

CONSTRUCTION OUTLOOK: OCTOBER 2023

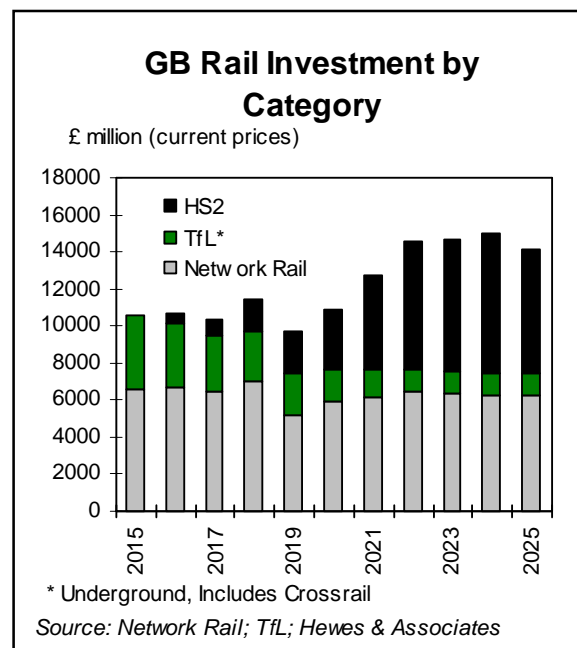
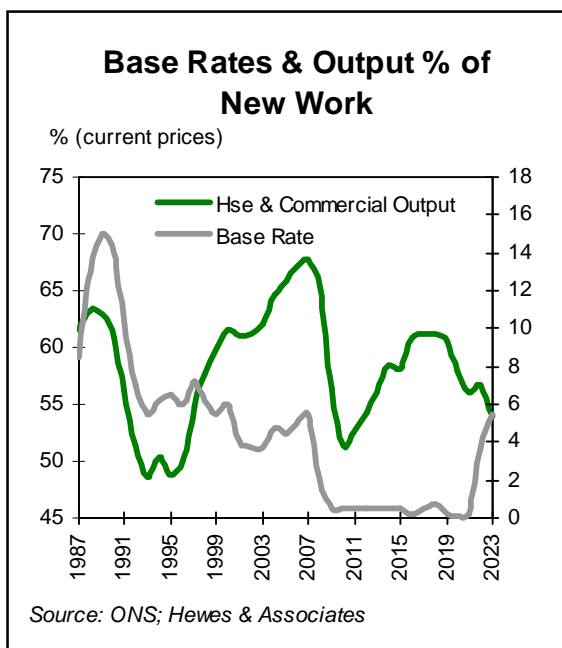
The outlook for construction and the economy is, in a nutshell, one of challenge and weakness. The lag effects of excess debt followed by tighter monetary policy are such that we are yet to fully experience the economic impact of near 5% base rates.

More than a decade of near zero base rates, combined with Covid policies, has resulted in a build-up of debt that is costly to finance, as illustrated by £100 billion or so of public debt servicing costs. This is important as it limits policy options, as illustrated by the cancelling of the second leg of HS2. Perhaps of more importance is the changed economic environment: from 2008 businesses and consumers became used to loose monetary policy; they now face relatively tight monetary policy, and that will take some getting used to.

For construction work funded by the public sector, the above suggests a continuation of tight budgets together with the odd project cancellation or delay – the latter now evident in the roads sector.

The impact of raised borrowing costs for the private sector is now evident in the form of weaker housing demand. Raised borrowing rates imply a near 25% reduction in purchasing power, and that underlies the sharp drop in demand reported by housebuilders. We expect private housing starts to drop to around 100,000 units from roughly 160,000 over 2024/2025.

Industrial building has grown strongly over recent years, in part due to a boom in warehouse work, and in the factory sector growth in pharmaceutical and Net Zero related work. The latter continues to offer hope, despite changed EV targets, although as ever, much rests with affordability – Net Zero is a grand ambition, the costs of which have yet to be outlined or understood. Public non-housing workloads lack growth due to tight budgets, and despite the urgent need for increased investment, in schools in particular, politicians’ rhetoric suggests no change concerning this matter.



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