2019 Q2

UK Economic & Regional Inflation Report

Contents

30-32 Lombard Street,
London

REPORT HEADLINES

Bank Rate maintained at 0.75%

GDP grows 0.5% in Q1 2019

Construction output up 1.0% in Q1 2019

Industry news & updates

IHS MARKIT/CIPS UK CONSTRUCTION PURCHASING MANAGERS' INDEX (PMI)

The IHS Markit/CIPS UK Construction PMI rose to 50.5 in April 2019, up from 49.7 in March, pointing to a marginal increase in construction output (an index of 50 signals no change).

Housebuilding was the strongest performing area and commercial the weakest with some contributors linking this to Brexit-related uncertainty and delays to investment decisions. Civil engineering activity also marginally decreased. According to the survey, new orders fell for the first time since May 2018 and business optimism is declining. As a result, employment numbers fell slightly during April.

April also saw the fastest construction input cost rise for six months with contributors commenting on low stocks and capacity constraints. Despite a relatively subdued demand for materials, lead-in times have increased to the greatest extent since February 2015.

CONCERNS OVER PERMITTED DEVELOPMENT RIGHTS EXTENSION

In last year's Autumn Budget, the Chancellor announced plans to extend permitted development rights (PDR) to enable conversion of existing buildings such as shops and offices to homes without the requirement for planning permission. This is part of a set of incentives that the government hopes will revitalise our high streets and help to achieve their target of delivering 300,000 new homes over this parliament.

However, the decision has come under criticism by MPs, RIBA, and the Town and Country Planning Association (TCPA), among others, who argue that it will undermine individual local communities' plans for their town centres and high streets.

Following RICS research which indicated that office-to-residential conversions were typically poor-quality, with only 30% meeting national space standards, a new report by the Housing Select Committee argues that PDR should not be extended. RIBA president Ben Derbyshire has called on architects to boycott such projects.

PREPARING FOR BREXIT

In April, members of the Construction Leadership Council's (CLC) skills group met with Immigration Minister Caroline Nokes to discuss how any new post-Brexit immigration rules might impact construction. Discussions centred around extending the length of temporary worker visas, reducing the qualification levels and salary thresholds required for the new Tier 2 visa scheme, and the use of a 'Clearing House model' for visa sponsorship. Although no firm commitments were made, Mark Reynolds, leader of the group, states that Nokes was receptive to their suggestions.

> "Getting the UK's future immigration system right is critical to the construction sector's ability to deliver the important projects and programmes that the country needs. The CLC will continue to work with government and challenge them to ensure our industry is not adversely impacted as we leave the European Union."

MARK REYNOLDS

Note: The above news content reflects the situation at the time of writing this report which precedes Theresa May's resignation and the results of the European parliament elections.

New projects in the pipeline

RESIDENTIAL

- The derelict site of the former Cambridge Military Hospital is to be transformed into 140 homes for Weston Homes. Designed by Adam Architecture, work is due to start on site this summer
- Legal and General has been awarded planning for its largest build-to-rent scheme to date, a Hawkins Brown-designed, £500m 1,000-home development which includes 35% affordable housing and 85,000sq ft of commercial space in Wandsworth, South London
- London mayor Sadiq Khan will now decide whether to give a £500m build-to-rent scheme at the Old Biscuit Factory in Bermondsey the green light after Southwark council refused it planning in February because it did not include enough affordable housing

REGENERATION

- A decision on British Land's planning application for the first building of its scheme to develop Canada Water is expected this summer
- Allies & Morrison's masterplan for the regeneration of Stratford Waterfront has received backing from the London Legacy Development Corporation. This includes outline planning permission which was granted for 676,000sq ft of new homes and 24,000sq ft of shop and restaurant space

LEISURE

- Neilcott Construction is set to start work at the Sands End Arts & Community Centre at Clancarty Lodge in South Park, Fulham, which is being partly funded by Chelsea Football Club
- Work to transform a building of South Hampstead High School to a new Broadway Malyan-designed arts centre encompassing a theatre and 400-seat concert hall is set to begin in July

INFRASTRUCTURE

- Graham has been appointed by Network Rail to carry out £47m of work at Acton, West Ealing and Ealing Broadway stations, which are due to be serviced by the new fleet of Elizabeth Line trains from December 2019
- Ian Ritchie Architects has won an international competition to design a new bridge for the Irish National War Memorial Gardens in Dublin

DEFENCE

- A Mace-led consortium has been appointed to help deliver over 100 projects worth £4bn for the Ministry of Defence
- Kier has been appointed as main contractor for the new £253m Wellingborough prison by the Ministry of Justice after having completed demolition works at the site

◄
120 Fenchurch Street,
London

Economic overview

Gleeds' Economic and Regional Inflation Report reviews factors affecting UK construction, considering inflation, construction output and employment. It also assesses wider social, political and economic matters which could impact on the economic environment and general confidence in the market.

Looking back to Q4 2018		Q1 2019 – the latest figures	
GROSS DOMESTIC PRODUCT (GDP)			
▲	According to data from the Office of National Statistics (ONS), GDP increased by just 0.2% in Q4 2018	▲	Quarterly GDP growth increased to 0.5% in Q1 2019
INFLATION			
▼	CPI in the year to January 2019 was 1.8%, down from 2.1% in December 2018	▲	In the year to April 2019, CPI rose to 2.1%
▼	CPIH was also 1.8% in January 2019, down from 2.0% in December 2018	▲	CPIH rose to 2.0% in the 12 months to April 2019
CONSTRUCTION OUTPUT			
▼	Construction output decreased by 0.3% in Q4 2018 compared to Q3 2018	▲	Construction output increased by 1.0% in Q1 2019 when compared to the previous quarter (Q4 2018)
▼	Over the previous 12-month period construction output decreased by 2.4%	▲	Over the previous 12-month period (March 2018 to March 2019), construction output has increased by 3.2%
EMPLOYMENT			
▼	In Q4 2018, the unemployment rate fell to 4.0%	▼	Unemployment fell to 3.8%
▲	The ONS predicted that average weekly earnings (total pay) in the construction industry rose by 4.2% in the year to Q4 2018	▲	Average weekly earnings for construction workers rose by 3.9% in Q1 2019 compared to a year earlier

Gleeds' regional inflation forecast

Annual % change	Q2 19 to Q2 20	Q2 20 to Q2 21	Q2 21 to Q2 22	Q2 22 to Q2 23
Eastern	3.0%	3.0%	4.0%	4.5%
Greater London	2.0%	3.0%	5.0%	5.0%
North East	4.0%	4.0%	5.0%	5.0%
Yorkshire & Humberside	4.0%	4.0%	5.0%	5.0%
Northern Ireland	4.0%	4.0%	5.0%	6.0%
Midlands	3.5%	4.0%	5.0%	5.0%
North West	4.5%	4.5%	4.5%	4.5%
Scotland	3.0%	3.0%	4.0%	4.0%
South East (excluding London)	2.0%	3.0%	5.0%	5.0%
South West	4.0%	4.5%	5.0%	5.0%
Wales	3.0%	4.0%	4.0%	5.0%
UK Average (rounded)	3.3%	3.7%	4.6%	4.9%

Note: these are average regional forecasts based on activity and market awareness within Gleeds' 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 considered carefully based on the project's characteristics and prevailing local conditions. All published statistics can be misleading and subject to later revision and should be used with caution. (Figures may not sum due to rounding.)

Background to economic outlook

The Bank Rate has been maintained at 0.75%

CPI is expected to fall back in 2019 and 2020

Global growth continues to slow

UK ECONOMICS

As detailed in their May 2019 Inflation Report, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.75%. The MPC also decided to maintain the stocks of non-financial investment-grade corporate bond purchases at £10bn and UK government bond purchases at £435bn.

The MPC's latest projections assume a smooth adjustment to the UK's eventual trading relationship with the European Union (EU) and are conditioned on the expectation that the Bank Rate will rise to around 1% by the end of the forecast period.

Gross Domestic Product (GDP) growth picked up to 0.5% in Q1 2019 following subdued levels of growth in 2018. This is in part due to a larger-than-expected boost from companies in the UK and the EU building stocks ahead of recent Brexit deadlines. This effect is likely to be temporary and quarterly growth is expected to slow to around 0.2% in Q2. Although subdued, the MPC believes that the pace of GDP growth is slightly stronger than previously anticipated. Brexit uncertainties have had a pronounced impact on business investment over the past 12 months.

Looking ahead, the MPC's central projection sees a stabilisation of global growth and easing of Brexit uncertainties leading to improved prospects for GDP growth. Four-quarter UK GDP growth is expected to rise to over 2% by the end of the three-year forecast period.

Consumer price inflation (CPI) has fallen below the MPC's 2% and is expected to fall back further in the 2019 and 2020, owing to lower retail energy prices, before rising above target again in 2021 and beyond. The MPC views that a gradual and limited tightening of monetary policy will return inflation to target but that the current stance is appropriate for the time being. However, the economic outlook in general hinges on the nature and timing of the UK's withdrawal from the EU, what the new trading arrangements will be, and how households, businesses and financial markets respond to this.

GLOBAL ECONOMICS

Following a broad-based slowing in global GDP over 2018, owing to tightening financial conditions, world growth stabilized at 0.6% in Q1 2019.

GDP growth in the euro area rose to 0.4% in Q1 2019 and is expected to average at little over 0.25% for each of the remaining quarters of 2019. US quarterly GDP growth picked up to 0.8% in Q1 2019 but is expected to average 0.5% per quarter for the remainder of the year. GDP growth in China continues to slow slightly, down from 1.5% in Q4 2018 to 1.4% in Q1 2019.

Source: Bank of England, Quarterly Inflation Report, May 2019

Note: The Bank of England's Inflation Report was published in early May before the latest CPI release and the resignation of Theresa May.

Statistics & figures

GDP grows 0.5% in Q1 2019

CPI rises 2.1% in the year to April 2019

RPI rises to 3.0% in the year to April 2019

GDP

GDP growth in Q1 2019 picked up following subdued activity at the end of 2018 with quarterly growth increasing to 0.5%, up from 0.2% in Q4 2018.

Notably, all of the main sectors contributed positively to growth.

The **Services** sector grew by 0.3% and had the biggest positive contribution to GDP growth. Retail trade and the information and communication sub-sector were the main drivers of growth although this was tempered by professional, scientific and technical activities which fell back slightly in Q1 2019.

Construction output increased 1.0% in Q1 2019 following a decline at the end of 2018. This was driven by a strong repair and maintenance performance rather than new work. However, a longer-term measure shows construction growth having declined over the past three years.

Production growth increased by 1.4% in Q1 2019 with manufacturing growth particularly strong at 2.2% - the sub-sector's strongest growth since 1988. Manufacturing was boosted by pharmaceuticals, food products and basic metals while electricity contracted by 2.3%.

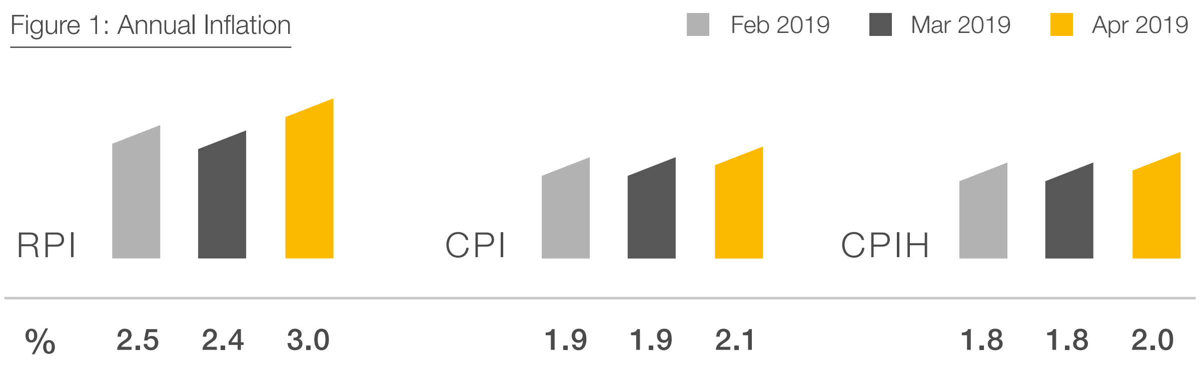
INFLATION

CPI in the year to April 2019 was 2.1%, up from 1.9% in March 2019. CPI inflation has now risen above the government's 2% target. This was mainly due to rising energy prices and air fares, which were affected by the timing of Easter, while downward pressure came from a variety of recreational and cultural items, including computer games and package holidays.

The Retail Prices Index (RPI) increased to 3.0% in the year to April 2019, up considerably from 2.4% in March 2019.

The CPI including owner occupiers' housing costs (CPIH) inflation rate rose to 2.0% in April 2019, up from 1.8% in March 2019.

Figure 1: Annual Inflation



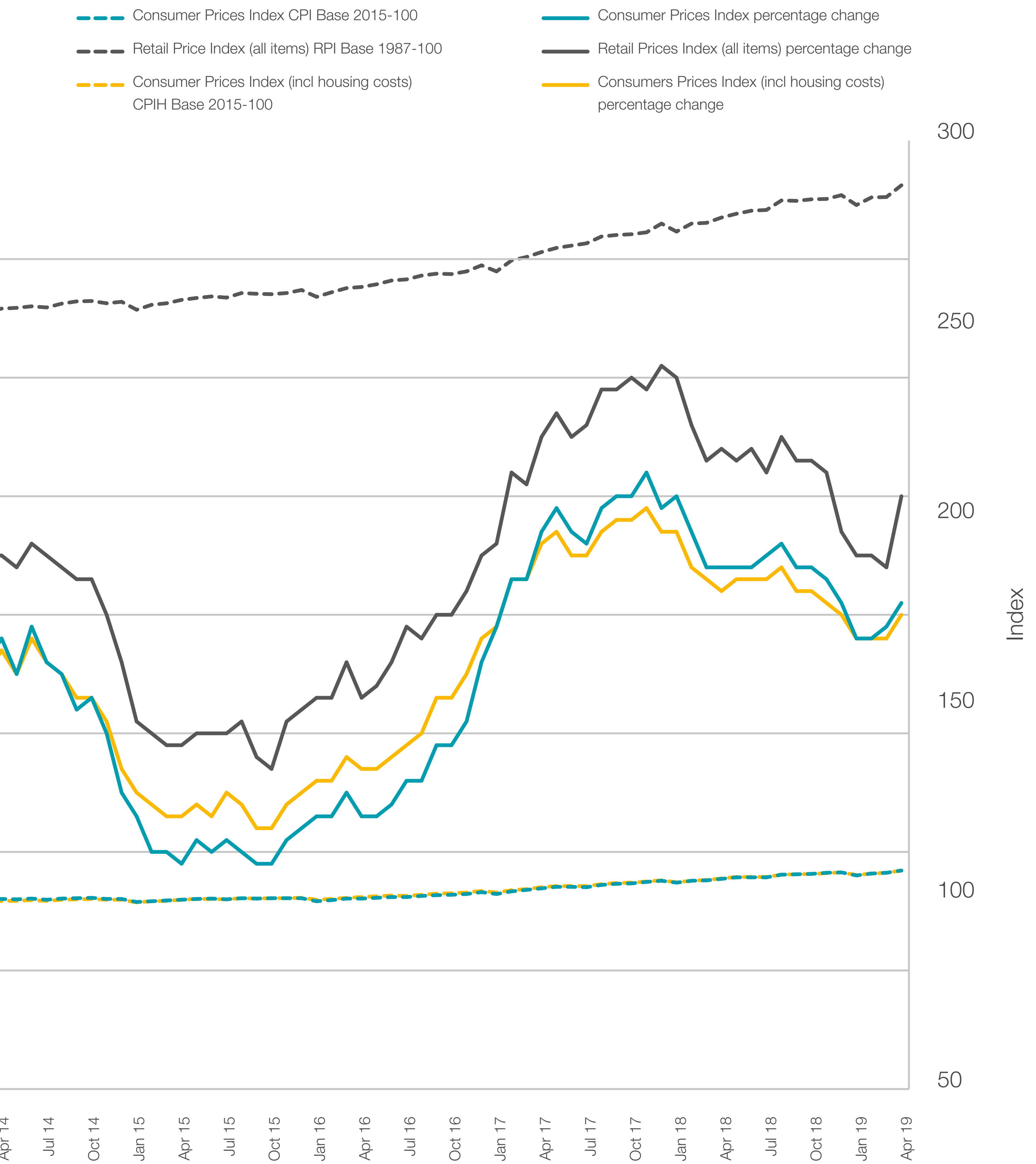
Note: CPIH is the most comprehensive measure of inflation as it includes a measure of the costs associated with owning, maintaining and living your own home as well as Council Tax, which are not included in CPI.

Sources: Office for National Statistics, UK GDP monthly estimate, UK: March 2019
Office for National Statistics, UK consumer price inflation: April 2019

Figure 2: Annual Inflation Rates: Office for National Statistics Q2 2019

The graph below details the movement of CPI, CPIH and RPI over the past 10-year period.

Source: Office for National Statistics, UK consumer price inflation: April 2019


Consumer Prices Index CPI Base 2015-100
Retail Price Index (all items) RPI Base 1987-100
Consumer Prices Index (incl housing costs) CPIH Base 2015-100
Consumer Prices Index percentage change
Retail Prices Index (all items) percentage change
Consumers Prices Index (incl housing costs) percentage change
300
250
200
150
100
50
Index
Apr 14
Jul 14
Oct 14
Jan 15
Apr 15
Jul 15
Oct 15
Jan 16
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
Oct 17
Jan 18
Apr 18
Jul 18
Oct 18
Jan 19
Apr 19

GDP & INFLATION FORECASTS

Predictions for the movement of GDP, CPI and RPI are detailed in the table below.

	2019	Mov*	2020	Mov*	2021	Mov*	2022	Mov*	2023
GDP growth (%)	**1.4**	▲	**1.5**	▲	**1.7**	◀▶	**1.7**	▲	**1.8**
CPI (%)	**1.9**	▲	**2.0**	▼	**1.9**	▲	**2.0**	◀▶	**2.0**
RPI (%)	**2.6**	▲	**2.8**	▲	**3.0**	▲	**3.1**	▼	**3.0**

Source: HM Treasury Forecasts for the UK Economy, May 2019
**Movement between previous and current year*

Forecasts for the UK Economy is a summary of published material reflecting the views of a selection of forecasting organisations which are subject to review. This edition contains 21 new forecasts, all of which were received between May 1st and May 13th 2019. The table above summarises the average of May's forecasts.

TENDER PRICE FORECASTS

Gleeds considers that tender prices, on average, grew by 2.5% between Q2 2018 and Q2 2019. For the same period, the **Building Cost Information Service (BCIS)** forecasts a 2.8% increase in prices.

BCIS and Gleeds predict that tender prices will increase over the four-year forecast period as follows.

Year on Year	Current BCIS forecasts	Gleeds average forecasts
Q2 19 to Q2 20	**+3.9%**	**+3.3%**
Q2 20 to Q2 21	**+4.4%**	**+3.7%**
Q2 21 to Q2 22	**+5.3%**	**+4.6%**
Q2 22 to Q2 23	**+6.4%**	**+4.9%**

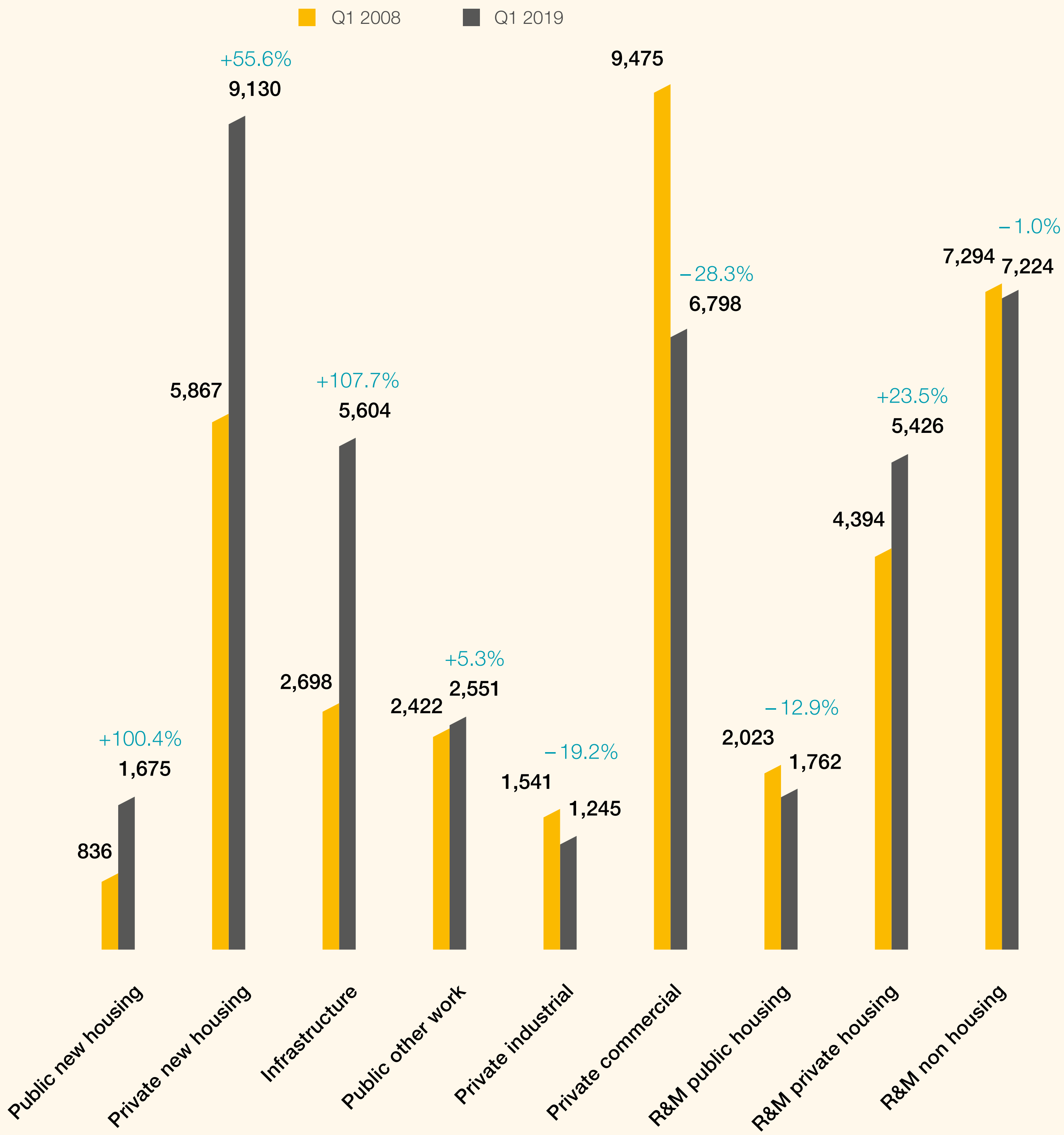
Source: BCIS All-in Tender Price Indices, 10 May 2019

▸
The Point,
Nottingham

Construction output

VOLUME OF CONSTRUCTION OUTPUT

Figure 3: Difference between Q1 2008 (peak) and Q1 2019 (values shown in £m)



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

In Q1 2019, **total construction output** grew by 1.0%, following a small decline in Q4 2018. This increase in activity levels was driven by **repair and maintenance (R&M)** works which increased by 2.9% over the quarter. There was no change in the volume of **new work** output between Q4 2018 and Q1 2019.

Both private housing R&M and non-housing R&M increased in Q1 2019, by 4.0% and 3.5% respectively.

Rises in infrastructure new work and public other new work of 5.6% and 3.3% respectively were offset by decreases in private commercial and housing new work of 4.7% and 1.2% respectively, leading to a growth rate of 0.0% for new work overall.

VALUE OF CONSTRUCTION OUTPUT

Sector	Quarter on quarter change Q4 18 to Q1 19	Quarter on year change Q1 18 to Q1 19
All Work	**1.0%**	**5.6%**
All New Work	**0.0%**	**5.5%**
New Public Housing	**7.1%**	**24.8%**
New Private Housing	**-2.6%**	**5.0%**
New Private Commercial	**-3.9%**	**-5.2%**
New Private Industrial	**3.2%**	**5.4%**
New Public Non-housing	**2.7%**	**9.1%**
New Infrastructure	**6.1%**	**15.6%**
All R&M	**3.0%**	**6.0%**
Public Housing R&M	**-2.1%**	**1.8%**
Private Housing R&M	**4.2%**	**4.2%**
Infrastructure R&M	**6.5%**	**12.2%**
Public Non-housing R&M	**-0.3%**	**11.2%**
Private Non-housing R&M	**2.7%**	**5.5%**

Source: Office for National Statistics, Construction output in Great Britain: March 2019

Employment

During Q1 2019, the UK-wide unemployment rate fell by 65,000 to 3.8%, its lowest rate since 1974, down from 4.0% in Q4 2018. The number of people classed as employed increased by 99,000 and the employment rate increased to 76.1%, up from 75.8% in Q4 2018. This is the joint-highest employment rate on record. The proportion of people classed as economically inactive (i.e. not seeking or not available to work) decreased by 23,000 to 20.8%.

The employment rate for women aged 16-64 increased to 71.8% in Q1 2019, up from 71.4% in Q4 2018. This is the joint-highest employment rate for women since comparable records began in 1971. Women's employment rates continue to be affected by changes to the State Pension, with the result that fewer women are retiring between the ages of 60 and 65.

Workers' earnings excluding bonuses (regular pay), rose 3.3% in Q1 2019 compared to a year earlier, down slightly from 3.4% in Q4 2018. Total pay (including bonuses) also increased by 3.2% over the same timeframe. At present, wage growth is rising faster than inflation.

In the construction industry, average weekly earnings (total pay) rose by 3.7% in Q1 2019 compared with a year earlier, while regular pay (excluding bonuses) rose by 3.9% over the same timeframe.

Source: Office for National Statistics, UK labour market: May 2019

Market reports

RICS MARKET SURVEYS

The Q1 2019 **RICS Construction & Infrastructure Market Survey** identifies a continuation of the broad-based slowing of the pace of output growth identified in the Q4 2019 survey. A net balance of 9% of respondents reported an increase in total workloads, down from 11% in the previous quarter. This is the lowest reading in six years.

Growth moderated across most sectors and the commercial and industrial sectors remain at a standstill for a second quarter. Workloads in the public sector fell with net balances of 6% and 4% of contributors reporting a rise in activity in the housing and non-housing components, down from 14% and 8% respectively in Q4 2018. Infrastructure activity also fell, with a net balance of 11% of respondents reporting a rise, down from 18% in the previous quarter.

The private housing sector is the main exception to this; a net balance of 21% of contributors reported an increase, up marginally from 20% in Q4 2018.

Despite prolonged political and economic uncertainty, 28% more contributors expect construction activity to rise rather than fall, a slight recovery from 24% in Q4 2018, and a net balance of 15% anticipate an increase in recruitment.

Financial constraints remain by far the most significant impediment to growth (81%, the highest reading in more than five years, up from 78% in Q4 2018). Other capacity constraints persist; stricter conditions are being placed on firms (particularly SMEs) by financial institutions which is limiting growth. Concerns over planning delays and restrictive regulations have continued to ease and are now in-line with the average of the past six years. Skills shortages are cited as an obstacle to growth by 41% of respondents, the lowest figure in five years.

Peabody Estate, St John's Hill, London ▼

Growth is apparent in the South West, Wales, the Midlands, Eastern and Northern England. All other regions remain flat.

Source: RICS, UK Construction and Infrastructure Survey, Q1 2019

"The …Survey results show conditions remain highly varied at the sector level. Indeed, solid fundamentals continue to drive growth in the industrial segment while the struggling retail sector shows little sign of improvement. Alongside this, anecdotal evidence suggests the Brexit impasse is, to a greater or lesser degree, weighing on investor and occupier decisions across the board"

RICS
UK COMMERCIAL PROPERTY MARKET SURVEY
Q1 2019

THE GLENIGAN INDEX

Glenigan's April 2019 Index points to a general weakening in the value of sub-£100m projects starting on site in Q1 2019 against a backdrop of slow economic growth and continued Brexit uncertainty. The value of project starts in the three months to March 2019 fell 6% on a year ago and 7% on the preceding three-month period.

Overall, residential starts were 10% lower than a year ago and 9% down on the previous quarter, owing to weaker house price inflation and fewer property transactions. In the private residential sector, project starts were 8% down on the same period a year ago and 6% down on the previous three months. Social housing starts fell 15% both against the three months to December and a year ago.

Non-residential project starts were 7% lower than a year ago and 9% lower than last quarter, with industrial, office and retail starts falling 5%, 4% and 10% respectively against a year ago. Education starts were down 22% on the same time last year.

In contrast to this, civil engineering projects starts increased 17% on both the three months to December 2018 and a year ago. This can be attributed to a 35% quarter on quarter increase in infrastructure starts. The hotel and leisure sector also rose 18% over the same period.

Whilst most parts of the UK saw falls in the value of project starts against a year ago, starts rose in London (13%), the South East (12%), and the South West (19%). Regionally the sharpest fall was in the East of England (-35%) while the North East, North West, West Midlands and Scotland all saw declines of 20% or more against a year ago.

Source: The Glenigan Construction Review, April 2019

WGIS Insurance,
Manchester
▼

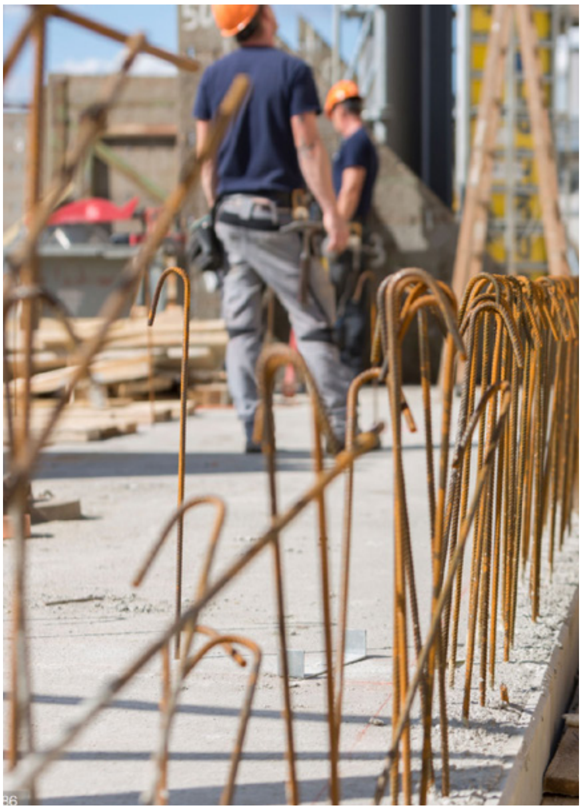
BCIS FORECASTS

BCIS maintains that there is still a great deal of uncertainty over the outcome of Brexit. It continues to produce forecasts for the construction industry based on different scenarios, each of which are deemed equally probable.

The three different scenarios are:

- **An 'upside' scenario** – the UK will remain a member of the EU (but with no voting rights) and will retain access to European construction operatives after cessation of a two-year transitional period
- **A 'downside' scenario** – the UK will experience a 'hard Brexit' (i.e. no transitional period) with less favourable trade agreements with the EU and restricted movement of labour and that the economy will go into recession until the end of the forecast period
- **A 'central' scenario** – the UK will remain a member of the EU (but with no voting rights) but there will be some restrictions to the movement of labour and less favourable trade agreements

Note: A specific 'No Deal' forecast has not been prepared but it is likely to tend towards the 'downside' scenario.



New work output

Year on year	Upside Scenario	Central Scenario	Downside Scenario
2019	4.8%	0.9%	-9.1%
2020	7.1%	2.8%	-3.3%
2021	7.3%	5.9%	10.1%
2022	6.2%	5.5%	9.6%
2023	7.4%	6.0%	6.8%

Source: BCIS Quarterly Briefing, March 2019; BCIS Update on the Quarterly Briefing, April 2019

Construction output

Sector	Year	Experian	CPA
Total Construction Output	2019	0.9%	0.3%
	2020	2.3%	1.6%
	2021	2.7%	-
Total New Work	2019	0.7%	0.2%
	2020	2.4%	1.8%
	2021	3.3%	-
Total Repair and Maintenance	2019	1.2%	0.5%
	2020	2.3%	1.2%
	2021	1.6%	-
Public Housing	2019	0.0%	1.0%
	2020	3.0%	0.0%
	2021	10.0%	-
Private Housing	2019	2.0%	2.0%
	2020	3.0%	1.0%
	2021	5.0%	-
Infrastructure	2019	8.0%	8.8%
	2020	9.0%	7.7%
	2021	4.0%	-
Public Non-Housing	2019	1.0%	-0.6%
	2020	3.0%	0.3%
	2021	0.0%	-
Private Industrial	2019	0.0%	2.5%
	2020	1.0%	4.4%
	2021	3.0%	-
Private Commercial	2019	-6.0%	-8.0%
	2020	-4.0%	-1.5%
	2021	0.0%	-

Source: BCIS Summary of Output Forecasts, April 2019

Gleeds' insight

Gleeds monitors construction activity and confidence levels in each UK region. As well as an analysis of region-wide activity, members of Gleeds' inflation panel directly engage with local contractors and industry contacts to understand their experiences and how these are changing over time. Feedback from these interactions help to provide a useful insight into the views of those at the core of industry.

Although difficult to predict future trends or pre-empt potential stressors, careful monitoring of regional activity can provide us with the ability to adapt to adverse conditions more rapidly and effectively.

BREXIT

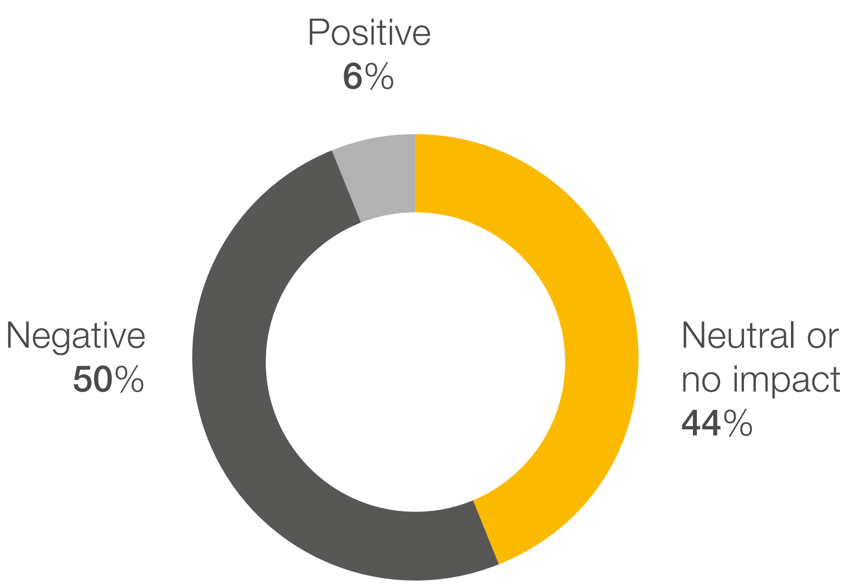
This quarter, our panel was asked to describe how their region was being impacted by the ongoing Brexit negotiation process, following a tumultuous few months politically. The majority (50%) believe that Brexit is having a negative impact at present, with a large proportion (44%) seeing a neutral or no impact. The remaining 6% indicate that Brexit is having a positive impact on construction.

As was the picture presented in last quarter's report, refurbishment and fit-out works are generally proceeding unaffected, while, in some regions, new projects are stalling or failing to materialise in the current uncertain climate.

Client confidence is normal although investment decisions, particularly within the private sector, are being pushed back while the UK's future relationship with the EU remains unknown. Contractors continue to be nervous; as well as inflated tenders and increasing selectivity, more and more are requesting for 'Brexit clauses' to be built into contracts as added protection. 38% of contacts report a higher incidence of bankruptcy over the past quarter.

While the availability of construction workers is adequate for the majority, around a third of regions are seeing the loss of foreign workers. These include London and the South East, Northern Ireland, and North West England.

Figure 4: Anticipated impact of Brexit on regional constructon activity Q2 2019



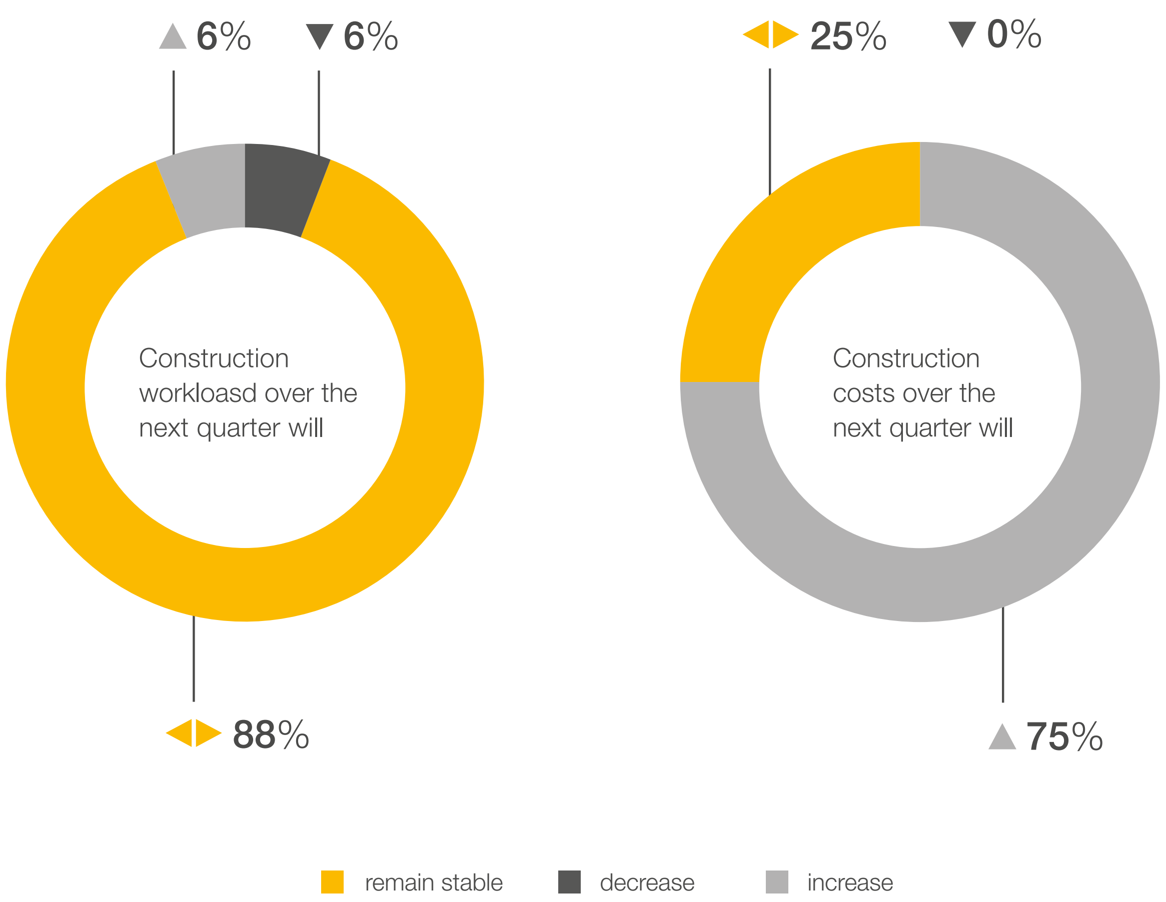
OTHER EXTERNAL FACTORS

While Brexit is seen as the biggest influence on the industry at present, other external factors are important to note:

- The continuing shortage of good quality bricklayers is driving up the cost of masonry construction
- Liquidation of contractors and sub-contractors is having a negative impact on tender returns
- The potential for another Scottish Independence referendum could affect the market and impact projects going ahead
- Hinkley Point is expected to affect labour supply as the works on site ramp-up
- Possible future interest rate increases could impact the wider economy which could feed in to construction costs and tender prices

Looking ahead, construction workloads are projected to remain stable over the next quarter while costs are expected to increase, although there may be regional variations on this.

Figure 5: Predictions for construction workloads and costs over the next quarter




THE GARDEN AT 120

Spotlight on the energy sector

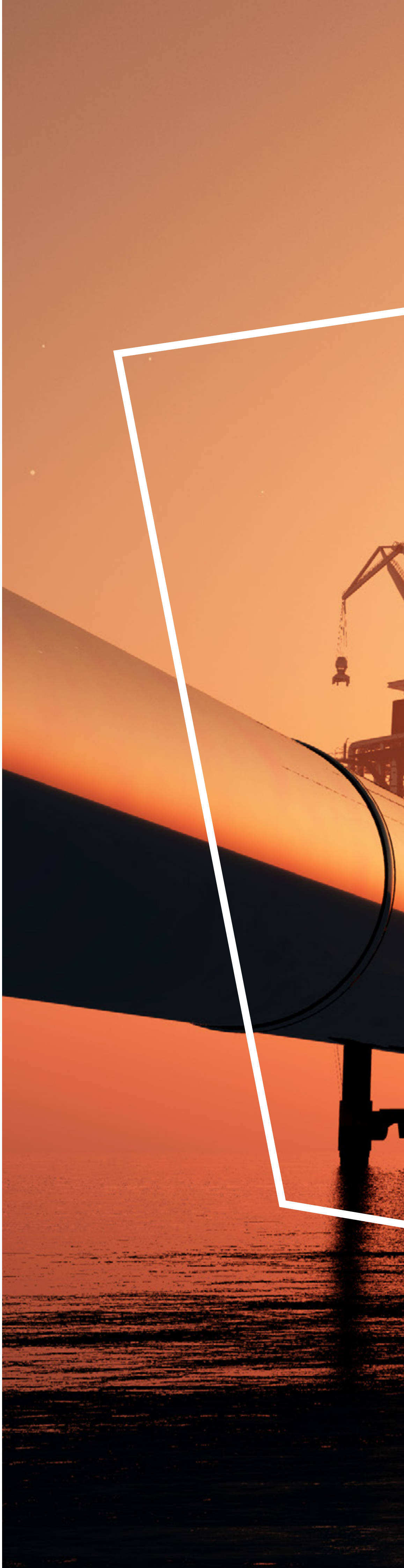
In the energy sector, EDF Hinkley Point C is moving steadily with off-site works on the temporary workers accommodation having been concluded, the marine works nearing completion, and other areas of the project also progressing. At Horizon Wylfa Newydd, Hitachi has made the decision to fully suspend the project activities until such time that a financial investment package has been agreed.

Client confidence in the energy sector is currently described as low. The suspension of the Wylfa Newydd project, the insolvency of Carillion and its labour redeployment, uncertainty in the civil engineering sector, Toshiba's decision to pull out of the UK, disputes at Hinkley Point C, poor performance of current apprenticeship schemes, as well as the loss of skilled EU labour are all factors contributing to lesser levels of client confidence. Workload security is low across the energy sector while bankruptcies are thought to have increased. Workloads are expected to decrease in the short term and costs increase.

Delays and cancellations across both the energy and infrastructure sectors have been complicated by ongoing uncertainty around how Brexit will impact imported goods, trade, migrant workers, and the strength of the pound.

Note: These comments relate to the area and sectors around the Gloucestershire area and serviced out of the Gloucester office which is predominantly major civil engineering works in the energy, rail and highways sectors and should not be considered relevant to the residential, retail, education, or health sectors.

GARY MILLS
GLEEDS ENERGY



Regional reports

WALES
NIGEL WATKINS

Levels of construction activity across Wales remain good with a relatively solid amount of new opportunities in the pipeline. Student accommodation schemes continue to dominate the market with the commercial (offices) and education (schools, colleges and universities) sectors making up the remaining workload. The local supply chain continues to be able to support this level of activity apart from where specialist sub-contractors are required.

There are ongoing major contracts within Cardiff City Centre and a number of further major projects due to start. Swansea is also seeing an increasing number of larger scale projects.

Plasterboard is currently on a 6-week lead-in due to poor availability of ash in the UK and having to source supplies from overseas. There are various price increase notifications coming through and housebuilders have stated in the construction press that cost increases are reducing margins.

Brexit is having no noticeable effect on the construction industry across Wales at the moment other than that some sub-contractors have been making efforts to ensure a continuous supply of components both prior to and following the UK's departure from the EU.

In our previous quarterly report, a buoyant Welsh industry was presented as being dominated by student accommodation, commercial and higher education projects.

◄
Bayscape,
Cardiff

SCOTLAND
BRIAN STEVENSON

According to the latest statistics published by the Fraser of Allander Institute, the Scottish economy grew by 0.3% in the final quarter of 2018, slightly faster than the UK as a whole (which grew by 0.2%). The Institute predicts growth of 1.1% in 2019, 1.4% for 2020, and 1.5% for 2021.

Construction output grew by 0.8% in Q4 2018, however, output was flat over the course of 2018; the poorest annual growth since 2012. Growth of 1.0% is forecast for both 2019, and 1.1% for both 2020 and 2021.

The commercial, retail, higher education and infrastructure sectors remain the busiest, while speculative industrial units and warehouses are also on the rise.

Contractors continue to be selective with tenders while the liquidation of contractors and sub-contractors is having a negative impact on tender returns. The well-established M&E contractor McGills recently went into administration and Galliford Try is closing parts of its businesses in Scotland.

The impact of Brexit and the uncertainty surrounding it is having a detrimental effect on the private sector, with clients and investors alike heeding caution, putting potential projects on hold. Some larger schemes, including a variety of commercial office, retail and industrial developments are currently on hold as a result of this. Gleeds is also seeing contractors request that Brexit clauses are inserted into contracts.

Some sub-contractors are allowing up to a 20% increase in cost for materials imported from Europe due to uncertainty over tariffs (however, it should be noted this not the case for projects starting in the coming months). Specialist labour shortages and material availability issues continue. Bricks remain in short supply along with timber, roof tiles and plasterboard.

The potential for another Scottish Independence referendum may also influence the market and impact projects going ahead.

Last quarter, construction activity across Scotland was benefiting from continued investment despite Brexit uncertainty. Increased bankruptcies were reducing the potential tender pool and this was creating concern over future tender price hikes.

▲
The University of St Andrews - Sports Centre, Fife

EASTERN ENGLAND

GALVIN TARLING

The polarisation of Eastern England continues with central Cambridge and South Cambridgeshire remaining the hot spots of the region. Tender prices have continued to rise within the region's primary market sectors; higher education, commercial, science/pharmaceuticals and residential. In addition, continuing investment and opportunities within the infrastructure sector are also expected to support general price increases.

Demand within the residential market appears to have tempered within the last quarter, although new build supply remains stable. This may begin to influence inflation for the remainder of 2019.

The ongoing uncertainty of Brexit remains a distraction rather than a concern at the present time.

Last quarter, Eastern England was seeing varying levels of activity across the region, with South Cambridgeshire and Essex fairing well while Norfolk and Suffolk were experiencing weakened levels of demand.

▼ Wimpole Hall - Gothic Tower, Cambridge

NORTHERN IRELAND
GEOFF WARKE

According to the Northern Ireland Statistics and Research Agency (NISRA), the Composite Economic Index (roughly equivalent to GDP) in Northern Ireland grew by 0.2% in Q4 2018 compared to the previous quarter and by 1.9% on the same quarter in 2017.

Most of current construction workloads are coming from the infrastructure and commercial sectors. However, the total volume of construction output in Northern Ireland has decreased by 4% in Q4 2018 compared to Q3 2018 and this is being blamed on the Brexit delay factor. On the whole, Brexit is thought to be having an extremely negative impact on Northern Ireland's construction sector.

The £1bn secured by the DUP in their deal with the Conservatives following the 2017 general election is now being spent on infrastructure projects such as the Belfast Transport Hub and the York Street road interchange project. This should provide a boost to the local construction market during 2019.

As previously noted, labour supply remains a cause for concern with evidence that migrant workers are moving out of the local area; the current level of resource is considered insufficient.

In last quarter's report, the Northern Irish construction industry was seeing strong levels of activity in the infrastructure, commercial, hotel and residential sectors, while investment in infrastructure was expected to drive growth moving forward.

GREATER LONDON
PAUL SWEENEY

Construction activity across Greater London is reasonably robust, owing to a strong pipeline of Cat A in particular and Cat B commercial office fit-outs and refurbishments. This is particularly evident for Cat A office refurbishments between 20,000sq ft and 250,000sq ft and low to medium scale occupier Cat B fit-outs. Large new build commercial developments remain lacklustre as they have for the past couple of years.

While there are reports of a loss of foreign labour, resource availability is enough and tendering remains competitive. There are no notable shortages of materials.

Tender volumes are anticipated to decrease in the coming months although this is not expected to impact workloads in the short term. Costs are expected to rise.

At present, Brexit does not appear to be impacting construction in the capital.

In our previous quarterly report, we reported on fairly good levels of construction activity across Greater London. However, this was tempered by concerns about a fall-back in work and subdued pricing growth.

▼ 120 Fenchurch Street, London

In our previous report, activity in the Midlands was decreasing owing to funding issues as clients began to suffer from a lack of confidence. Labour and material price increases were becoming problematic.

MIDLANDS
PHIL WRIGHT

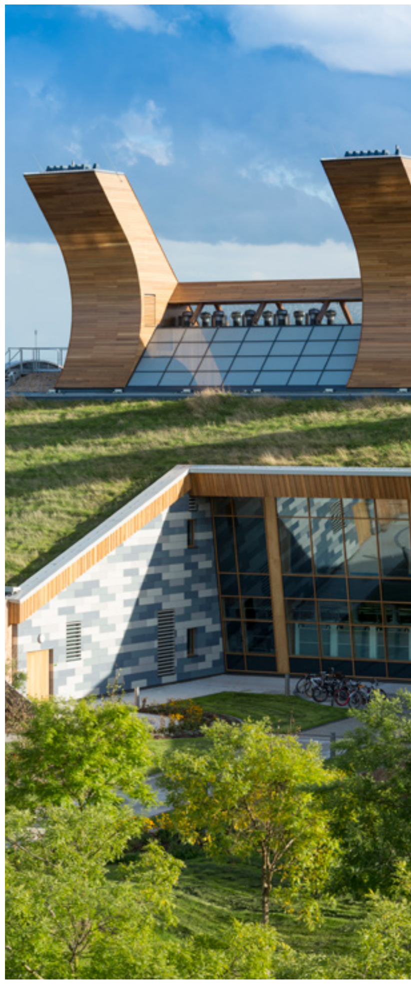
Construction output levels in the Midlands remain strong with several high-profile schemes currently being developed.

Within the West Midlands area, the residential sector is a key factor of growth with a number of large PRS schemes being developed, together with private sale multi-room apartment schemes. Developers from around the country are looking to Birmingham for future opportunities. Significant developments are ongoing or planned at Snowhill, Digbeth, Smithfield, Paradise, Arena Central, Centenary Square, and Eastside.

The region's universities continue to develop their long-term master plans, and infrastructure schemes are also progressing, with preparations for HS2 beginning, together with extensions to the developing tram network in Birmingham, cycle routes, and the generation of public access amenity space. The investment in HS2 and the Commonwealth Games is providing a positive influence on overall workloads.

The unknown factor of the resolution to the Brexit withdrawal and the extension to the negotiating period is a concerning factor as some clients and funders look to wait for the outcome before committing to some projects. This has also seen changes to contractor pricing, with contractors seeking to cover their risk exposure relating to unforeseen fluctuations in price when agreeing contract sums at this time.

In general, there is a move to secure supplies from the Euro-zone prior to the finalisation of Brexit, or to find suitable alternatives that will be less susceptible to pricing risks.



▲
The GlaxoSmithKline Carbon Neutral Laboratories for Sustainable Chemistry, Nottingham

NORTH EAST ENGLAND
PETER BURNS

Across North East England, contractors remain busy in the private commercial, education and residential sectors and it is anticipated that pipelines will continue to focus in these areas over the coming months.

Brexit-related concerns remain, in particular the impact the availability of labour and materials will have on future projects in the region. However, at present, the impact of Brexit is fairly marginal and should continue as such until Brexit is resolved. Those market sectors identified as busy are progressing, unaffected by inward investment and so, to a certain extent, construction activity across the region is continuing as normal.

The region is cautiously optimistic moving forward though contractors and consultants alike are constantly reviewing their business strategies to reflect the market requirements in the North East.

In the previous quarter, Brexit concerns were mounting in the North East with several major contracts being put on hold as a consequence. The commercial, education and residential sectors were the main growth areas.

◄
Hilton Hotel, Gateshead, Newcastle

NORTH WEST ENGLAND
ALEX HALLIDAY

Despite the slight reduction in demand for labour and services and reticence of certain speculative developers, demand for goods and services remains high, particularly from favoured sub-contractors and suppliers. However, costs have not risen sufficiently to drive consideration of alternative/novel forms of construction.

The level of enquiries appears to be at the same level. Clients with speculative schemes have highlighted Brexit as the primary reason for delaying project starts. Contractor perception of risk is high, due to unknown and potential immediate impact to goods and services from abroad.

Skill shortages persist as a consequence of buoyancy levels in the local market and loss of foreign labour. Bricks, plasterboard and cladding insulation are in short supply, compounded by amendments to building regulations and bankruptcy of one of the major local insulation suppliers. Materials are increasingly being brought in from further afield, e.g. China for granite, stone etc.

There are a number of opportunities on the horizon with public and private sectors still spending. Due to this steady stream of work, it is not evident that Brexit is having an effect on regional construction.

In our previous quarterly report, while workloads in the North West were good, mounting levels of uncertainty were affecting funding arrangements and creating greater contractor selectivity.

Houldsworth Hall, Manchester

YORKSHIRE & HUMBERSIDE
STEVE GREEN

Construction activity is buoyant, with a shift to larger scale housing developments initiated by local authorities and developers, while hotel and student accommodation sectors begin to level off. Enquiries on P22 healthcare projects are emerging and enquiries for large projects trickle through.

However, clients remain risk averse and retail clients in particular are focussed on achieving value for their investment returns. Recent tender returns suggest the sub-contractor supply chain is very selective and those who are competitive are reluctant to tender for work outside the local area. There is a shortage of bricklayers, reflected in relatively higher tender returns.

Public sector works (healthcare) continue with the same momentum. There has been increased investment activity in schools due to rationalisation by local authorities of existing provision. Brexit does not appear to have had significant impact on public sector works. Investment in property remains unchanged.

The shortage of good quality bricklayers driving up masonry construction costs is one of the factors likely to feed in to higher tender pricing.

In the previous quarter, local construction was buoyant with retail restructuring coming to the fore, and commercial and student accommodation projects dominating the market.

Hiscox Building, York

In our previous quarterly report, housebuilding was the strongest sector across the South East region while commercial, infrastructure and education projects were also providing opportunities.

SOUTH EAST ENGLAND

RICHARD HINE

Construction activity within the South East region is continuing unabated by ongoing Brexit uncertainty. However, there have not been any noticeable project starts with housebuilding and higher education works remaining the strongest growth areas. Any potential new projects are speculative at the current time and there has been no marked improvement on bringing programmes to fruition in the short term. This is not been helped by Brexit uncertainty hanging over the industry. Refurbishment and extension projects are ongoing whereas the new build market is much quieter.

No material or labour shortages have been reported over the last quarter while the nearby London market has a continuing impact on tender pricing and activity. The outcome of the recent local elections has not helped the construction industry within the South East with several seats changing hands meaning potential projects have been put on hold for the time being. New retail clients are promising investment into the local shopping developments which should provide a boost to the industry in the short term.

In general, contractors have secured work for the summer. However, there is concern over workloads for Q4 2019 and 2020 as projects seem to be stalling and there is a general sense of low confidence in the region.

◂
St John's Catholic Comprehensive School, Kent

SOUTH WEST ENGLAND
MATTHEW QUIRK

Although there is general concern over delayed deliveries and deferred investment, construction activity in the South West remains resilient. However, uncertainty around the UK's departure from the EU is now affecting decision making, therefore order books are not quite as buoyant as they were last year.

Bricks, blocks and insulation have been identified as being in short supply due to manufacturers not stock-piling and instead making to order. Otherwise material and labour availability remains strong across the region.

A £10m boost for local high streets has been approved by the West of England Combined Authority (WECA) through its brand-new Love our High Streets initiative. Pilot projects in Midsomer Norton, Bedminster and Kingswood will explore new ways of making high streets fit for the future, including increasing footfall, attracting new uses and improving local facilities, and are expected to lead on to a longer-term project.

Following approval of a new 26-storey tower to be built on the site of a former ambulance station adjacent to Castle Park in Bristol, a 'first pile' ceremony has been held to mark the start of construction. Developed by Linkcity and built by Bouygues UK, the scheme will include Bristol's tallest residential tower when complete in 2022.

In our previous quarterly report, construction activity in the South West region was buoyant although there were growing concerns over the climate of economic uncertainty which meant some clients were becoming more cautious about how they spent their money.

Theatre Royal, Bath

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(All data current as of 24th May 2019)

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NI Composite Economic Index, Northern Ireland Statistics and Research Agency

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RICS UK Construction & Infrastructure Market Survey

The Glenigan Construction Review

Update on the BCIS Quarterly Briefing

Key:

ONS: Office for National Statistics

NISRA: Northern Ireland Statistics and Research Agency

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors

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