

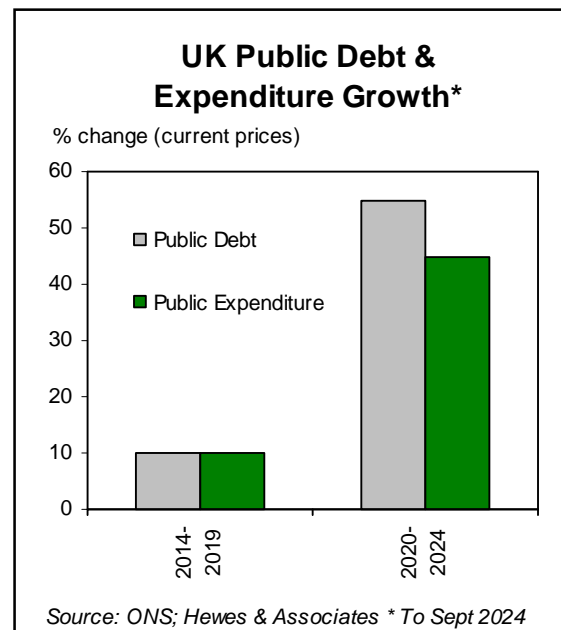
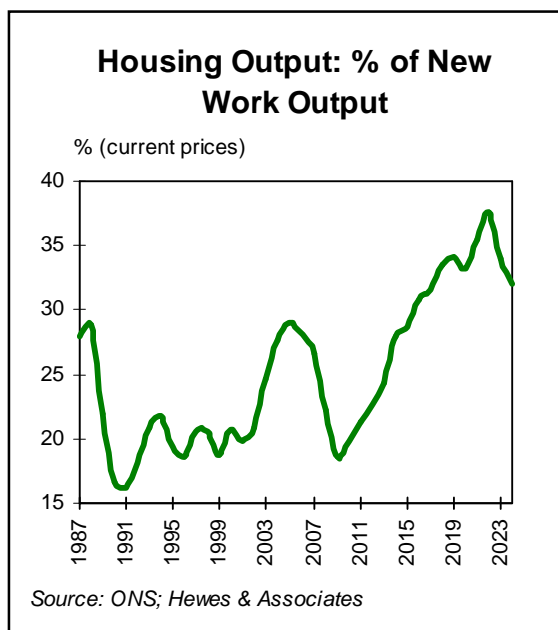
CONSTRUCTION OUTLOOK: AUTUMN 2024

Our latest forecasts take account of the October 2024 Budget, which set out marked increases in taxes and public expenditure, alongside weak economic growth. The OBR sums the Budget up noting that ‘against a broadly unchanged economic and fiscal backdrop since March 2024, this Budget delivers a large, sustained increase in spending, taxation, and borrowing’. The main conclusion we draw from the Budget is that post-Covid, the public sector now commands a larger share of economic activity.

After rising by 2.2% in 2023 we expect the volume of construction output to fall by close to 3% in both 2024 and 2025. New work order volumes fell by 21% in 2023, with sharp falls seen across all the major sectors. Much of the 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: housing starts are presently 50% below 2021-2022 numbers.

The Government’s economic policy features plans to build 1.5 million houses over the next five years. The 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, as the Coalition did in 2013.

The positive effect of the October Budget, in terms of investment, is viewed as being modest over the short term, and compromised by reduced private sector activity associated with raised taxes. Investment associated with Net Zero offers promise, although as noted before, this is unlikely to take off without much greater public subsidy, as is now being requested by car producers.



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