

Prospects for the UK construction industry

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Agenda

Barbour ABI & AMA Research

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UK economy and construction sector performance

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2019 construction sector performance and regional trends

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Prospects for the UK economy and the construction sector

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Summary



Barbour ABI



About us

Barbour ABI

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



- Market insight reports
- Bespoke research and analysis



Partner of the Infrastructure and Projects Authority in providing the National Infrastructure and Construction Pipeline.



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

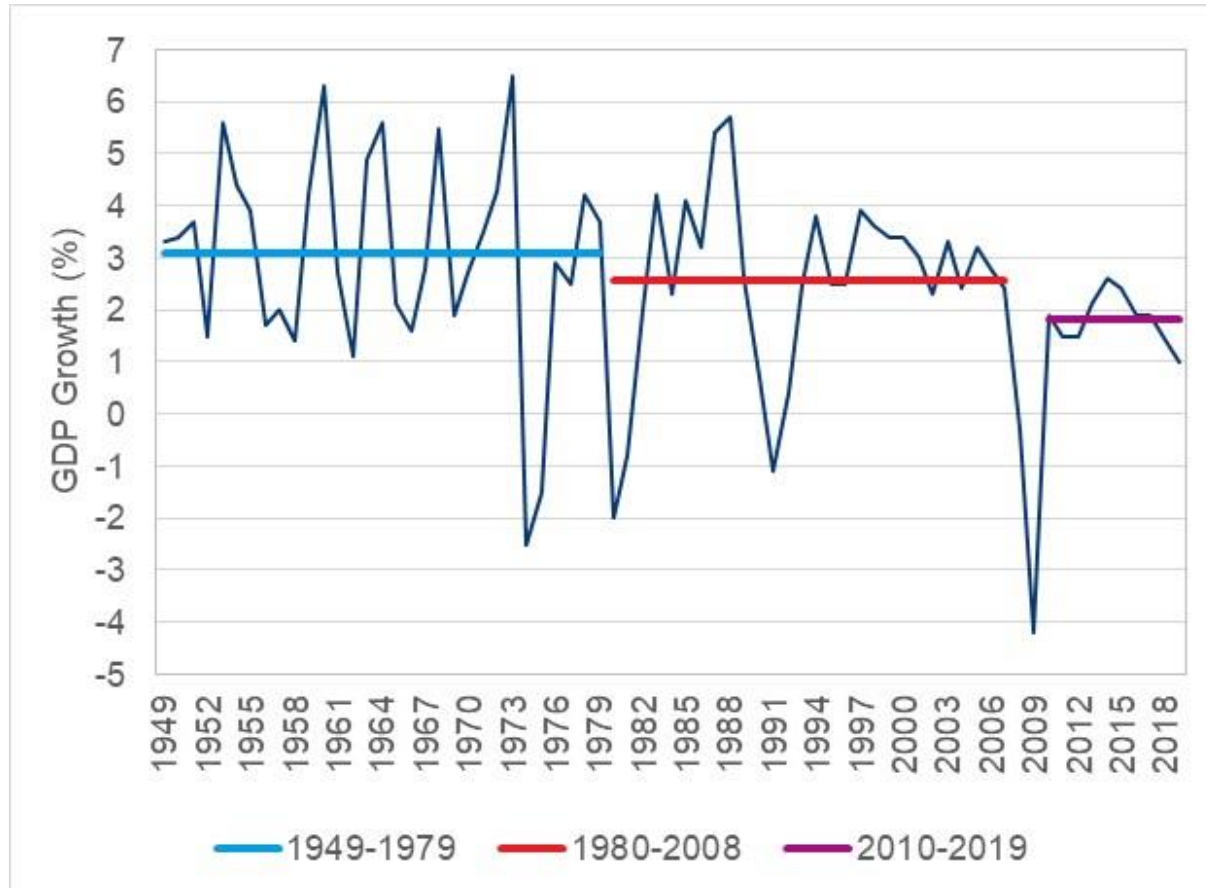


UK economy and construction sector performance

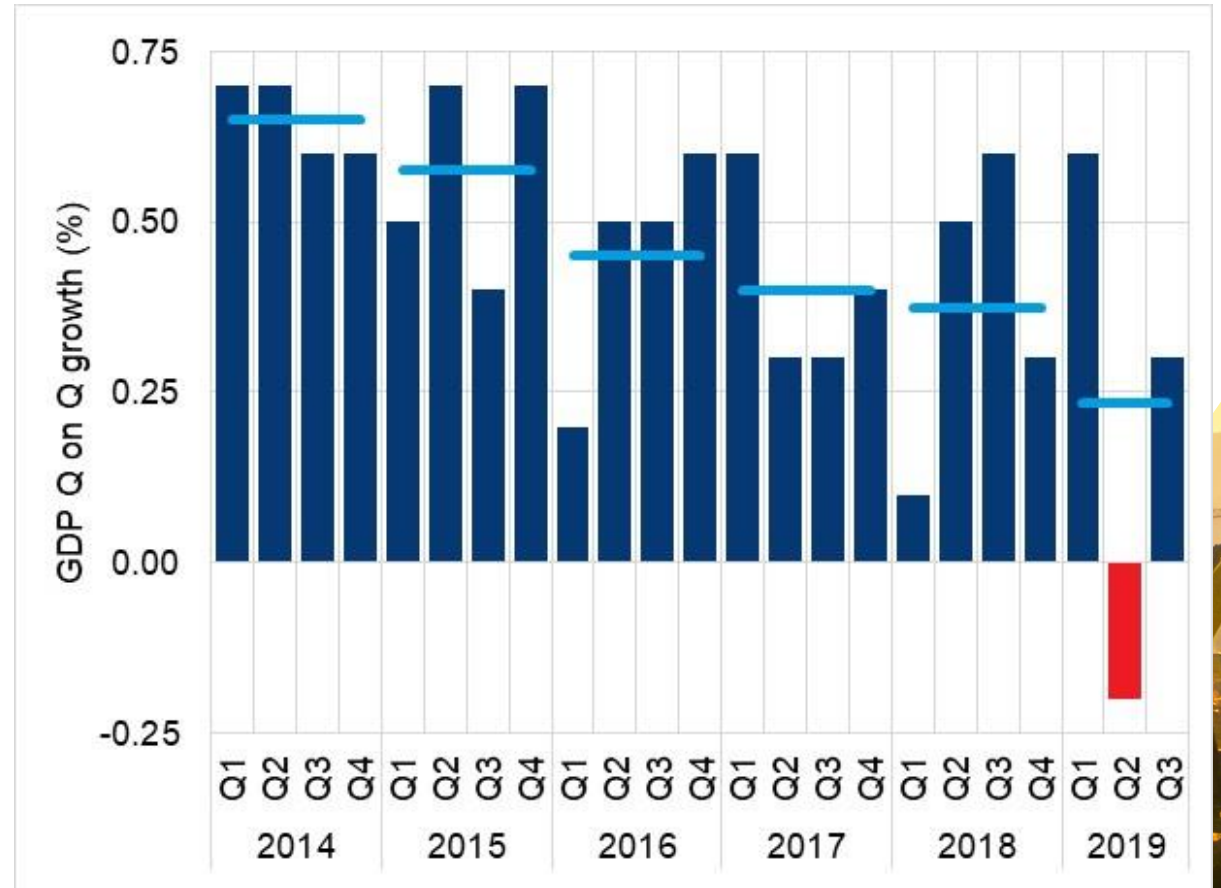


UK economy growth

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



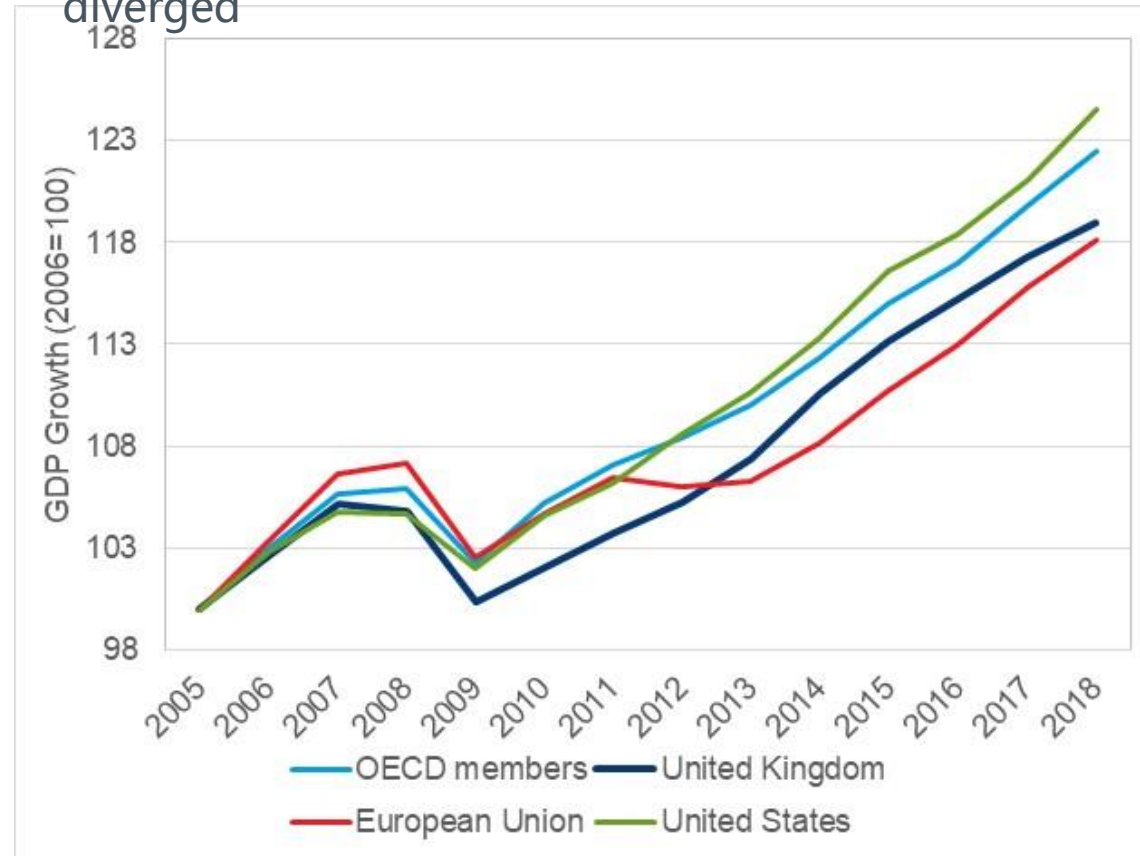
Source: ONS



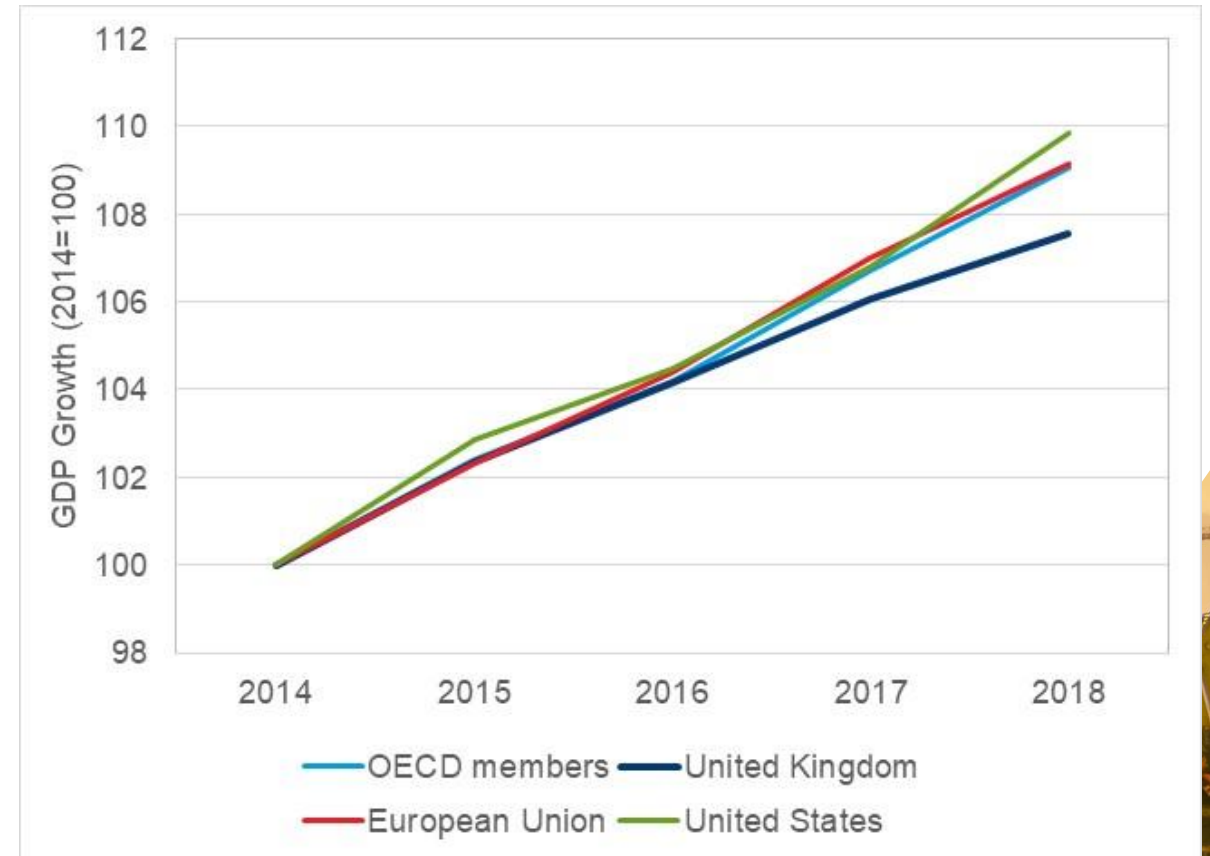
Source: ONS

World economy growth

- Slower recovery from 2008 GFC than previous recessions among western nations; since 2015 the UK has diverged



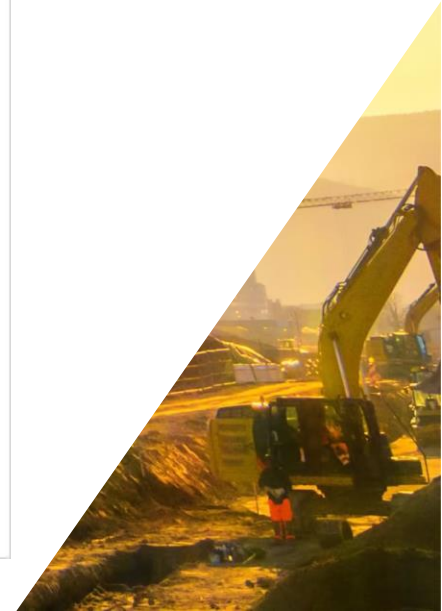
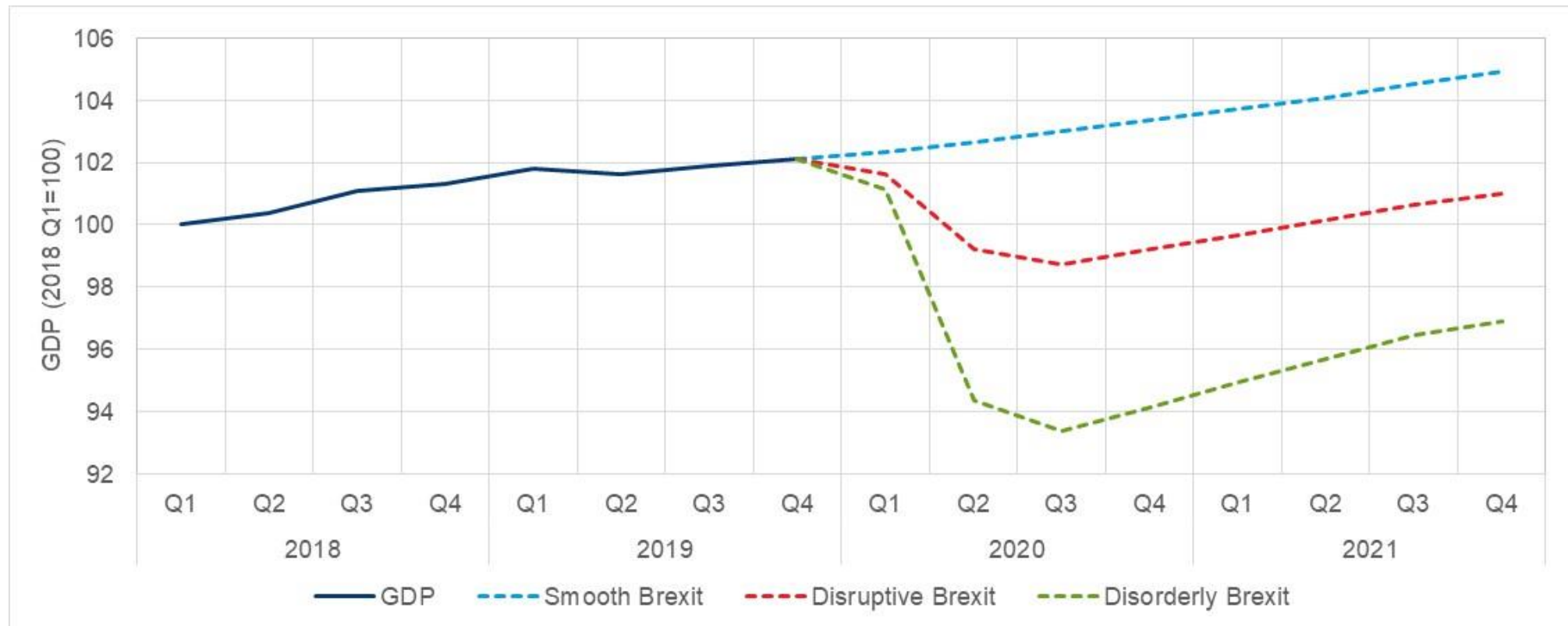
Source: World Bank



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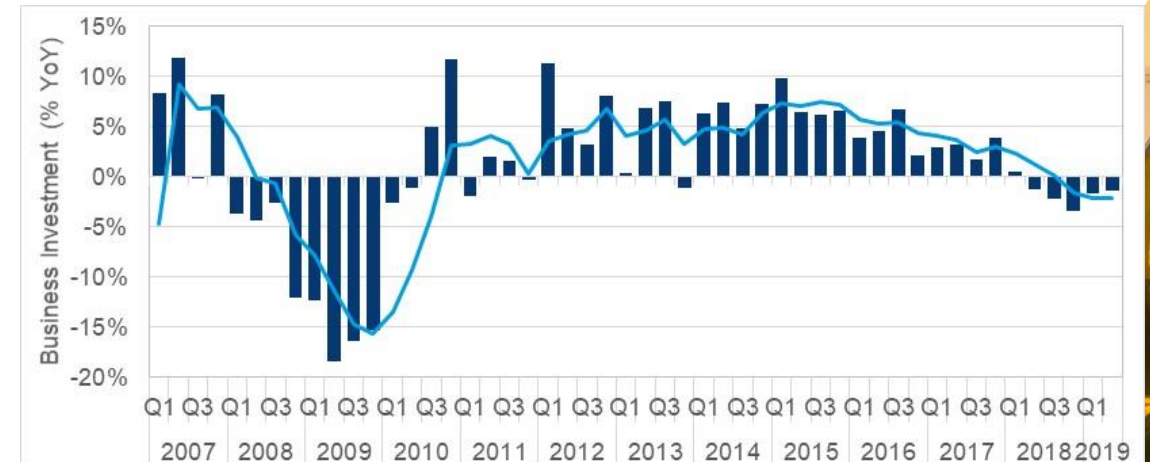
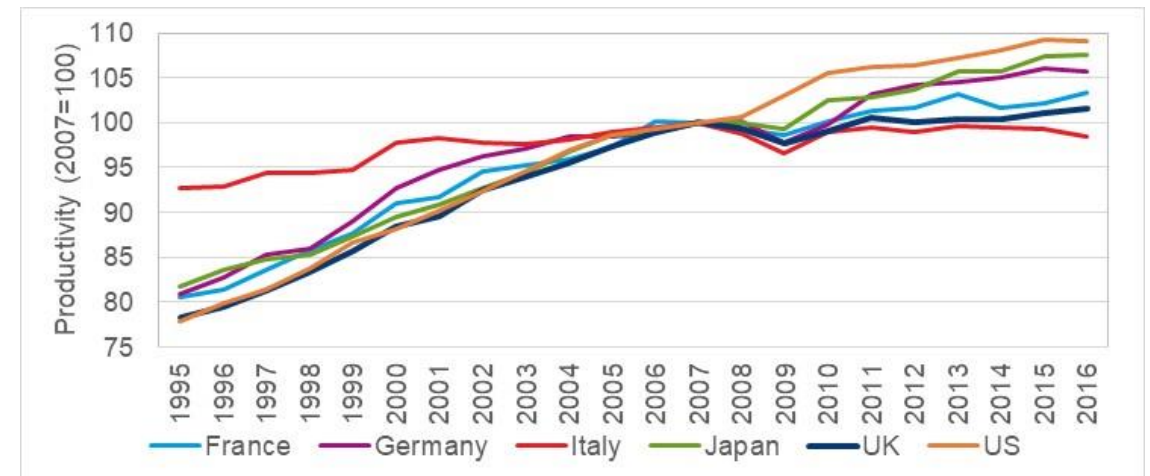
Brexit (according to the Bank of England)

- Non-disruptive Brexit: continued, albeit slow, growth
- Disruptive or disorderly Brexit: medium or v severe recession



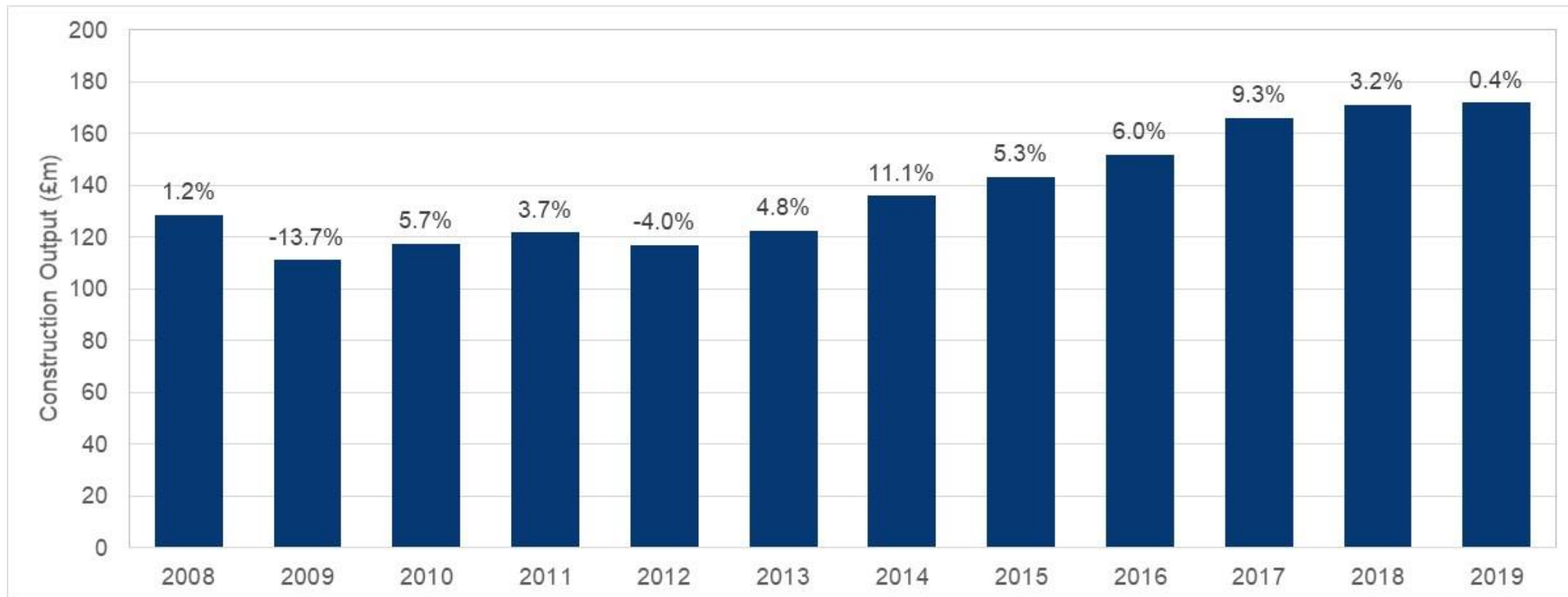
UK economy – other indicators

- 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

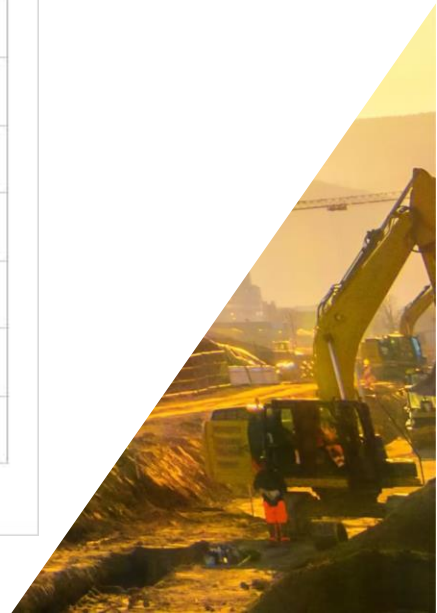


Construction output

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

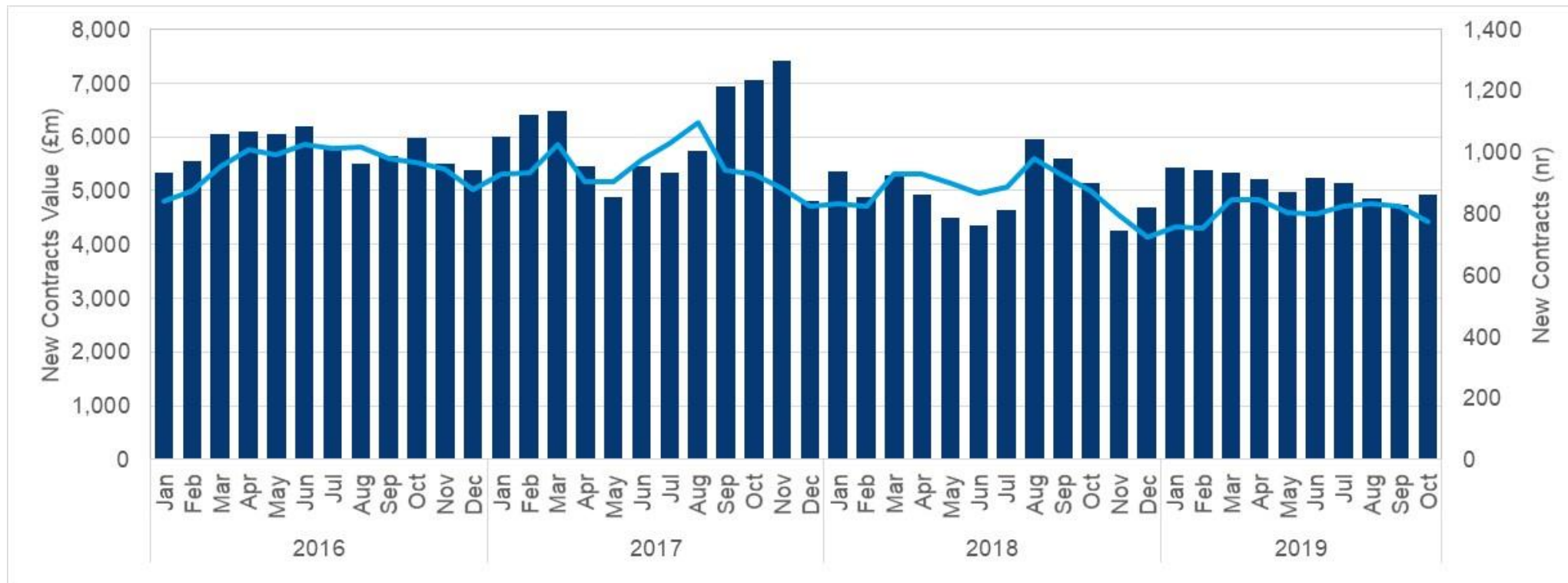


Source: ONS



Contracts awarded

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



Source: Barbour ABI

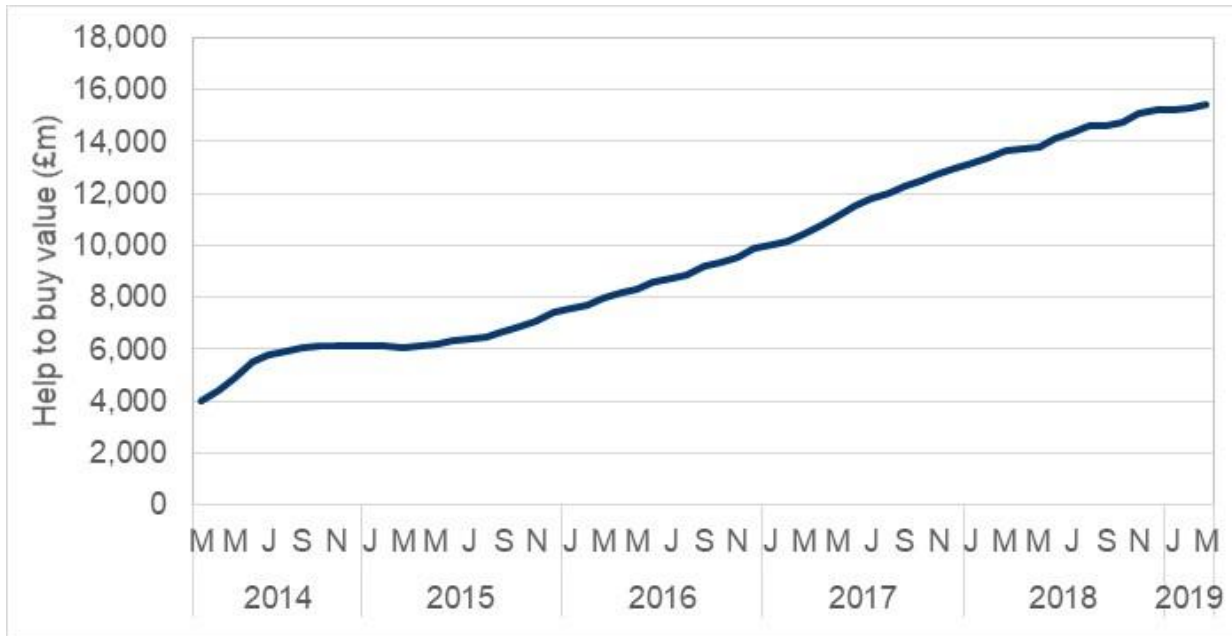


2019 sector performance and regional trends

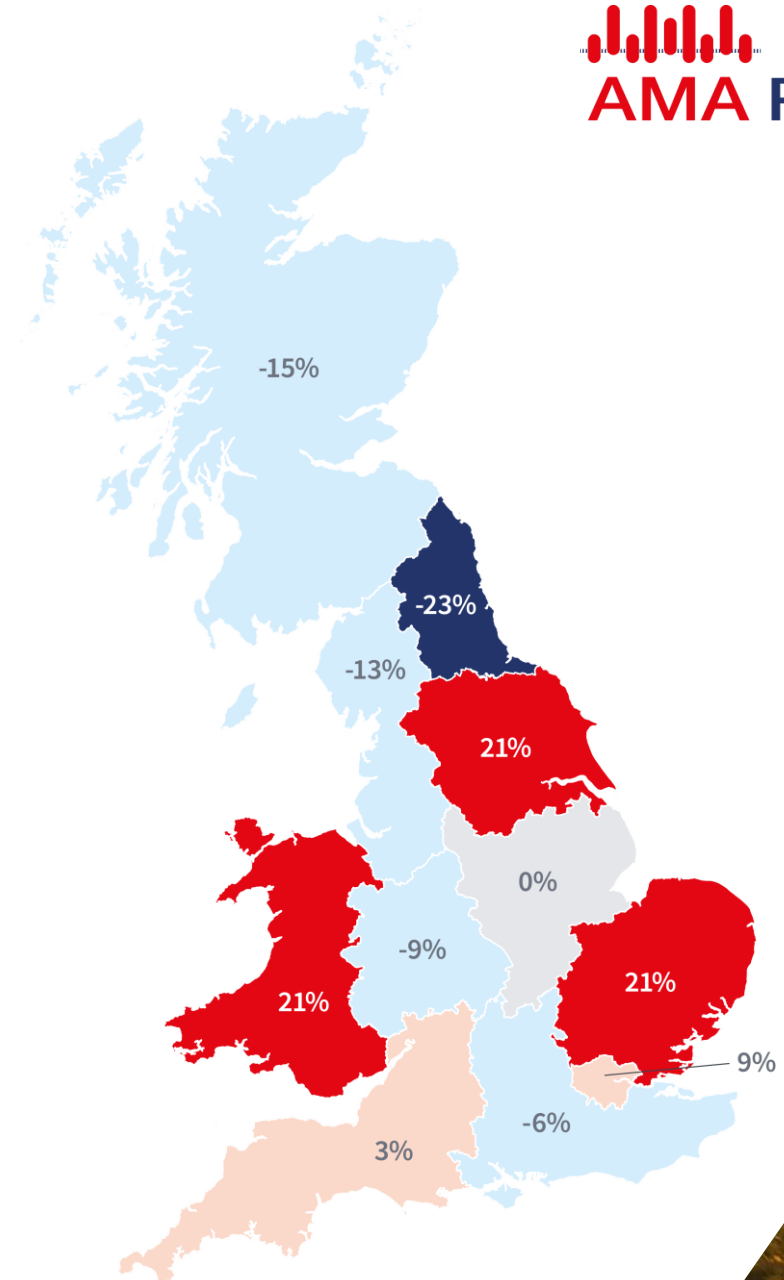


Residential

- 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



Source: gov.uk

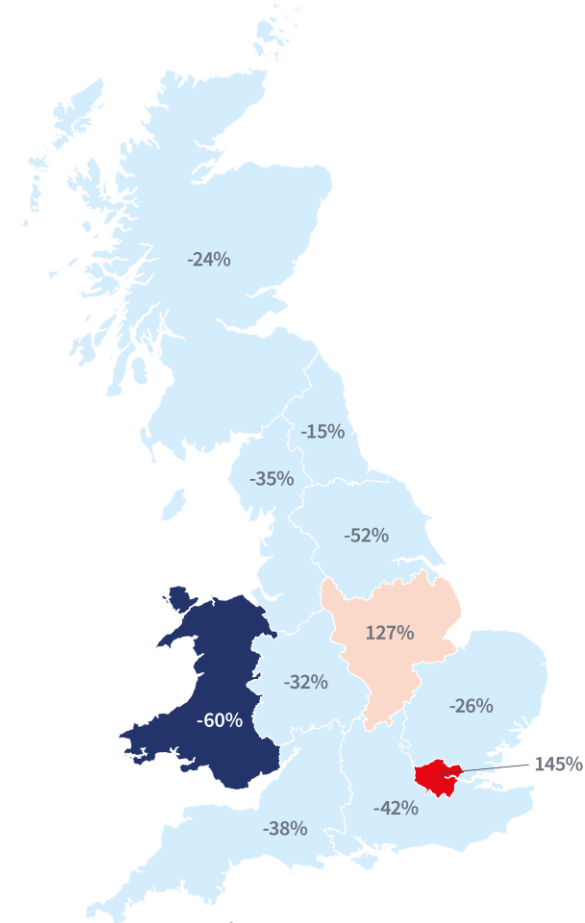


Source: Barbour ABI



Commercial – Retail

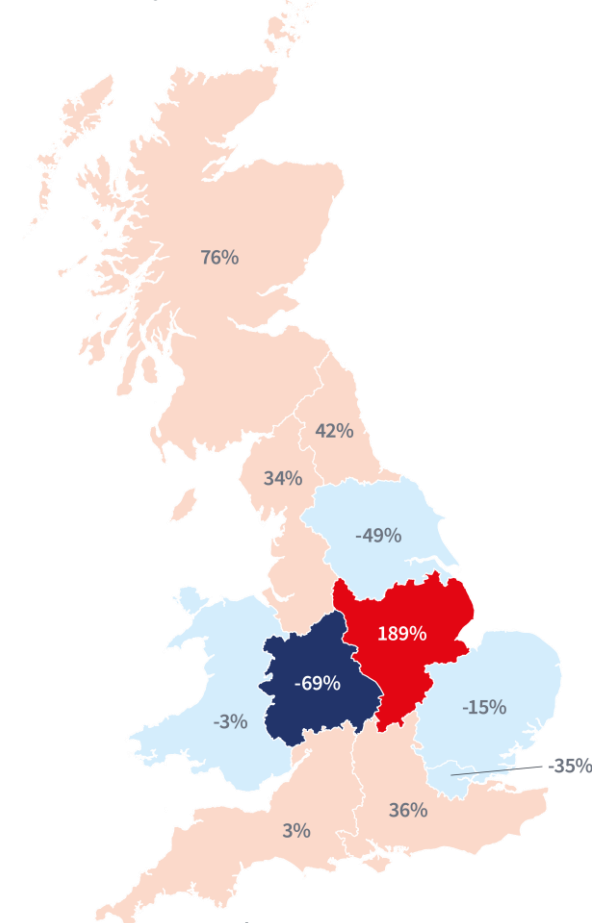
- Small pick up in 2019, however sector remains in trouble



Source: Barbour ABI

Commercial – Offices

- Activity broadly flat in 2019

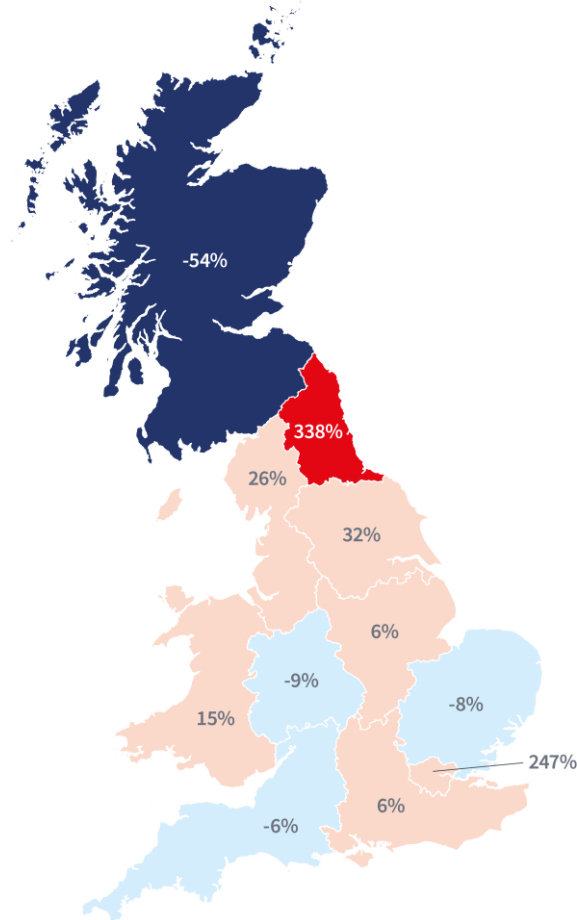


Source: Barbour ABI



Industrial – Production

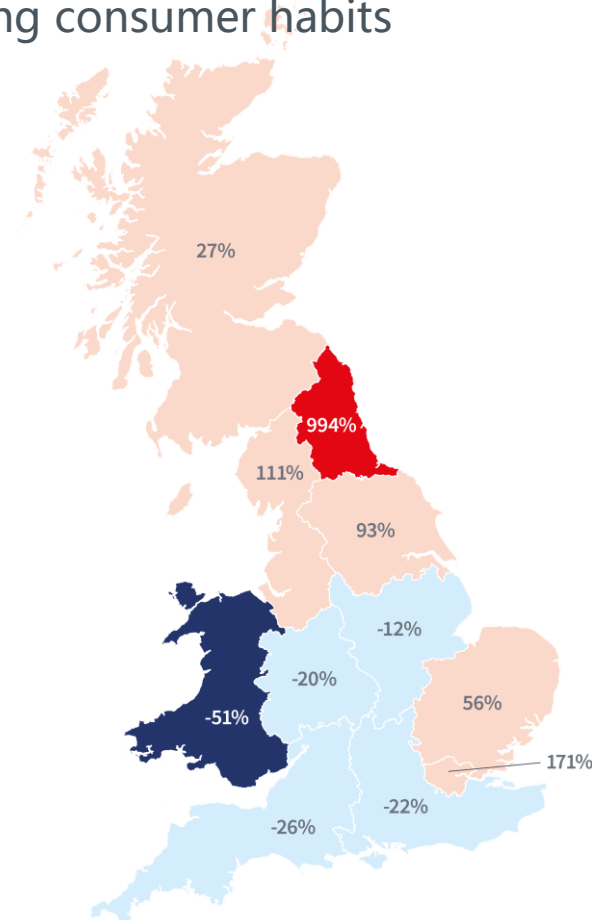
- Planning activity largely constant



Source: Barbour ABI

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



Expectations for the construction industry

- 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

Enviro

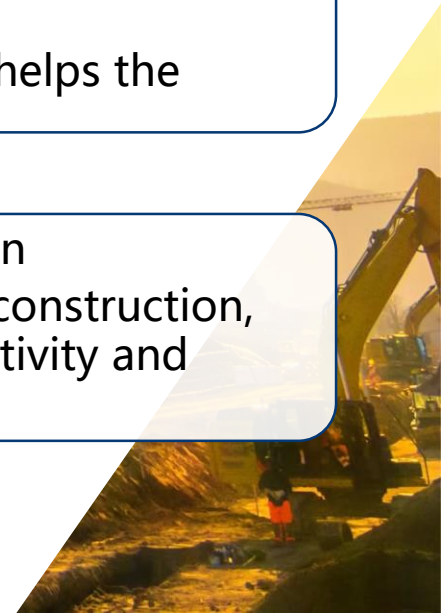
- Green new deal creates jobs, stimulates economic activity, promotes sustainable development, improves housing stock and wellbeing

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...

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