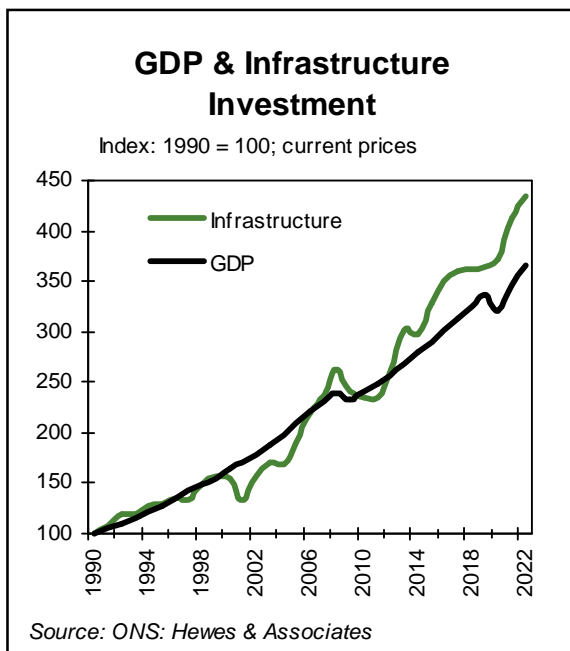
CONSTRUCTION OUTLOOK: OCTOBER 2022

After rising by an estimated 3% in 2022, we expect total construction output to decline by around 5% in 2023, and by 2% in 2024. Meanwhile, the economy is forecast to contract by 2.5% in 2023, and broadly stabilise in 2024.

Prior to September 2022 the outlook was rather dull, with inflation serving to raise business costs and reduce consumer demand at the same time. Matters were rendered worse by the mini-Budget, which, given already elevated debt levels, served to panic the financial markets and raise borrowing costs. It does appear that whoever leads our Government, the UK economy faces a new reality: it has been living beyond its means for many years, but cannot do so for much longer. Tighter public spending, higher inflation, and in turn raised base rates will be the new reality in our view.

Efforts to control inflation will, we expect, result in base rates rising to around 4%, while inflation is forecast to peak in 2023, and drop to around 4-5% by 2024. The delivery of public services will, we expect, be hampered somewhat by the political change currently underway, although we do not foresee another round of austerity of the likes undertaken over the years 2010-2015 – we view that as most unlikely, not least because of the political implications.

With borrowing rates now markedly above those of just a few months ago, household incomes under extreme pressure, and economic confidence low, a housing downturn is forecast for 2023/2024, with private housing starts expected to drop by around 30%. Housing has been supported significantly by near zero base interest rates since 2010. It thus follows that much raised base rates will prove painful for housebuilders.



HEWES & ASSOCIATES