

CPA Construction Outlook

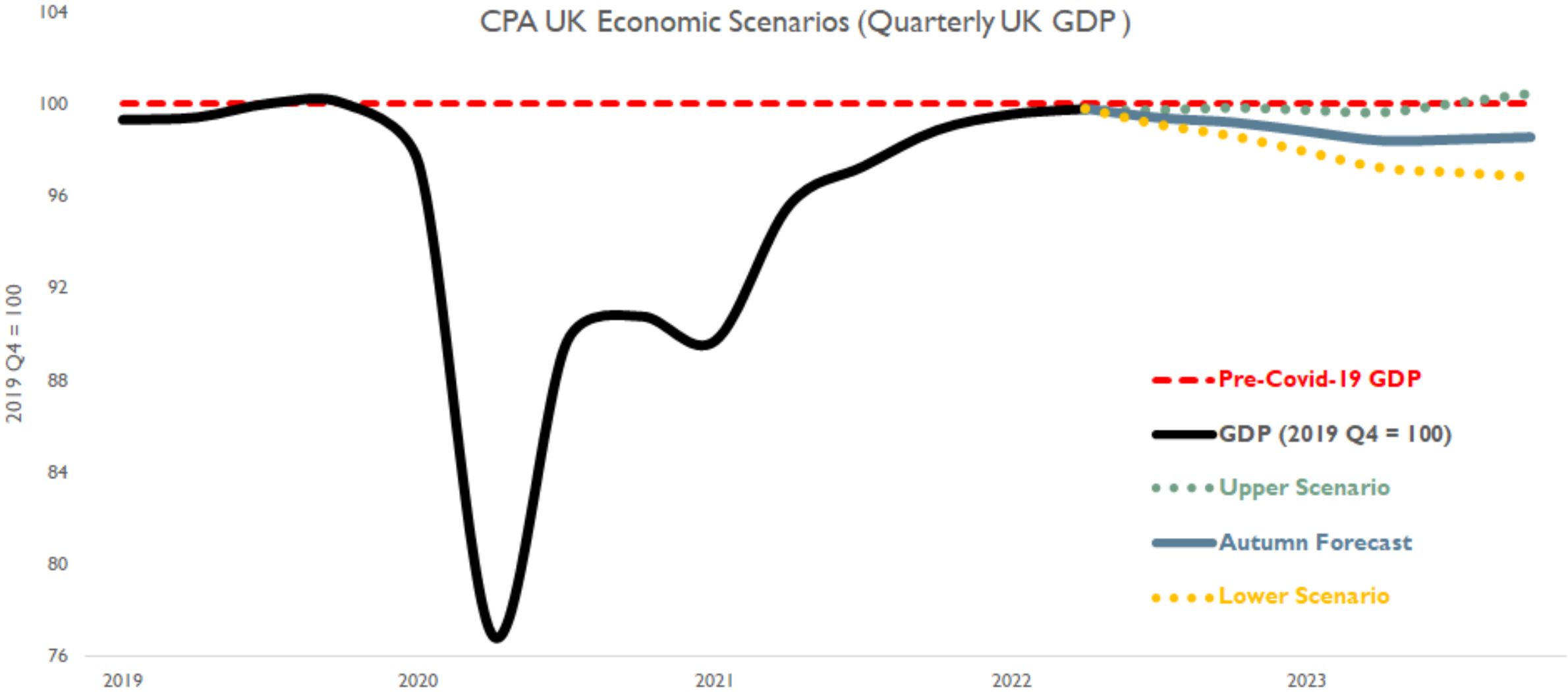
(16 November 2022)



UK Economy

UK Economic Recession

CPA UK Economic Scenarios (Quarterly UK GDP)



Source: ONS, CPA Estimates

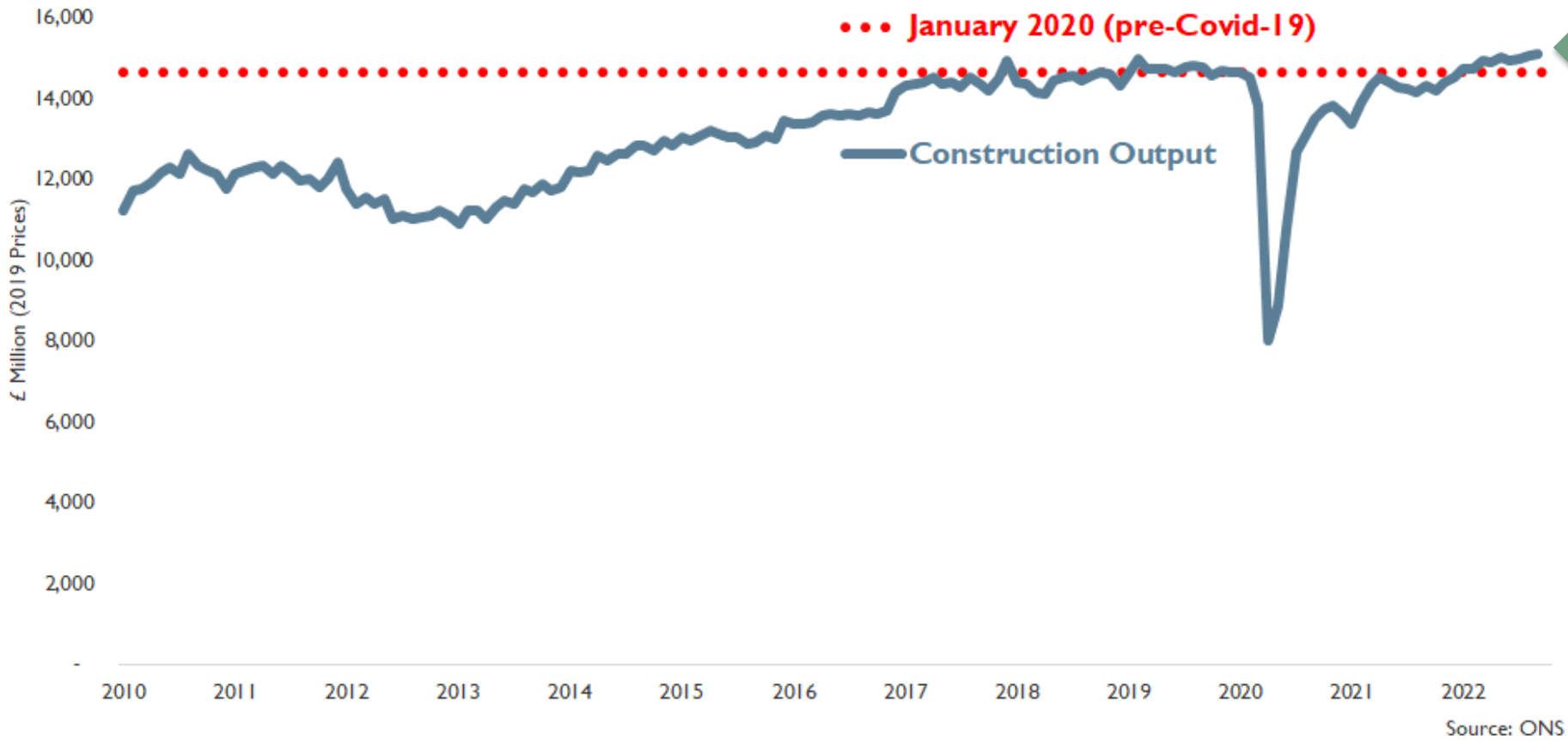
Interest Rate to Peak at 4%

Economic Indicators					
	2020	2021	2022	2023	2024
	Actual	Actual	Estimate	Forecast	Projection
GDP	-11.0%	7.5%	4.1%	-1.0%	1.9%
Fixed Investment	-10.5%	5.6%	5.3%	0.0%	2.9%
Household Consumption	-12.9%	6.2%	4.5%	-1.1%	2.7%
Real Household Disposable Income	-1.0%	0.8%	-2.8%	-1.3%	3.0%
Government Consumption	-7.3%	12.6%	1.5%	2.7%	1.2%
CPI Inflation	0.8%	2.7%	8.0%	5.0%	2.2%
RPI Inflation	1.5%	4.1%	11.3%	8.6%	2.8%
Bank Base Rates - June	0.10%	0.10%	1.25%	4.00%	3.50%
- December	0.10%	0.25%	3.75%	3.75%	3.25%

Source: ONS, Construction Products Association

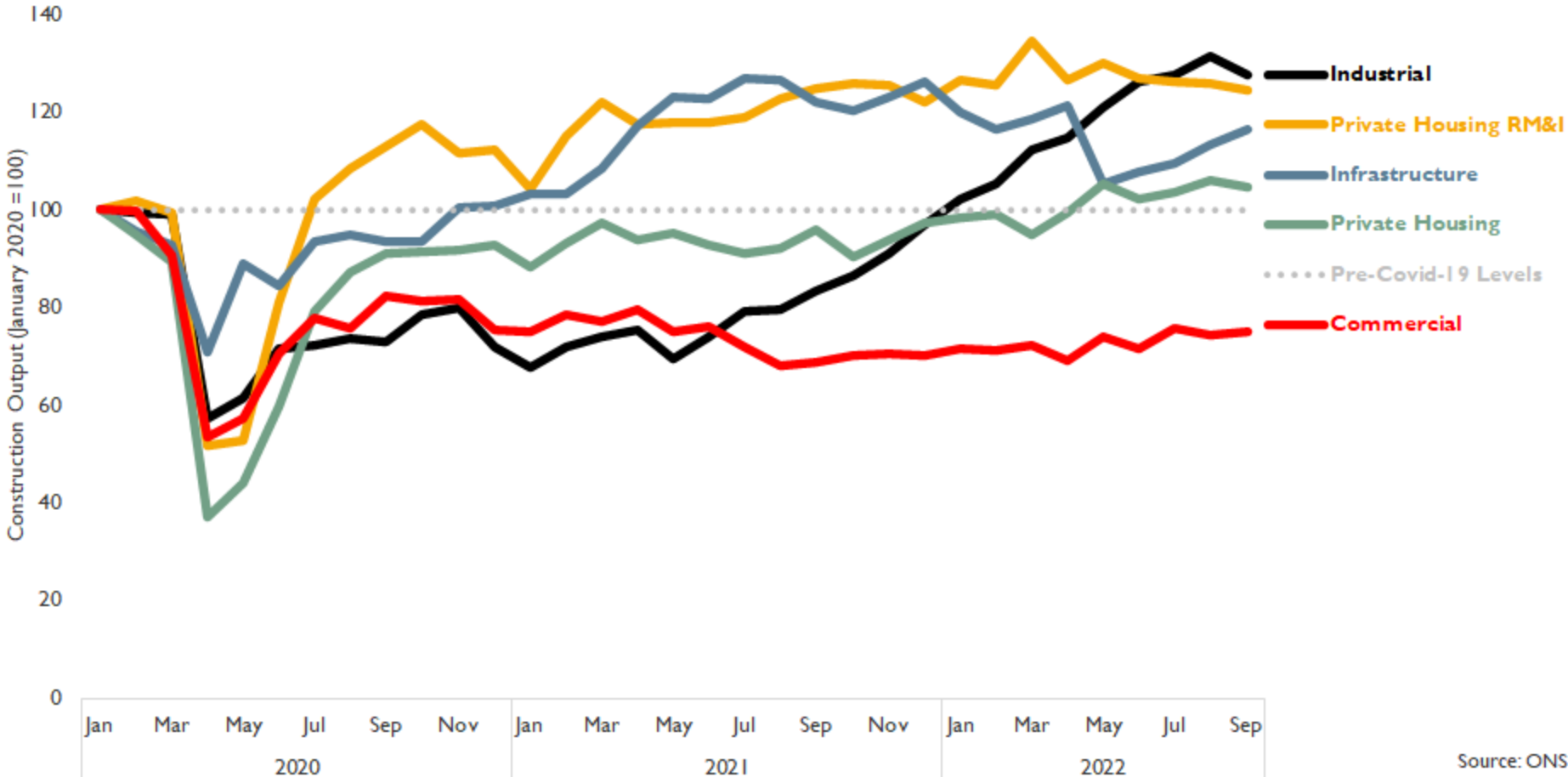
Latest Construction Information

Construction Activity Still Strong



Construction output in September was 0.4% higher than in August after a slight dip in activity during Summer. It was also 5.7% higher than a year ago and remained 3.2% higher than in January 2020, pre-pandemic.

... For Some Construction Sectors



Source: ONS

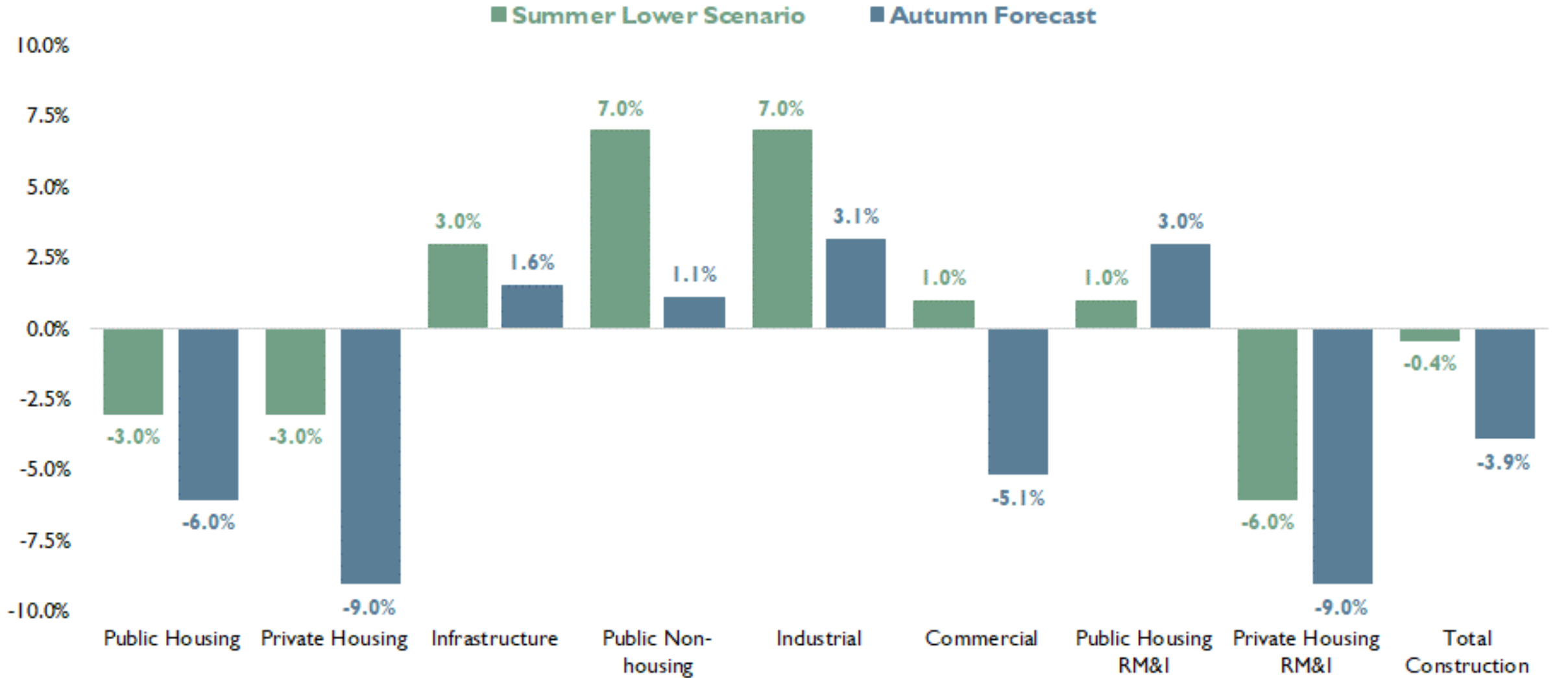
Industrial activity began to fall in September (-2.9%) from historic high levels. Private housing rm&i output fell by -1.1% and has been falling since March but infrastructure activity rose in September (+2.8%) and continues to be robust. Private housing new build fell marginally (-1.4%) but remained higher than pre-pandemic whilst commercial output rose by 1.0% in September but remained 24.8% lower than in January 2020.

Recent Supply Chain Views

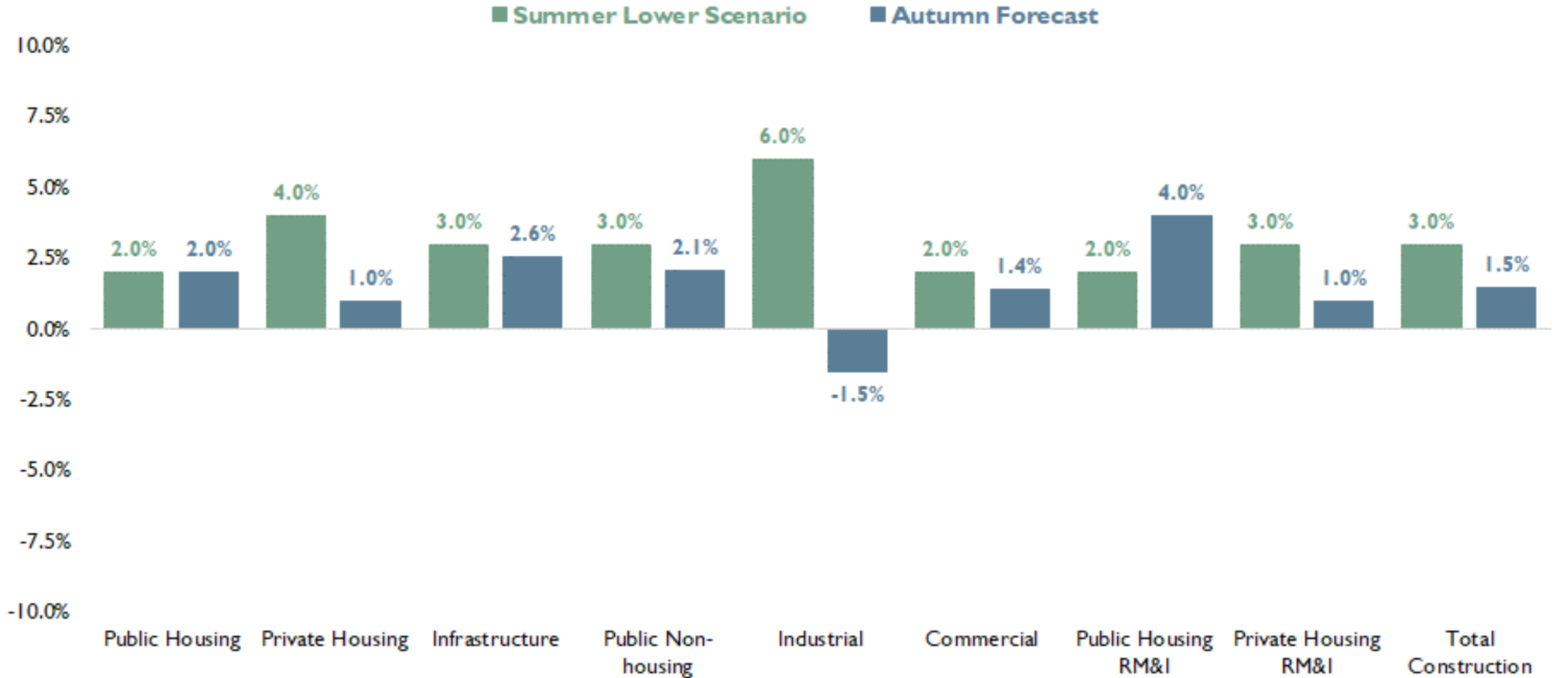
- Housing – housing analysts pencilled in an ‘Armageddon scenario’ after the Mini Budget but majors are more cautious, waiting for the political and markets chaos to fade (and mortgage rate expectations to lower). Cancellations are rising but remain low so far and majors sold into 2023 Q1.
- RM&I activity suffered a Summer holiday dip and picked up slightly since then but continues on a more rapid downward (double-digit) fall than the ONS data suggest. Energy-efficient and solar/PV work appears to be the one niche that continues to remain strong
- Infrastructure activity remains strong for major projects and frameworks **but councils are switching finance away from new projects to repair and maintenance of existing infrastructure. Ignore government announcements of bringing forward 138 infrastructure projects in the Mini Budget**
- Commercial activity is still strong for fit-out work on offices, retail and leisure units and some high-end offices refurb. New tower projects already signed off are starting to come through **but we may see projects that have not yet broke ground paused and there is hesitancy signing off new major projects**
- Industrial strong demand for warehouses/logistics but concerns that the market may have peaked. Factories investment from last year is coming through but concern over the gigafactory

Forecasts

CPA Autumn Forecast – 2023



CPA Autumn Forecast – 2024

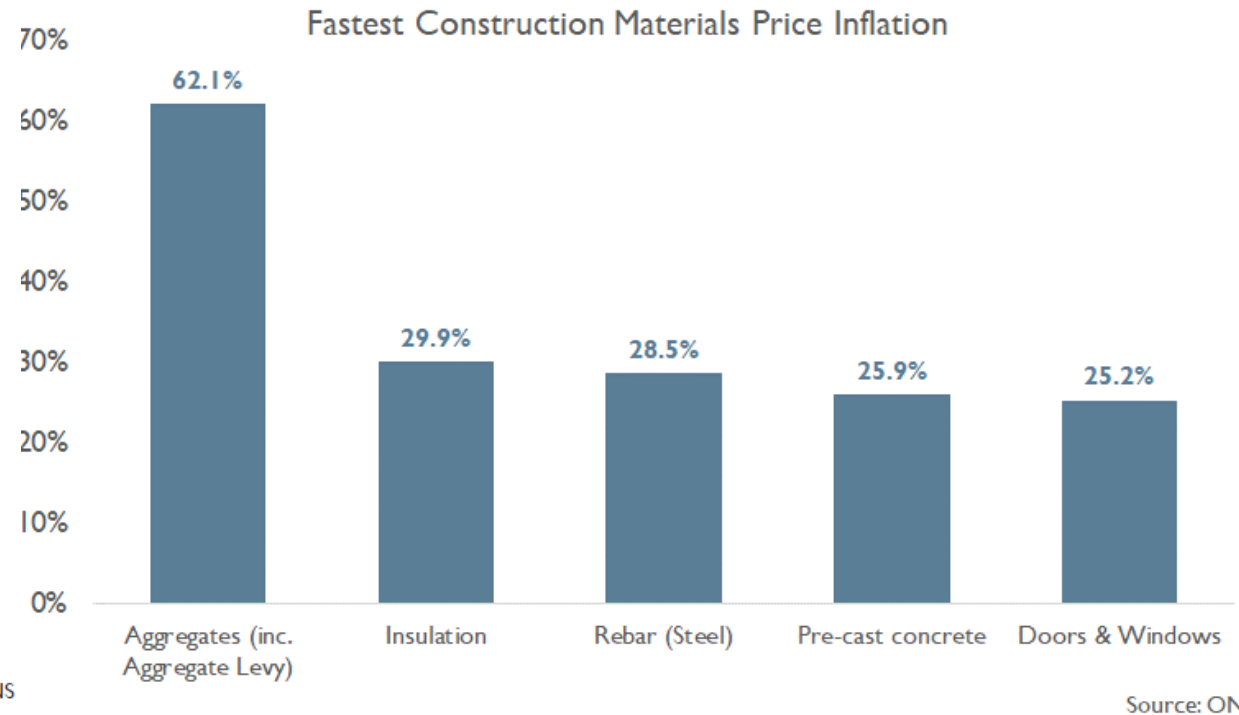
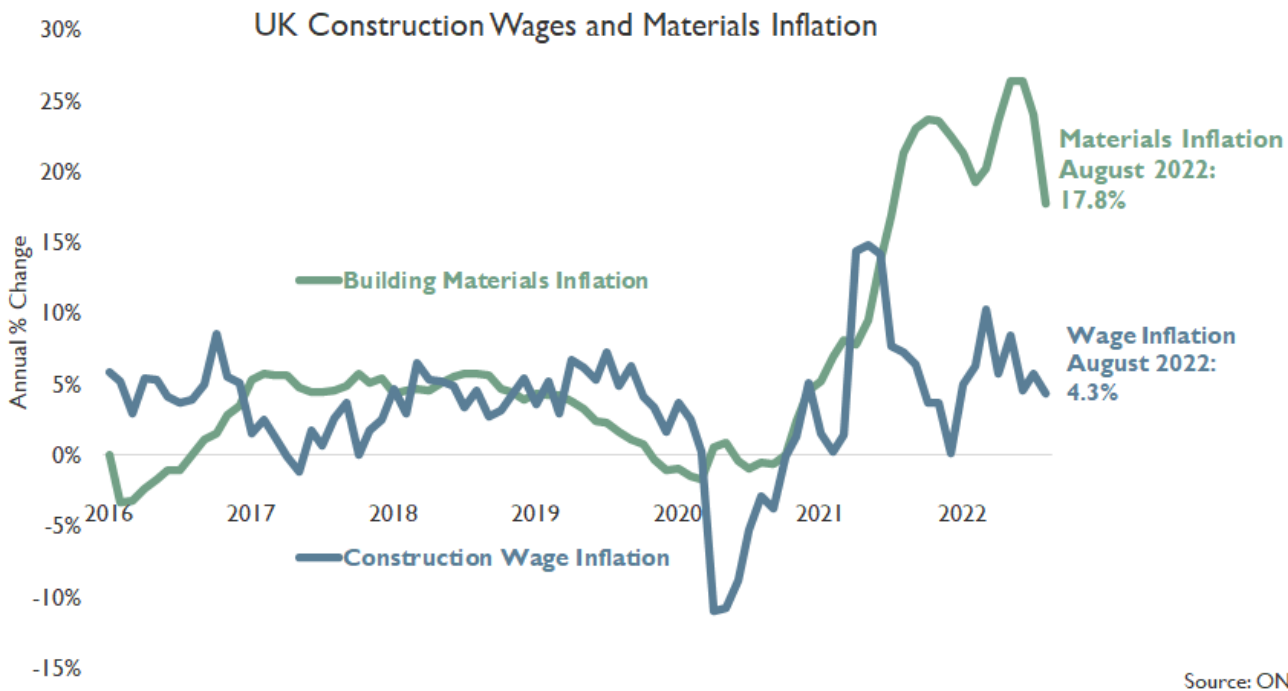


Key Risks

Risks Heavily Weighted to the Downside

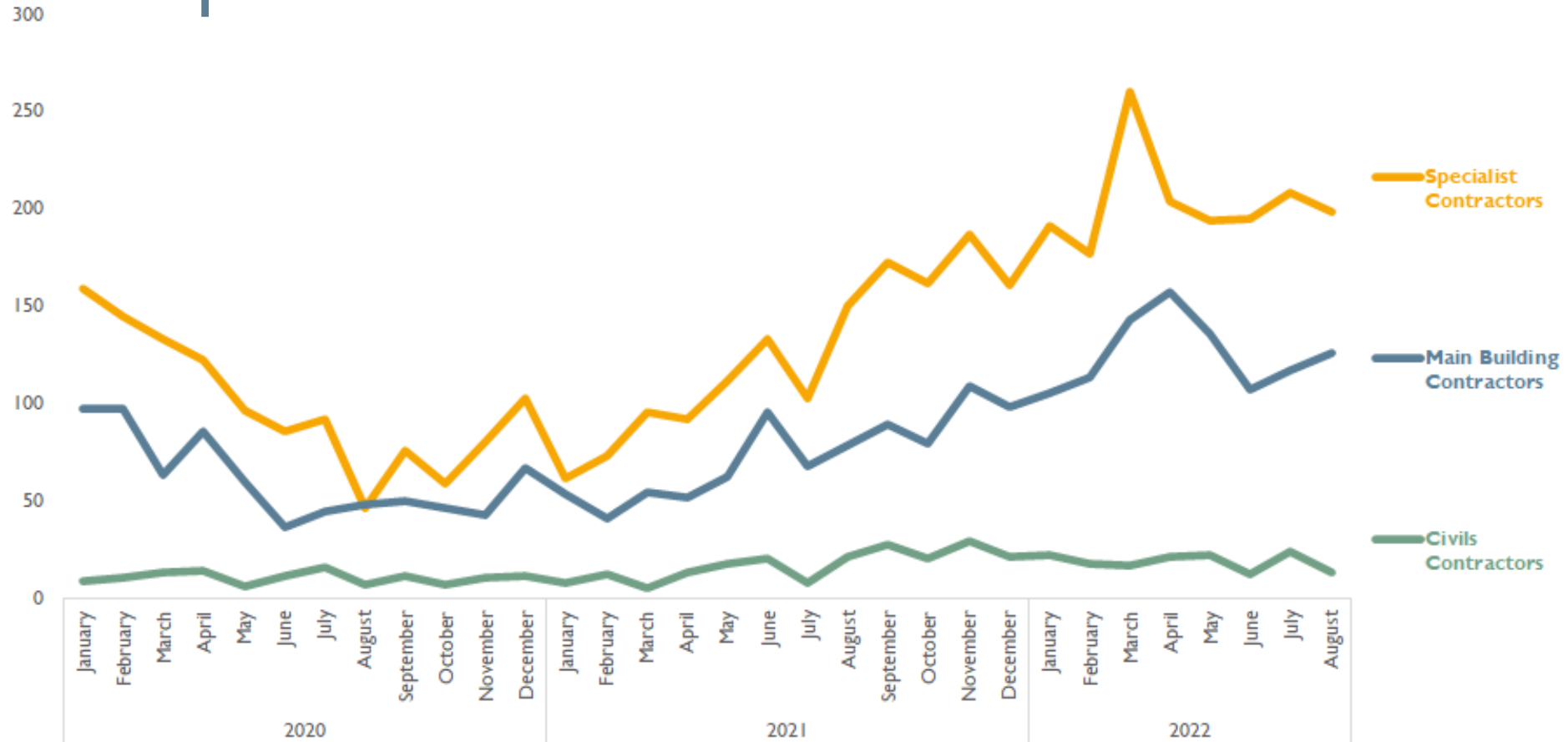
- **KEY CONCERN – The UK Economy will fall into recession but will the housing market crash? Housing market analysts anticipated 12-20% UK house price falls in the immediate aftermath of the Mini Budget but markets have started to calm since then and are expected to calm further after the Chancellor's Autumn Statement and OBR analysis. A crash is still possible but only in the Lower Scenario NOT the main forecast**
- **Materials and Products Supply – eased since last year apart from a few products tight in supply such as semi-conductors (used in boilers, electrics, smart meters, EV chargers, heat pumps), bricks, aircrete etc.**
- **Cost inflation – still double-digit but slowing (especially on timber where prices are falling)**
- **Labour availability and cost – still an issue for some key skilled trades, increased wage demands where there are skills shortages**
- **Main contractors – Will they push out payment terms, keep retentions and enforce fixed-price contracts?**
- **Problems particularly for smaller specialist sub-contractors exacerbated by other contractor issues – IR35, reverse charge VAT, rising P.I. insurance costs and recently the removal of the red diesel rebate**

Materials and Wages Inflation



UK average earnings in August 2022 were 4.3% higher than a year earlier for both total pay (including bonuses) and regular pay. Given that CPI inflation was 9.9%, this points towards real wage falls despite apparent skills shortages in some parts of the industry. UK construction materials prices in August were 17.8% higher than a year earlier, which is lower than in the last few months, partly due to the double-digit falls in the price of some materials such as timber. The fastest annual price rises were in Aggregates, insulation, rebar, pre-cast concrete and doors & windows.

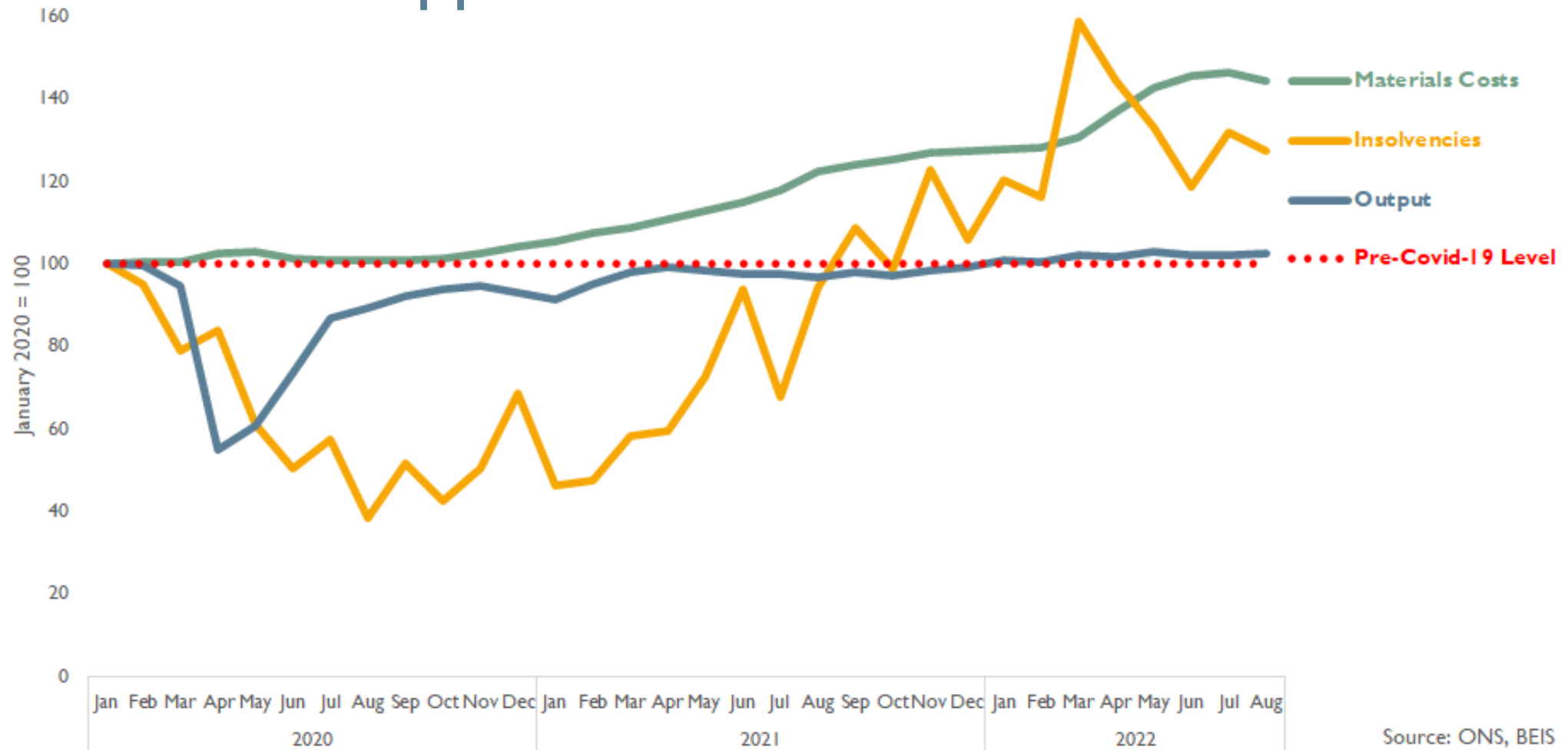
Specialist Contractors Hit the Hardest



Source: Insolvency Service

UK construction lost 337 firms in August 2022 and 3,934 firms in the last year according to the Insolvency Service despite strong construction demand, higher than pre-pandemic, and the trend in construction insolvencies continues upwards. The annual figure is the highest since the financial crisis more than a decade ago.

What Happens When Construction Slows?



Construction output in August was 2.5% higher than in January 2020, pre-pandemic yet whilst construction materials prices were 44.1% higher, construction insolvencies were 27.2% higher. So, the key question is what happens when construction demand slows?

Summary

The next 12-18 months are likely to be challenging but remember that construction demand remains at a high level

Growth in 2023 expected in:

- Infrastructure,
- Schools,
- Hospitals
- Industrial warehouses

The long-term prospects for construction are good:

- Economic Growth
- Net Zero,
- More homes
- Levelling Up

Thank You



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