

2017
Q2

Economic and Regional Inflation Report

Economic

- ➔ CPI at its highest for nearly 4 years
- ➔ Construction output up 0.2%
- ➔ GDP growth slows to 0.2%

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Note to reader

Thursday's General Election saw the Conservatives lose power, falling short of the 326 seats needed to achieve an outright majority. With Labour gaining seats, but not enough to overturn the Conservatives, **the UK finds itself in a state of flux with a hung parliament.** Under Theresa May, the Conservatives will attempt to form a minority government with the support of, but not necessarily a coalition with, the Democratic Unionist Party but the stability of this alliance remains unknown.

This result means **renewed uncertainty for the economy.**

Immediately following the close of poll and the resulting Exit Poll, the markets rocked in anticipation of a hung parliament.

The pound fell almost 2% on the US dollar overnight, and now stands at about \$1.27. Against the euro, the pound was down 1.7% at 1.1350. The FTSE 100 is up 0.9% yet UK companies were left shaken with housebuilders and retail companies seeing their shares fall. The reaction is somewhat subdued when compared with the 10% weakening of the pound after last year's EU Referendum, and analysts are putting this down to the assumptions that a hard Brexit now looks much less likely. Optimism is being cultivated by some commentators who are predicting an end to the Conservative's austerity measures.

However, to ensure stability and surety in the markets, a quick resolution is required. In the coming days and weeks we will come to understand what the result of the election really means and how this might impact on short-term economics and on forecasts for our industry.

Please note that the content included within Gleeds Q2 2017 inflation report was drafted before the election, and it should therefore be considered in light of the current situation the UK economy finds itself in. We will be commenting on future developments and how these might impact on the economy and construction industry in due course.

Introduction

Gleeds' Economic Report reviews the various fiscal factors affecting UK construction, taking into account inflation, construction output and orders and employment. It also assesses other relevant topical matters that affect the economic environment and general confidence, such as the implications of Brexit and the general election.



The possible reduced supply of skilled labour from EU, coupled with an overall skills shortage, continues to be an impediment to the industry as a whole.

ROSS SAVAGE, DIRECTOR, GLEEDS

LOOKING BACK TO Q4 2016	Q1 2017 - THE LATEST FIGURES
Construction output	
<ul style="list-style-type: none"> ↑ According to the Office of National Statistics (ONS), construction output increased by 0.2% in Q4 2016 compared to Q3 2016 ↑ When compared to Q4 2015, construction output had increased by 0.6% 	<ul style="list-style-type: none"> ↑ Construction output increased by 0.2% in Q1 2017 when compared to the previous quarter (Q4 2016) ↑ Over the previous 12 month period, construction output increased by 2.4%
Pay and employment	
<ul style="list-style-type: none"> ↔ In Q4 2016, the unemployment rate remained at 4.8% ↑ ONS predicted that average weekly earnings (total pay) in the construction industry rose by 5.2% between December 2015 and December 2016 	<ul style="list-style-type: none"> ↓ Unemployment fell to 4.6% in Q1 2017 ↑ Average weekly earnings for construction workers rose by 0.6% in the year to March 2017
Construction orders	
<ul style="list-style-type: none"> ↑ New orders in Q4 2016 were up 0.3% compared with Q3 2016, and up 2.9% on Q3 2015 	<ul style="list-style-type: none"> ↓ The value of new orders was down 3.4% in Q1 2017, compared with the previous quarter, and up 7.8% on the same quarter in 2016

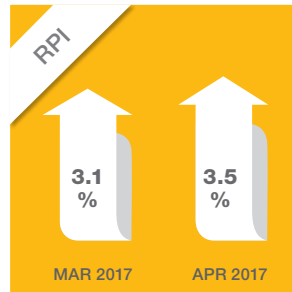
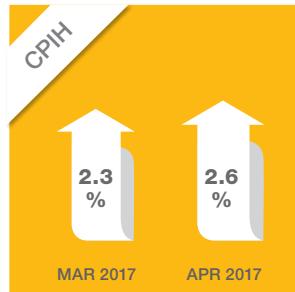
Gleeds' regional inflation forecast

ANNUAL % CHANGE	Q2 17 to Q2 18	Q2 18 to Q2 19	Q2 19 to Q2 20	Q2 20 to Q2 21
EASTERN	2.5	3.0	3.0	3.0
GREATER LONDON	2.0	2.0	4.0	5.0
NORTH EAST, YORKSHIRE & HUMBERSIDE	2.5	2.5	3.0	3.5
NORTHERN IRELAND	2.0	2.0	2.0	2.0
MIDLANDS	3.0	3.5	4.0	4.3
NORTH WEST	3.0	3.0	3.0	3.5
SCOTLAND	2.0	2.3	2.8	3.0
SOUTH EAST	2.0	2.5	4.5	4.5
SOUTH WEST	2.0	2.0	3.5	4.5
WALES	3.0	3.0	4.0	4.0
UK AVERAGE	2.4	2.6	3.4	3.7

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

Statistics & Figures

Outlook for GDP & inflation



Source: Bank of England, Quarterly Inflation Report, May 2017; Office for National Statistics, Second estimate of GDP Jan to Mar 2017, May 2017

In their May Inflation Report, the Bank of England (BoE) voted to maintain the Bank Rate at 0.25%. It was also decided to continue with the programme of non-financial investment-grade corporate bond purchases and UK government bond purchases worth £435 billion. This programme was first announced in the August 2016 report immediately following the EU Referendum. The BoE assesses that the economy has recovered substantially in the nine month period since August 2016 but that aggregate demand slowed in Q1 2017. This is a potential consequence of the weakened pound, and the impact that this has had on household income and spending. At present, 69% of the BoE's business contacts are reporting business growth, a slight reduction from 73% at the end of 2016.

GDP growth slowed in Q1 2017 from 0.6% in Q4 2016 to 0.2%. This has been driven mainly by slower household spending growth, which is expected to remain weak over the remainder of 2017 as a consequence of higher import prices weighing on households' purchasing power. Activity in the service sector was weak, particularly consumer facing sub-sectors such as retail trade and accommodation services. Meanwhile manufacturing output growth remained at normal levels in Q1 2017.

The pound appreciated by 2.5% between the BoE February and May Inflation Report releases, although it remained 16% below its November 2015 peak.

Consumer Price Inflation (CPI) at 2.7% remains above the BoE's Monetary Policy Committee's (MPC) 2% target as the depreciation of the pound feeds through into consumer prices. This is despite continuing subdued levels of growth in domestic costs with wage growth, in particular, weaker than expected. Over the coming months the BoE expects inflation to rise further, peaking at just below 3% in Q4 2017. It is likely to remain above the target 2% rate for the forecast period (2017-2020). Attributing to this higher than expected level of inflation is the effects of the weakened pound on import prices, however the BoE anticipates this to diminish towards the end of the forecast period.

The BoE assesses that the outlook for UK growth will continue to be influenced by the response of households, companies, financial market participants and the prospect of the UK's departure from the European Union (EU). The BoE makes a number of predictions about the nature and timing of trade negotiations, which includes the assumption that the general adjustment to the UK's new relationship with the EU will be smooth.



Summary

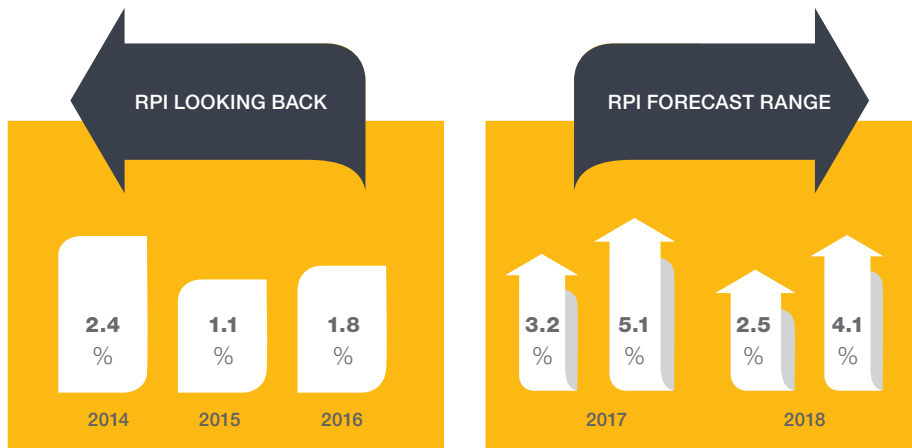
- The Bank Rate is maintained at 0.25%
- CPI rose to 2.7% in the year to April 2017, the highest rate seen since June 2013
- Rising inflation is partly a consequence of the depreciation of the pound
- The 2% inflation target has now been surpassed and is expected to remain above target for the remainder of 2017
- GDP growth slowed to 0.2% in Q1 2017



GDP, CPI & RPI Movement Predictions

	2017	MOVEMENT	2018
GDP growth (%)	1.7	↓	1.4
CPI (%)	3.0	↓	2.5
RPI (%)	3.9	↓	3.3

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



Tender Price Forecasts

Just after the EU Referendum, the Building Cost Information Service (BCIS) revised its tender price forecasts to reflect falling prices in the construction industry. These forecasts have since altered, but continue to indicate that tender prices are likely to decrease in Q3 and Q4 of 2017, before beginning to recover as seen in the table below.

BCIS Forecasts of Tender Prices

Year on Year	Forecasts		
	Pre-Brexit (May Quarterly Briefing, BCIS)	Post-Brexit (08/07/2016)	Current Forecast (12/05/2017)
Q1 2017 to Q1 2018	+4.3	-3.0	-0.7
Q1 2018 to Q1 2019	+4.1	-0.4	+2.1
Q1 2019 to Q1 2020	+4.2	+3.5	+5.5
Q1 2020 to Q1 2021	+6.6	+4.5	+6.1

Gleeds anticipates tender prices to rise over the next four years (Q2-Q2) at a UK average rate of:

- +2.4% between 2017-18
- +2.6% between 2018-19
- +3.4% between 2019-20
- +3.7% between 2020-21

Note that the declines seen in the recent BCIS All-in-TPI forecasts are not reflected in Gleeds' forecasts. While BCIS is of the opinion that tender prices first fell back in Q4 2016, the industry does not generally appear to be in consensus. Furthermore, while BCIS predicts a sharp rise from 2019 onwards, Gleeds' estimates are slightly more modest.

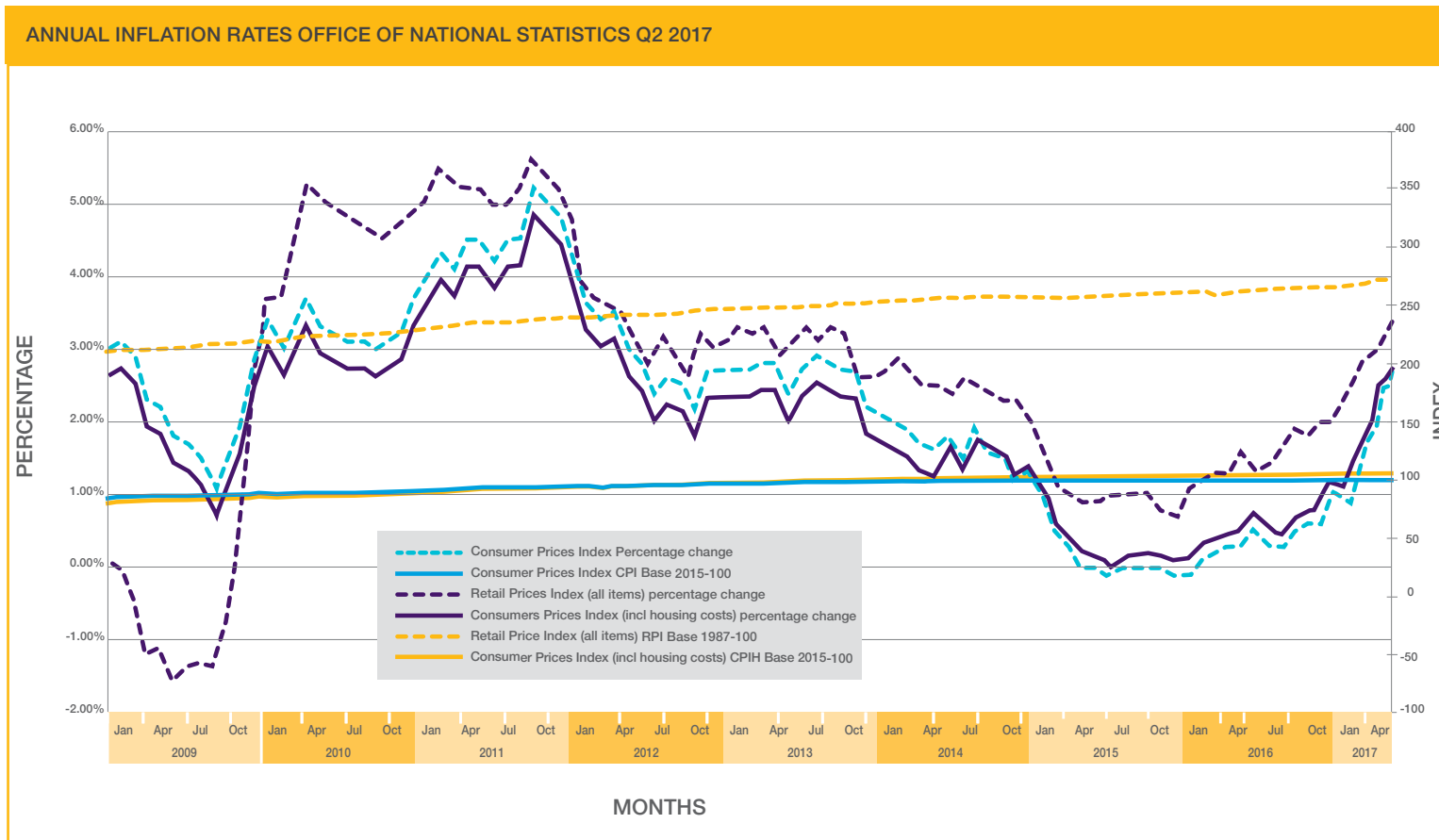


With such political and economic uncertainty in the UK at present, it is anticipated that construction pricing inflation over the next year will be moderate, before returning to more robust growth towards the end of 2018.

SARAH DAVIDSON
DIRECTOR OF RESEARCH & DEVELOPMENT



Annual Inflation Rates



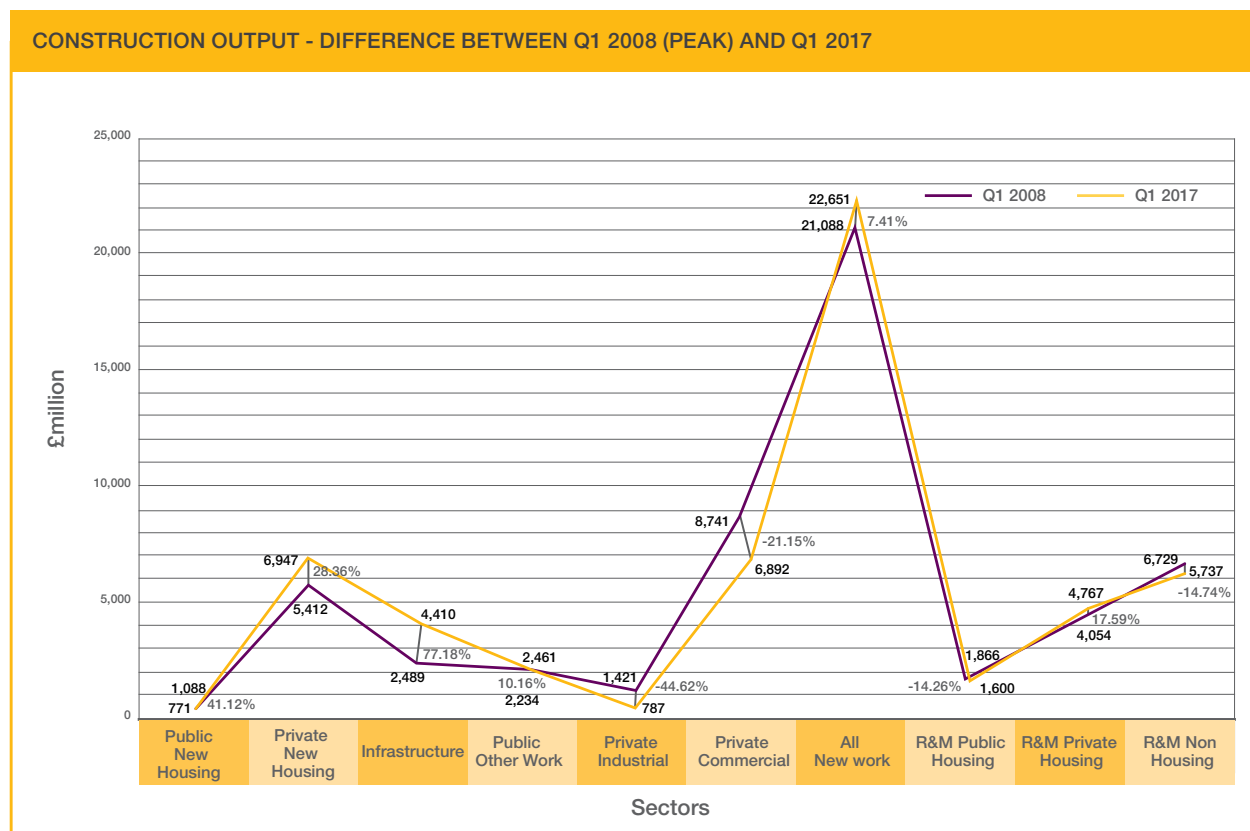
Construction Production & Orders

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

↑ Mirroring the trend from the previous quarter, there was a 0.2% increase in **all construction output** in Q1 2017 compared with Q4 2016, providing further evidence that construction activity has begun to stabilise following the ups and downs of 2016. Comparing March 2017 to March 2016 shows a strong increase of 2.4% over the past 12 months.

↑ **All new work** in Q1 2017 increased by 0.4%, with public housing and the private commercial sector being the main contributors to this rise at 4.3% and 3.4% growth respectively. However, new private housing activity is down 0.5% over Q1 2017.

↓ In Q4 2016 **all repair and maintenance works (R&M)** output declined by 0.2% compared to the previous quarter (Q4 2016). Public housing R&M was the main contributor to this decline falling by 3.6% over the quarter. Private housing R&M rose by 1.9% showing a reversal of the trend for new work.



Change in Output Figures for the Main Construction Sector according to ONS

New work	Q4 2016 - Q1 2017	
	Output	Movement
New public housing	↑	4.3%
New private housing	↓	-0.5%
New infrastructure	↓	-0.4%
New private commercial	↑	3.4%
New public non-housing	↑	1.0%
New private industrial	↓	-16.6%

R&M	Q4 2016 - Q1 2017	
	Output	Movement
Public housing R&M	↑	1.9%
Private housing R&M	↓	-3.6%
Non-housing R&M	↓	-0.9%

A comparison of output activity between Q1 2008 and Q1 2017 reveals that:



Private industrial is down by 44.6%
 Private commercial is down by 21.2%
 All repair and maintenance is down by 4.1%



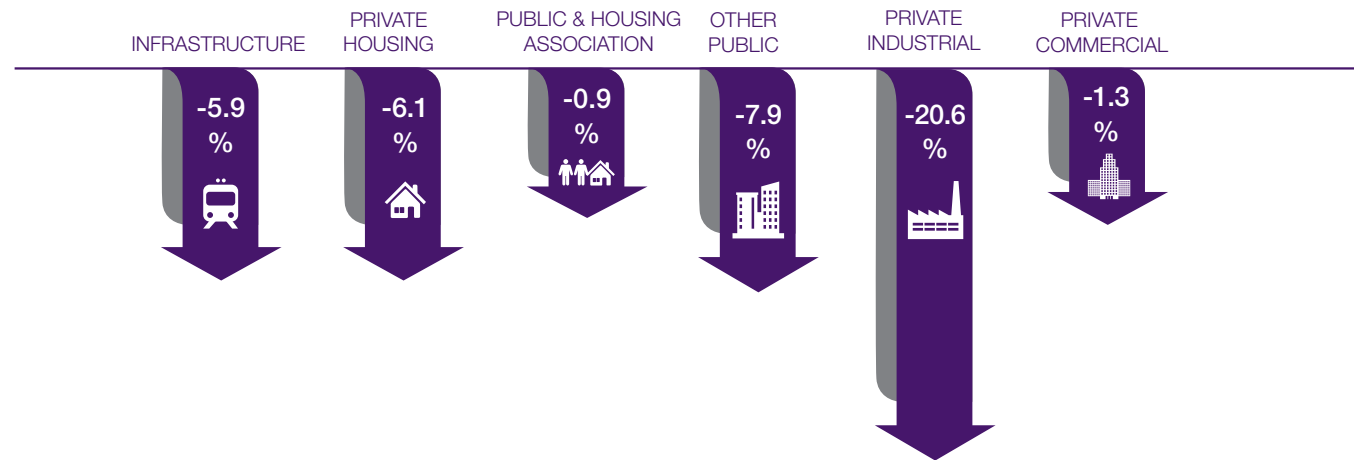
Infrastructure is up 77.2%
 New public housing is up by 50.0%
 New private housing is up 28.4%
 New public non-housing is up by 10.2%
ALL WORK IS UP 2.9%



Value of Orders for New Construction in Great Britain

According to the ONS, the total value of new orders for the construction industry fell by 3.4% in Q1 2017 compared with Q4 2016, but is up 7.8% on the same quarter in 2016.

Comparing Q1 2017 with Q4 2016:



Employment



Over Q1 2017, UK wide unemployment fell to 4.6% having remained at 4.8% for two consecutive quarters. This is the lowest unemployment rate seen since 1975.



Over the same timeframe, the number of people in employment increased by 122,000, increasing to 74.8%. This is the highest figure since comparable records began in 1971.



Average weekly earnings (total pay) in the construction industry rose by 0.6% on the year to March 2017.



Regular pay for construction industry employees (including bonuses) fell by 3.4% in the period between Q4 2016 and Q1 2017. Regular pay (excluding bonuses) fell by 1.3% over the same period.



Market Reports

The Q1 2017 RICS Construction & Infrastructure Market Survey indicates positive market sentiment but that the skills shortage remains a barrier to growth. It points to an increase in the pace of output growth across the sector with a net balance of 27% of respondents reporting an increase in workloads, compared to 18% in Q4 2016.



Construction Market Survey

Q2
2017

Survey responses indicate that construction output growth improved over all sectors over Q1 2017. In particular, the private commercial sector showed the strongest acceleration in the pace of growth - with 31% of respondents reporting a rise in workloads, up from 18% in Q4 2016. The private housing sector remains strong with 34% of respondents reporting an increase in output rather than a decrease. Furthermore, the net balance on infrastructure workloads increased at the national level. Looking forward, significant increases are expected in the rail, road and energy sub-sectors over the next 12 months, with the majority of this expected to be repair and maintenance works rather than new projects.

31%
REPORTING
A RISE
IN WORK



69%
EXPECT TENDER
PRICES TO
INCREASE

In the building sector, 69% of respondents expect tender prices to increase over the next 12 months.

The skills shortage is still viewed as a significant problem in the industry by 53% of respondents (up from 50% in Q4 2016) and is seen as a key impediment to growth. The labour shortage pressure on the industry may be intensifying once more, after having eased during 2016. Shortages of quantity surveyors and bricklayers remain a particular concern according to 65% and 54% of respondents respectively (compared to 66% and 44% in Q4 2016). 67% of responses suggest it is the quality of workers, rather than availability, which is driving the skills shortages. A further 59% of respondents believe that improved education pathways and training would help to remedy this.

LABOUR
SHORTAGE

BRICKLAYERS
54%

QUANTITY
SURVEYORS
65%

70%
FINANCIAL
CONSTRAINTS
OBSTACLE
GROWTH

Financial constraints remain the most significant obstacle to growth in the sector with 70% of respondents reporting on this. Planning and regulatory delays are also being seen as problematic by 61% of respondents (up from 53% in Q4 2016).

61%
PROBLEMATIC
PLANNING AND
REGULATORY
DELAYS

All regions of the UK have observed an increase in the pace of output growth in Q1, with the exception of Northern Ireland. Output growth gathered the most pace in London and the South East where the net balance rose to 22%.







“

The Q1 2017 RICS UK Commercial Property Market Survey shows both rental and capital value growth projections strengthening at an aggregate level, with sentiment still strongest across the industrial sector. Meanwhile, the office and retail areas of the market appear a little flatter in comparison.

RICS, UK Commercial Property Market Survey, Q3 2016



Construction Output Summary of Forecasts


SECTOR	YEAR	EXPERIAN	CONSTRUCTION PRODUCTS ASSOCIATION
CONSTRUCTION OUTPUT	2017	1.3	1.3
	2018	1.4	1.2
	2019	1.9	2.3
TOTAL NEW WORK	2017	2.5	1.7
	2018	1.9	2.0
	2019	2.5	4.0
PUBLIC HOUSING 	2017	-5.0	-2.0
	2018	-3.0	-2.0
	2019	0.0	-2.0
PRIVATE HOUSING 	2017	5.0	2.0
	2018	3.0	2.0
	2019	2.0	2.0
INFRASTRUCTURE 	2017	0.0	7.3
	2018	5.0	11.1
	2019	12.0	12.8
PUBLIC NON-HOUSING 	2017	2.0	-0.2
	2018	-2.0	-0.4
	2019	-3.0	2.3
PRIVATE INDUSTRIAL 	2017	2.0	-5.4
	2018	2.0	-3.1
	2019	1.0	-1.1
PRIVATE COMMERCIAL 	2017	2.0	-0.1
	2018	1.0	-3.3
	2019	-1.0	0.0

Source: BCIS Summary of Output Forecasts, April 2017




Construction Output Summary of Forecasts

On the assumption that the UK will withdraw from the single market and customs union, the BCIS expects that Brexit will result in restrictions on the movement of labour and pressure on the pound. BCIS proposes these three possible political outcomes from the exit negotiations, each of which BCIS deem to be equally likely:

 **Upside scenario** – assumes that the UK will remain in the EU free trade area but with restrictions on the movement of labour

 **Downside scenario** – assumes that the UK will not retain access to the EU market and that there will be restrictions on the movement of labour

 **Central scenario** – there will be some restrictions to trade and access to labour

Based on these three scenarios, the BCIS has prepared three different construction output forecasts, stressing that each forecast is equally possible.

		Upside Scenario	Central Scenario	Downside Scenario
Sector	Year	Q1 2017	Q1 2017	Q1 2017
New Work Output	2017	1.4	0.0	-9.2
	2018	5.3	0.2	-8.8
	2019	6.1	2.3	4.4
	2020	6.3	4.8	5.6
	2021	5.5	5.8	8.2



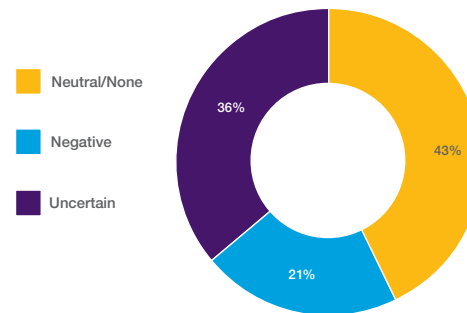
Regional Reports

Following the referendum result in June, with the UK beginning its exit process from the EU, and in anticipation of the general election, Gleeds continues to monitor the macroeconomic and trade matters in each region of the UK. The aim is to anticipate the effects these stressors may have on construction activity and demand.

Each of our regional commentaries provide a general view of the construction industry in a specific region of the UK, and consider how the local industry may be impacted by the wider political situation.

The chart below provides an idea of the mood across the UK in respect to Brexit movements. Having shifted from a more negative and uncertain picture in the immediate weeks and months following the referendum, the feeling has stabilised considerably with around a fifth of regions experiencing negativity following the vote. The uncertainty which had dissipated at the turn of the year, is beginning to return in some places. The regions reporting neutral or negligible effects of Brexit remain the majority, but this has fallen from 57% to 43% over Q1 2017.

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



Our regional offices report a mixed picture of construction activity across the UK. Many regions are still plagued by the economic and political uncertainty and the impact of insufficient labour availability. However, others are benefiting from an increased appetite for investment. The weakened pound and relative cost of imported materials and equipment continues to impact on costs.

Gleeds' regional offices report as follows:



Galvin Tarling

Reporting on the Eastern Region

In the Eastern region, although long term uncertainty around Brexit remains, the direct impact of the referendum has now washed through - with a number of projects that had previously been put on hold beginning to move again. Both the investment and funding markets remain cautious at present, particularly so in the commercial sector where very little speculative development is being progressed. The residential and education sectors remain strong.

The region is benefiting from adequate levels of labour availability, and supply of materials and tender pricing remains competitive. It is anticipated that workloads will remain stable over the coming quarter and that construction costs will increase moving forward.

In our previous report, the Eastern region presented mixed fortunes, with projects continuing to be cancelled or placed on hold following Brexit. As a result, this gave the labour and material supply a chance to recover and prepare for a regional resurgence.



Paul Sweeney

Reporting on the Greater London Region

The London construction market is competitive at present, although negative effects of the Brexit vote are still being felt with some projects remaining on hold. A number of national contractors are reporting lower than comfortable order books for 2018 and 2019, and there is a returning appetite for single stage competitive tendering on medium sized £20-40m value projects.

A significant proportion of construction materials have to be imported at higher costs due to the weakened pound.

Workloads are predicted to remain stable although there may be a drop in the volume of tenders hitting the market. As reported in the last quarter, construction costs on the whole remain stable despite the higher cost of imports. The availability and quality of labour remains adequate.

In our previous quarterly report, London was busy at the present time, but a slowdown was anticipated in light of recent cancellations and project stalls. There was an anticipation for rising costs, stemming from a requirement to import a number of key construction materials.



Regional Reports



Phil Wright
Reporting on the Midlands Region

The situation in the Midlands remains consistent, as with the last quarter's report, as there is still a wait and see approach to some schemes. However, some projects that were put on hold may be coming back to the market, but with clients seeking alternative funding where previous funders had been nervous about moving forward. These schemes are likely to be impacted by inflation and other vulnerabilities due to the weakened pound. This is particularly the case where materials and services are to be sourced from the Euro zone (facades, steelwork, and mechanical and electrical plant).

The almost daily adjustments to material prices, due to the fluctuating exchange rate, sees contractors challenged to predict and commit to prices for tender submissions. Risk allowances are therefore increasing and it remains very difficult to forecast costs accurately.

While there is not a shortage of specific materials per se, the volume of construction activity in the regional cities is leading to a higher demand for construction materials with delivery logistics providing some risk for daily progress.

Construction activity in Birmingham remains positive with a number of large, prominent schemes in construction or being brought to the market. Major contractors report healthy order books and are selective in terms of the schemes they will tender.

In our previous quarterly report, the Midlands region was continuing to adopt a waitandsee approach. The volume of construction activity was being impacted by rising import costs and there was the potential for a reduced appetite for investment in the region.



Steve Green
Reporting on the North East, Yorkshire & Humberside Region

The UK referendum result does not seem to have significantly affected any current or proposed local projects in the North East, Yorkshire or Humberside region. The industry remains busy and the level of enquiries for new schemes has increased in the last quarter. There are no significant material shortages, but lead in times are variable.

As reported previously, there has been a greater diversity of construction projects over the past year. There has been an increased volume of new, bespoke commercial office projects and number of retail unit redevelopments, as well as an ever-increasing demand for new city centre student accommodation units.

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

The level of spend in the higher education sector remains high; however there are concerns that the outcome of the election may affect this.

In the previous quarter, the North East market reported on renewed demand-led growth in the region, and increasing diversity in the types of projects coming to our attention. There was the expectation that rising construction costs would hit the region in the short term but this was not expected to impact on workloads.



Queen Elizabeth Hospital, Birmingham



Ross Savage
Reporting on the Northern Ireland Region

Research from the latest edition of the Northern Ireland Construction Bulletin notes that in Q4 2016:

↑ The total volume of construction output increased by 6.9%, compared with the previous quarter, and was 12.6% higher compared to the same quarter in 2015. This continues the general upward trend in construction output movement seen since late 2014.

The increase in construction output was accounted for by:

↑ 11.7% increase in New Work

↑ 1.2% increase in Repair and Maintenance

Compared to the previous quarter:

↑ Other work increased by 13.8%
Infrastructure output increased by 11.0%

↓ Housing output fell 5.8%

↑ Northern Ireland's increase in construction output in Q4 2016 mirrors the situation in the rest of the UK, where construction output recorded a 0.2% rise over the same period (0.6% increase since Q4 2016).

In our previous quarterly report, we considered that the volume of construction output in Northern Ireland had decreased by 1.9% over Q3 2016 but remained 8.8% higher than in the same quarter in 2015.

Regional Reports



Liverpool School of Tropical Medicine



Alex Halliday

Reporting on the North West Region

Buoyancy remains in the North West construction industry with multiple projects ongoing. A significant proportion of construction activity is occurring in and around Manchester. The residential sector is particularly busy with a pipeline of 27,000 units in the region. Some 9,000 of these are already under construction, and a further 12,000 have been granted planning permission. Planning applications are frequent and there are currently signs of a decrease in activity. Commercial activity is increasing with developments at St John's, Spinningfields and St Peters Square.

Further price increases are anticipated as a result of a reduction in the availability of labour following the move towards Brexit. In addition, it is likely that the cost of imported materials will increase - inflation is resulting from the volume of large mechanical equipment that is being shipped in from abroad.

Agreed labour cost increases from last year are expected to put pressure on tender pricing and it is not known at present how much this will impact on overall construction costs in the region. Costs are expected to increase in general in the short term, while workloads are anticipated to remain stable or increase slightly in the coming months.

In our previous quarterly report, concerns over the long term stability and capacity of the industry in the North West were increasing due to a number of bankruptcies in the region. The slowdown in the availability of public funding was impacting on project viability and construction activity.



The Helix, Glasgow



Brian Stevenson

Reporting on the Scotland Region

Brexit has created uncertainty in the investments markets and led to a reduction in anticipated growth over the next two years for the Scottish economy. This is compounded by the June general election and the possibility of a second Scottish Independence Referendum. This uncertainty is being demonstrated by a number of clients choosing to delay projects until they have greater clarity on the impact of the political landscape, and there is ongoing concern that the weakness of the pound will lead to tender price inflation.

There continues to be a shortfall of projects with a value in excess of £50m, with tier one contractors pursuing projects of below £50m to maintain turnover. Main contractors are currently being selective in respect to tendering opportunities, however tender returns generally continue to be competitive. More contractors are moving away from two stage tendering, preferring negotiated or single stage opportunities. The full impact of a 'hard Brexit', and a potential second

independence referendum remains to be realised but is unlikely to be positive.

Material price changes are having an effect on tender prices and the ability of contractors to hold their tender offers for any period of time. The market has indicated material prices for cladding, steel and asphalt are due to rise later this year. Meanwhile, brickwork remains in short supply and a number of key materials are being imported, including granite, steelwork, curtain walling and light fittings.

In our previous quarterly report, as in the previous two quarters, Scotland was reported as experiencing heightened levels of uncertainty and weakened confidence. As a result, anticipated growth of the Scottish economy had been downgraded and a greater number of clients were choosing to delay projects until they had greater clarity on the impact of Brexit.

Regional Reports



Bristol Civil Justice Centre, Bristol



Richard Hine

Reporting on the South East Region

Construction activity within the South East appears resilient heading into Q2 2017 - continuing the buoyancy seen in the previous two quarters. Housebuilding remains the key engine of growth and has experienced its fastest rise in orders in Q4 2016. However it is suffering from shortages of bricklayers, carpenters and joiners, and this may become an impediment to growth as workloads begin to increase. Despite this, workloads should remain stable for the time being. The commercial and infrastructure sectors appear sluggish in comparison to the residential sector, with the appetite for speculative schemes falling alongside the availability of public funding.

Many smaller projects are continuing, with some even being brought forward, and this is driving short term cost increases due to labour issues. However, larger projects spanning the Brexit period are being delayed. With respect to those projects being put on hold pending the outcome of the Brexit negotiations, these are generally industrial schemes for manufacturers who export products to the EU. Until clarity over trade agreements is established, it is likely that projects will remain on hold.

In our previous quarterly report, construction activity in the South East was resilient heading into 2017 with housebuilding remaining the key engine of growth. There were concerns around the availability of labour and key construction materials and the potential for price hikes associated with this.



Matthew Quirk

Reporting on the South West Region

The South West construction industry remains competitive but is suffering from a shortage of quality labour. This is largely a consequence of the volume of activity in the region. Following the referendum, funding for some schemes was delayed but this has subsequently eased and normal trading levels have returned. The private sector has remained stable on the back of historically low interest rates and associated cheap borrowing costs.

The election of the Bristol Metro Mayor in May will see more decisions being made locally on issues such as transport, housing and skills, with £1 billion worth of funding to spend from central Government over the next 30 years. It will be interesting to see if the extra layer of governance enhances or stalls decision making in the region.

Looking at the local Bristol region:

- Expansion plans have been announced for both the region's major shopping centres; The Mall (Cribbs Causeway) and Cabot Circus
- Ashford Land is developing a major new 160,000ft² HQ building adjacent to Parkway Station

- Other office developments are planned adjacent to the city's other major train station at Temple Meads

- Residential schemes progress at pace both in the centre of town and on land around the city's fringes

Until the details of Brexit are defined, there will remain commercial uncertainty, which may influence total construction volumes as we move forward. The reduced strength of pound has created inflationary pressures with many materials and items of equipment, especially in the MEP sector, being imported from overseas. There is an ever increasing lead-in time for both tower cranes and steel frames. We have received forewarnings from some suppliers that there are likely to be cost increases in the third quarter of 2017.

In our previous quarterly report, the outlook for the South West construction market was positive with contractors reporting that their order books were at a level expected for the time of year. Growth was being driven by a number of large scale developments, particularly in and around Bristol.

Regional Reports



Childrens Hospital for Wales, Cardiff



Nigel Watkins

Reporting on the Wales Region


The Welsh construction market is busy at present, particularly in the South of the country, with the student residential and commercial sectors remaining the key drivers of growth. Recruitment of skilled labour can be challenging, although there is currently enough work to support contractors within the region and tendering remains competitive.

Following the previous report, it has been noted that a number of projects had been placed on hold as a result of national funders taking a cautious/reduced risk outlook following Brexit. These projects are now proceeding. The provision of student accommodation is a large market at present and is forecasted to continue if there is a potential decrease in European student numbers following Brexit.

Our discussions with the local supply chain are currently indicating no shortages, though this could change at any time. The weaker pound is pushing prices of imported material systems up. If this scenario is maintained then undoubtedly 'post-Brexit' designs will look to the UK market for alternative solutions.

We believe that construction output will increase over the next two to three years. Specifically, areas such as Cardiff and Swansea have the potential for a large number of schemes to commence across the commercial, educational, health and infrastructure sectors.

Current interest in renewable energy schemes like the Swansea Bay Tidal Lagoon could kick-start a roll-out programme of similar developments in Wales (Cardiff, Newport and Colwyn Bay) and beyond. Hinkley Point has also been given the go ahead. Projects of this nature are likely to draw large labour forces which could put pressure on local projects and affect tender prices as companies look to secure labour from further afield. Meanwhile, the weakened pound continues to boost exports but in a construction market so readily reliant on imported goods, we could see tender prices rising accordingly if the pound stays low.

 In our previous quarterly report, fortunes in the Welsh construction industry were continuing to improve. Projects which had been placed on hold were now looking to proceed. However, labour availability and the ability to source materials were seen as having the potential to cause concern.

Acknowledgements

Thank you to the following:

(All data current as at 25 May 2017)

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

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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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