Prospects for the UK construction industry

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Agenda

Barbour ABI & AMA Research

UK economy and construction sector performance

2019 construction sector performance and regional trends

Prospects for the UK economy and the construction sector

Summary
About us

Barbour ABI
- Construction project leads
- Client & competitor monitoring
- Market analysis

AMA Research
- Market insight reports
- Bespoke research and analysis

Barbour ABI is the chosen provider of Construction New Orders data for the Office for National Statistics.

Partner of the Infrastructure and Projects Authority in providing the National Infrastructure and Construction Pipeline.
UK economy and construction sector performance
UK economy growth

- 2018 annual growth of 1.4% the lowest since 2012; 2019 annual growth rate 1.0%

Source: ONS
World economy growth

- Slower recovery from 2008 GFC than previous recessions among western nations; since 2015 the UK has diverged
Brexit (according to the Bank of England)

- Non-disruptive Brexit: continued, albeit slow, growth
- Disruptive or disorderly Brexit: medium or very severe recession
Sterling
  - Future prospects dependent on Brexit (expectation of continued weakness)

While employment has remained high, real wages have seen marginal growth over the last decade
  - Since 2014 consumers have been running down savings/taking on debt to boost consumption
  - Productivity has flatlined since 2008

Trade volumes have decreased as a result of trade wars, tariffs and Brexit uncertainty

Business investment has declined for the last 5 quarters
  - However decreases no where near levels seen during GFC
Construction output

- 2014-17 saw strong growth, but since then output broadly flat
- First half of 2019 saw growth of 0.7% - trending downwards in Q3

Source: ONS
Contracts awarded

- New contracts data remains strong over 2018 and 2019
- However significant differences across sectors

Source: Barbour ABI
2019 sector performance and regional trends
Residential

- Slightly slower activity throughout 2019
- Pick up in London after a subdued couple of years
- Slower activity in the rest of the UK
- Help to buy volumes slowing
Commercial – Retail

- Small pick up in 2019, however sector remains in trouble

Activity broadly flat in 2019

Source: Barbour ABI

Commercial – Offices

The maps show the changes in the commercial and retail sectors across different regions.

Source: Barbour ABI
Industrial – Production

- Planning activity largely constant

Industrial – Storage

- Continued strong growth due to uncertainty and changing consumer habits

Source: Barbour ABI
Subdued activity across whole planning process
- Large decreases in South East, Midlands and North
- London and North East only regions showing growth
Prospects for the economy and construction
Expectations for the UK economy

- Short-term economic outlook depressed
  - Soft Brexit / remain: GDP 1-2% per annum over next couple of years
  - Disruptive / disorderly Brexit: medium-severe recession and slow recovery

- Continued economic policy = continued weakness over medium term
  - Wage squeeze not going away
  - Continued low private investment rates
  - Trade likely to continue to suffer
  - Inflation likely subdued

- Investment in infrastructure is much needed; less chance of negative impacts compared to past experiences

2020
- Britain leaves EU
- Trading relationships are inferior compared to before

2020s
- Break up of the UK - Scotland (and Wales?) leaves; reunification of Ireland
- Popularity of authoritarian populism increases

2030s
- Impacts of climate change clearly observable and severely impact the economy
Construction activity expected to be broadly flat in 2019
- Growth in warehousing, ports, storage
- Wide differences in activity across UK regions

Construction activity in 2020:
- Small increase expected in 2020 if no major economic consequences of Brexit
- Significant decrease in economic activity-dependent areas if the impacts of no-deal Brexit are experienced
- Activity reliant on infrastructure projects occurring on time and as expected
- Residential market somewhat concerningly dependent on help to buy

Over the medium and long term construction can play a major part in improving the UK economy

Environment
- Green new deal creates jobs, stimulates economic activity, promotes sustainable development, improves housing stock and wellbeing

Economic
- Council housing, public-private partnerships lessens supply-side housing constraints
- Infrastructure investment helps the productivity challenge

Social
- Living wage in construction
- Diversity and inclusion in construction, promotes fairness, productivity and equity
Thank you! Questions...