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Q4 2016

Economic and Regional Inflation Report

- The industry continues to react to the Brexit vote
- Bank of England maintains interest rate at 0.25%
- Construction output down 1.1% in Q3 2016

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Contents

Regions

statistics
regions

Introduction

Gleeds' Economic Report assesses and summarises the factors affecting UK construction, taking into account inflation, construction output and orders, employment, and other topical matters, such as the reaction to the Brexit vote and the potential short-term impacts of this.

LOOKING BACK TO Q2	Q3 LOOKING AHEAD
Construction output	
According to the Office of National Statistics (ONS), construction output decreased by 0.7% in Q2 2016 compared to Q1 2016	Construction output decreased by 1.1% in Q3 2016, compared to Q2 2016
When compared to Q1 2015, construction output had decreased by 1.4%	Compared to the same quarter a year earlier, construction output in Q3 2016 increased slightly by 0.1%
Pay and employment	
In Q2 2016, the unemployment rate fell to 4.9% after remaining at 5.1% for the two previous quarters	In Q3, the unemployment rate fell further to 4.8%
ONS predicted that average weekly earnings (total pay) in the construction industry rose by 7.0% between June 2015 and June 2016	Average weekly earnings for construction workers rose by 3.2% in the year to September 2016
Construction orders	
New orders in Q2 2016 were up 8.6% compared with Q1 2016, and up 7.5% on Q2 2015	New orders were up by 4.3% in Q3 compared with Q2

> **The post Brexit dust is starting to settle now although a degree of uncertainty about what 2017/2018 will bring remains; it is likely that different regions will see varying pricing and activity impacts.**
>
> ROSS SAVAGE, DIRECTOR, GLEEDS

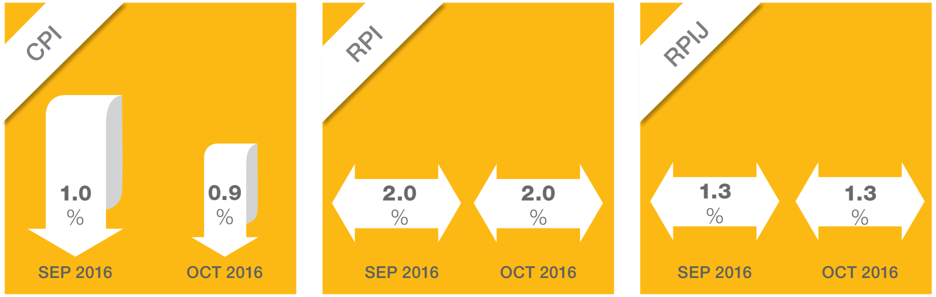
Gleeds' regional inflation forecast

ANNUAL % CHANGE	Q4 16 to Q4 17	Q4 17 to Q4 18	Q4 18 to Q4 19	Q4 19 to Q4 20
EASTERN	1.0	2.5	3.5	3.5
GREATER LONDON	1.5	1.5	1.5	1.5
NORTH EAST, YORKSHIRE & HUMBERSIDE	2.0	2.5	2.5	3.0
NORTHERN IRELAND	2.5	2.5	2.5	2.0
MIDLANDS	2.0	3.0	4.0	4.0
NORTH WEST	3.5	3.5	3.5	3.5
SCOTLAND	2.8	2.0	2.0	2.8
SOUTH EAST	1.0	1.0	2.0	2.5
SOUTH WEST	2.0	1.5	2.0	3.5
WALES	3.5	3.5	4.0	4.0
UK AVERAGE	2.2	2.4	2.8	3.0

Note: these are average regional forecasts based on activity and market awareness within each of our regional offices. Actual inflation will be determined by a combination of macroeconomics and micro project situations. Consequently, forecast inflation at a project level needs to be carefully considered based on the project's characteristics and prevailing local conditions. Published statistics can be misleading and subject to later revision and should be used with caution. Furthermore, in light of the result of the EU Referendum, there are increased levels of uncertainty in the economy at present and extra caution is advised.

Statistics & Figures

Outlook for GDP & inflation



Following the result of the EU Referendum and the subsequent fall in the value of the pound, optimism and confidence in the economy had declined somewhat, with the Bank of England (BoE) suggesting that there would be little growth in GDP in the second half of the year. In reality, the effect was much less marked than expected and the near-term outlook for growth is stronger.

GDP growth in Q3 slowed slightly to 0.5%, from 0.7% in Q2. The 0.2% decline can be attributed to falling manufacturing and construction outputs and signals a much less severe decline than originally expected. Looking ahead, GDP is expected to drop slightly further to 0.4% in Q4 2016.

In October, Consumer Price Inflation (CPI) had increased to 0.9%, down marginally from 1.0% in September. Drags from energy and food prices have served to keep this below the 2.0% target but the rise can be explained by increases to clothing and footwear inflation. The rate of CPI inflation is expected to be higher throughout the forecast period than previously thought, bolstered by petrol prices and effects of sterling depreciation; it is predicted to reach 2.75% in 2018, before falling back to 2.5% over the course of 2019.

In November, the BoE's Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.25%, following August's cut from 0.50%. The Committee also agreed to continue with the programme of measures introduced in August with the aim of boosting the economy. These measures include the purchase of £60bn of UK government bonds and £10bn of corporate bonds, and the implementation of a £100bn Term Funding Scheme to encourage banks to pass on the low interest rate to their customers.

The BoE indicates that activity has recovered from the lows seen immediately after the Referendum and as a consequence, believes that the near-term outlook for the economy is stronger than was expected in the previous quarter.

In the Euro area, Q3 GDP growth remained at 0.3% as predicted in the August 2016 BoE report, supported by monetary policy and a slightly expansionary fiscal stance. Growth is expected to pick up slightly towards the turn of the year, faster than previously projected, as levels of uncertainty have begun to decrease in Q3 2016.

Source: Bank of England, Quarterly Inflation Report, November 2016

Summary

- The Bank Rate has been maintained at 0.25%, following the cut from 0.5% in August in response to uncertainty following the Referendum
- CPI has risen to 1.0% in the year to September 2016, equalling the highest rate since November 2014. CPI for the year to October 2016 was slightly lower at 0.9%
- The BoE considers that the recent fall in sterling, coupled with fuel price inflation, will likely push up CPI inflation over the next twelve months towards the 2% target
- GDP rose by 0.5% in Q3 2016 compared with the previous quarter, dropping slightly from 0.7% in Q2. GDP growth is expected to remain positive but continue to slow slightly until at least the end of the year

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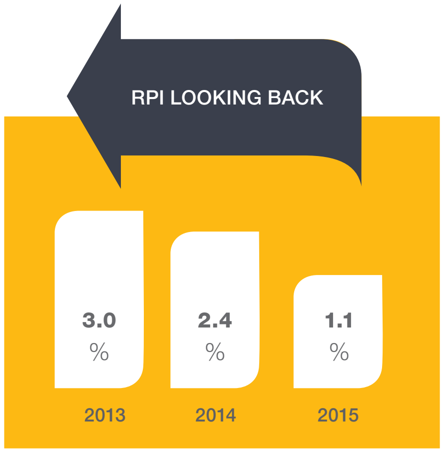
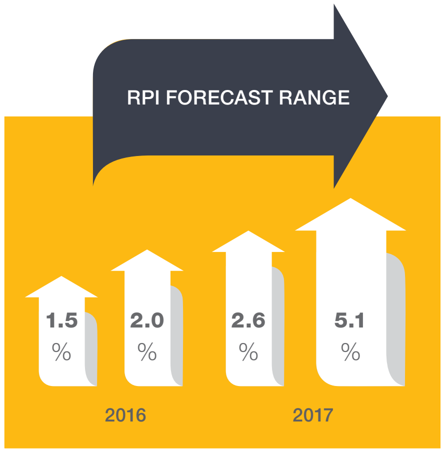
GDP, CPI & RPI Movement Predictions

	2016	MOVEMENT	2017	MOVEMENT	2018	MOVEMENT	2019	MOVEMENT	2020
GDP growth (%)	2.0	↓	1.3	↑	1.5	↑	1.8	↑	2.1
CPI (%)	0.7	↑	2.7	↓	2.6	↓	2.2	↓	2.1
RPI (%)	1.8	↑	3.5	↓	3.1	↓	3.0	↑	3.1
Sterling index (Jan 2005 = 100) (HM Treasury)	85.0	↓	80.0	↓	79.8	↑	80.9	↑	81.4
Official Bank rate (annual average, %) (HM treasury)	0.4	↓	0.2	↔	0.2	↑	0.4	↑	0.8

Source: HM Treasury Forecasts for the UK Economy, November 2016





“The uncertainty of Brexit continues to impact on construction. However, conditions may not be as negative as was widely anticipated. Although there are a scattering of projects being delayed in the wake of Brexit, some areas are being rejuvenated by increased levels of foreign investment.

SARAH DAVIDSON
DIRECTOR OF RESEARCH & DEVELOPMENT

Tender Price Forecasts

Following the EU Referendum, the Building Cost Information Service (BCIS) revised its tender price forecasts to reflect the projection of reducing prices in the construction industry. These figures have seen little change since July and continue to indicate that tender prices will decrease throughout 2017/18, before reversing this trend from 2019 onwards. According to the BCIS, it is anticipated that pricing at Q4 2017 will be at a similar level to Q1 2016.

BCIS Forecasts of Tender Prices

	Forecasts		
Year on Year	Pre-Brexit (May Quarterly Briefing, BCIS)	Post-Brexit (08/07/2016)	Current Forecast (21/11/2016)
Q4 2016 to Q4 2017	+3.7%	-2.6%	-2.4%
Q4 2017 to Q4 2018	+4.3%	-1.5%	-2.2%
Q4 2018 to Q4 2019	+4.1%	+2.7%	+2.2%
Q4 2019 to Q4 2020	+4.2%	+4.5%	+4.3%

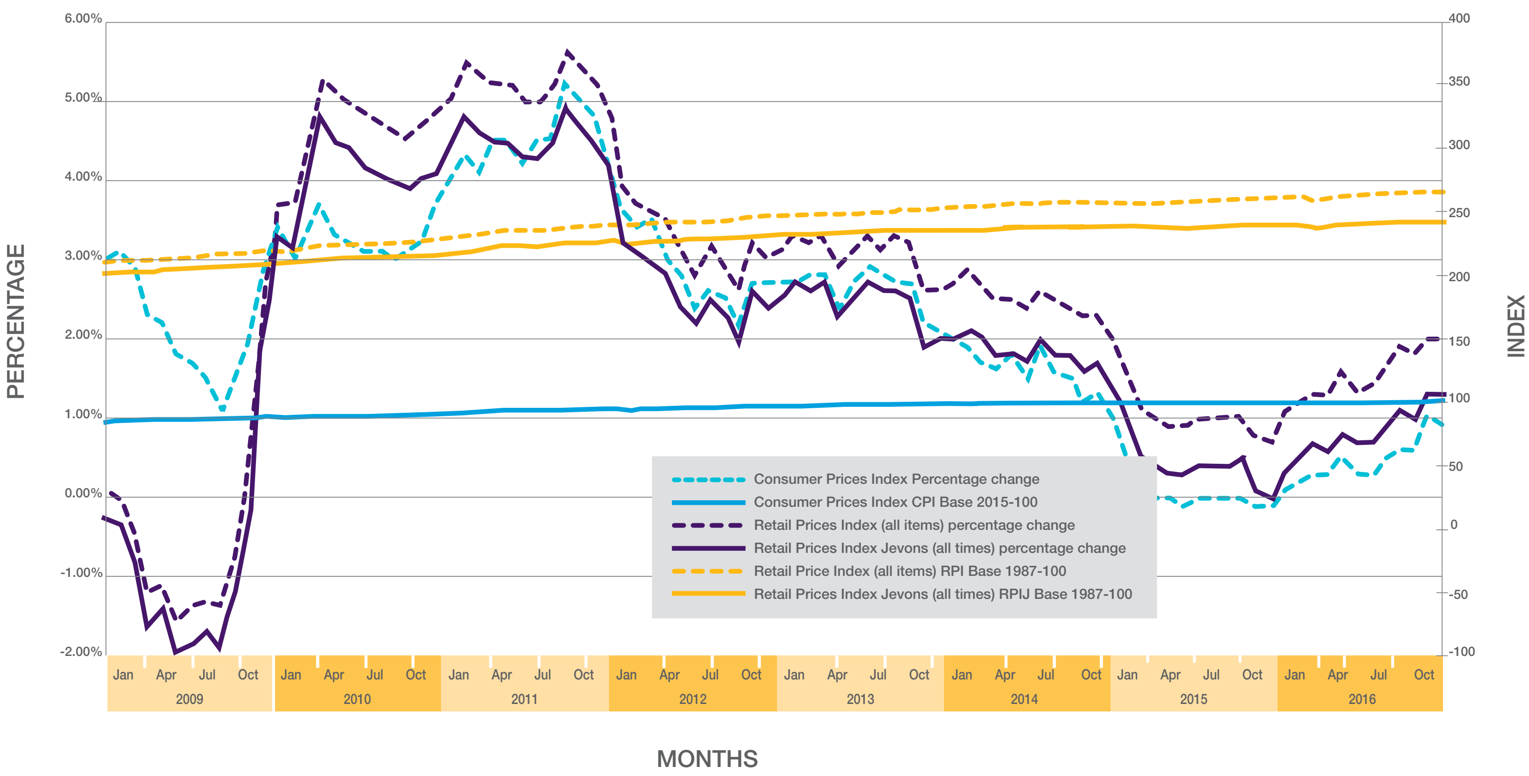
Gleeds anticipates tender prices to rise over the next four years (Q4-Q4) at a UK average rate of:

- +2.2% between 2016-17
- +2.4% between 2017-18
- +2.8% between 2018-19
- +3.0% between 2019-20

Interestingly the declines seen in the BCIS All-in-TPI forecast updates following the Referendum have not been reflected in Gleeds' forecasts. While BCIS are of the opinion that tender prices began to fall in Q3 2016, the industry as a whole is not in consensus. Given the recent reduction in the value of the pound and the fact that the UK construction industry imports up to 65% of its materials, is it possible that construction costs will increase, at least in the short term.

Annual Inflation Rates

ANNUAL INFLATION RATES OFFICE OF NATIONAL STATISTICS Q4 2016



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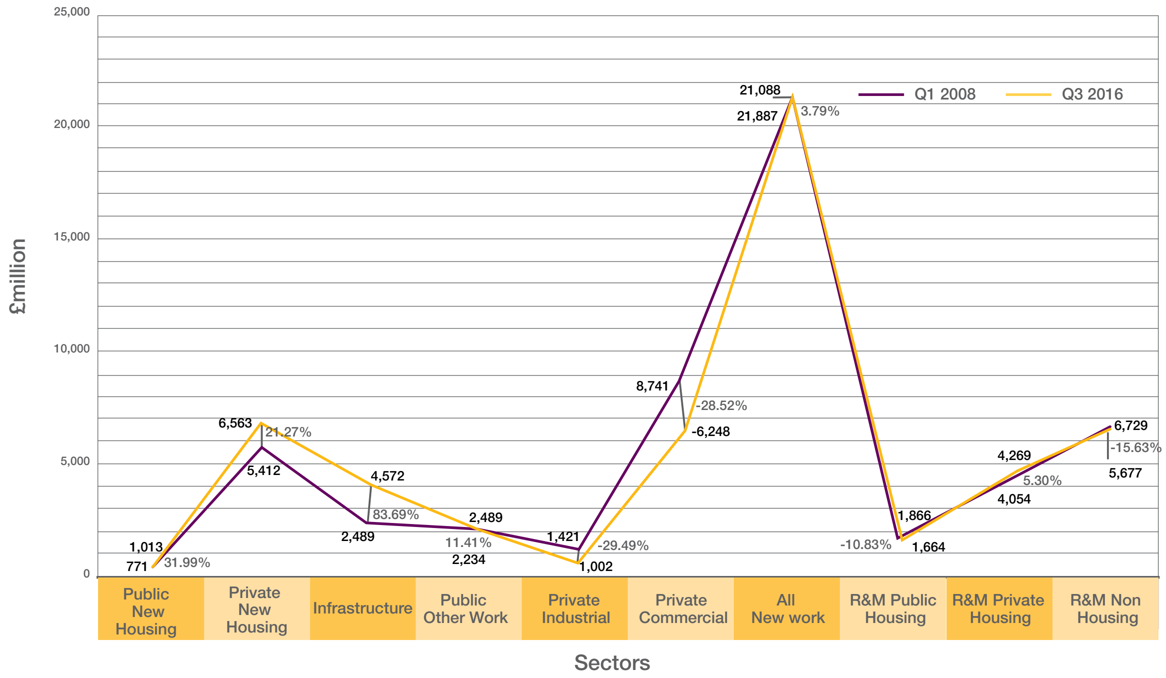
Construction Production & Orders

Looking at the volume of construction output, the ONS reports that:

- There was a 1.1% decrease in **all construction output** in Q3 2016 compared with the previous quarter, indicating that the slight mediation from the sharp decline of 1.1% in Q1 2016 to 0.7% in Q2 was a short-lived reprieve. Compared with the same quarter 12 months ago, construction output has actually remained more or less stable, showing a slight rise of 0.1%.
- **All new work** in Q3 2016 increased by 0.3%, with the main contributors to this rise being infrastructure, other public work (non-housing), and public housing, with increases of 1.2%, 0.9%, and 0.8% respectively.
- In Q3 2016 **all repair and maintenance works (R&M)** fell sharply by -3.6%, when compared with Q2 2016. Public housing repair and maintenance suffered the sharpest decline at -6.9%, while private housing repair and maintenance reported the slowest decline at -1.6% over the quarter.

CONSTRUCTION OUTPUT - DIFFERENCE BETWEEN Q1 2008 (PEAK) AND Q3 2016



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Change in Output Figures for the Main Construction Sector

New work	Q2 2016 -Q3 2016	
Sector	Output	Movement
New infrastructure	↑	1.2%
New public housing	↑	0.8%
New public non-housing	↑	0.9%
New private housing	↓	-0.1%
New private commercial	↓	-1.2%
New private industrial	↓	-1.2%

New work	R&M	Q2 2016 - Q3 2016	
Sector	Sector	Output	Movement
New infrastructure	Private housing R&M	↓	-1.6%
New public housing	Non-housing R&M	↓	-3.9%
New public non-housing	Public housing R&M	↓	-6.9%

A comparison of output activity between Q1 2008 and Q3 2016 reveals that:

- All work is down by 0.9%
- Private commercial is down by 28.5%
- All repair and maintenance is down by 8.0%
- Private industrial is down by 29.5%

- New private housing is up by 21.3%
- New public non-housing is up by 11.4%
- Infrastructure is up 83.7%
- New public housing is up 31.4%

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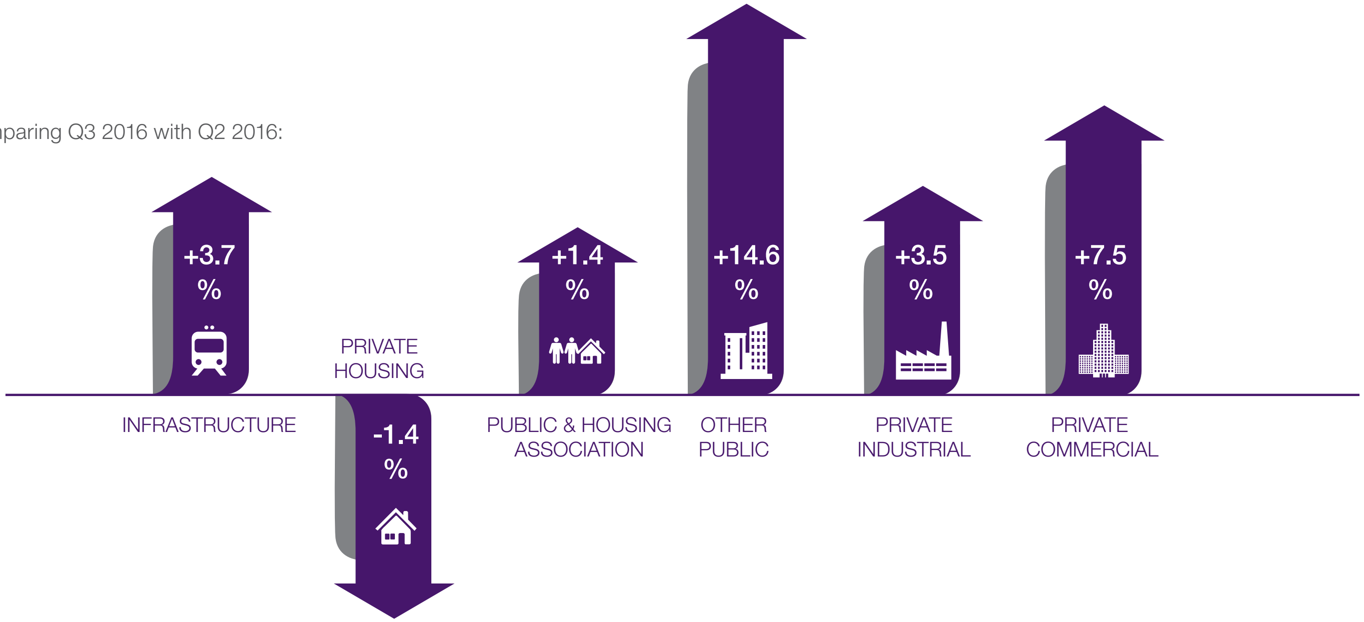
Value of Orders for New Construction in Great Britain

According to the ONS, the total value of new orders for the construction industry increased by 4.3% in Q3 2016 compared with Q2 2016 and by 0.3% compared with the same quarter in 2015.

Comparing Q3 2016 with Q2 2016:



Employment

UK wide unemployment for Q3 2016 fell marginally from 4.9% in the previous quarter to 4.8%, remaining the lowest rate since Q3 2005

The employment rate in Q3 remained as per the previous quarter at 74.5%, the highest rate since comparable records began in 1971

Average weekly earnings (total pay) in the construction industry rose by 3.2% on the year to September 2016

Regular pay for employees (including bonuses) decreased by 0.4%, regular pay (excluding bonuses) increased by 0.8% between Q1 2016 and Q2 2016

Market Reports

The Q3 2016 RICS Construction Market Survey describes broadly steady but moderate growth in construction workloads. In all subsectors, the net balance of respondents that reported a rise in activity remained the same or increased over the course of Q2.

RICS
Construction Market Survey
Q3 2016

In particular, the private housing subsector remains buoyant, with 27% more respondents reporting a rise in workloads over the quarter. The private commercial sector saw little change from the previous quarter, with a net balance of 16% of respondents reporting a rise in workloads. Activity in the industrial sector increased slightly, with 13% of respondents reporting a rise, compared with just 6% in Q2. Infrastructure work was reported to be on the rise by 17% of respondents.

RISE IN WORK

27% REPORTING A RISE IN WORK

Financial constraints remain the most significant limitation to growth, with 69% of respondents reporting on the issue. Planning and regulatory delays are also seen as problematic by 55% of respondents. Although skills shortages have moderated considerably over recent months, 51% of respondents are still reporting them as being an impediment to growth. Quantity surveyors and bricklayers are in particular short supply with 62% and 56% of respondents respectively reporting as such. When asked whether the apprenticeship levy would help to alleviate these shortages, only 29% believe that they would.

Material and labour costs are reported to be increasing by 28% and 48% of respondents respectively.

MATERIAL 28%

LABOUR 48%

The uncertainty felt immediately following the Brexit vote has alleviated somewhat. In last quarter's report, just 23% of respondents anticipated a rise in activity; these numbers have now improved to 49%, although this is still below the 55% seen in Q1.

23% ANTICIPATED A RISE IN ACTIVITY

At a regional level, the Midlands is the main area seeing growth, with 30% of respondents here reporting a rise in activity. Scotland continued to flat-line for a second quarter in a row, and the London/South East private commercial sector experienced a moderation in growth levels.

MIDLANDS REPORTS RISE IN ACTIVITY

> "The Q3 2016 RICS UK Commercial Property Market Survey shows sentiment recovering slightly after the sharp deterioration seen at the end of Q2 in the wake of the EU vote. At the headline level, both rental and capital value projections returned to positive territory but remain significantly more subdued relative to the start of the year. Nevertheless, expectations improved to some extent across most parts of the UK, although feedback remains cautious in London.
>
> RICS, UK Commercial Property Market Survey, Q3 2016

BCIS Construction Output Forecasts

The BCIS is of the opinion that the decision to leave the EU will lead to a general slowdown in construction activity. The length and depth of this will depend on certain political decisions. The BCIS proposes these three different scenarios, each of which are equally likely:

- Upside scenario – assumes that we will remain in the EU free trade area with freedom of movement
- Downside scenario – assumes that we will not retain access to the EU market and that there will be restrictions on the movement of labour
- Central scenario – there will be some restrictions to trade but access to labour will be largely unchanged

Based on these three scenarios, the BCIS has prepared three different construction output forecasts.

		Upside Scenario	Central Scenario	Downside Scenario
Sector	Year	Q3 2016	Q3 2016	Q3 2016
New Work Output	2016	0.0%	0.0%	0.0%
	2017	1.1%	-2.7%	-11.2%
	2018	3.2%	-1.8%	-9.4%
	2019	6.2%	1.6%	3.7%
	2020	7.1%	4.8%	6.0%

Source: BCIS Quarterly Briefing, September 2016

Regional Reports

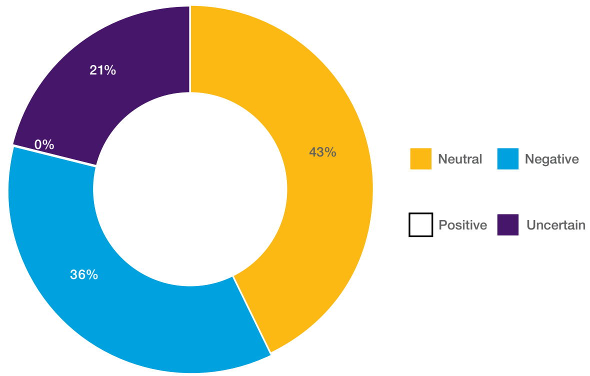
Following the Referendum result in June, Gleeds continues to monitor each region of the UK to understand and pre-empt any effects this may have on construction activity and demand.

In the following regional commentaries, we also provide a general view of the construction industry as reported by our regional offices. These continue to show a degree of uncertainty, however the mood has neutralised a little with more of our correspondents identifying Brexit as having no impact. Negative feeling has declined to a certain degree, although this is still reported in a third of the regions.

Our regional offices report mixed levels of construction activity with a number of projects on hold awaiting confirmation of funding intentions. Scotland is particularly affected with the possibility of a second independence Referendum on the horizon. The weakened pound and relative cost of imported materials and equipment is seen to be impacting on construction costs in most areas.

Gleeds' regional offices report as follows.

GLEEDS' ANTICIPATION OF THE IMPACT OF BREXIT ON REGIONAL CONSTRUCTION ACTIVITY



Galvin Tarling

Reporting on the Eastern Region

The local Cambridge region remains buoyant in terms of both tender activity and construction output. In contrast, both Norwich and Ipswich continue to offer lower levels of opportunity than Cambridge for the forthcoming quarter.

At present, many contractors in the Eastern region confirm full order books for 2017-18 and a slowdown in tender activity is therefore expected. However, the Referendum result is seen as having a negative impact on the region as a whole, with projects reported to have been stalled and cancelled in recent months.

Across the region generally, the quantity and quality of labour appears adequate to meet current demand, potentially due to the failure of a number of projects to come to fruition following the Referendum. In line with last quarter's prediction, it is expected that construction costs will increase into 2017. Preliminaries are currently among the highest across the country.

In our previous quarterly report, the construction market in the Eastern region was seeing an immediate decline in response to the Brexit vote, with a number of projects stalling and the expectation of increasing construction costs becoming a concern.

Paul Sweeney

Reporting on the Greater London Region

The London construction market remains busy although we remain wary of a potential slowdown towards the end of 2017. A number of key projects are still on pause awaiting details of the government's spending review and the subsequent market reaction. Expectations are that the region will experience a decline in commercial workload in the beginning of 2017.

An already weakened commercial market continues to struggle. We are still seeing projects stalling and being cancelled in the wake of the Referendum result and tender volumes are anticipated to decrease over the coming quarter. Despite this, construction workloads and costs are expected to remain stable for the time being.

Last quarter we reported on a possible surplus of capacity in the capital, but the region is now experiencing insufficient availability of labour. Furthermore, Central London is seeing a shortage of cladding and other materials, leading to a greater need to import, adding to construction costs.

In our previous quarterly report, the weakening of the prime residential and commercial markets in Central London were being compounded by a lack of confidence following the Referendum, and it was expected that there may ensue a period of low tender volumes.

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Regional Reports

Ross Evans

Reporting on the Midlands Region

The Midlands region is still seeing a significant amount of construction activity and a healthy forecast of future workload remains. There is still a degree of apprehension over Brexit and whether it will have an impact on the commencement of projects. The East Midlands has already seen a number of projects put on hold despite good labour availability.

There are however schemes that have been progressed in spite of the result, and in some cases because of the result. Residential schemes (and especially private residential schemes) are continuing to be developed in city centres with a number of new schemes being reviewed for Central Birmingham. Industrial and warehouse schemes are also increasing, with some even being re-started and a number of speculative schemes being progressed. Education, particularly Higher Education, remains an exciting and busy sector across the region.

Overall, the industry remains cautious about the regional outlook. Some clients and in particular, institutional funders, are still adopting a wait and see approach. There is also the ongoing risks around the fluctuating exchange rate, particularly where materials and services are to be procured from the Euro zone.

In our previous quarterly report, it was reported that the Midlands region was little affected by Brexit and the industry was still suffering from long-lead in times for certain materials and capacity constraints associated with this.

Steve Green

Reporting on the North East, Yorkshire & Humberside Region

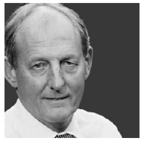
Although Brexit has not directly affected project progression or viability in the North East, it is still seen as having had a negative impact on construction in the region, particularly in Yorkshire. Humberside is more buoyant with projects progressing as usual. The expectation is that the volume of tenders will decrease despite good levels of labour and material supply. There is a general sense of apprehension around the level of demand for 2017 and enquiries have been tailing off in recent months with public sector spending appearing quiet.

There are some more encouraging signs as a more diverse range of construction projects have been coming to the fore in the North East over the past year, with an increased volume of bespoke commercial space, shopping centre re-developments and infrastructure projects. The region is also free from material and labour shortage concerns.

Whilst the major contractors still favour a negotiated procurement route, recent experience shows this is not delivering the value intended or required. There is still an appetite for single stage tendering for most types of project, albeit with tenderer numbers limited. Projects where procurement has been changed from negotiated to competitive have achieved reasonable cost savings without any reduction in quality.

In the previous quarter, the North East market was reported as being busy and, although uncertainty was growing as to future levels of demand, Brexit appeared to have had little immediate impact, particularly in the private sector.


Queen Elizabeth Hospital, Birmingham



Ross Savage

Reporting on the Northern Ireland Region

Research from the latest edition of the Northern Ireland Construction Bulletin notes that in Q2 2016:

- The total volume of construction output increased by 4.1% compared with the previous quarter and by 3.3% compared to the same quarter in 2015. This represents the third consecutive quarterly increase.

This was accounted for by:

- 7.4% increase in new work
- 5.0% increase in repair and maintenance

The increase in new work was made up of:

- 8.5% increase in infrastructure
- 4.8% increase in other work
- 2.7% decrease in housing

Northern Ireland's construction output growth in Q2 2016 is in contrast to the rest of the UK, where construction output recorded a 0.7% decrease over the same period.

In our previous quarterly report, we reported that the volume of construction output in Northern Ireland had increased by 3.4% over Q1 2016.

Regional Reports


Liverpool School of Tropical Medicine


The Helix, Glasgow

Alex Halliday

Reporting on the North West Region

The North West market remains buoyant, particularly in the residential sector, although the region has seen some projects stalling following the Referendum. This has been primarily due to concerns over the availability of funding. The region is still feeling the pinch of Brexit due to the reduced strength of the pound and therefore increased costs of key materials and equipment. This is compounded by macro economic conditions such as increasing CPI inflationary pressures. In particular, the inflated cost of imported materials, due to the exchange rate, is and will continue to have an adverse effect on construction costs in general.

Labour availability is now sufficient across the region however, the quality of available labour may be falling. Material shortages are less severe than earlier in the year, but we are experiencing longer lead in times for certain items.

In our previous quarterly report, the North West region was reported to be buoyant having been little affected by the Brexit vote. It was expected that construction workloads would continue to grow in the near term.

Brian Stevenson

Reporting on the Scotland Region

The uncertainty following Brexit has led to a reduction in anticipated growth over the next two years for the Scottish economy, and this is compounded by the possibility of a second Scottish Independence Referendum. In light of this, a greater number of clients are choosing to delay construction projects until they have greater clarity on the impact of Brexit, particularly with regards to the weakened pound and any potential associated inflationary effects this might bring.

Although main contractors have recently been more selective in relation to tendering opportunities, this may change as Brexit impacts on construction output. However, at present tender prices indicate that the market remains competitive. A number of contractors in the region are currently operating at full capacity yet there is a sense of unease about the market moving forward and for how long some projects are likely to be stalled. There is a shortage of major projects with a value of £100m+ in the pipeline and Tier 1 contractors targeting £50m+ projects to maintain their turnover.

Discussions with contractors note that steelwork and curtain walling prices are still on the rise. It has also been identified that, although there is a supply shortage of brickwork, factories in England are now beginning to re-open to mitigate this deficit.

In our previous quarterly report, the Scottish construction market was enduring a prolonged period of uncertainty with the industry becoming highly selective and less competitive. The uncertainty following Brexit had created a sense of unease about what the future might hold.

Regional Reports


Bristol Civil Justice Centre, Bristol

Richard Hine

Reporting on the South East Region

The South East region is continuing to report mixed fortunes following the Referendum.

The post-Brexit impact in the Southampton region has neutralised somewhat over the past quarter, although a number of projects remain on hold awaiting funding decisions. The industry in the local area is seen as being static with a level of uncertainty about 2017. The 'Brexit effect' is continuing to delay major investment decisions and pushing back site starts on a number of projects. The New Year may bring a greater number of bankruptcies given the uncertain political climate. Bricks remain in short supply and, while workloads should remain consistent, construction costs are likely to increase in the short term.

Construction activity in the Tunbridge Wells area continues unabated following Brexit with housebuilding continuing to meet ongoing regional demand. Any immediate effect of the Brexit outcome appears to be negligible on the ongoing buoyancy of the construction market in the local area. In general, construction industry reports indicate that its fortunes are improving with housebuilding being the key growth driver for the construction industry. Other sectors do appear to be reporting slight stalling in the aftermath of Brexit with developers and investors reluctant to commit to future schemes.

In our previous quarterly report, we described a mixed picture across the South Eastern region, with the Southampton area reporting an immediate negative impact of Brexit. Contrastingly, the industry in Tunbridge Wells and surrounding areas continued to be buoyant, busy and supplied with sufficient labour and materials.

Matthew Quirk

Reporting on the South West Region

The South West market remains buoyant with little impact of Brexit seen so far. It is anticipated that, while the situation remains uncertain, construction volumes may be affected. In the instances where projects have stalled, this is due to funding being withdrawn in the immediate fallout from Brexit, but there are signs that activity in the private sector could be increasing.

Overall construction levels in the region are slightly lower than last year, reflecting the brief pause created by Brexit. Government spending remains challenging with a focus turning to long term frameworks. Private spending may start to fill the gaps.

Projects already underway are continuing at pace. The construction of Bristol's Metrobus is evident with works across the entire city. 3 Glass Wharf has recently achieved planning permission which will complete the developments overlooking the historic floating harbour. The keenly anticipated 12,000 seat Bristol Arena forms an integral part of this massive area of redevelopment – one of the UK's largest urban regeneration projects. As well as the electrification of the rail line to London, there are also plenty of other infrastructure works progressing in the region.

The residential construction market in Bristol is strong with several large developments on site, including numerous PRS schemes being appraised as the local existing building stock is maximised. Several new student accommodation blocks have recently opened for the 2017 academic year and, with four universities in Bristol and Bath, more schemes are planned to support our hub of higher education facilities.

The recently approved Hinkley Point C project is expected to have a profound effect on resources in the region. The precise impact of the scheme on the wider construction market is difficult to predict. Whilst the project will undoubtedly attempt to utilise as much local labour as possible, the sheer size and complexity of the project will inevitably necessitate the need to mobilise expertise from around the country and potentially beyond.

In our previous quarterly report, the South West construction market was described as being buoyant and highly competitive with a number of large developments on the horizon. It was anticipated that Brexit may become problematic in terms of public funding, although this is likely to cause delays rather than outright cancellation.

Regional Reports

Childrens Hospital for Wales, Cardiff

Nigel Watkins

Reporting on the Wales Region

Welsh projects reported as being on hold in last quarter's report remain so, and while this is not directly Brexit-related, uncertainty from this is contributing to funders' decisions to take a more risk averse approach. Projects in the pipeline are under rigorous review with greater attention being paid to risk analysis.

Major concerns exist over the potential loss of funding that an EU exit might bring, with Welsh construction being one of the key beneficiaries of EU funding in recent years.

Nevertheless, it is believed that construction output in South Wales, specifically, will increase over at least the next two to three years. Areas such as Cardiff and Swansea have potential for large numbers of schemes to commence across the commercial, education, health and infrastructure sectors. Current interest in renewable energy schemes such as the Swansea Bay Tidal Lagoon (currently under Government scrutiny) could kick-start a rollout out programme of similar developments in Wales. Now that Hinkley Point C has been given the go-ahead, this has the potential to draw labour resources from local projects and could affect costs as workers are sought from further afield. The region is still having trouble with supply chains due to low stock and longer order periods and even though Tata is still delivering, the future remains uncertain. With the weaker pound pushing up the cost of importing materials, it may be necessary for designers to seek alternatives from within the UK market in order to progress projects on time and on budget.

In our previous quarterly report, the outlook for the Welsh construction industry remained positive with the potential for a number of large schemes to progress in the near future. Brexit presented an element of uncertainty, which could not yet be quantified.

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Acknowledgements

Thank you to the following:

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Consumer Price Indices, Office of National Statistics

Inflation Report, Bank of England

BCIS Quarterly Briefing

Output in the Construction Industry, Office of National Statistics

RICS UK Construction Market Survey

RICS UK Commercial Market Survey

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Key

ONS: Office for National Statistics

HM: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institute of Chartered Surveyors

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