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Q4 2017

Economic and Regional Inflation Report

Economic

- Bank Rate rises to 0.5%
- Inflation hits 3.0%
- Construction output falls by 0.9%

Autumn Budget

- National Retraining Scheme launched with the aim of addressing the skills shortage
- Promise of £44bn overall Government support to meet target of building 300,000 new homes a year
- £400m to regenerate housing estates and £1.1bn to unlock strategic sites for development
- £1.7bn city region transport fund

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Construction grows but main contractor profit margins slip

The Construction Products Association's (CPA) Construction Trade Survey for the July - September period revealed that 40% of main building contractors reported a rise in construction activity in Q3 2017 in comparison with a year earlier. The survey, which seeks the views of main contractors, SME builders, civil engineering firms, product manufacturers and specialist contractors, also reported that 31% of main contractors are seeing a fall in profit margins. This is because they are not reflecting the effect of Sterling's depreciation on materials costs in their tender prices.

Tender price inflation 'to average 1% next year'

According to Gardiner & Theobald (G&T), delayed investment in construction activity is cooling demand and this is likely to limit tender price inflation at around 1% in 2018. In its fourth quarter Tender Price Indicator, G&T forecast that northern parts of the country would see stronger growth than London and the South East next year.

Heathrow reveals long list for offsite construction hubs

Heathrow Airport has revealed a long list of 65 potential locations for their logistics hubs which will serve as centres for offsite construction to support their expansion plans. From this list, four sites will be chosen. The new logistics hubs are designed to spread jobs created by this £16bn project across the country and will make use of regional expertise in offsite manufacturing and disruptive technologies. Progression of the scheme has now stalled and the public consultation into the Heathrow expansion was re-opened in October following receipt of new evidence concerning potential effects of the project on air quality, noise and biodiversity. Despite this the Secretary of State for Transport Chris Grayling insists the case for expanding Heathrow is as strong as ever

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New Projects in the Pipeline

Despite subdued growth during Q4 2017, several new projects have been announced this quarter:

Glasgow City Council has approved the £600m Strategic Housing Investment Plan (SHIP) to build 10,000 affordable homes by 2022/23.

Arsenal Football Club has announced it will add 780 seats to its Emirates stadium over the next two summers as well as refurbishing some of the club's hospitality facilities

Southampton City Council has extended its 10-year highway service contract with Balfour Beatty for a further five years.

Chris Grayling has announced £345m of funding for **local roads projects** across England

East Herts District Council has approved a £50m scheme to regenerate the Bircherley Green Shopping Centre in Hertford which will feature an 86-bed Premier Inn, 4,800m^2 of retail and food outlets and 70 new residential apartments

Stansted Airport has submitted plans for a new £130 million 34,000m^2 arrivals building.

London Southend Airport has submitted an application to ~ Rochford District Council to extend its terminal building.

Work is underway on a £110 million programme of works at **Luton Airport** aimed at transforming the airport and increasing its capacity by 50%

A contractor is due to be appointed for a new £50 million concrete deck scheme at **London City Airport** - part of a £344 million expansion programme at the Docklands site.

Tenders have recently been returned and a contractor is due to be appointed soon on an £88 million aircraft hangar project at **Gatwick Airport**.

Caddick Developments has revealed plans for a major new £300m mixed-use project in the centre of Leeds to include two 16-storey private rented residential towers.

Nottingham City Council has begun its search for a contractor to build a new £50m bus station and multi-storey car park in the city centre on the site of the former Broadmarsh car park which is currently under demolition in the city centre.

Economic Overview

Gleeds' Economic Report reviews various fiscal factors which affect UK construction, taking into account inflation, construction output and orders and employment. It also assesses other relevant matters, such as the implications of Brexit and wider external factors, which have the potential to impact on the economic environment and general confidence in the market.

LOOKING BACK TO Q2 2017	Q3 2017 - THE LATEST FIGURES
Construction output	
According to the Office of National Statistics (ONS), construction output decreased by 0.5% in Q2 2017 compared to Q1 2017	Construction output decreased by 0.9% in Q3 2017 when compared to the previous quarter (Q2 2017)
Over the previous 12 month period construction output had increased by 0.9%	Over the previous 12 month period (September 2016 to September 2017), construction output has increased by 1.1%
Pay and employment	
In Q2 2017, the unemployment rate fell to 4.4%	Unemployment hits 42-year low of 4.3%
ONS predicted that average weekly earnings (total pay) in the construction industry rose by 2.1% between June 2016 and June 2017	Average weekly earnings for construction workers rose by 2.5% in Q3 2017

Gleeds' regional inflation forecast

ANNUAL % CHANGE	Q4 17 to Q4 18	Q4 18 to Q4 19	Q4 19 to Q4 20	Q4 20 to Q4 21
EASTERN	3.00	3.50	3.50	4.00
GREATER LONDON	1.50	3.00	5.00	5.00
NORTH EAST	3.00	3.00	3.00	3.00
YORKSHIRE & HUMBERSIDE	5.00	5.00	5.00	5.00
NORTHERN IRELAND	0.00	4.00	6.00	6.00
MIDLANDS	3.00	3.75	4.50	4.45
NORTH WEST	2.25	3.75	3.75	4.25
SCOTLAND	1.50	2.25	2.75	3.00
SOUTH EAST (EXCLUDING LONDON)	1.00	3.00	3.50	5.00
SOUTH WEST	2.00	2.50	3.50	4.75
WALES	2.00	3.00	4.00	4.25
UK AVERAGE	2.2	3.3	4.0	4.5

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, considering the uncertainty surrounding Brexit negotiations and the current political instability, extra caution is advised at this time.

"Whilst the ongoing nervousness in the industry about the impact of Brexit has seen inflation levels soften over recent months, pricing movement remains positive. We anticipate the UK average forecast of 2.2% in price growth by Q4 2018 driven more by the Midlands and Northern regions where less risker development opportunities might be available when compared to London and the South East.".

ROSS SAVAGE, DIRECTOR, GLEEDS

Background to Economic Outlook

UK Economics

In their November Inflation Report, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted by a majority of 7-2 to increase the Bank Rate by 24 percentage points to 0.5%. The Committee also voted unanimously to maintain the program of non-financial investment-grade corporate bond and UK Government bond purchases which had been put in place following the EU Referendum.

The MPC assesses that the outlook for the economy in terms of inflation and activity remains broadly similar to the situation presented in their August Inflation Report. However, the steady erosion of slack, as exemplified by low unemployment, has reduced the degree to which it is appropriate for the MPC to accommodate an extended period of inflation above the target. Therefore the MPC now judges it appropriate to tighten monetary policy in order to return inflation sustainably to the 2% target and is the basis of their decision to raise interest rates for the first time in ten years. All members of the MPC agree that any future increases in Bank Rate would be expected to be at a 'gradual pace and to a limited extent' and forecasts are based on the assumption that it will rise to 1% by the end of 2020.

The basis behind this decision is the MPC's view that the economy's ability to grow without generating inflationary pressure has fallen. Historically, annual GDP growth of up to 2.75% would be permissible without driving up inflation, but the MPC now judges that this has fallen to around 1.5%.

GDP growth increased from 0.3% in Q2 2017 to 0.4% in Q3 and the BoE believes that the period of stuttering economic growth, caused by a weakening in consumption growth, has now come to an end. Central forecasts, conditioned on the gently rising path of Bank Rate implied by current market yields, show GDP growing modestly over the next few years. Consumption growth is expected to remain slow initially, before increasing in line with household incomes as wage growth starts to recover.

Net trade is bolstered by strong global expansion and the past depreciation of sterling. Business investment is being hit by uncertainties surrounding Brexit negotiations, but growth is still apparent, partly due to strong global demand and strong profitability.

CPI inflation rose to 3.0% in the year to September 2017 and the BoE expected it to have peaked at 3.2% in the year to October 2017. (Official statistics show that CPI actually rose by 3.0% in the year to October 2017 and the BoE have not commented on whether this undershoot affects its forecast in this regard.) Above-target inflation has been created by increased import costs as a result of the depreciation of sterling and rising energy prices. This has been reflected in inflated food and energy prices in particular, as the offset of costs is passed on to consumers. Looking forward, inflation is expected to fall back towards the 2% target at the end of the forecast period (end of 2020).

Sterling is now 18% below its November 2015 peak, reflecting the financial markets' perspective on the potential impact of Brexit, which is based on assumptions about the UK's trading relationships following the exit from the EU. For this reason, exchange rates are very sensitive (in both directions) to news emerging from the Brexit negotiations.

Global Economics

Global GDP growth has been steadily increasing over the past year and this is expected to continue in the near term. Part of this is to be attributed to a recovery in investment growth and a sharp increase in capital goods growth.

Quarterly Eurozone GDP growth was 0.6% in Q3 having strengthened in recent quarters, apparently supported by improving business and consumer confidence, alongside accommodative monetary policy and easing credit conditions. Eurozone unemployment was 8.9% in September, down from 9.9% a year earlier and is projected to fall further. According to IHS Markit, Europe's recovery has strengthened and is now the highest it has been for six and a half years at 57.5.

In recent years, quarterly US GDP growth has been broadly stable, at around 0.5%. However, in Q3 2017, growth was stronger at 0.7% and is now projected to remain at a similar level in the near term.

The forecasts for both the Eurozone and the USA puts the UK performance into context, highlighting the UK's performance in comparison.

Source: Bank of England, Quarterly Inflation Report, November 2017

Summary

- The Bank Rate has been increased to 0.5%
- GDP is expected to grow modestly over the next few years
- CPI is forecast to return to target at the end of 2020

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Autumn Budget
2017 Review

On Wednesday 22nd November, the Chancellor delivered the Autumn Budget, marking the first time since Kenneth Clarke's final Budget in 1996 that the financial address has been given in the autumn.

Philip Hammond's Budget laid out the Government's long term vision of continuing to restore the public finances to health, while delivering investment where it is needed to build an "economy fit for the future".

Economic Forecasts

The Chancellor outlined economic expectations for the forecast period (2017-2022), as advised by the Office for Budget Responsibility (OBR).

Predicted GDP growth for 2017 has been revised downwards due to a prolonged period of disappointing productivity growth. The OBR expects GDP growth to be 1.5% in 2017, 1.4% in 2018, 1.3% in 2019 and 2020, before recovering to 1.5% in 2021, and then again to 1.6% in 2022. In spite of this, the Chancellor argued that the UK economy remains resilient, demonstrated by near record low unemployment and a steady rate of economic growth.

The OBR expects productivity to remain flat in 2017, before increasing 0.9% in 2018 and 1.0% in 2019, a significant downwards revision from the 1.7% annual average predicted at Spring Budget 2017.

Inflation is expected to peak at 3.0% this quarter (4Q 2017) then easing over 2018, reaching 2.0% by the end of the year, as the effect of sterling's depreciation wanes.

According to the Chancellor, despite reducing the deficit by three quarters since 2010 (from 9.9% of GDP to 2.3%), borrowing and debt remain too high. The Government is committed to reducing the deficit without scrimping on vital investment. The OBR forecasts that debt will peak at 86.5% of GDP in 2017 before gradually falling as a share of GDP. Borrowing is to reach £49.9bn in 2017/18, £8.4bn lower than forecast at Spring Budget 2017, which represents 2.4% of GDP, before falling to £39.5bn in 2018/19 (1.9% of GDP) and £25.6bn in 2022/23 (1.1% of GDP).

Key announcements relevant to the construction industry, as well as the macroeconomic activity which will impact on the sector, are as follows:

Taxation

Key announcements relating to taxation and levy rates include:

- Increasing the Personal Allowance (PA) to £11,850 and the Higher Rate Threshold (HRT) to £46,350 in 2018/19
- Increasing the National Living Wage to £7.83 from April 2018
- Cancellation of plans announced at Spring Budget 2017 to increase the main rate of Class 4 National Insurance Contributions
- Provision of £220m for a new Clean Air Fund in support of the National Air Quality Plan, paid for by Vehicle Excise Duty (VED) and Company Car Tax diesel supplements
- Increasing VED rates for cars, vans and motorcycles registered before April 2017 and the First-Year Rates for cars registered after April 2017
- Introduction of a VAT domestic reverse charge to prevent VAT losses within construction labour chains from October 2019. The aim of this is to shift responsibility for paying VAT along the supply chain to remove the opportunity for it to be lost

Productivity

Autumn Budget 2017 linked a number of announcements related to technology, education, support for businesses and infrastructure, under the broad title of productivity. Underpinning this drive for improved productivity is a major increase in public investment, much of this delivered through the National Productivity Infrastructure Fund (NPIF). The Budget extends the NPIF into 2022/23 increasing investment to a total of £31bn.

The additional funding, the Budget and the modern Industrial Strategy set out the next steps in the Government's plan to build an economy fit for the future.

Technology

The Budget outlined measures to makes the UK a leader in the development and deployment of digital technologies, including:

- Establishment of a new £10m Regulators' Pioneer Fund to help regulators to develop innovative approaches aimed at getting new products and services to market
- A Charging Investment Infrastructure Fund worth £400m (half private investment) to support the transition to zero emission vehicles. The Government will also provide £100m to guarantee continuation of the Plug-In Car Grant to 2020 in order to help consumers with the cost of purchasing a new battery electric vehicle
- Growing the £4.7bn NPIF investment in science and innovation announced at Autumn Statement 2016 with a further £2.3bn of additional spending in 2021-22. The soon-to-be-released Industrial Strategy White Paper will provide further detail on what this funding will support, including £170m for innovation to transform productivity in the construction sector
- Increasing the rate of the R&D expenditure credit from 11% to 12% with effect from 1st January 2018

2017 Review

Education and Lifelong Learning

The Budget announced a number of measures to improve productivity through education and lifelong learning. These include:

- An additional £406m investment in maths and technical education, and in helping people develop the skills they need to succeed in the new economy
- Plans to ensure that every secondary school has a fully qualified computer science GCSE teacher, and the setup of a new National Centre for Computing to produce training material and support schools
- Earmarking a further £20m to help teachers prepare for the implementation of T-levels, as announced at Spring Budget 2017
- £42m to pilot a Teacher Development Premium with the ultimate aim of addressing regional productivity disparities through reducing the regional skills gap
- Development of the National Retraining Scheme together with the Trades Union Congress and the Confederation of British Industry. The partnership will oversee targeted short-term action in sectors with skills shortages, initially focussing on construction and digital skills
- £8.5m over the next two years to support Unionlearn, an organisation of the Trades Union Congress to boost learning in the workplace

Business support

Supporting businesses is seen as a major opportunity to facilitate productivity growth. In light of this, the Budget announced the development of an action plan to unlock over £20bn of patient capital investment by:

- Establishing a new £2.5bn Investment Fund incubated in the British Business Bank
- Doubling the annual allowance for people investing in knowledge-intensive companies through the Enterprise Investment Scheme (EIS)
- Backing overseas investment in UK venture capital through the Department for International Trade

Infrastructure

The Autumn Budget 2017 states that "good quality infrastructure is essential for the economy and productivity" and announces investment worth at least £24bn via the NPIF by 2022-23 to include:

- A £1.7bn Transforming Cities Fund to support intra-city transport
- An additional £45m to tackle around 900,000 potholes across England
- £160m investment for new 5G infrastructure
- An additional £76m for flood and coastal defence schemes over the next three years
- The adoption of a presumption in favour of offsite construction by 2019 across suitable capital programmes, where it represents best value for money by the Department for Transport, the Department of Health, the Department for Education, the Ministry of Justice, and the Ministry of Defence

The Infrastructure and Projects Authority will publish an update to the National Infrastructure and Construction Pipeline in December 2017. This will set out a 10 year projection of public and private investment in infrastructure of around £600bn.

2017 Review

Devolution

- In recognition of the role that each region plays in boosting the national economy, the Autumn Budget 2017 presented plans to increase the productivity of our regional cities, further details of which will be set out in the Industrial Strategy. Announcements include:
- £300m to ensure HS2 infrastructure can accommodate future Northern Powerhouse and Midlands rail services
- £600m of investment in the North of Tyne Combined Authority over the next 30 years, with mayoral elections in May 2019
- £337m to replace the nearly 40-year-old rolling Tyne & Wear Metro stock with modern energy-efficient trains
- A further £5m to help enable the South Tees Development Corporation to take ownership of the SSI Redcar Steelworks site, and the Government will work with local partners to prepare the site for redevelopment; bringing the total pledged to £123m
- £243m to continue to work with Transport for Greater Manchester
- Agreement of a second devolution deal agreed in principle with the West Midlands Mayor and Combined Authority to address local productivity barriers (the Midlands Engine);
- £2m to develop options for the Coventry-Leamington Rail Corridor (Midlands Connect), and £4m for congestion measures
- Initiation of a pilot 'manufacturing zone' in the East Midlands whereby planning restrictions are reduced to allow land to be used more productively;
- Plans for housebuilding, rail and road projects, and proposals for joint governance in the Cambridge-Milton Keynes-Oxford corridor area
- Pilot of 100% business rates retention in London in 2018-19
- An independent review of the funding and financing of Crossrail 2
- Exploration of options for housing deals with local authorities in the Thames Estuary region;
- £79m investment towards a new A30 link road near St Austell, Cornwall, supporting housing development in the area
- £98m to support a new bridge in Great Yarmouth, alleviating congestion and stimulating growth in the Great Yarmouth and Lowestoft (New Anglia) Enterprise Zone

The Budget also announced more money for the devolved Governments through to 2020/21:

- £2bn for Scotland - how this money will be spent will be outlined in the Scottish Government's draft budget for 2018/19 on 14th December
- £1.2bn for Wales - how this money will be spent will be outlined in the Welsh Assembly's finalised budget for 2018/19 on 3rd December
- £660m for Northern Ireland - how this money will be spent will be outlined in the NI Executive's budget planned for mid-January 2018

Housing

Housing was the big winner in the Budget lottery. The Chancellor committed a large chunk of his address to highlighting the Government's promise to "fix the broken housing market, and restore the dream of home ownership for a new generation" and outlined a package of measures to increase housing supply by the end of this Parliament to its highest level since 1970 (equivalent to 300,000 per year).

Key headlines include:

- A total of £44bn in Government support, including capital funding, loans and guarantees
- Review into delays in permitted developments going forward
- Money to support home building funds, small sites fund, housing infrastructure fund, estate regeneration fund
- Extension of the Help to Buy: Equity Loan scheme

Homeownership & Affordable Homes

Plans to promote homeownership include:

- Scrapping stamp duty land tax (SDLT) for first-time buyers for properties worth up to £300,000 (or for the first £300,000 of a property up to the value of £500,000 in London)
- Changes to SDLT for additional homes
- A further £10bn investment in the Help to Buy: Equity Loan scheme
- Launch of a £2m competition to support FinTech firms developing innovative solutions that help first-time buyers ensure their history of meeting rental payments on time is recognised in their credit scores and mortgage applications
- Enabling local authorities to increase the empty homes council tax premium back to 100%, thereby encouraging their owners to bring them back into use
- Proceeding with the £200m Right to Buy pilot scheme for housing association tenants in the Midlands

The Government's commitment to affordable homes is confirmed by:

- A further £2bn of funding for affordable housing (announced in October), including funding for social rented homes. This takes the total budget for the Affordable Homes Programme to £9.1bn to 2020/22 which is expected to provide at least 25,000 new affordable homes
- The lifting of Housing Revenue Account borrowing caps for councils in areas of high affordability pressure

The Budget also set out a plans to help address homelessness and rough sleeping, as well as providing support for renters.

2017 Review

Investment & Funding

The housing investment landscape will see some significant changes:

- The Homes and Communities Agency (to be renamed Homes England) will have strengthened powers to invest and intervene more actively in the land market
- The Government will provide £1.1bn for a new Land Assembly Fund to enable Homes England to work alongside private developers to develop strategic sites, including new settlements and urban regeneration schemes
- Five new garden towns will be developed
- The Housing Infrastructure Fund will receive £2.7bn of further investment
- The Government will support more strategic and zonal planning approaches in the South East, such as a commitment from Oxfordshire County Council to build 100,000 homes in the Cambridge-Milton Keynes-Oxford corridor by 2031
- The Government will provide a further £630m to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation
- A further £1.5bn is to be provided to the Home Building Fund, with loans specifically targeted at supporting SMEs who cannot access the finance they need to build

Planning reforms

These will focus on:

- Maintaining existing protection for Green Belt land
- Deallocating sites from local plans if there is no prospect of a planning application being made;
- Enabling the Government to intervene where local authorities have failed to progress local plans;
- Widening planning permissions to allow for first-time buyer led developments
- Increasing housing density in urban areas
- Strengthening the Housing Delivery Test with tougher consequences where planned homes are not being built. A review panel, chaired by Sir Oliver Letwin will be set up to investigate the gap between housing completions and the amount of land allocated or permissioned in time for the Spring Statement 2018
- The expectation that local authorities will bring forward 20% of their housing supply as small sites in order to will speed up the building of new homes

Skills

Autumn Budget 2017 highlighted the Government's intention to support the construction industry in delivering these promises by ensuring that there is a workforce fit to support construction requirements. This includes:

- £34m to scale up innovative training models across the country, including a programme in the West Midlands
- Finalisation of a Construction Sector Deal to support innovation and skills in the sector, including £170m of investment through the Industrial Strategy Challenge Fund
- The National Retraining Scheme as detailed above

Health

The Budget announces £6.3bn additional funding for the NHS, including £3.5bn of capital investment in estates transformation, and improvement and efficiency schemes on top of the £425m already provided in Spring Budget 2017. This is earmarked as follows:

- £2.6bn for local groups of NHS organisations (Sustainability and Transformation Partnerships) to deliver transformation schemes
- £700m to support turnaround plans in the individual trusts facing the biggest performance challenges, and tackle the most urgent and critical maintenance issues
- £200m to support efficiency programmes

Industry reaction

The Budget has been cautiously welcomed by the construction industry with commitments to R&D, infrastructure, housing, and skills popular among many.

The ambitious house building targets were generally welcomed by industry, but Gavin Smart, deputy chief executive at the Chartered Institute of Housing, stresses the necessity of meeting the varied needs of families and individuals across the UK, particularly renters. Stuart Minchin, director of buildings at recruitment firm Matchtech, also highlighted the potential challenges for construction companies looking to hire in an already skills-short environment given this drive for housebuilding.

The good news…

Nick Roberts, Atkins' chief executive for the UK and Europe said, "The commitments around building more housing, freeing up much-needed land and reforming planning regulations are positive developments, as are ongoing commitments to the big transport projects that connect our great towns, cities, communities and businesses."

Mark Robinson, chief executive of the public sector procurement organisation Scape Group, welcomed measures to give councils access to finance to enable them to build affordable homes.

David Thomas, chief executive of house-builder Barratt Developments, said: "We welcome the Government's continued focus on housing, the stamp duty cut will help more young families get a foot on the property ladder and further planning reform is vital to increasing housing supply – overall this is a positive budget putting housing front and centre where it belongs."

Brian Berry, Chief Executive of the Federation of Master Builders, said: "The Chancellor has put small-and-medium-sized builders at the heart of ambitious plans to tackle the growing housing crisis. The Chancellor appears to be putting his money where his mouth is with the announcement of £44bnof capital funding, loans and guarantees."

2017 Review

And the bad…

Aside from a brief mention of Crossrail 2, the Chancellor failed to elaborate on key infrastructure projects in his Autumn Budget, such as the Heathrow Airport expansion, as well as defence and energy schemes.

While the Budget outlined the adoption of “a presumption in favour of offsite construction by 2019 across suitable capital programmes, where it represents best value for money”, it failed to recognise the potential this holds for addressing the housing shortage, and it is felt that the £34m earmarked for training in the construction sector will not be enough to tackle the sheer scale of the problem that exists. The Budget also failed to provide specific details with regards to the apprenticeship levy which is a key priority to the construction industry.

There are also concerns that the changes to stamp duty will serve to drive up house prices.

Lewis Johnston, RICS Parliamentary and Public Affairs Manager said: “The pledged £44bn package of housing support seems positive, but it does not represent the kind of comprehensive strategy we need, nor is it clear how much of this figure is made up of previously announced policies. Most of the announced measures are also only due to come in in 2019/2020 instead of having an immediate impact, and the Chancellor stated that we would not be building the 300,000 new homes a year until the mid-2020s, leaving the country to wait at least eight years.”

Summary

The technological revolution was a repeated theme throughout the budget with the Chancellor reiterating his desire to maintain Britain’s position at the forefront of this, securing our digitally-enabled future. In particular, there was a focus in providing the country’s workforce with the digital skills required in this changing world.

The OBR’s downward revisions to growth have overshadowed much of the rest of the Budget. Forecasts are especially disappointing given a fairly positive international backdrop in both the Eurozone and US. However, there are indications that the OBR have been overly pessimistic with the ONS’s second estimate of GDP showing Q3 2017 growth at 0.4%, unrevised from the preliminary estimate.

Although this appears to be a business-friendly budget, it is somewhat light on immediate changes with many of the announcements not being implemented until 2019 and beyond. The construction industry will await the detail of how, and when, these initiatives will be implemented.

Abolishing stamp duty for first time buyers is welcomed, as is some form of planning reform but there was a meagre sum mentioned for training and throwing money at the housing crisis will not solve the labour shortage or skills crisis. Infrastructure investment is also welcome but we need concrete timelines rather than further hollow promises. Productivity is a complex issue and his comments on the role of digital enablement underlined that, as an industry, we need to help ourselves but again, short term improvement is linked to a guaranteed labour pool, an increasingly distant prospect as Brexit causes a stampede of tradespeople choosing to leave the UK.

RICHARD STEER
CHAIRMAN OF GLEEDS WORLDWIDE

Statistics & Figures

Outlook for GDP & inflation

Sources:
Office for National Statistics, Second estimate of GDP: July to September 2017
Office for National Statistics, UK consumer price inflation: October 2017

Contrary to OBR forecasts from Autumn Budget 2017, GDP growth increased by 0.4% in Q3 2017, up slightly from 0.3% in Q2 2017. This increase has been fueled by consumer spending, which is deemed unsustainable in the longer-term. Services remained the strongest contributor to GDP growth across the quarter, growing by 0.4% in Q3 compared to Q2. The largest contribution to services growth was from business services and finance, specifically professional, scientific, administration and support.

However, business investment rose by just 0.2% in Q3 2017, down from 0.5% in Q2. As a key factor in productivity growth, this is a concern for future GDP growth. Production output grew by 1.1% between Q2 and Q3, a slight upwards revision from the preliminary estimate of 1.0%. Construction output fell by 0.9% in Q3 2017, a downwards revision from the preliminary estimate of -0.7%. Agriculture increased by 0.2% in Q3 2017, revised down by 0.8% from the preliminary estimate, due to new data received for the period.

Contrary to the BoE's predictions outlined in their November inflation report, CPI in the year to October 2017 was 3.0% (the BoE had predicted CPI to peak at 3.2% in October), unchanged from September. Rising food and recreational goods' prices were offset by a fall in motor fuel and furniture prices maintaining inflation at 3.0%. However, it is worth noting that the inflation rate for food and non-alcoholic beverages has increased to 4.1%, the highest it has been since September 2013.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) inflation
rate was 2.8% in October 2017, unchanged from September 2017. The difference between CPI and CPIH can be attributed to the owner occupiers' housing costs (OOH) component of CPIH given that this accounts for around 17% of CPIH. Inflation continues to exceed the BoE's 2% target, however it is forecast to fall back gradually towards target at the end of the forecast (end of 2020).

Summary

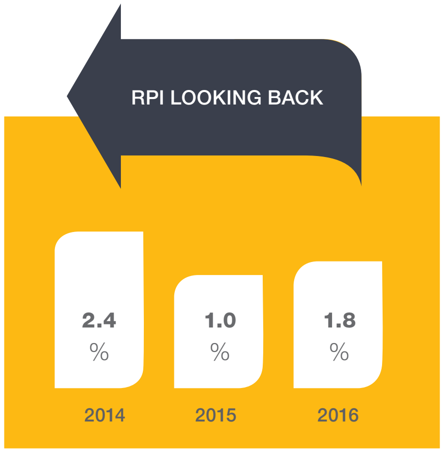
- GDP growth picked up slightly to 0.4% in Q3 2017
- CPI remained unchanged at 3.0% in the year to October 2017 compared to September
- Inflation continues to exceed BoE targets

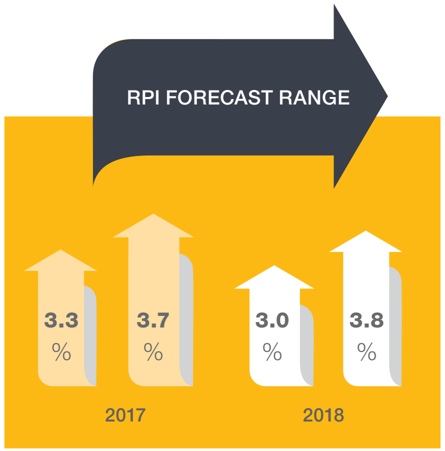
GDP, CPI & RPI Movement Predictions

	2017	MOVEMENT	2018	MOVEMENT	2019	MOVEMENT	2020	MOVEMENT	2021
GDP growth (%)	1.6	↓	1.5	↑	1.7	↑	2.0	↔	2.0
CPI (%)	2.7	↓	2.6	↓	2.2	↓	2.1	↓	2.0
RPI (%)	3.6	↓	3.5	↓	3.1	↑	3.2	↓	3.1

Source: HM Treasury Forecasts for the UK Economy, November 2017

"The risks around any forecasts are considerable"





"The construction industry has its fingers crossed. A potential slowing in London and the South East coupled with ongoing Brexit deal speculation and fragile Government leadership should, in theory, signal trouble. Yet we're continuing to see pricing growth with demand in some parts of the UK difficult to satisfy. There was little in the Autumn Budget to respond to the skills shortage and we still don't understand the impact of Brexit on the migrant workforce so it looks like this profile could continue for a while."

SARAH DAVIDSON
DIRECTOR OF RESEARCH & DEVELOPMENT, GLEEDS

Tender Price Forecasts

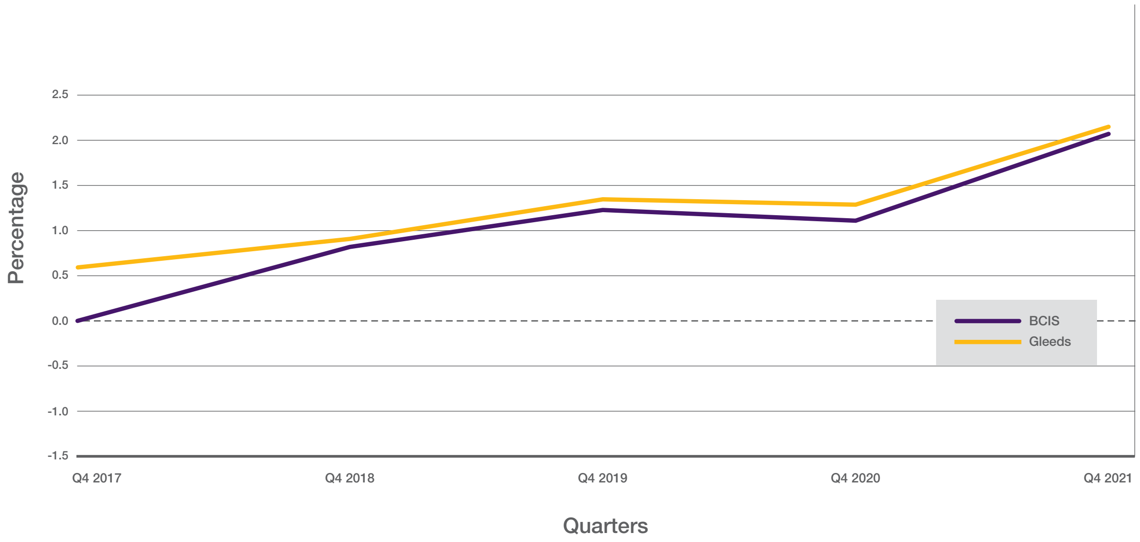
Following the EU Referendum, the Building Cost Information Service (BCIS) continues to forecast a period of reduced pricing in the construction industry; this is predicted to be the norm throughout 2018.

Year on Year	Current Forecast (04/08/2017)
Q4 2017 to Q4 2018	-1.3%
Q4 2018 to Q4 2019	+4.2%
Q4 2019 to Q4 2020	+4.0%
Q4 2020 to Q4 2021	+5.7%

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

+ 2.2% between 2017-18
+ 3.3% between 2018-19
+ 4.0% between 2019-20
+ 4.5% between 2020-21

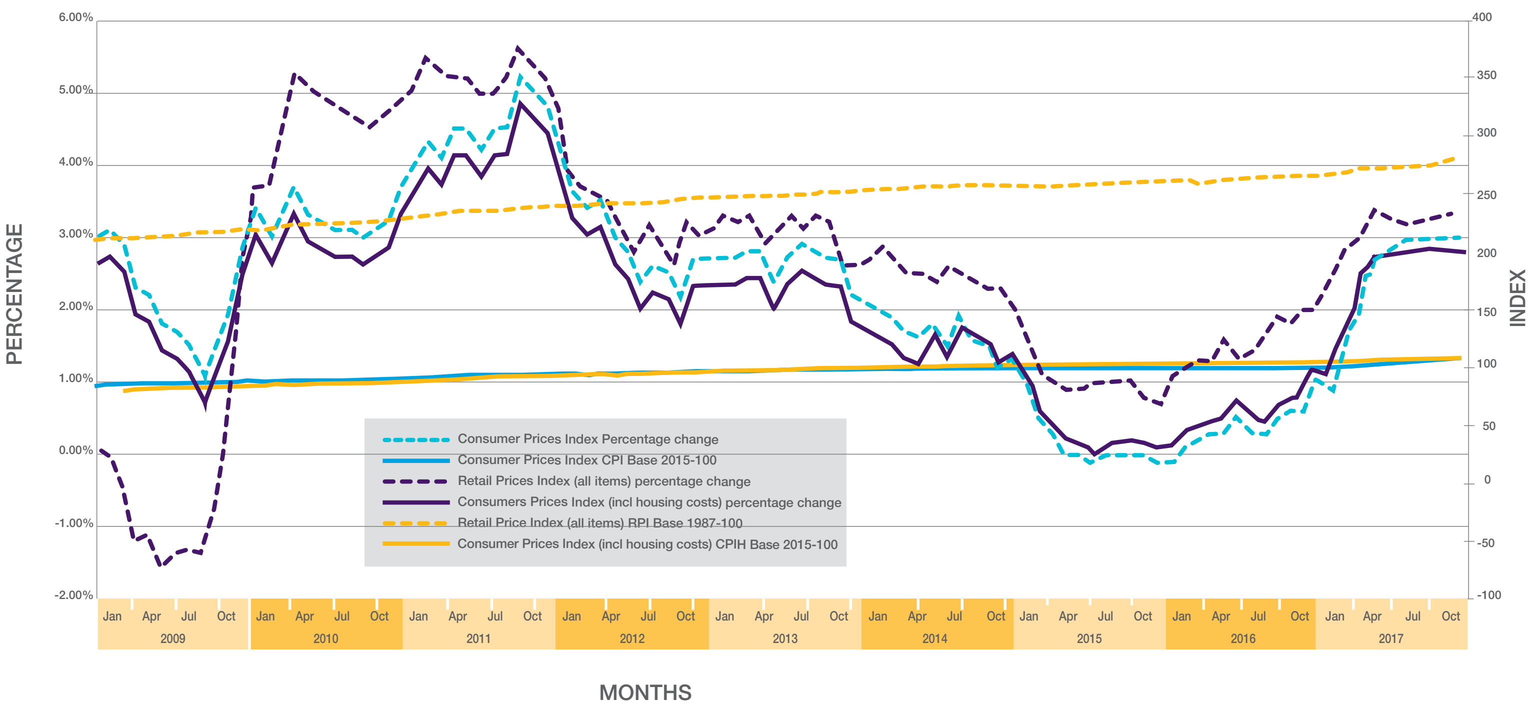
Gleeds vs BCIS Tender Prices Forecasts



Note: The declines seen in the recent BCIS All-in-TPI forecasts are not fully reflected in Gleeds' forecasts

Annual Inflation Rates

ANNUAL INFLATION RATES OFFICE OF NATIONAL STATISTICS Q4 2017



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Volume of Construction Output

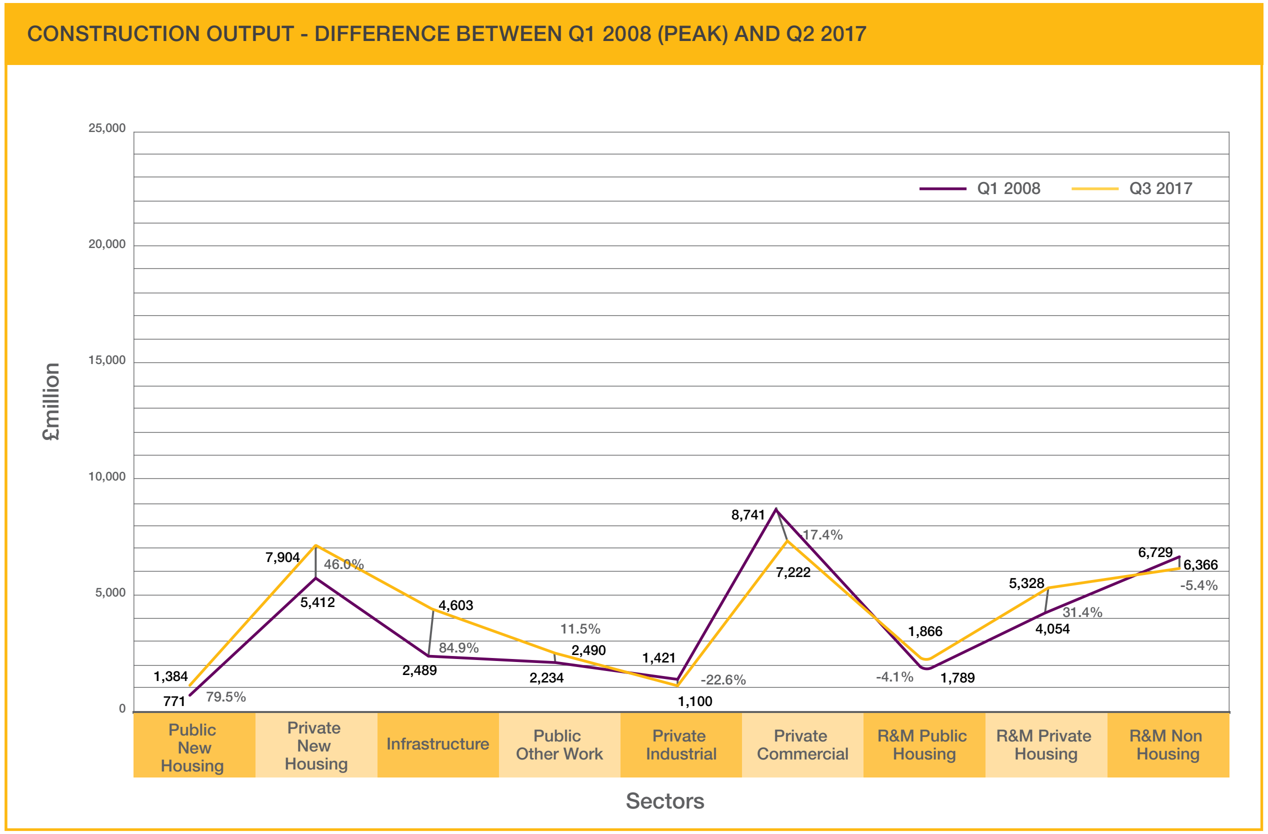
Looking at the volume of construction output, the ONS reports that:

- In Q3 2017, all **construction output fell** by 0.9% from the previous quarter although output remains at relatively high levels. This decline follows a contraction of 0.5% in Q2 2017 representing the first consecutive quarter-on-quarter decline since Q3 2012.

  Both new work and repair and maintenance (R&M) fell in Q3, by 0.7% and 1.4% respectively.

- **All new work** in Q3 2017 fell by 0.7%, owing to falling infrastructure, public non-housing and private commercial volumes, at 2.1%, 4.1% and 3.1% respectively. The biggest positive contributions came from the public housing and private industrial sectors, which grew by 4.9% and 6.2% respectively. Private housing output also increased by 1.8% over the quarter and this sector represents almost a third of new work in terms of value.

- In Q3 2017 **all repair and maintenance works (R&M)** output declined by 1.4% compared to the previous quarter (Q2 2017) with all sectors showing a fall in output. The biggest decline of 3.9% came from public housing R&M (although this is the smallest sector in terms of value). Private housing and non-housing R&M also fell by 1.7% and 0.4% respectively over Q3 2017.



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Value of Construction Output

Sector	Q2 2017 – Q3 2017	Q1 2008 – Q3 2017
All Work	-0.3	20.6
All New Work	-0.0	26.1
New Public Housing	6.3	69.1
New Private Housing	1.6	76.0
New Private Commercial	-2.2	-12.5
New Private Industrial	5.8	-15.0
New public Non-housing	-3.5	8.0
New Infrastructure	-0.4	94.2

R&M	Q2 2017 – Q3 2017	Q1 2008 – Q3 2017
All R&M	-1.0	11.3
Public housing R&M	-3.6	-6.6
Private housing R&M	-1.4	46.9
Infrastructure R&M	2.2	N/A
Public non-housing R&M	-1.1	-46.0
Private non-housing R&M	-0.8	-30.5

Source: Office for National Statistics, Construction output in Great Britain: September 2017

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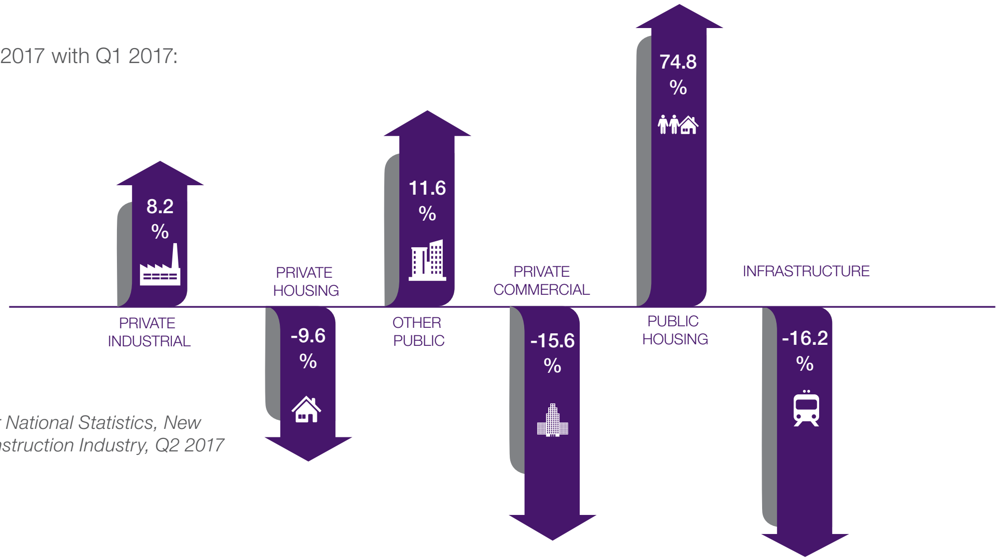
Value of Construction Output

According to the ONS, the total volume of new orders for the construction industry fell by 7.8% in Q2 2017 compared with Q1 2017 and by 12.6% on Q2 2016.

Comparing Q2 2017 with Q1 2017:



Source: Office for National Statistics, New Orders in the Construction Industry, Q2 2017

Employment

During Q3 2017, UK wide unemployment fell to 4.3% from 4.4% in Q2 2017. This is the lowest unemployment rate for 42 years. Over the same timeframe, the number of people in employment actually fell slightly by 14,000 to 75.0% from 75.1% in Q2 2017.

The number of people classed as 'unemployed', however, fell by 59,000 over Q3 2017. This figure only accounts for those currently looking for work and not those who are 'economically inactive at present' which explains the discrepancy in the data. Economically inactive is used to describe those who are not seeking or unavailable to work and includes students, retirees, the long-term sick, and those looking after family. The biggest drop in employment has occurred in the 18-24 age group, from 62.0% to 61.4%, which could be due to them returning to education.

Workers' earnings, excluding bonuses, rose 2.2% in Q3 2017 compared to Q3 2016. However, when accounting for inflation, wages actually fell by 0.5% in real terms. This is an indication that wage growth is unable to keep up with the pace of inflation.

In the construction industry, average weekly earnings (total pay) rose by 2.5% over Q3 2017 compared with the previous quarter, while regular pay (excluding bonuses) rose by 1.6% over the same timeframe. According to Building's latest annual contractor salary survey of over 400 firms, the industry is having to hike up salaries more than other industries in order to secure an adequate workforce. 18% of construction firms reported offering pay increases of more than 5% to bring in new staff, above the UK average of 7%. Estimators, senior site managers and contract managers were demanding the biggest salary increases.

Source: Office for National Statistics, UK labour market: November 2017

Market Reports

The results of the Q4 2017 RICS Construction & Infrastructure Market Survey indicate a broadly steady pace of growth relative to the previous quarter's report. A net balance of 22% of respondents reported an increase in workload, up marginally from 21% in Q2 2017. Respondents continue to comment on Brexit-related uncertainties as weighing on investment decisions.

The survey pointed to stable levels of activity in all sectors apart from public and private housing sectors, which increased to 12% and 33%. Activity in the private commercial sector is much more modest than has been the norm over the past three years. In infrastructure, 21% more contributors reported a rise rather than a fall in workloads with the rail and energy sub-sectors expected to drive output growth in the coming 12 months.

In the building sector, 62% of respondents expect tender prices to increase over the next 12 months, down slightly from 69% in Q2 2017. Increased costs are also impacting profit margins with a net balance of only 12% expecting a rise in profits.

The lack of sufficiently skilled workers remains a serious obstacle for many, with 62% seeing this as an impediment to growth (up from 55% in Q2 2017). Shortages are particularly acute for quantity surveyors

RICS

Construction Market Survey

22% REPORTING A RISE IN WORK

Q4 2017

and bricklayers. Respondents were also keen to point out that the quality of workers is just as important as the numbers. 42% of respondents feel that Government-funded programmes, such as the apprenticeship levy, are moderately effective.

Financial constraints are still reported to pose the most significant challenge to building activity, however the share of contributors expressing this view has come down to 69% (from 79% in Q2). The biggest contributor to these constraints is difficulty accessing bank finance and credit, which reflects a more cautious stance by banks given cyclical market conditions and Brexit considerations.

A net balance of 45% of respondents expect activity to rise rather than fall over the next twelve months, down from an average of 62% in the four quarters immediately preceding the EU referendum. All nations and regions of the UK are reporting on increasing workloads, although growth is modest in Northern Ireland.

62% EXPECT TENDER PRICES TO INCREASE

RISE IN OUTPUT

LABOUR SHORTAGE

> **The Q3 2017 RICS UK Commercial Property Market Survey results, on balance, show a slight improvement relative to the previous quarter. Indicators capturing both investor and occupier demand edged up during Q3, while near term capital value and rental growth expectations were somewhat more positive. That said, there is still a significant divergence across sectors, with industrial clearly outperforming while the backdrop for the retail sector remains more challenging.**

RICS, UK Commercial Property Market Survey, Q3 2017

Construction Output Summary of Forecasts

SECTOR	YEAR	EXPERIAN	CONSTRUCTION PRODUCTS ASSOCIATION
CONSTRUCTION OUTPUT	2017	1.0	1.6
	2018	0.7	0.7
	2019	2.1	1.8
TOTAL NEW WORK	2017	1.4	2.0
	2018	1.1	1.3
	2019	2.6	3.1
REPAIR AND MAINTENANCE	2017	0.1	0.8
	2018	0.1	-0.3
	2019	1.1	-0.8
PUBLIC HOUSING	2017	2.0	2.0
	2018	2.0	3.0
	2019	3.0	3.0
PRIVATE HOUSING	2017	3.0	3.0
	2018	3.0	3.0
	2019	4.0	2.0
INFRASTRUCTURE	2017	1.0	7.4
	2018	2.0	6.4
	2019	10.0	9.8
PUBLIC NON-HOUSING	2017	-2.0	-0.3
	2018	-1.0	-0.4
	2019	0.0	2.4
PRIVATE INDUSTRIAL	2017	-10.0	-8.4
	2018	1.0	-3.1
	2019	1.0	-1.1
PRIVATE COMMERCIAL	2017	3.0	-0.1
	2018	-1.0	-3.3
	2019	-3.0	0.0

Source: BCIS Summary of Output Forecasts, October 2017

The Glenigan Index

Glenigan's monthly Index provides data on the value of construction projects that have started on site during the previous three months, and the influences that will drive future industry workload over the coming two years.

The October 2017 index advises that the total number of project starts was down by 19% across all sectors compared to October 2016. This follows falls of 12% and 10% in September and August respectively.

Glenigan have seen a sharp decline in public sector and commercial project starts as well as a recent faltering in the industrial sector. Private and social housing have also seen marked declines since summer 2017. However, the hotel and leisure sector saw a 10% increase on a year ago and civil engineering is benefitting from a surge in infrastructure work.

Regional variations are evident, with Northern Ireland suffering the sharpest decline – 62% down on a year ago, while North West England saw the smallest decline – just 7%.

Source: The Glenigan Index, October` 2017

gleeds

Construction Output Summary of Forecasts

On the assumption that the UK will withdraw from the single market and customs union on or before 29th March 2019, the BCIS expects that Brexit will result in restrictions on the movement of labour. They propose three possible political outcomes from the exit negotiations, each of which BCIS deem to be equally likely:

- **Upside scenario - the UK will remain in the EU free trade area but with restrictions on the movement of labour**
- **Downside scenario - the UK will not retain access to the EU market and there will be restrictions on the movement of labour**
- **Central scenario - there will be some restrictions to trade and access to labour**

The BCIS expects that each of these scenarios would have different consequences for the construction industry and, based on this, they have prepared three different forecasts for New Work Output, as summarised below. This shows marginal deviations from last quarter with new work output revised upwards between 2Q2017 and 2Q2019, revised downwards between 2Q2019 and 2Q2020, and showing no change for the remainder of the forecast period.

Time Period	Upside Scenario	Central Scenario	Downside Scenario
2Q2017 - 2Q2018	4.6	3.4	1.9
2Q2018 - 2Q2019	5.4	-0.2	-9.8
2Q2019 - 2Q2020	6.2	1.1	-5.7
2Q2020 - 2Q2021	6.4	4.3	6.5
2Q2021 - 2Q2022	5.5	5.7	9.8

Source: BCIS Update on the Quarterly Briefing, October 2017

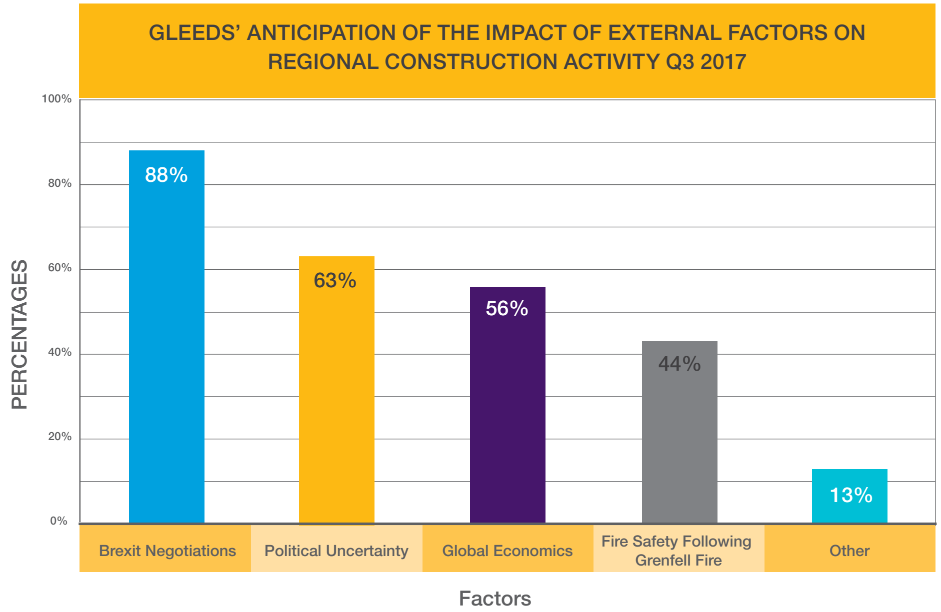
Regional Reports

Gleeds continues to monitor construction activity and confidence in each nation and region of the UK.

Pre-empting stressors may not be possible but, with careful monitoring of regional activity, it can enable us to adapt easily to any adverse conditions that may arise. We also observe and analyse the potential impact of external factors on local regions such as the effect of Brexit negotiations and political uncertainty.

Our offices have considered the external factors that are most affecting their local industry. The results are shown in the table below. Overwhelmingly, Brexit was viewed as the biggest stressor with 88% of offices reporting as such, although this is down slightly from last quarter. Political uncertainty and global economics were also seen as having an impact, at similar levels to the previous quarter. Fire safety issues following the Grenfell Tower fire are affecting almost half of the offices Other factors identified include the progression of HS2 implementation as a potential stressor on labour availability and effects of the interest rate rise on economic activity.

The Autumn Budget 2017 is not taken into consideration in this quarter's regional reports.

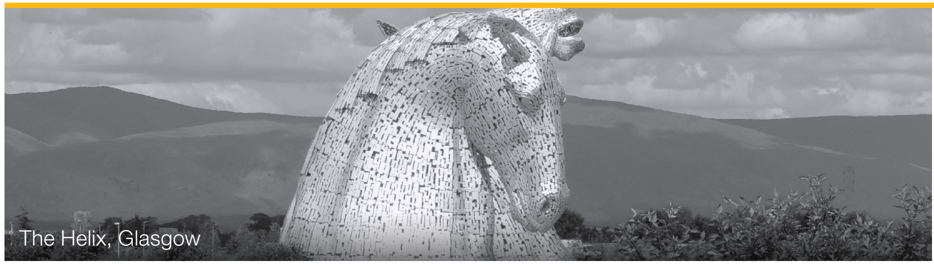


Our regional commentaries provide a mixed picture of construction activity within the UK and, often, within local regions. The appetite to build is changeable and there is a general theme that, while smaller value projects are progressing, larger high-profile projects can be subject to delays at present. This is, in the main, due to uncertainty around the ongoing Brexit negotiations which is affecting the behaviour of developers and investors.

Anecdotal evidence suggests migrant workers are already returning home, either as a consequence of the uncertainty around Brexit or because the depreciation in sterling makes it less attractive to work in the UK. This will only exacerbate the acute skills shortage in some trades and will apply further upward pressure on wages. The impact will be most acute in London where the numbers of migrant workers are higher than elsewhere in the UK.

Gleeds' national and regional offices report as follows:

Regional Reports


The Helix, Glasgow

Nigel Watkins

Reporting on the Wales Region

Construction output within the South Wales market is expected to remain constant or increase over the next two to three years at least, with Cardiff and Swansea identified as potential hotspots for future growth.

The recent increase in interest rates suggests the BoE is looking to ‘prop up’ the value of Sterling, which has declined since the Brexit vote, to tackle inflation. However, Sterling actually fell on the announcement that further rate increases were not imminent and as interest rates remain very low, it can be argued that this is still a good time to borrow and invest. Nevertheless, the combination of Brexit uncertainty and the potential of rising interest rates has caused market uncertainty across Wales.

There are concerns about Wales’ resource availability with regards to delivering large scale projects such as Hinkley Point. This could put pressure on local projects, as the lack of available labour may push labour costs up particularly if such resources need to be sourced from further afield. Uncertainty with regard to the eventual effect of Brexit on EU workers is a significant concern for the construction industry.

The lower value of Sterling continues to boost exports but, in a construction market so readily reliant on imported goods, we could see tender prices rising accordingly if the value of sterling remains at today’s low rates.

Student accommodation and commercial office space remain key sectors locally.

In our previous quarterly report, the construction market in Wales was busy and competitive, driven by the student accommodation and commercial office sub-sectors. Prospects for future growth opportunities were good with Cardiff and Swansea in particular rife for development across the commercial, education, health, and infrastructure sectors. We also reported on the potential for the Swansea Bay Tidal Bay initiative to be rolled out across the country.

Brian Stevenson

Reporting on the Scotland Region

The Scottish economy remains fragile, particularly in the construction sector, with the latest published figures demonstrating that the Scottish construction sector was in recession in 2016, with a 4% annual reduction of growth.

With a number of major projects either completed or approaching completion, it is expected that the general level of construction activity in the region will be down, particularly on large scale civil projects. Similar to last quarter, the spike in infrastructure projects in previous years is now dropping to a normal level, however the Glasgow City Deal and other regional deals will provide significant funding for various infrastructure programmes moving forward. The ongoing upgrade of the A9 is also expected to replace some of the lost demand in this sector, but is unlikely to fully replace the capacity required for the simultaneous delivery of the M8 Upgrade, Queensferry Crossing and Aberdeen Western Peripheral Route. In general, construction activity also appears to be at a lower level than last year at this time with no obvious major public or private sector demand on the horizon.

Whilst the lack of progress in the Brexit negotiations continues to add angst and uncertainty in the UK, there is also an added pressure on the UK Government and the construction industry following the Grenfell Tower fire, which may expose weaknesses in the Building Regulations and the procurement process. This may also lead to an increase in costs, particularly in respect to high rise buildings.

The recent increase in the interest rate from 0.25% to 0.5% may also reduce investment levels particularly in the commercial sector where it will add to funding costs.

Within our region, the Scottish Government’s recent decision to scrap empty building rates on unoccupied non-residential premises could give Scotland the edge in attracting investment and growing the economy, including construction, in particular the industrial and commercial sectors. However, while the political discussions around the possibility of a second independent referendum seem to have tailed off somewhat, it is believed that the residual impact of this prospect is still having a negative effect on private sector inward investment in Scotland.

Last quarter, Scotland reported on continuing uncertainty and a lack of confidence in the market. In particular, concerns around inflation and Brexit negotiations were testing the resilience of the Scottish economy with contractors reacting with heightened selectivity. The Scottish National Party’s loss of seats in at June’s General Election has, however, resulted in them taking a step back from pushing for a second independence referendum.

Regional Reports

Childrens Hospital for Wales, Cardiff

Galvin Tarling

Reporting on the Eastern Region

Across the Eastern region, the market activity remains stable. Cambridge, in particular, is demonstrating considerable buoyancy with the commercial, science, technology, and pharmaceutical markets the main drivers of growth. As reported last time, the number of significant developments drawing to a close continues to generate capacity in the market, which should serve to supress inflationary increases.

However, there are underlying reservations in business confidence around the uncertainty of Brexit and, for this reason, there are incidences of projects being put on hold. Consequently, workloads are not expected to pick up over the coming 12 months. In addition to this, material price rises are anticipated for the start of 2018 which will impact on construction costs generally.

In our previous report, the Eastern region was displaying renewed confidence with high levels of assumed workload security. This was tempered somewhat by the probability of increasing construction costs going forward.

Geoff Warke

Reporting on the Northern Ireland Region

Northern Ireland's market shows a general growth in the economy by 1% in 2017 and 2018 even with the uncertainty over Brexit and local political instability. Given that the region has the only international border within the UK, it is expected that a 'sympathetic' solution to border control will be reached in order not to adversely affect economic activity throughout Ireland.

The local political talks between respective parties have failed and the Secretary of State for Northern Ireland has issued an interim budget. What happens next is uncertain but there is the distinct possibility of direct rule from Westminster in the short term until a lasting deal is agreed between the local political parties.

Following the post-election deal between the Democratic Unionist Party (DUP) and the Conservatives, the region has received the first £50m out of an agreed £1bn of extra spending secured as part of the DUP's "confidence and supply" arrangement with the Government. This will heighten activity in the coming years, with £400m earmarked for infrastructure projects over the next two years.

Economic activity in Northern Ireland has grown by 0.50% from Q2 2016 to Q2 2017 and, over the last two years, annual output averaged over the four quarters to Q2 2017 compared to the previous four quarters has increased by 1.70% which is positive progress.

In last quarter's report, the construction market in Northern Ireland was experiencing considerable uncertainty in respect to Brexit, but was bolstered by additional funding secured by the DUP in their post-Election deal with the Conservative Government. This was expected to trigger a period of heightened activity in the coming years and to provide a significant boost to the local market.

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Regional Reports


St Pancras Renaissance, London

Paul Sweeney

Reporting on the Greater London Region

The general feedback with regards to commercial office workload in and around London is that major new build projects are few and far between in the capital. Furthermore, the expectation is that there are unlikely to be any new starts on a speculative basis for the foreseeable future. There is still activity in smaller refurbishments and the general churn types of projects especially in mid-town and the West End. The fit-out market is also still relatively buoyant.

Reflecting this lull in demand, main contractors are actively seeking work for the second half of 2018 and more so for 2019. Early trades are slowing on the bigger projects, pushing them to seek smaller projects not necessarily normally on their radar. This level of competition for work is helping to subdue tender price rises.

London's construction workloads are predicted to decrease over the next quarter and construction costs to remain stable.

In our previous quarterly report, London was having difficulties proceeding on major schemes, particularly in the commercial sector, while smaller projects were progressing as normal. While workloads were expected to remain stable, a fall in the volume of tenders hitting the market was deemed possible.

Phil Wright

Reporting on the Midlands Region

The construction industry in Birmingham remains positive with a number of large schemes either in construction or being brought to the market, and many multi-plot sites continuing to progress. The tower crane count on the city skyline is still providing a good barometer to reflect the healthy levels of construction activity underway. Multi-room residential schemes and industrial warehousing projects remain key drivers of growth.

The opportunity provided by HS2, the Big City Plan, and the potential for the Commonwealth Games all coming to Birmingham are providing a factor of insulation from the effects of Brexit and political uncertainty.

There is no defined shortage of materials, but there are items that are on long lead-ins and this needs to be factored into construction programmes. The volume of work currently experienced within the city centre means that logistics operations are proving fundamental to the success of projects, with many main contractors engaging specialist logistics subcontractors to manage material movement, delivery, site set up, welfare, security, and labour gangs.

In Nottingham, there are currently a number of projects working their way through planning. There is the chance that these may all come to site at similar times and this has the potential to cause a spike in subcontractor workload in the next 18 months. These projects include the Broadmarsh car park and shopping centre redevelopment and the Nottingham Colleges' City Hub.

Recently received lump sum design and build tenders show that there is a significant pricing range in the market at present (15-18%) which may be interpreted as a keen market place for some bidders on sub £10m projects. Feedback from local contractors suggest there are fewer tendering opportunities in the market place at the moment.

The lack of clarity over the Brexit negotiations is adding to market uncertainty which property developers and lenders dislike. This is, in turn, suppressing investment for property development. Following on the negotiations heels, perceived threats to university funding may impact another area of current significant investment. A clear investment plan from the UK Government would help to shape the future of our industry.

In our previous quarterly report, the Midlands region reported on increased pricing uncertainty due to exchange rates and a dependence on Eurozone suppliers. However, the outlook was largely positive with the education sector in the East and the private residential sector in the West helping to maintain workloads.

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Regional Reports

Alex Halliday

Reporting on the North West Region

The construction sector in the North West continues to be buoyant with major £100m+ schemes still being released to the market. The PRS and student residential sector remain at the top of construction activity in Manchester and the city is also starting to see developments of smaller scale luxury apartment projects, such as the recently commissioned Equitable Buildings project. Residential developments including tall towers are becoming more common, with the 64-storey development at Owen Street currently on site and more schemes in planning stages.

Contractors are continuing to be very selective when tendering, with negotiated contracts being common for projects over £15-20m. The ability to contract with preferred sub-contractors and suppliers is an increasing concern; many have lengthy lead-in periods or have increased costs. Contractors are reporting that the quality of workmanship is now only average at best.

Construction activity in Liverpool continues to increase, with a large number of projects starting on site and old sites being developed out in recent months. The city is creating affordable homes with local public sector partners, and the rate of private sector homebuilding is accelerating with the local region attracting interest from several investors seeking to build luxury PRS homes in the city centre – many of which will be in the Prince's Dock and Fabric District areas.

Liverpool's regeneration drive is continuing to attract businesses. The announcement that HMRC are to move 3,500 staff to the India Buildings, and the choice of Kings Waterfront for 1,500 call centre staff in a new office block by YPG Developments, in association with The Contact Company, shows how attractive the city is to investors and developers.

Despite wider economic uncertainties, confidence in Liverpool is booming. There are currently over 270 major new projects planned, with £14bn worth of schemes in the pipeline, including the new £1bn Paddington Village in the Knowledge Quarter and the Ten Streets Creative District.

Brexit and the uncertainty emerging from the UK's negotiations with EU are still having a negative effect on the market, however the weaker pound is attracting more overseas investors.

In our previous quarterly report, we described a resilient industry in the North West with numerous tendering opportunities, particularly in the residential and education sectors. The private residential sector was a key driver of growth.

Peter Burns

Reporting on the North East Region

In the North East, there has been a growing range of construction projects coming to the fore over the past couple of years, with an increased volume of new bespoke commercial office projects, light industrial units, city centre retail fit-outs and residential new build private housing schemes.

Whilst there has been enough interest from local contractors when competitively tendering for medium and small value projects, most major contractors remain selective when being approached to tender for larger value projects. On these larger value projects, contractors are still in favour of a negotiated procurement route, but are willing to provide competitive tenders where the project tender information is significantly advanced and the number of tenderers are limited.

The Brexit referendum and recent General Election result do not appear to have significantly affected any current or proposed local projects in the short term, but they may have an effect in the medium term.

The region is experiencing longer supply periods for roof tiles and some facing bricks, due to increased volume of new house building over the past couple of years which has seen the main housebuilders bulk-buying these materials.

In the previous quarter, the market in the North East region was busy with an increased volume of new bespoke commercial office projects coming through the pipeline.

Steve Green

Reporting on the Yorkshire & Humberside Region

Construction in the Yorkshire and the Humber region continues to be competitive. As reported last quarter, the education and health sectors are particularly buoyant with additional new opportunities continuing to appear in the latter.

The private sector is also gathering momentum with a greater number of projects in the pipeline. However, the rate at which these are getting to site is slightly unpredictable.

Uncertainty surrounding the Brexit negotiations process is seen as having an effect on construction activity and fire safety changes following the Grenfell Tower fire are also seen as impacting the industry.

In the previous quarter, the market in Yorkshire and the Humber was reported as being buoyant and steady, particularly with regard to the education and health sectors. However, investment decisions were seen as being very market sensitive with investors more aware of the risks around long-term viability.

Regional Reports

Richard Hine

Reporting on the South East Region

Construction activity in the South East appears to be resilient heading into 2018 having sustained reasonable growth in the second half of 2017. The Tunbridge Wells area continues to benefit from the 'knock on effects' of the London market's buoyancy.

The highest levels of activity still remain in the housing sector, with over half of contracts awarded here. Some of these are mixed developments, although most are mainly residential with limited commercial and retail uses. Activity in private commercial and infrastructure projects has exhibited a modest pace of growth, having previously eased slightly, while new residential care home developments also seem to be advancing throughout the region unabated by market fluctuations in the short term.

The impact of the adjacent London market means contractors remain bullish about tender prices and they anticipate a continuing escalation in prices on imported materials due to the weak pound. Price hikes are predicted to be highest for materials such as steel and sheet metal.

Further south, Hampshire is noting a lack of confidence in the market and there is concern about workloads for 2018. This is also reflected in consultants' fee bid opportunities which are already low compared to previous years. Generally, short term projects are proceeding but longer-term projects are proving to be more difficult. This is due to a lack of confidence in the market with both Brexit and political uncertainty being cited as the reasons. The last few weeks have seen a noticeable increase in contractors seeking to get certainty on potential 2018/19 projects.

In our previous quarterly report, the South East continued to exhibit resilience as had been the case for the whole of 2017. However, some large projects were being put on hold leading to concerns over future workloads.

Matthew Quirk

Reporting on the South West Region

After initial concerns surrounding Brexit calmed somewhat earlier in 2017, there now appears to be even greater uncertainty about the process being undertaken, its duration, and what exactly Brexit will mean after all. In the South West, there appears to be a generally held opinion that the construction and property sector will be affected in an adverse way by the UK leaving the EU.

Over recent months, there has been a tendency for raw material prices to creep upwards which has led to price escalation up the supply chain. Notifications have been received from some suppliers that further price increases can be expected in early 2018.

In the Bristol area, there are several high profile private sector schemes either on site or about to start construction. These include the ongoing Metrobus and Bristol Arena projects, 3 Glass Wharf, Temple Quarter Enterprise Zone, Redcliff Quarter and Finzel's Reach. These schemes have already started to transform the Bristol skyline, and they will continue to do so over the coming years. These projects demonstrate the continued and growing demand for both commercial and residential space in central Bristol, something acknowledged by The Sunday Times when they awarded Bristol 'the best place to live in the UK' accolade for 2017.

The Gloucester area is concentrated on the nuclear new build energy sector at this moment in time. Our primary clients are Horizon Nuclear Power and EDF Energy (Hinkley Point C). Hinkley Point C construction is ongoing with "nuclear" concrete now being regularly poured, and significant site/ground works are ongoing. Horizon are still in the front-end engineering phase of their works and are seeking to demonstrate sound engineering and construction capabilities in order to secure financial and Government approval. Hinkley Point C are employing significant numbers of blue collar ground workers and trades people, whereas Horizon are employing white collar professional personnel and also engaging with their supply chain.

In our previous quarterly report, the South West construction market was described as resilient, owing to house-building and residential schemes across the region's cities. However, a shortage of skills was beginning to impact on capacity.

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Acknowledgements

Thank you to the following:

(All data current as at 24 November 2017)

BCIS Summary of Output Forecasts
BCIS Update on Quarterly Briefing
Consumer Price Indices, Office of National Statistics
Forecasts for the UK Economy, HM Treasury
Gross Domestic Product, Office of National Statistics
Inflation Report, Bank of England
Labour Market Statistics, Office of National Statistics
Output in the Construction Industry, Office of National Statistics
RICS UK Commercial Market Survey
RICS UK Construction & Infrastructure Market Survey
The Glenigan Index

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Key

ONS: Office for National Statistics

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors

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