

Economic and Regional Inflation Report

Economic Headlines

- ➔ Bank Rate maintained at 0.75%
- ➔ GDP grows 0.6% in Q3 2018
- ➔ Construction output up 2.1% in Q3 2018

Budget 2018

- ➔ Extension to Help to Buy
- ➔ £675m investment for high streets
- ➔ £38bn for infrastructure

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Regions



Industry News & Updates

Brexit deal

On 14th November, the UK's Prime Minister, Theresa May unveiled her proposed Brexit deal, resulting in Cabinet resignations and a significant depreciation in sterling. The PM has (at the time of writing) resisted mounting opposition to the deal and remains adamant that it is the best available deal for Britain.

The draft agreement outlines a transition period until 31st December 2020, meaning the UK will have to continue to comply to EU regulations and allow free movement of labour during its time. Once this transition is over, free movement will end and the UK will be entitled to set their own immigration policy. The Brexit deal includes a so-called 'backstop' to prevent a hard border in Ireland should the future EU-UK relationship fail to keep the border open in its totality. The avoidance of a hard border between Northern Ireland and the Republic of Ireland should ensure the continuation of a smooth transfer of products and people between the two nations.

According to Scape Group chief executive Mark Robinson, the proposed deal could precipitate "an unprecedented skills deficit" for the

construction industry. Already, migration from the EU has fallen in the past year – ONS data reveals that the number of workers from the former Soviet bloc countries fell by 154,000 over the last 12 months; this is likely to be having some impact on the availability of construction industry labour.

The Brexit deal has now been endorsed by the remaining EU member states and a political declaration drawn up. It will need to pass through both Houses of Parliament, and there is no certainty that this will happen.

Government calls for modular construction

The government is putting together a framework for the provision of temporary and permanent modular buildings for the education and healthcare sectors, worth £1.2bn. This comes as a result of a cross-department working group on modern methods of construction, looking at how to "drive innovation and higher standards in the construction sector". Contractors have until 17th December 2018 to register interest.

Crossrail investigation

The National Audit Office (NAO) is set to begin an investigation into the causes of Crossrail's delay, following concerns raised by London mayor Sadiq Khan that he has been misled over delays and cost overruns. The new rail line is now almost £600m over budget and expected to open 9 months late. Crossrail Ltd and TfL will be required to support the NAO's review. The Elizabeth line had been scheduled to open in December 2018 following a cash injection of £300m but will now not be launched until Autumn 2019.

Raynsford Review

A review by former housing minister Nick Raynsford makes 24 recommendations to overhaul the planning system. A key recommendation is to give statutory power to the National Infrastructure Commission to help with national and local planning. It also calls for the government to restrict the conversion of commercial buildings to housing units without proper safeguards on quality and for a comprehensive definition of sustainable development to become a legal duty.

New Projects in the Pipeline



Birmingham University is searching for a contractor to build the first phase of their new **£40m** Molecular Sciences Building



The **V&A** is on the search for a contractor to build its new **£25m Diller Scofidio + Renfro-designed research and collections centre** in Here East, London, expected to run from October 2019 until March 2021



Kier VolkerFitzpatrick has been awarded a **£160m MoD contract** to deliver **infrastructure to ready RAF Lakenheath for two squadrons of US F-35s**, including the construction of a flight simulator facility, a maintenance unit, new hangars and storage facilities



Planning permission has been granted for the **redevelopment of the now-demolished 18th-century jail at Northallerton**. The **£17m** scheme will feature retail, residential, leisure and office space and incorporate five grade II-listed buildings which remained in

place after the prison's demolition



The **search** for a **contractor** to deliver the **£435m design and build contract for HS2's Birmingham Curzon Street station** has begun. Firms have until 31st December 2018 to register their interest



Vinci has won a **£60m** contract to build a **350-room building for The King's School, Macclesfield**, which will also include a sports centre with swimming pool and other indoor/outdoor facilities



Specialist contractor **Blu-3** has been selected to deliver the **£5.3m** enabling works contract for the **redevelopment of Stratford Waterfront at Queen Elizabeth Olympic Park** which will house **the V&A, BBC, Sadler's Wells and London College of Fashion**



Architect Maccreeanor Lavington has **submitted plans to Southwark Council** for three buildings including a **39-storey**

brick-clad residential tower on London's Old Kent Road to provide 372 homes, retail, workspace and café



Winvic has been appointed by Leicester Lettings to build **384 rental apartments** in a contract worth **£50m**



Lendlease has been named as the main contractor for **Great Portland Estates' £59m Oxford House development** which will deliver 78,100ft² of new offices and 37,900ft² of retail space

Economic Overview

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

LOOKING BACK TO Q2 2018

Construction output

According to data from the Office of National Statistics (ONS), construction output increased by 0.9% in Q2 2018 compared to Q1 2018

Over the previous 12-month period construction output increased by 2.2%

Q3 2018 – THE LATEST FIGURES

Construction output increased by 2.1% in Q3 2018 when compared to the previous quarter (Q2 2018)

Over the previous 12-month period (September 2017 to September 2018), construction output has increased by 3.0%

Pay and employment

In Q2 2018, the unemployment rate fell to 4.0%

ONS predicted that average weekly earnings (total pay) in the construction industry rose by 5.3% in the year to Q2 2018

Unemployment edges up to 4.1%

Average weekly earnings for construction workers rose by 3.6% in Q3 2018 compared to a year earlier



Brexit continues to dominate all discussions from both a client and a contractor perspective; the 'what if?' scenarios are being considered at every meeting. This uncertainty has already impacted on construction activity in London and the South East and we continue to monitor the ripples out to the regions."

PAUL SWEENEY, DIRECTOR, GLEEDS

Gleeds' regional inflation forecast

ANNUAL % CHANGE	4Q18 to 4Q19	4Q19 to 4Q20	4Q20 to 4Q21	4Q21 to 4Q22
EASTERN	3.0%	3.0%	4.0%	4.5%
GREATER LONDON	2.5%	2.5%	4.0%	5.0%
NORTH EAST	3.0%	4.0%	4.0%	4.0%
YORKSHIRE & HUMBERSIDE	4.0%	5.0%	5.0%	5.0%
NORTHERN IRELAND	4.0%	4.0%	5.0%	6.0%
MIDLANDS	3.8%	4.0%	4.0%	4.0%
NORTH WEST	4.0%	4.3%	5.3%	5.3%
SCOTLAND	3.0%	3.0%	4.0%	4.0%
SOUTH EAST (EXCLUDING LONDON)	3.5%	4.0%	5.5%	5.5%
SOUTH WEST	3.5%	3.8%	4.3%	4.5%
WALES	3.0%	4.0%	4.5%	4.8%
UK AVERAGE (ROUNDED)	3.4%	3.8%	4.5%	4.8%

Note: these are average regional forecasts based on activity and market awareness within Gleeds' regional offices. Actual inflation will be determined by a combination of macroeconomics and micro project situations. Forecast inflation at a project level needs to be carefully considered based on the project's characteristics and prevailing local conditions. All published statistics can be misleading and subject to later revision and should be used with caution. (Figures may not sum due to rounding.)

Budget 2018 Review

Chancellor Philip Hammond delivered the 2018 Budget on Monday 29th October, following last year's announcement that the main financial address setting out major tax and spending changes would be delivered in the Autumn rather than in the Spring. Budget 2018 sets out a new path for public spending and promises that austerity is finally coming to an end.

The Economy

Owing to a slow start to the year, growth in 2018 is lower than previously expected. The Office for Budget Responsibility (OBR) now expects annual growth of 1.3% in 2018. However, the OBR has upgraded its forecasts for the remainder of the forecast period.

GDP GROWTH FORECAST:

2018	2019	2020	2021	2022	2023
1.3%	1.6%	1.4%	1.4%	1.5%	1.6%

The OBR expects inflation to be 2.6% in 2018 and around 2.0% for the remainder of the forecast period. Wage growth is expected to outstrip inflation throughout the forecast.

Public finances have performed better than previously expected. Compared to the Spring Statement 2018, the forecast for borrowing in 2017-18 was £5.4bn lower at 1.9% of GDP, mainly due to lower spending than forecast. Borrowing is forecast to reduce to 0.8% of GDP by 2023-24.

Housing

At Autumn Budget 2017, the government revealed plans to boost housebuilding with the aim of improving productivity and affordability. Budget 2018 announced further measures to help achieve this, including:

- Lifting of the cap on the amount of money local authorities in England are able to borrow to build housing. Similar steps are also planned for Wales
- A "new wave" of strategic partnerships, worth £653m, with housing associations in England to help deliver 13,000 homes by 2021/22
- Guarantees of up to £1bn of bank loans for smaller house-builders

- Extending Help to Buy to March 2023 for first-time buyers of houses with a market value up to new regional property price caps (a maximum of £600,000 in London). While there is no intention to extend the scheme beyond this, commentators believe that house builders are now so reliant on Help to Buy that they would struggle without it
- An extra £500m for the £5bn Housing Infrastructure Fund (£291m of which will go to London) intended to deliver a further 650,000 new homes by 2020/21
- Extension of stamp duty relief to shared ownership properties up to £500,000

While this is good news for first-time buyers and those waiting for affordable housing, there is little to support rental demand which is at an all-time high.

Infrastructure

Budget 2018 promised extra funding for infrastructure with £38bn earmarked for the Infrastructure Fund by 2023/24. While PFI and PF2 are to be scrapped following Budget 2018, 50% of infrastructure investment is to be privately funded.

Planned infrastructure spending includes:

- Extension of the Transforming Cities Fund to 2022-23 plus an extra £240m:
 - £21m for Cambridgeshire and Peterborough
 - £69.5m for Greater Manchester
 - £38.5m for Liverpool City Region
 - £23m for West of England
 - £71.5m for the West Midlands
 - £16.5m for Tees Valley
 - A further £440m competitive funding for 10 city regions

Budget 2018 Review

- £25.3bn for Roads Investment Strategy 2
- Establishment of a new East West Rail company to accelerate the delivery of the central railway section between Cambridge and Bedford
- A £28.8bn National Roads Fund, including £25.3bn for the Strategic Road Network (motorways, trunk and A roads)
- A new network of local roads (known as the Major Road Network)
- £420m to fix potholes on roads and renew bridges and tunnels
- £150m to improve local traffic hotspots such as roundabouts

Education & Skills

The Budget reiterates the government's commitment of creating 'highly paid and highly skilled jobs' by announcing further details on the National Retraining Scheme and action to increase the uptake of apprenticeships.

APPRENTICESHIPS

- Up to £450m will be available to enable levy paying employers to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains
- Up to £240m to halve the co-investment rate for apprenticeship training to 5%
- Up to £5m to the Institute for Apprenticeships and National Apprenticeship Service in 2019-20, to identify gaps and increase the number of apprenticeship standards available

NATIONAL RETRAINING SCHEME (NRS)

£100m will be made available for the first phase of the NRS, to include

- A new careers guidance service
- Training courses combining online learning and classroom teaching

In addition, funding will be available for:

- Skills pilots (£20m)
- T levels (£38m)
- Post-18 education

High Streets

Budget 2018 introduces the Future High Streets Fund to help high streets adapt to changing shopping habits. £675m of investment will be available for local councils for rejuvenation of high streets across the country, which could include conversion of retail and commercial properties into city-centre housing. Brian Berry, chief executive of the Federation of Master Builders (FMB), believes that as many as 400,000 new homes could be created by making use of empty space above high street shops.

Investment in high streets will be incentivised further by the introduction of a new structures and buildings allowance and a temporary increase to the Annual Investment Allowance. Business rates will be cut by a third for up to 90% of retail properties.

Other construction-related changes confirmed include:

- Increasing the National Productivity Investment Fund (NPIF) to £37bn for areas critical to productivity, namely: housing, transport, digital infrastructure, and R&D
- Introduction of a permanent tax break for new non-residential structures and buildings
- £1.6bn for science and innovation, to include investment in Artificial Intelligence, quantum computing, future manufacturing, and nuclear fusion



Summary

This Budget assumes a smooth and timely conclusion to the UK/EU withdrawal process. Given the tumultuous nature of UK politics at present, this is not a given and should a no-deal Brexit unravel over the coming weeks, the Chancellor will need to review his strategy accordingly.

Background to Economic Outlook

UK Economics

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

The MPC's central projection sees GDP growing at around 1.75% per annum over the forecast period, although this is dependent on 'a smooth adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the EU'.

Consumer price inflation (CPI) remains above the target rate of 2.0%, as it has since early 2017. The MPC anticipates that three 0.25% rises to interest rates will be required to bring CPI back to target by the end of 2020. The Bank Rate is anticipated to rise to a peak of 1.4% in Q4 2021.

However, the nature of the UK's withdrawal from the EU will have implications on the economic outlook and could require amendments to monetary policy. This will depend on how demand, supply and exchange rates are affected by leaving the EU.

Global Economics

The global economy continues to grow up, by 0.5% in Q3 2018, supporting UK net trade. However, growth has softened and become more uneven, with activity slowing in the euro area.

Global financial conditions have tightened, and trade restrictions have increased. In particular, the US has applied tariffs on Chinese imports, which has pushed up interest rates and many emerging market economies have been adversely affected.

Trade protectionism has impacted global activity and, although global growth is expected to remain relatively robust, the outlook has moderated somewhat since the BoE's August inflation report. The effects of tighter financial conditions are likely to continue affecting the pace of growth in the near-term.

GDP growth in the euro area slowed to 0.2% in Q3 2018, down from 0.4% in Q2. Growth is expected to pick up but remains subdued due to a poor outlook for net trade. US GDP growth remains strong at 0.9% in Q3 2018 owing to solid consumption growth. GDP growth in China slowed slightly, down from 1.8% in Q2 to 1.6% in Q3 2018.

Source: Bank of England, Quarterly Inflation Report, November 2018



Summary

- The Bank Rate has been maintained at 0.75%
- CPI will remain above target until late 2020
- Global growth slows in Q3 2018

Statistics & Figures

Outlook for Gross Domestic Product (GDP) and Inflation



Sources:

Office for National Statistics (ONS), UK GDP monthly estimate: September 2018;

ONS, UK consumer price inflation: October 2018

Quarterly GDP increased by 0.6% in Q3 2018, up from 0.4% in the previous quarter, continuing the recovery following the weather-related disruption earlier in the year. However, growth is forecast to fall back in Q4, meaning annual growth below the BoE's central projection of 1.75%.

The Services sector provided the largest contribution to growth in Q3 2018, increasing by 0.4%, on the back of a 0.5% rise seen in Q2. Growth was driven by information and communication, and wholesale and retail trade. As in Q2, much of this can be attributed to warmer than usual weather in the summer months, which triggered increased sales of food and drink, summer clothing and garden furniture. However, retail and domestic car sales dipped in September.

Output in the Construction industry increased by 2.1% in Q3 2018, providing a notable positive contribution to GDP. Driven by the housebuilding and infrastructure sub-sectors, construction output is increasing at a much faster rate than other sectors and has been able to 'catch-up' on some of the opportunity lost during the bad weather earlier in the year.

Production grew by 0.8% in Q3 2018, its highest rate this year, driven by car and engine production. Manufacturing also returned to growth following two quarters of decline.

CPI in the year to October 2018 was 2.4%, unchanged from September 2018. Downward pressure from food and non-alcoholic beverages, clothing and footwear, and some transport elements were offset by upward pressure from rising petrol, diesel and domestic gas prices.

The Retail Prices Index (RPI) remained at 3.3% in the year to October 2018, after a brief elevation to 3.5% in August.

The CPI including owner occupiers' housing costs (CPIH) inflation rate was 2.2% in October 2018, unchanged from September 2018.

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



Summary

- GDP grows 0.6% in Q3 2018
- CPI remains at 2.2% in the year to October 2018
- CPIH remains at 2.4%

GDP, CPI & RPI Movement Predictions

	2018	MOVEMENT	2019	MOVEMENT	2020	MOVEMENT	2021	MOVEMENT	2022
GDP growth (%)	1.3	↑	1.6	↔	1.6	↑	1.7	↑	1.8
CPI (%)	2.5	↓	2.1	↓	2.0	↔	2.0	↑	2.1
RPI (%)	3.4	↓	3.2	↓	3.1	↑	3.3	↔	3.3

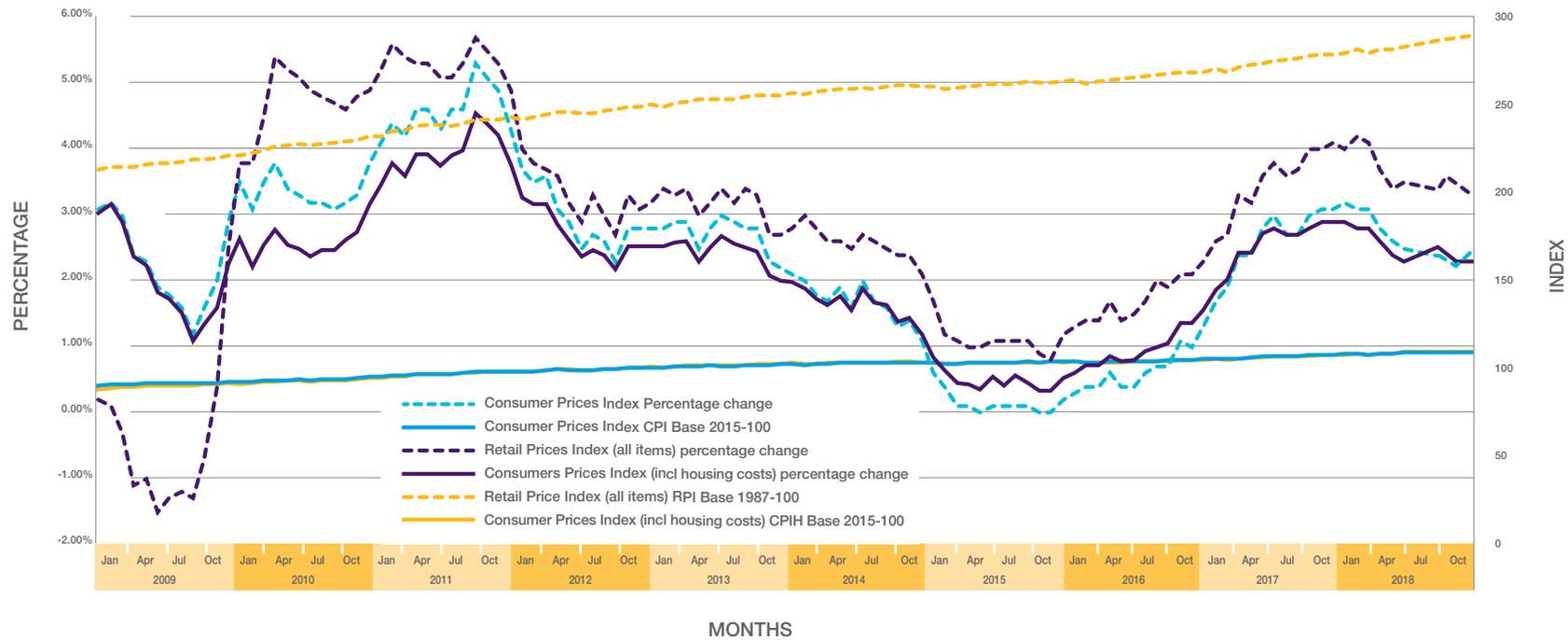
Source: HM Treasury Forecasts for the UK Economy, November 2018

Forecasts for the UK Economy is a summary of published material reflecting the views of a selection of forecasting organisations which are subject to review. This edition contains 22 new forecasts, all of which were received between November 1st and November 16th 2018. The table above summarises the average of November's forecasts.



Annual Inflation Rates

ANNUAL INFLATION RATES OFFICE OF NATIONAL STATISTICS Q4 2018



Tender Price Forecasts

Gleeds considers that tender prices, on average, grew by 2.4% between 4Q 2017 and 4Q 2018. For the same period, the **Building Cost Information Service (BCIS)** has forecasted a 2.2% drop in prices.

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

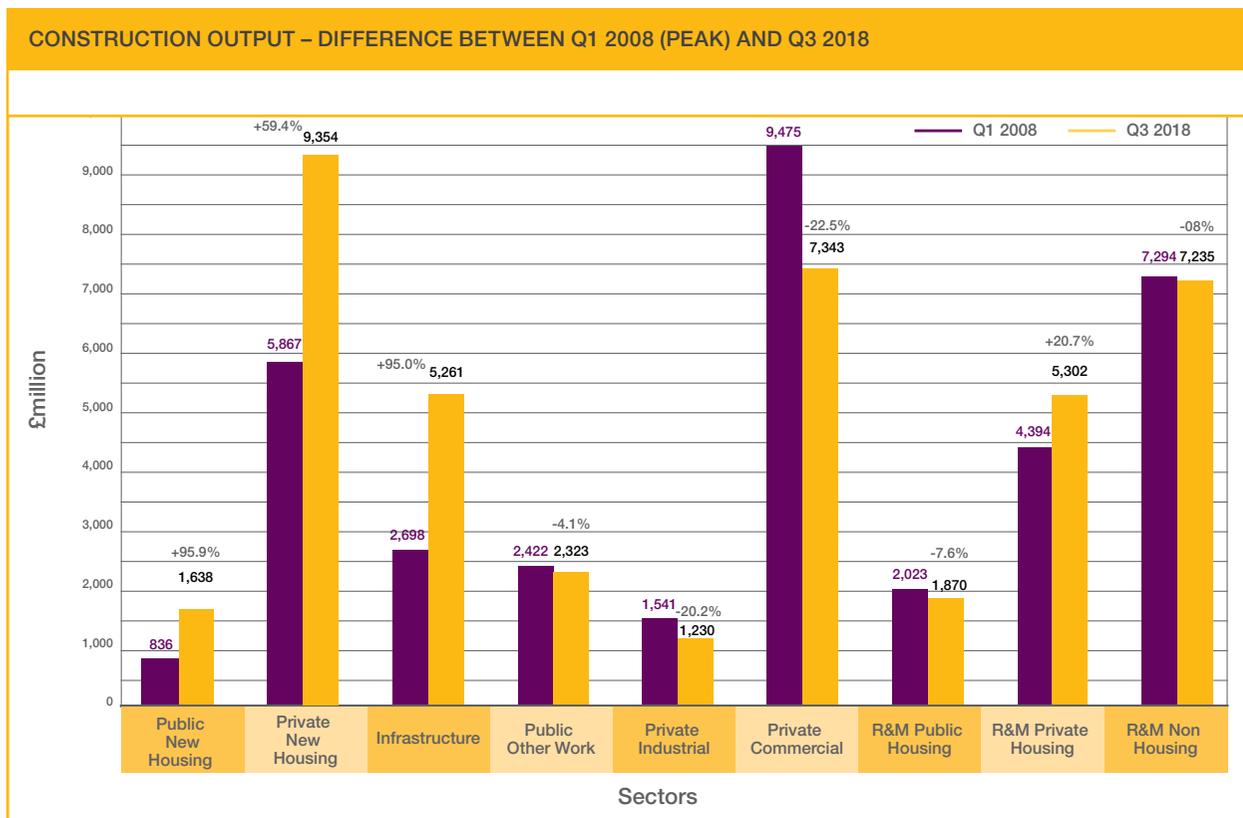
Year on Year	Current BCIS Forecast (23/11/2018)	Gleeds Average Forecasts
4Q2018 to 4Q2019	+3.8%	+3.4%
4Q2019 to 4Q2020	+3.9%	+3.8%
4Q2020 to 4Q2021	+5.7%	+4.5%
4Q2021 to 4Q2022	+5.8%	+4.8%

Volume of Construction Output

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

In Q3 2018, **total construction output** increased by 2.1%, consolidating Q2's growth of 0.9%, following three consecutive periods of decline. Growth in Q3 was primarily driven by **all new work** which increased by 2.8% while **repair and maintenance (R&M)** increased by 1.0%.

The industry continues to recover following a weak start to the year. The biggest positive contribution to growth came from private housing new work which increased 5.7% in Q3 2018. Other notable growth came from non-housing R&M (3.3%) and infrastructure (3.8%). Downward pressure came from private commercial new work (-2.2%), private housing R&M (-2.3%) and private industrial new work (-5.6%).



Value of Construction Output

Sector	Q2 2018 – Q3 2018	Q3 2017 – Q3 2018
All Work	2.0%	4.9%
All New Work	2.1%	5.3%
New Public Housing	3.5%	7.9%
New Private Housing	5.7%	14.7%
New Private Commercial	-2.2%	-2.8%
New Private Industrial	-7.1%	3.6%
New Public Non-housing	4.3%	-8.4%
New Infrastructure	3.4%	9.6%

Sector	Q2 2018 – Q3 2018	Q3 2017 – Q3 2018
All R&M	1.8%	4.2%
Public Housing R&M	0.2%	3.1%
Private Housing R&M	0.2%	0.3%
Infrastructure R&M	-0.4%	7.0%
Public Non-housing R&M	10.4%	2.7%
Private Non-housing R&M	4.0%	10.6%

Source: ONS, *Construction output in Great Britain: September 2018*

Employment

During Q3 2018, the UK-wide unemployment rate rose by 21,000 to 4.1%, up from 4.0% in Q2. However, the number of people classed as employed increased by 23,000 although the employment rate fell by 0.1% to 75.5%. The proportion of people classed as economically inactive (i.e. not seeking or not available to work) increased by 30,000 but remained at 21.2%.

The employment rate for women aged 16-64 remained at 71.0% for a second quarter. The employment rate of women has been steadily increasing over the last few years due to ongoing changes to the State Pension age for women, meaning that fewer women retiring between the ages of 60 and 65 years.

The number of EU nationals working in the UK has fallen by 132,000 over the past year. This is the largest decline since comparable records began in 1997 and can be attributed to concerns over Brexit and it no longer making economic sense to work in the UK for many.

Workers' earnings excluding bonuses (regular pay), rose 3.2% in Q3 2018 compared to a year earlier, up from 2.7% in Q2. Total pay increased by 3.0% in the same timeframe. In real terms, adjusted for consumer price inflation at 2.4%, regular pay increased by 0.9% and total pay by 0.7%.

In the construction industry, average weekly earnings (total pay) rose by 3.6% in Q3 2018 compared with a year earlier, while regular pay (excluding bonuses) rose by 3.8% over the same timeframe.

Source: ONS, UK labour market: November 2018

Market Reports



The results of the Q3 2018 **RICS Construction & Infrastructure Market Survey** indicate an improved pace of growth across the industry. A net balance of 20% of this quarter's respondents reported an increase in total workloads, up from 15% in the previous quarter.

The strongest rise in workloads came in the private housing sector with 30% more respondents citing an increase rather than a decrease in workloads, up from 25% in Q2. The infrastructure sector regained momentum, with workloads rising by 22% following a dip in the previous quarter. Private industrial and public non-housing activity levels also improved, with net balances of 9% and 11% respectively. Elsewhere, observable growth in public housing workloads slowed to 7%, down from 12% in Q2.

Despite an uncertain outlook for the economy, 33% more contributors expect construction activity to rise rather than fall, although this is down from 41% in Q2. A net balance of 25% foresee an increase in recruitment.

Capacity constraints continue particularly in terms of labour availability. 42% of respondents report taking on staff over the past quarter in order to support new work. Profit margins are being impacted by higher input costs and a build-up of competitive bidding pressures; 53% of contributors anticipate a fall in margins over the coming year. Building tender prices are expected to rise by 61% of respondents, up from 54% last quarter. Financial constraints remain the most significant impediment to growth (75%, down slightly from 80% in Q2).

In direct contrast to last quarter, workloads are now reported to be increasing across all geographic regions, but most notably in the Midlands and the East of England. Private housing activity was stronger outside of London and the South East, while the industrial and infrastructure sectors continued to contract in Scotland and Northern Ireland.

Source: RICS, UK Construction and Infrastructure Survey, Q3 2018

“The Q3 2018 **RICS Construction & Infrastructure Market Survey** results point to a fairly subdued trend across the occupier market, with respondents citing Brexit uncertainty as weighing on occupier decisions to a certain extent. That said, structural changes continue to pose the most significant near-term challenge for retailers, while on the flipside, conditions within the industrial segment continue to benefit from the shift towards online shopping.”

Source: RICS, UK Commercial Property Market Survey, Q3 2018

Construction Output Summary of Forecasts

SECTOR	YEAR	EXPERIAN	CONSTRUCTION PRODUCTS ASSOCIATION
TOTAL CONSTRUCTION OUTPUT	2018	-0.7%	-0.6%
	2019	1.6%	2.3%
	2020	2.9%	1.9%
TOTAL NEW WORK	2018	-1.1%	-0.6%
	2019	1.4%	2.8%
	2020	3.1%	2.2%
REPAIR AND MAINTENANCE	2018	0.1%	-0.6%
	2019	2.0%	1.3%
	2020	2.4%	1.3%
PUBLIC HOUSING	2018	0.0%	3.0%
	2019	3.0%	3.0%
	2020	6.0%	0.0%
PRIVATE HOUSING	2018	3.0%	5.0%
	2019	3.0%	2.0%
	2020	4.0%	1.0%
INFRASTRUCTURE	2018	1.0%	3.2%
	2019	9.0%	13.0%
	2020	7.0%	6.8%
PUBLIC NON-HOUSING	2018	-10.0%	-5.8%
	2019	-1.0%	0.3%
	2020	-1.0%	1.5%
PRIVATE INDUSTRIAL	2018	4.0%	2.3%
	2019	0.0%	1.4%
	2020	1.0%	2.5%
PRIVATE COMMERCIAL	2018	-5.0%	-8.4%
	2019	-5.0%	-2.2%
	2020	0.0%	0.7%

Source: BCIS Summary of Output Forecasts, August 2018

The Glenigan Index

Glenigan's October Index of construction starts is encouraging following a subdued first half to 2018. The value of project starts in the three months to September 2018 was up 10% on a year ago and 12% higher than in preceding three-month period.

Overall, residential starts were 11% higher than a year ago, driven mainly by a rise in private housing which was 17% up on last year and 16% up on last quarter, while social housing starts were 9% down on a year ago but 12% up on the previous quarter. Non-residential project starts were 11% higher than a year ago and 13% up on the previous quarter owing to a rise in the value of office, retail, health and industrial projects starting on site.

Civil engineering fell back slightly, with starts down 2% on a year earlier and 1% down on the previous quarter. Following an 80% jump in utilities work in Q2, project starts slipped back by 37% in Q3 and by 15% on the previous year.

Project starts in the North West and North East were up by 59% and 75% respectively on a year ago. Starts in London were 15% ahead of a year ago, following a rise in office developments in Q3. The East Midlands, Yorkshire & the Humber and Northern Ireland saw a weakening in starts with declines of 13%, 26% and 38% respectively.

Source: The Glenigan Index, October 2018

Construction Output Summary of Forecasts

BCIS considers that there is still a great deal of uncertainty in respect of Brexit and it continues to produce forecasts based on different outcomes. A specific 'No Deal' forecast has not been prepared but it is likely to tend towards the 'downside' scenario. These are:

 **Upside scenario** – the UK will remain a member of the EU (but with no voting rights) and retains access to European construction operatives after cessation of the two-year transitional period

 **Downside scenario** – the UK will experience a 'hard Brexit' (i.e. no transitional period) with less favourable trade agreements with the EU and restricted movement of labour

 **Central scenario** – the UK will remain a member of the EU (but with no voting rights) but there will be some restrictions to the movement of labour and less favourable trade agreements

New Work Output:

Year on year	Upside Scenario	Central Scenario	Downside Scenario
2Q18 to 2Q19	1.4%	-0.5%	-2.8%
2Q19 to 2Q20	6.7%	0.8%	-9.0%
2Q20 to 2Q21	6.5%	2.1%	-4.0%
2Q21 to 2Q22	5.5%	4.4%	8.3%
2Q22 to 2Q23	5.3%	4.5%	8.5%

Source: BCIS Quarterly Briefing, October 2018

Spotlight on the Energy sector - Gary Mills

Gleeds' Gloucester office is predominantly occupied by their two big energy sector clients – EDF and Horizon Nuclear Power. At present, both EDF's Hinkley Point C and Horizon Nuclear Power's Wylfa Newydd projects have high resource requirements.

Hinkley Point C has now moved significantly into the marine works phase, both on-site (both reactor bases) and off-site (temporary workers accommodation phase 1 completion, phase 2 due to be handed over shortly). At Horizon, significant archaeological preparation activities have commenced, together with continued support for cost discovery and verification work which is now being audited by the Department for Business, Energy & Industrial Strategy. Reviews of the cost estimate are now taking place as well as extensive cost engineering defensive brief support work for the Examination Phase of the Development Consent Order (DCO) process which runs until May 2019.

The energy sector is vulnerable to the same external factors as much of the rest of the industry, such as the insolvency of Carillion and the subsequent labour redeployment, uncertainty created by other contractor restructuring (such as Interserve and Amey) and the likely loss of skilled European labour post-Brexit. Of particular concern to the sector are Toshiba's decision to pull out of the UK, discussions between Hitachi and the Japanese government and the UK government and investors, the Chinese nuclear involvement in Hinkley and Bradwell, and Trade and Union Pay Agreement disputes at Hinkley Point C. The uncertainty around what impact a hard or soft Brexit will have on imported goods, trade, migrant workers, ex-pat overseas workers and currency variation can and should not be under estimated.



Regional Reports

Gleeds monitors construction activity and confidence in each UK region.

As well as activity analysis, we directly engage with local contractors and industry contacts to understand their experiences. As feedback contains a degree of opinion and anecdotal evidence, it is not completely scientific, but should provide a useful insight into the views of those at the core of industry.

While it may not be possible to predict future trends or pre-empt potential stressors, careful monitoring of regional activity can provide us with the ability to adapt to adverse conditions more rapidly and effectively.

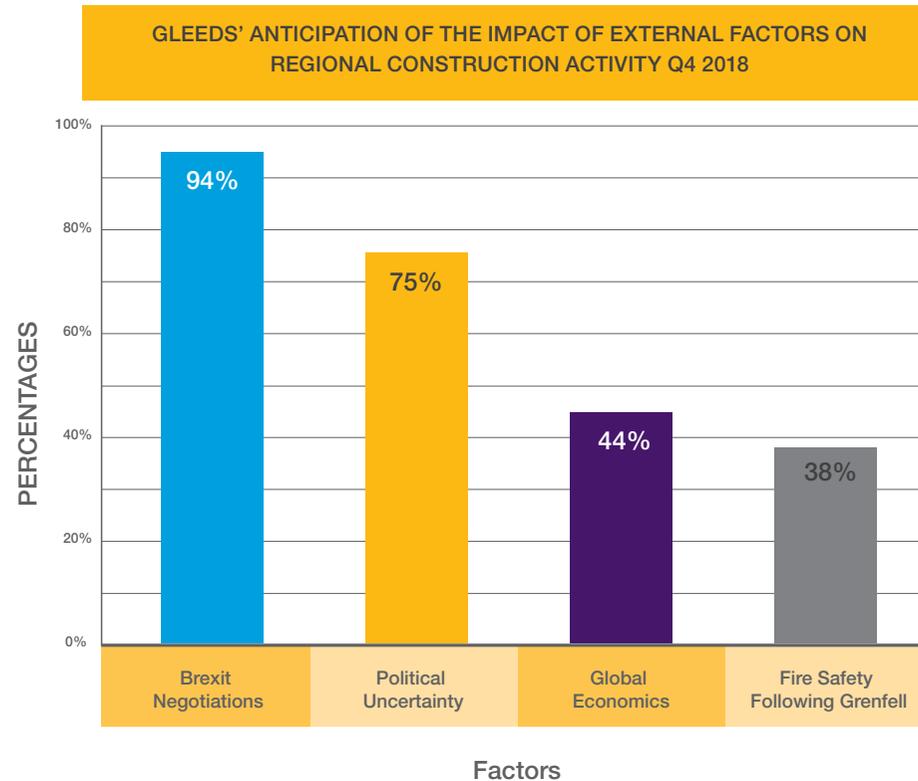
External factors

Unsurprisingly, Brexit remains the dominant source of concern for the construction industry, with 94% of Gleeds' staff expressing uncertainty in this regard, the same as last quarter. Political uncertainty has become more of a worry and is affecting confidence for 75% of contacts, up from 69% in Q3. Global economic conditions are less of a concern, at 44% down from 50% last quarter. However, this might be an effect of the more pressing problems in the UK. Fire safety concerns remain stable.

Other external factors impacting confidence in the industry include:

- Public and private funding arrangements
- A lack of local authority investment
- Bank Rate rises
- Localised skills shortages as a result of large project demand

65% of our contacts report that these factors have caused projects to stall in their regions.



Regional Reports

According to our contacts, half of the regions across the UK report that the migrant population is moving out of the local area.

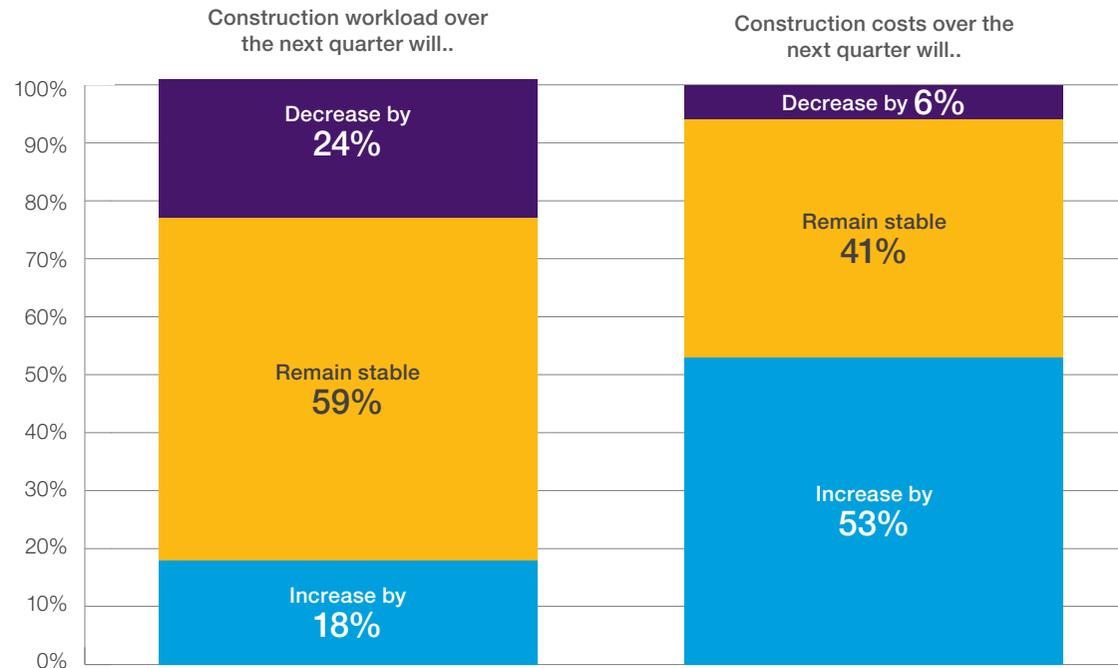
This includes:

- London
- South East
- North West
- Scotland
- East
- Northern Ireland

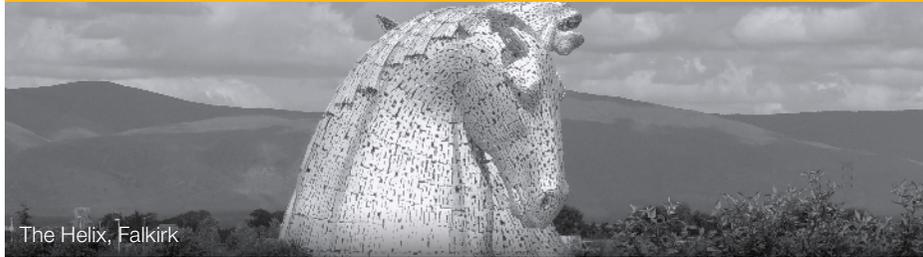
Reasons for this might include personal concerns about a less welcoming living and working environment either now or once the UK leaves the EU, as well as uncertainty over their immigration status.

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

PREDICTION FOR CONSTRUCTION WORKLOADS AND COSTS OVER THE NEXT QUARTER



Regional Reports



The Helix, Falkirk



Nigel Watkins

Reporting on Wales

Discussions with the Welsh supply chain confirm that levels of activity in the region remain good with a healthy amount of new opportunities in the pipeline. Student accommodation, education, house building, and commercial projects are leading the way, particularly in South Wales. The number of new homes being built by the private sector in Wales grew firmly in the third quarter of the year, as reflected in the RICS Construction & Infrastructure Market Survey.

As well as the ongoing project at Central Quay and public transport projects in Cardiff, a number of hotel schemes look likely within the Cardiff area. GPU schemes for Her Majesty's Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP) are also moving forward. Education and health sector projects are also on the horizon with the 21st Century Schools and Design for Life frameworks moving forward. However, the development of the M4 relief road remains on hold following the resignation of First Minister Carwyn Jones earlier in 2018.

The UK's Brexit Strategy is the current hot topic affecting the marketplace locally as well as nationally. Some contractors in the region are seeking the introduction of 'Brexit clauses' to safeguard against difficulties which might be encountered once the UK has left the EU, such as the procurement of materials and potential price rises.

🚩 In our previous quarterly report, construction activity levels in Wales were strong, particularly in the student accommodation, education, residential and commercial sectors.



Brian Stevenson

Reporting on Scotland

According to statistics published by the Fraser of Allander Institute (Economic Commentary Vol 42 no 3), the Scottish Economy grew by 0.5% in the three months to June 2018 and Gleeds continues to see positive signs of growth within the central belt.

Growth across Scotland is maintained by works in the retail and education sectors, primarily refurbishment-based projects. A steady level of activity in these sectors persists with notable projects in Fort Kinnaird for British Land, Edinburgh for the University of St Andrews plus defence projects for the MoD. Current retail projects include the £2.5m Home Bargains and McDonalds development in Inverness.

The commercial sector is also busy as is the industrial/warehouse sector on a speculative basis; Gleeds has been appointed to provide cost advice on speculative industrial units at Eurocentral with an estimated value of £15m and warehouse trading units in Hillington with an estimated value of £8m. Gleeds has also been contracted on two major historic refurbishment projects in Edinburgh; the £25m King's Theatre and £25m Waldorf Astoria (The Caledonian).

Shortages of labour continue to be a problem, most notably with bricklayers, painters and joiners. This is exacerbated by migrant workers returning home. Contractors are also more selective with tendering opportunities possibly due to a lack of capacity to take on new works and sufficiently full order books for 2019.

Brexit remains the biggest challenge to the economy with a "no-deal" outcome expected to cause hardship for many businesses. A high level of uncertainty remains.

🚩 Last quarter, we highlighted a number of planned works across Scotland, mainly in the retail, residential and education sectors, although much of this was refurbishment only.

Regional Reports



Galvin Tarling

Reporting on the Eastern Region

The regional Eastern market continues to indicate traits of uncertainty as a consequence of the ongoing economic environment. In general, the volume of tender responses is decreasing; main contractors with capacity within their order books continue to tender competitively but those with stocked order books are more selective of the opportunities they consider and tend to submit less competitive tenders.

Across the region, projects are continuing to be put on hold awaiting greater economic certainty with regular clients within the industry unwilling to commit to schemes in the short to medium term. Workloads are likely to decrease over the next quarter which will serve to drive down construction costs as contractors seek to bolster their order books.

Owing to lower workloads, although migrant workers are thought to be leaving the UK, the quality and quantity of labour remains adequate at present.

🚩 **Last quarter, we reported on a market contraction in the Eastern region, particularly within the commercial, retail and industrial sectors, culminating in lower profit margins for main contractors.**



Geoff Warke

Reporting on Northern Ireland

According to the Northern Ireland Statistics and Research Agency (NISRA), the Composite Economic Index (roughly equivalent to GDP) in Northern Ireland grew by 1.6% (Q2 2017 to Q2 2018), which included dealing with Brexit-related uncertainty and anticipating political considerations going forward.

Construction activity has experienced another year of growth despite Brexit and related political uncertainties. Most of this growth has come from infrastructure works, new Grade A offices, hotels and the residential market. Following the post-election deal between the Conservatives and the DUP, £1b of new money is now being spent on infrastructure projects such as the Belfast Transport Hub and the York Street road interchange project. This is a timely boost to the local construction market during 2018/19.

Statistics from the NISRA estimate that the total volume of construction output in Q2 2018 increased by 6.2% compared with Q1 2018 and was 2.5% lower compared to the same quarter in 2017. The latest increase brought the overall level of construction to a similar level as in 2017.

Labour availability remains a cause for concern with evidence that migrant workers are moving out of the local area. Construction workloads are expected to decrease over the next quarter while costs will remain stable.

🚩 **In last quarter's report, the Northern Ireland construction market was reported as being relatively buoyant owing to the infrastructure, commercial, hotel and residential sectors.**

Regional Reports



St Pancras Renaissance, London



Paul Sweeney

Reporting on the Greater London Region

The London construction market is busy with instances of localised overheating on a project by project basis. As mentioned last quarter, Brexit uncertainty is having a considerable impact in the city. Although not too much of a concern for projects already in the pipeline, the demand for new developments remains subdued, as it has for some time. Projects with short timescales, such as commercial refurbishment and fit out works, are particularly affected by Brexit concerns and the loss of lower skilled trades.

Labour shortages are apparent across the board as a result of migrant workers returning home or moving out of the local area. This is believed to be a caveat of Brexit with EU citizens feeling less secure in their jobs.

Looking ahead, workloads are expected to remain stable while construction costs are likely to increase.

In our previous quarterly report, reduced foreign investment as a result of uncertainty around Brexit was impacting on London activity levels, particularly in the residential sector.



Phil Wright

Reporting on the Midlands Region

Construction output levels across the Midlands remain strong, with projects on site progressing through 2018 and into 2019. There remains a good demand for residential schemes, with a number currently on site or progressing through planning and procurement.

Commercial developments and infrastructure schemes within city hubs such as Birmingham are progressing, with a number already on site.

However, there does appear to have been a slight slowdown in activity across the region as a whole during the second half of this year. This is possibly because investors and clients are holding off until the new year as well as the impact of the ongoing Brexit negotiations. Brexit uncertainty is having a detrimental impact on the appetite of investors. As a result of the Grenfell fire investigation, projects are being designed to take account of new recommendations around combustible façade materials.

Contractors continue to report material and labour price increases and difficulties in resource availability. They continue to be selective on the projects they tender for with decisions being affected by the choice of procurement route (competitive tendering vs. negotiation, single stage vs. two stage) and the degree of risk. Overall, contractors are less prepared to undertake a competitive tendering process, instead favouring a two-stage process or negotiation.

Rising material prices are expected to feed-in to increased tender prices in the coming months.

In our previous report, buoyancy continued across the Midlands, with the residential and commercial sectors driving growth, although there were signs of rising resource costs.

Regional Reports



Hiscox Insurance Building, York



Peter Burns

Reporting on the North East Region

Workloads in the North East are relatively buoyant at present with a particular emphasis on the residential sector. A number of large private rental sector (PRS) schemes have come forward, although they are not quite at the delivery phase, and this is a relatively new market in the region. There is a constant stream of projects by private residential developers, housing associations and clients in the extra-care sector. There is activity in the commercial sector, with office projects at Aykley Heads in Durham and Sunderland Council's new Civic Centre at Vaux submitted for planning. The infrastructure sector is steady and plans for the Whey Aye Wheel and the associated facilities on Newcastle Quayside have now been tabled.

However, any optimism is caveated by the uncertainty surrounding the Brexit negotiations and impact on business confidence and domestic politics. This uncertainty is casting a cloud over the industry but, as yet, there does not appear to be any direct consequence

in terms of tender levels and work winning as clients attempt to maintain a 'business as usual' approach until the outcome of Brexit is known. The concern is that the industrial sector, which has been picking up in recent months, may be affected by an unfavourable Brexit, and that the residential sector, currently very buoyant, may be affected by domestic politics. The lack of Local Authority (LA) investment is causing many projects to either not be brought to market or be delivered by the LAs themselves, which is making private sector works very competitive.

The marketplace for contractors is somewhat mixed depending on the sectors they specialise in, and this is expected to continue into 2019.

In the previous quarter, the North East reported some slowing in activity due to Brexit-related uncertainty and as a result, contractors were wary of complex projects with inappropriate risk transfer.



Alex Halliday

Reporting on the North West Region

The level of construction activity in the North West remains high with lots of opportunities in the pipeline, particularly with respect to the residential and education sectors.

Trades such as decorators, plasterers and M&E contractors, remain in high demand; especially those whose quality of work is known to be of a significant standard. Surprisingly, there still seems to be a steady stream of bankruptcies across the region. The expectation is that the diminishing pool of preferred contractors and sub-contractors will eventually feed back into increased costs and tenders, although costs are expected to remain stable for the foreseeable future.

Subcontractors such as plasterers, decorators, brick layers, and M&E contractors are all in demand due to the number and scale of housing projects currently being undertaken. Staff retention is becoming an issue for many of these, especially as migrant workers begin to move out of the local area.

In our previous quarterly report, the construction industry in the North West was busy, particularly in the residential and higher education sectors.



Steve Green

Reporting on the Yorkshire & Humberside Region

The construction industry in the Yorkshire and Humber region is buoyant, owing to the busy higher education sector and related sub-sectors. This includes student accommodation works which are prevalent at present.

As HS2 gains traction, Leeds has become a focal point of activity and there has been an associated rise in speculative office accommodation, especially since the announcement of Channel 4's move from London to Leeds. The hotel sector remains strong while high value P22 healthcare projects are also emerging. In the retail sector, refurbishment and rationalisation works dominate rather than new build works.

In general, clients remain cautious and are focussed on achieving value for their investment returns.

Labour availability remains sufficient and there has been no noticeable loss of skills from the region. Workloads and costs are anticipated to increase over the coming months.

In the previous quarter, the construction industry in the Yorkshire and Humberside region was reported as being buoyant, driven by higher education, hotel and health sector works.

Regional Reports



Richard Hine

Reporting on the South East Region

The South East region has experienced a continuing slowdown in the housing sector which has recently been the dominant sector. Private house builders are looking for bigger returns on revenue in the short term. Elsewhere, private commercial and infrastructure projects are still seeing a modest pace of growth although the larger commercial projects are slow to progress and, in some cases, are paused.

The uncertainty over the Brexit deal is weighing heavily on confidence in the construction industry - this is having a knock-on effect in the South East region particularly as the neighbouring London market is experiencing a slowdown in activity. As a result, competitive pressures across the market are affecting tendering levels and keeping contractors' margins tight - this is particularly noticeable in the residential market.

No material shortages are being reported at present. Labour availability varies across the region with some local shortages of trade associated with housebuilding such as bricklayers, dry liners, plasterers and plumbers.

The manufacturing sector is still uncertain due to the Brexit situation with projects on hold pending the outcome.

In our previous quarterly report, we reported a slight slowdown in general housing activity although housebuilding remained the busiest sector across the South East. Material and labour shortages were starting to impact housing delivery.



Matthew Quirk

Reporting on the South West Region

The South West is benefitting from an improved outlook in the region with a steadily increasing workload. On the whole, the industry expects further growth opportunities for the year ahead, albeit with varying levels of confidence.

Transport investment in Bristol continues apace with the electrification works of the London line, the opening of the second Metrobus route, and major overhaul of the road network surrounding Bristol Temple Meads station.

Two potential schemes, also in Bristol, have continued to dominate the local press. Firstly, the Mayor's recent decision to abandon the proposed central location of the long-discussed arena in favour of converting an existing aerospace hanger at Filton Airfield on the periphery of town. Secondly, following a public enquiry, the rejection of the proposed expansion of Cribbs Causeway shopping mall. However, construction is conspicuous with a number of tower cranes visible on the city's horizon. Major schemes continue on site in Redcliffe Quarter, Whapping Wharf Phase 2, the continuation of the development at Temple Quay, and the waterfront development at Finzels Reach.

Across the region there is the belief that Brexit will have a negative impact on the construction and property sector, based on assumption that this would lead to reduced investment due to uncertainty and the possibility of delays in importing goods.

In our previous quarterly report, the South West region was enjoying high levels of housing delivery but a loss of office stock, due to change in use, was driving up rents.

Acknowledgements

Thank you to the following:

(All data current as at 26th November 2018)

BCIS All-in Tender Price Indices
BCIS Summary of Output Forecasts
BCIS Quarterly Briefing
Budget 2018
Construction output statistics, Northern Ireland Statistics and Research Agency
Consumer Price Indices, Office for National Statistics
Forecasts for the UK Economy, HM Treasury
Gross Domestic Product, Office for National Statistics
Inflation Report, Bank of England
Labour Market Statistics, Office for National Statistics
NI Composite Economic Index, Northern Ireland Statistics and Research Agency
Output in the Construction Industry, Office for National Statistics
RICS UK Commercial Property Market Survey
RICS UK Construction & Infrastructure Market Survey
The Glenigan Construction Index

For additional information contact:

Lucy Vencatasamy-Jones

Gleeds Corporate Insight & Analytics
Apex Business Park, Ruddington Lane, Wilford,
Nottingham, NG11 7DD

Tel: 0115 977 8000

Email: lucy.vencatasamy-jones@gleeds.co.uk

Key

ONS: Office for National Statistics

NISRA: Northern Ireland Statistics and
Research Agency

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors



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