

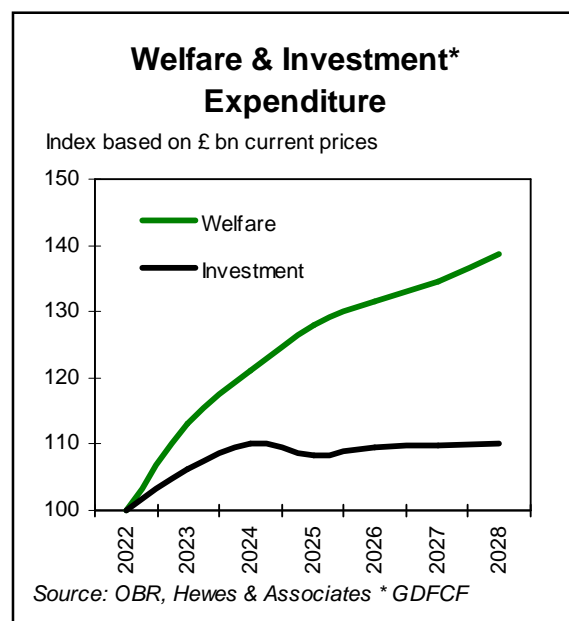
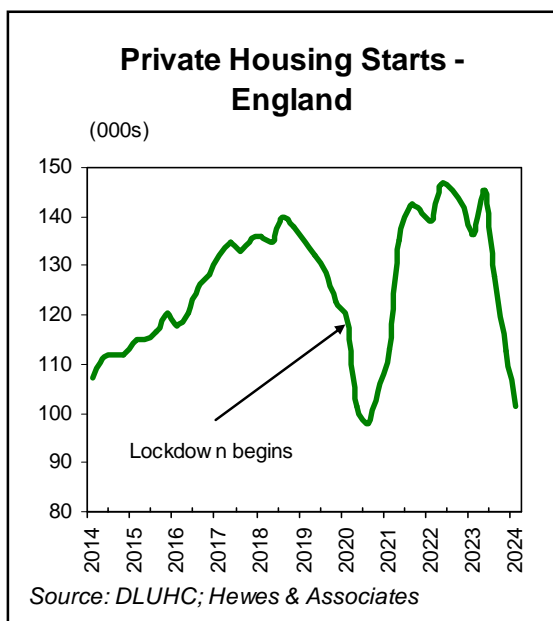
CONSTRUCTION OUTLOOK: JULY 2024

After increasing modestly in 2023, we expect the volume of construction output to fall in both 2024 and 2025. Meanwhile the economy is expected to plateau in 2024, and then increase modestly over the years 2025-2026. By the end of 2026 we expect GDP to be 3-4% above that in 2019.

The rise in construction output reported for 2023 was due entirely to repair and maintenance, which ONS data show as increasing by 8.5%. New work output volumes fell by 2% in 2023, while new work orders declined by 21% in 2023, with near 20% falls in private housing and commercial orders. A good deal of the recent weakness in orders relates to raised borrowing costs, and in particular their impact on the housing market, a market that has seen a sharp drop in housing starts: measured on a quarterly basis, private starts in England are presently 50% below the 2022 average.

Following on from the above, the new Government's growth agenda features plans to build 1.5 million houses over the next five years. The new Chancellor outlined the aim of reforming the planning system as a means of sharply raising housebuilding, although she failed to mention the demand side of the housing equation. Housing development is a function of demand as well as supply: development has declined sharply since late 2022, not because developers cannot access land, but because demand for their product has fallen. To the extent that base rates remain close to their current level the market will stay weak in our view, and so the 1.5 million target will not be met, unless the Government directly funds it, or intervenes on the demand side via subsidy.

Construction funded by the public sector faces a difficult few years given constrained finances. The most recent OBR forecasts outline broadly flat public sector investment to 2028/2029 (current prices), which suggests falling construction volumes. Over the short-term the new Government will probably follow the spending patterns outlined by the last government. It is beyond the short-term that politically inspired change is expected to take place, as was the case when the last Labour government took office in 1997.



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