

Economic and Regional Inflation Report

Spring Statement 2018 Review Special

Economic

- ▶ Bank Rate held at 0.5%
- ▶ GDP grows 0.4% in Q4 2017
- ▶ Construction output down 0.7% in Q4 2017

Spring Statement

- ▶ Economy beats growth expectations
- ▶ Housing Growth Partnership to receive an additional £220m to support small housebuilders
- ▶ Next business rates revaluations brought forward to 2021



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Industry News & Updates

Carillion collapse creates subcontractor misery

Carillion's collapse at the beginning of the year has reportedly left 30,000 sub-contractors out of pocket to the tune of £1.2bn. Part of the blame is being attributed to outrageous supply chain payment practices, highlighting the need for a review of procurement and financial management practices. An investigation into the cause of Carillion's demise has been launched jointly by the Work and Pensions and Department for Business, Energy & Industrial Strategy committees. Carillion's auditor, KPMG, is also under investigation by the UK's Financial Reporting Council for its role in the collapse.

Latest Market/CIPS survey reflects a continued 'soft patch'

According to February's Markit/CIPS Construction PMI report, new work has declined for the second month in succession, although there has been a marginal rise in total activity. The PMI was 51.4, up from 50.2 in January, reflecting a slight pick-up in construction output. Civil engineering and house building were among the worst-performing categories, whilst the commercial sector showed solid growth.

Crane survey points to construction activity boom in regional cities

According to the Deloitte Real Estate UK Crane Survey, Belfast, Birmingham, Leeds, and Manchester reported record levels of city centre residential construction activity for 2017. In Birmingham, the number of new construction starts breaking ground was 24; the residential sector accounted for 13 of these, delivering 2,500 units. Student housing schemes are set to deliver 1,782 bed-spaces, while over 130,100m² of office space is currently under construction. In Manchester, 41 residential schemes (including 20 new starts) will deliver 11,135 residential units. Six of these schemes will exceed 25 storeys. 139,355m² of office space is also under construction. The number of residential units in development across Leeds is at its highest in a decade – 1,586 units across five development sites. Hotels were the dominant source of growth for Belfast, with over 1,000 new hotel rooms due to be completed this year.

Rail workloads slump in Q4 2017

According to the Civil Engineering Contractors Association's (CECA) most recent Workload Trends Survey, workloads on the UK's railways have fallen for the first time since 2013. Five out of the 10 civil engineering sectors reported falling workloads in Q4 2017, with railways recording the weakest performance (-32% compared to an average of -10%).

Construction contracts awards hold steady in 2017

Marginal improvement in the value of new construction contracts awarded in 2017 indicates stability following a 5% decline in 2016. According to data from Barbour ABI, the value of construction contracts awarded in 2017 was £71bn, which represents a marginal 0.6% increase from 2016. London saw the highest levels of activity with 20% or £14bn of the UK total.

Prime property oversupply risk warning

The Queen's bank, Coutts, believes that there is a real risk of an oversupply of £1m - £10m homes in London which may flatten prices in the short term. This is due to a recent wave of luxury home developments; more than 7,500 new homes are currently under construction, while another 19,000 have received permission across 15 different areas.

Parliament refurb to go ahead

Members of both Houses of Parliament have agreed to move out of the Palace of Westminster to allow for the £3.5bn restoration of the Grade I listed building. The decision was made in recognition that a "full and timely decant of the Palace is the best and the most cost effective delivery option". The House of Commons will relocate to Richmond House in Whitehall, while the restoration takes place. Builders are expected to start around the year 2025.

London commercial office space demand peaked in 2017

According to Knight Frank, London's office market remained buoyant last year despite the uncertainty over what the outcome of the Brexit negotiations will be. This has been driven by the lack of quality office space under construction. There are 259 developments currently on site, of which 72 are commercial schemes. But more than a quarter of these are not due to complete until 2020, thus creating a short-term squeeze for businesses needing new space in the interim. The main driver of this demand is the technology, media and telecoms sector.

New Projects in the Pipeline

Despite subdued growth during Q4 2017, a number of new projects have been announced this quarter:



BAM Construct UK will start work on the £100m 26,500m² Atlantic Square office development in Glasgow in March



Demolition is to begin at site of **TH Real Estate's** delayed Gotham City skyscraper scheme at 40 Leadenhall Street, London, nearly two years after plans were put on hold



Chinese developer **Poly Real Estate Group** will deliver more than 700 homes and commercial space in Mill Hill, north west London



Morgan Sindall is appointed to build the University of Manchester's flagship £46m Arts and Humanities building



£2bn of new office space across the South East is to be developed by **Sir Robert McAlpine** and property entrepreneur **John Baker**. Planning approval has already been given for a 10,220m² office scheme at Gatwick Park and designs for a second 5,570m² building have been submitted



A joint venture between **Barratt London** and **Hyde Group** has been given the green light to build 460 new homes as part of the Kodak factory transformation in Harrow



Willmott Dixon has been appointed to build a new 18,580m² £80m retail and leisure development in Rochdale



Chelsea Football Club is looking to procure contractors for the £1bn development of its Stamford Bridge ground



Mace has been confirmed as the main contractor on **AlloyMtd Group's** £500m One Crown Place development which is due to start in April



Plans to transform three housing estates in the **London Borough of Merton** has been given planning permission. The £1bn scheme will deliver around 2,800 new homes as well as retail, leisure, office, work and community space

SPRING STATEMENT 2018 REVIEW

On Tuesday 13th March, the chancellor of the exchequer Philip Hammond delivered his first Spring Statement following last year's announcement that the main financial address setting out major tax and spending changes would be delivered in the Autumn Budget.

The Spring Statement serves to:

1. Provide an update on the health of the economy
2. Review progress since the Budget
3. Invite people and businesses to voice their opinions on any changes being considered by government

The economy

Philip Hammond presented the view of a growing economy, which continues to create jobs and beat expectations. The Office for Budget Responsibility's (OBR) growth forecast for 2018 was revised up to 1.5%, from 1.4% in last November's budget. Growth forecasts remained unchanged for 2019 and 2020 at 1.3% but were revised downwards for 2021 and 2022 (1.4% and 1.5% respectively, down from 1.5% and 1.6% respectively).

The OBR expect inflation to fall to 2% over the next 12 months, and wages to rise faster than prices over the next five years.

Hammond argued that the country's public finances have reached a turning point, with borrowing down.

The forecast for borrowing in 2017-18 is £45.2bn – equivalent to 2.2% of GDP, down from £49.9bn.

Borrowing is forecast to be 1.8% of GDP in 2018-19, 1.6% in 2019-20, 1.3% in 2020-21, 1.1% in 2021-22, and 0.9% in 2022-23.

Debt is forecast to start falling as a share of GDP next year.

A review of progress since the Autumn Budget 2017

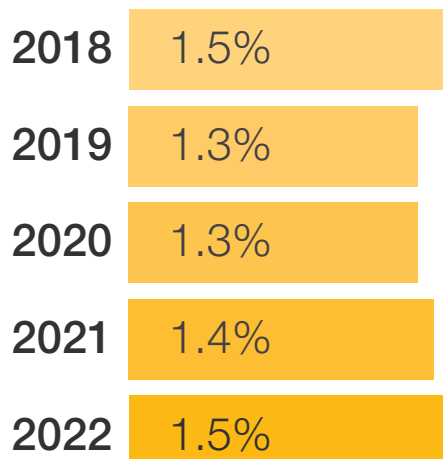
The new-look Spring Statement gave a brief update on developments since November's Autumn Budget, which promised more than £3bn for Brexit preparations. Over half of these funds have already been allocated to departments and devolved administrations.

According to the Chancellor, progress has been made in the following areas:

Housing

- The Spring Statement announced a deal with the West Midlands to build 215,000 homes by 2030-31 which will be supported by a £100m grant from the Land Remediation Fund.
- London will also receive an additional £1.67bn in funding to start building a further 27,000 affordable homes by 2022.
- The Housing Growth Partnership will be more than doubled, with £220m available to help provide financial support for small housebuilders.
- The £4.1bn Housing Infrastructure Fund has received interest from 44 authorities; the government is working with these to help prepare their bids.
- An estimated 60,000 first-time buyers have benefitted from the abolition of stamp duty for homes up to the value of £300,000.

GDP growth forecast



SPRING STATEMENT 2018 REVIEW

A review of progress - *continued*

Business

- The Autumn Budget 2017 announced that business rates revaluations would take place every three years with the next review due in 2022; the Spring Statement 2018 revealed that this would be brought forward to 2021.
- Following the collapse of Carillion earlier in the year, Hammond also announced that there will be a review of how late payments can be avoided.

Transport

The Spring Statement also provided updates on the funding available for improving transport infrastructure across England; the government is now inviting proposals for the £840m fund announced in the Autumn Budget 2017.

Digital connectivity

The Spring Statement announced the first wave of funding for the roll out of high-speed broadband with half of the £190m challenge fund having been allocated across 13 areas.

Skills

In recognition of the acute skills shortages impacting construction, the Spring Statement revealed further efforts to boost skills within the sector, including:

- A £29m construction skills fund
- £80m in funding to help small firms take on apprentices across industry
- £50m to be made available to help employers prepare for the rollout of T-Level work placements

Consultations

The government is 'seeking views' from the public on the following matters:

- The role of cash in the new economy, including how to support people and businesses who use digital payments, ensuring that those who need to are able to pay with cash, and prevent the use of cash to evade tax and launder money
- How to extend the current tax relief to support self-employed people and employees when they fund their own training
- How to use the tax system to encourage the responsible use of plastic

Summary

Given Hammond's unpopularity with many of his pro-Brexit colleagues, speculation about his longevity as chancellor is rife. However, his first Spring Statement, while unsurprisingly thin on new announcements, was upbeat and largely positive.

Economic Overview

Gleeds' Economic Report reviews various fiscal 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.

Gleeds' regional inflation forecast

ANNUAL % CHANGE	1Q18 to Q4 19	1Q19 to 1Q20	1Q20 to 1Q21	1Q21 to 1Q22
EASTERN	4.00	4.00	4.50	5.00
GREATER LONDON	2.00	3.00	5.00	5.00
NORTH EAST	3.00	3.00	3.00	3.00
YORKSHIRE & HUMBERSIDE	4.00	4.00	4.00	6.00
NORTHERN IRELAND	1.00	4.00	5.00	4.50
MIDLANDS	2.50	4.00	4.00	5.00
NORTH WEST	2.25	4.25	4.50	5.00
SCOTLAND	1.75	2.50	3.00	3.00
SOUTH EAST (EXCLUDING LONDON)	1.50	3.25	3.50	4.50
SOUTH WEST	2.00	2.75	3.75	4.50
WALES	3.00	4.00	4.25	4.50
UK AVERAGE (ROUNDED)	2.4	3.5	4.1	4.5

Note: these are average regional forecasts based on activity and market awareness within Gleeds' regional offices. Actual inflation will be determined by a combination of macroeconomics and micro project situations. Consequently, forecast inflation at a project level needs to be 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.

LOOKING BACK TO Q3 2017

Construction output

According to the Office of National Statistics (ONS), construction output decreased by 0.9% in Q3 2017 compared to Q2 2017

Over the previous 12 month period construction output had increased by 1.1% owing to strong growth in Q1 2017

Q4 2017 - THE LATEST FIGURES

Construction output decreased by 0.7% in Q4 2017 when compared to the previous quarter (Q3 2017)

Over the previous 12 month period (December 2016 to December 2017), construction output had decreased by 0.2%

Pay and employment

In Q3 2017, the unemployment rate fell to 4.3%

ONS predicted that average weekly earnings (total pay) in the construction industry rose by 2.5% in Q3 2017

Unemployment increases to 4.4%

Average weekly earnings for construction workers rose by 2.9% in Q4 2017



Despite the nervousness in the economy and industry about the impact of Brexit we are seeing pricing movement remaining positive. We anticipate the UK average forecast of circa 2.4% in price growth by Q1 2019. Although the London residential market has slowed, other areas are compensating and predictions for London and the regions have slightly increased since the previous review at the end of 2017."

PAUL SWEENEY, DIRECTOR, GLEEDS

Background to Economic Outlook

UK Economics

In their February Inflation Report, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.5%. They also agreed to maintain the program of non-financial investment grade corporate bond and UK government bond purchases at £10bn and £435m respectively.

However, the MPC judges that the UK economy has a limited degree of slack (the gap between demand and potential supply), partly due to historically low unemployment. Supply capacity is expected to grow only at around 1.5% per year (over the forecast period) as a result of lower labour supply and productivity growth rates. Annual GDP growth is expected to average around 1.7% over 2017.

If these projections transpire, the Committee believes that monetary policy would need to be tightened earlier and by a greater extent than anticipated in their November 2017 Inflation Report, in order to return inflation sustainably to the 2% target.

GDP growth has picked up slightly in the second half of 2017, hitting 0.4% in Q3 and Q4. The preliminary estimate of GDP anticipated growth was 0.5% in Q4 but lower than anticipated production industry output meant that this was not realised. Growth is attributed to strong output in business facing service sectors and manufacturing, both of which are likely to have benefited from the past fall in sterling. This was partly offset by weak output growth in the consumer services sector reflecting disappointing household spending. GDP still remains below the UK average of around 0.7%.

UK net trade is benefiting from robust global demand and the past depreciation of sterling. A strong level of global activity is supporting business investment, although this may be restrained by Brexit related uncertainties. Investment is focused on improvements to efficiency and automation rather than speculative developments.

CPI inflation fell from 3.1% in November to 3% in December but remains above the 2% target. Inflation is expected to remain around 3% in the short term, reflecting recent higher oil prices. Sustained above target inflation remains in place almost entirely due to the effects of higher import prices following sterling's past depreciation. The BoE judges that the worst of the import price shock is over and that export growth will remain strong given the competitive advantage that the weak sterling provides in this respect.

The BoE surmises that pay growth will rise further in response to the tightening labour market, providing increasing confidence that growth in wages and labour costs will pick up by 3.1% in 2018.

The BoE projects CPI inflation to decrease gradually over the forecast but remain above the 2% target in the second and third years of the MPC's central projection. It is anticipated that there will be three interest rate rises over the coming three years, to reach around 1.2% in 2021.

Global Economics

The global economy is growing at its fastest pace in seven years, with 90% of global economies growing at above trend rates. Global growth is likely to remain at 0.8% in Q4 2017 and this pace of growth is expected to persist in the near term. Output and new orders remain robust, particularly in the Eurozone and United States and business and customer confidence levels are healthy.

Quarterly GDP growth in the Eurozone was robust in 2017 and faster than in preceding years, at 0.6% – 0.7%. This is supported by an improvement in financial conditions, as well as improvements in business and consumer confidence. The IHS Markit purchasing managers' indices have risen further in recent months and quarterly GDP growth is projected to be around 0.75% in the near term. Eurozone unemployment was 8.7% in December, down from 9.7% a year earlier and is expected to fall further in the near term.

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

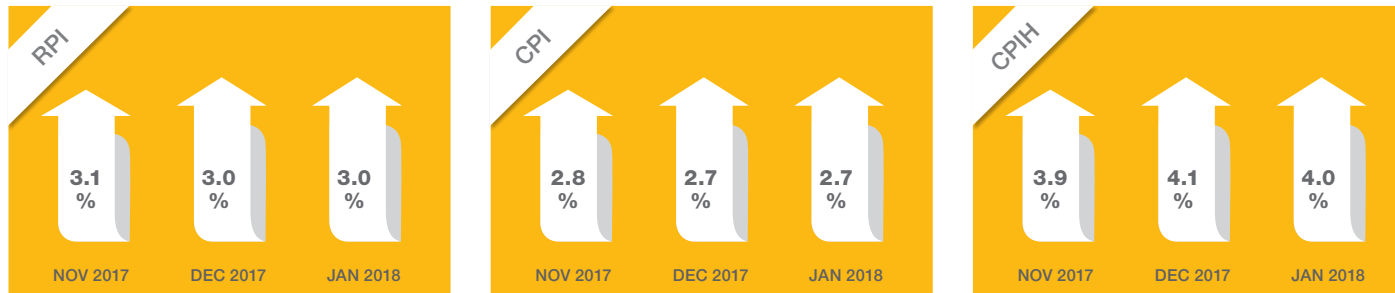


Summary

- The Bank Rate has been maintained at 0.5%
- CPI is expected to return to target more gradually than previously anticipated
- Global growth remains strong

Statistics & Figures

The Outlook for Gross Domestic Product (GDP) and Inflation



Sources:
Office for National Statistics (ONS), Second estimate of GDP: October to December 2017
ONS, UK consumer price inflation: January 2018

Quarterly GDP is estimated to have increased by 0.4% in Q4 2017, the same as in Q3 2017 - a 0.1% downward revision from the preliminary estimate, reflecting decreased expectations for production growth. The increase in GDP has been driven by strong growth of 0.6% in the services sector. However, the longer term trend indicates a slowing in services, particularly in the more consumer facing sectors such as hotels and catering, transport, storage and communications. Production output grew by 0.5% between Q3 and Q4. Manufacturing growth was partly offset by a significant drop in oil and gas extraction as a consequence of the repair work made to the Forties pipeline system in the North Sea. Construction fell for the third quarter in a row, down 0.7% in Q4 2017, an upwards revision from the preliminary estimate of -1%. Agriculture decreased by 0.9% in Q4 2017, following an increase of 0.8% in the previous quarter.

GDP was estimated to have increased by 1.7% in 2017, slightly lower than the 1.9% growth seen in 2016.

CPI in the year to January 2018 was 3%, unchanged from December 2017.

The CPI including owner occupiers' housing costs (CPIH) inflation rate was 2.7% in January 2018, unchanged from December 2017. Following a steady rate of increase from late 2015, CPIH has been levelling off since April 2017, ranging between 2.6% and 2.8%. According to ONS, CPIH is the most comprehensive measure of inflation.



Summary

- GDP grows 0.4% in Q4 2017
- CPI remained unchanged at 3% in the year to January 2018 compared to December 2017
- Construction output declined for a third quarter in succession

GDP, CPI & RPI Movement Predictions

	2018	MOVEMENT	2019	MOVEMENT	2020	MOVEMENT	2021	MOVEMENT	2022
GDP growth (%)	1.7	↓	1.6	↑	1.8	↔	1.8	↔	1.8
CPI (%)	2.6	↓	2.1	↔	2.1	↓	2.0	↑	2.1
RPI (%)	3.5	↓	3.0	↔	3.0	↑	3.1	↔	3.1

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



“The construction industry continues to hold its own and investment is still evident despite the uncertainty of the Brexit negotiations. But we must pay sharp attention to activity in both our major UK cities and large infrastructure programmes. These are an important barometer as to the stability of the industry.”

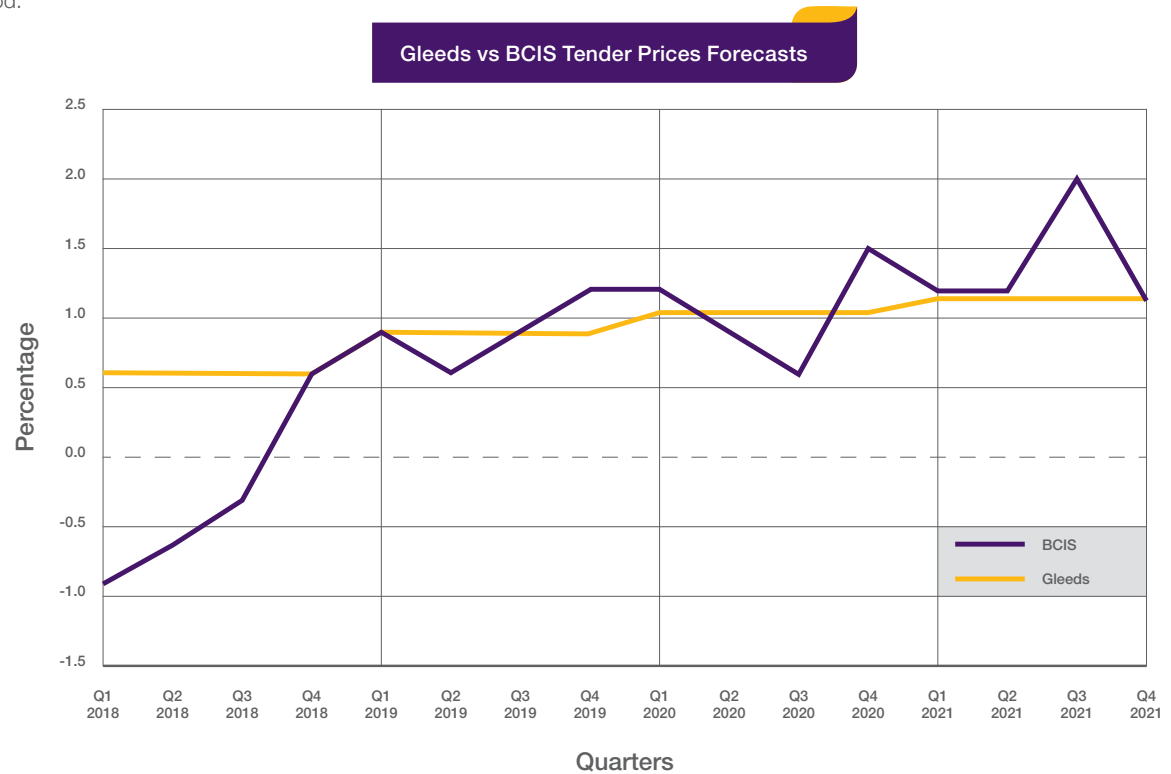
SARAH DAVIDSON
DIRECTOR OF RESEARCH & DEVELOPMENT, GLEEDS

Tender Price Forecasts

Gleeds believes that tender prices, on average, grew by 3.5% between 1Q 2017 and 1Q 2018. For the same period, the Building Cost Information Service (BCIS) forecasts a 6% hike in prices.

BCIS predicts that tender prices will increase marginally over the coming 12 month period before gathering momentum for the remaining three years of the forecast period.

Year on Year	Current BCIS Forecast (13/03/2018)
1Q2018 to 1Q2019	+0.6%
1Q2019 to 1Q2020	+4.1%
1Q2020 to 1Q2021	+4.2%
1Q2021 to 1Q2022	+5.8%



Gleeds anticipates that tender prices will rise over the next four years (Q1 - Q1) at a UK average rate (rounded) of:

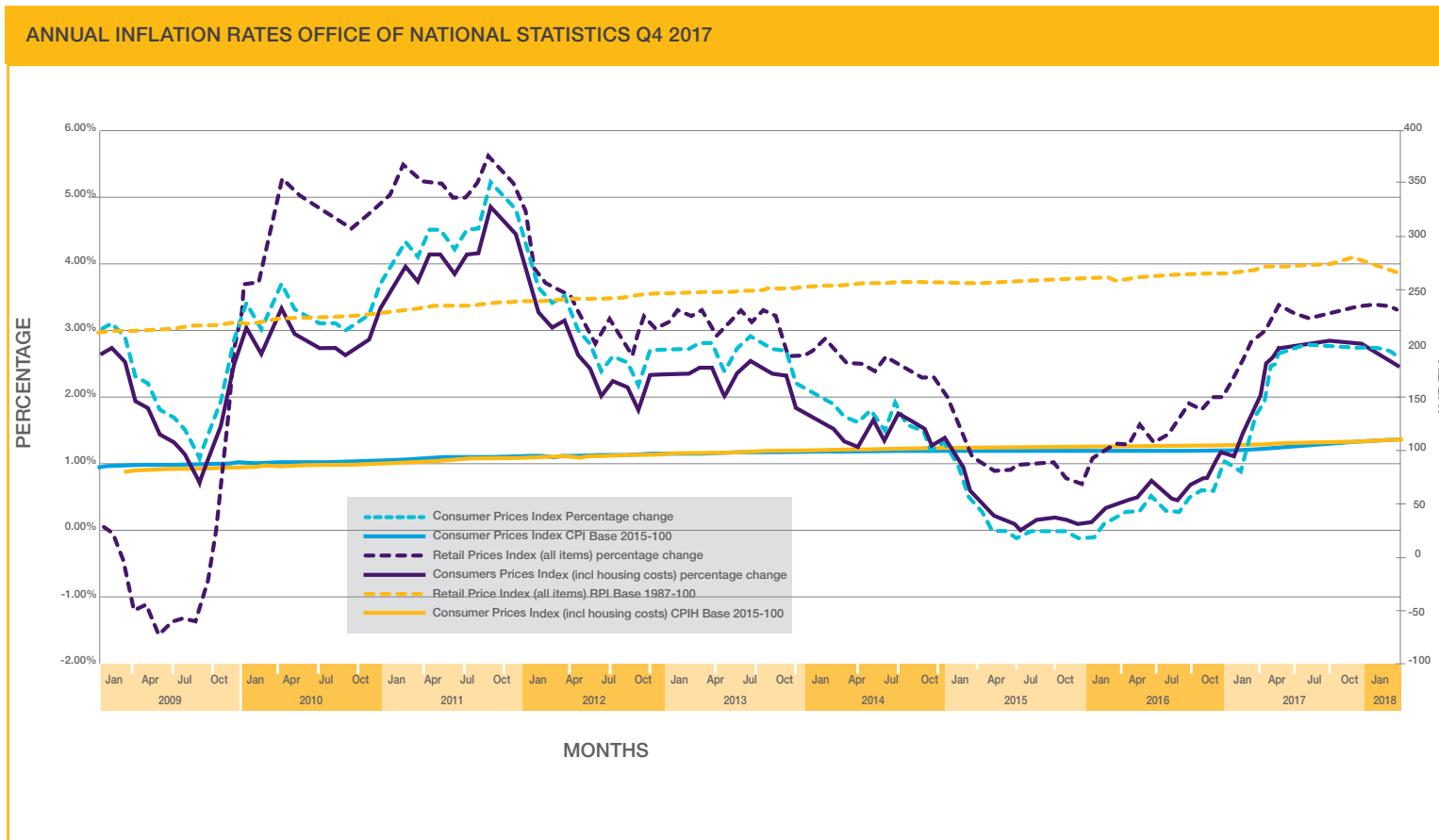
+ 2.4% between 2018-19

+ 4.1% between 2020-21

+ 3.5% between 2019-20

+ 4.5% between 2021-22

Annual Inflation Rates



Volume of Construction Output

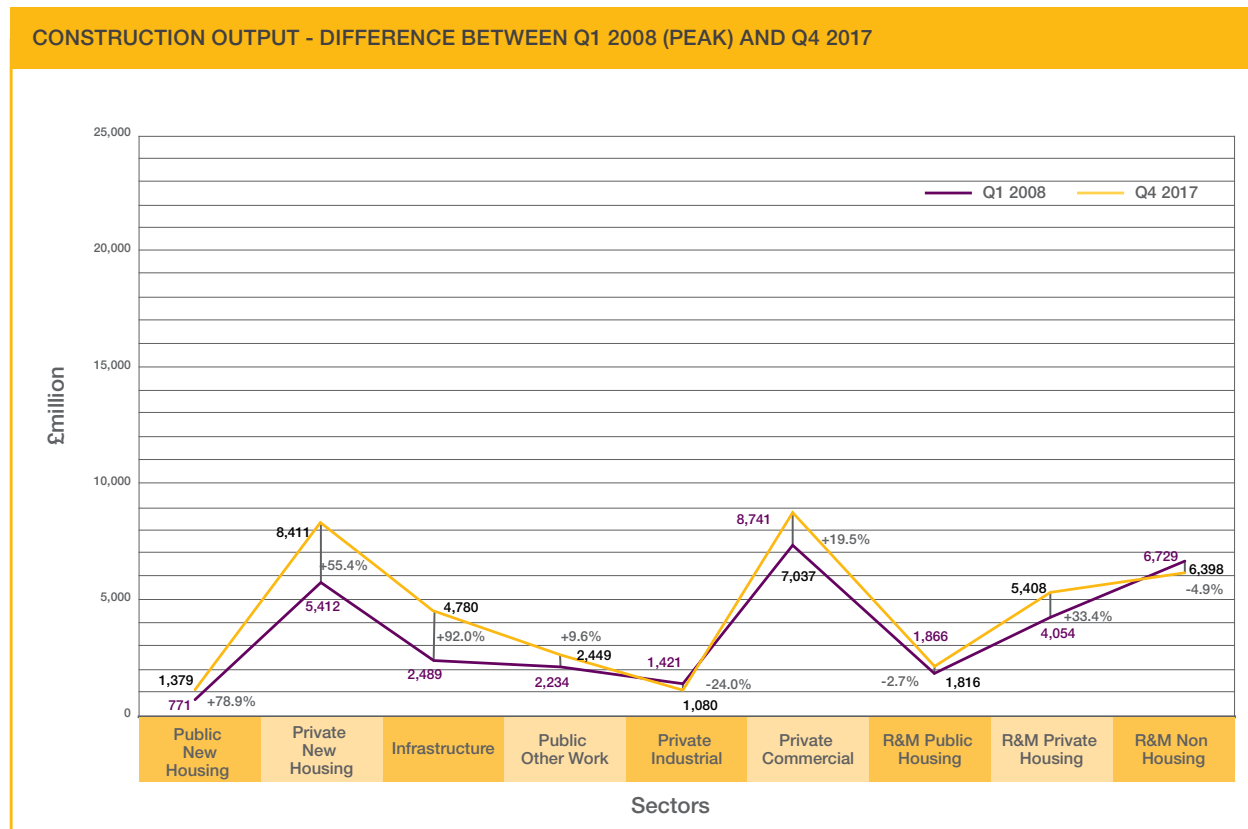
Looking at the volume of construction output, the ONS reports that:

▣ In Q4 2017, **all construction output** fell for the third consecutive quarter, by 0.7% from Q3 2017. This is the most sustained fall in quarterly construction output since Q3 2012. Construction output fell by 0.5% and 0.9% in Q2 and Q3 2017 respectively.

Repair and maintenance (R&M) output fell by 2% over Q4 2017 while new work output was unchanged from Q3 2017.

▣ While **all new work** output in Q4 2017 remained unchanged, private housing and infrastructure output increased by 5% and 0.7% respectively. This was offset by declines in all other categories, most notably public non-housing and private commercial which fell by 3% and 4.4% respectively.

▣ In Q4 2017 **all repair and maintenance works (R&M)** output declined by 2% compared to Q3 2017 with all sectors showing a fall in output. The biggest decline of 2.4% came from public non-housing R&M, the largest sector in terms of value. Public housing and private housing R&M also fell by 1.3% and 1.7% respectively over Q4 2017.



Value of Construction Output

Sector	Q3 2017 – Q4 2017	Q1 2008 – Q4 2017
All Work	2.1%	23.2%
All New Work	2.6%	29.3%
New Public Housing	0.6%	70.2%
New Private Housing	7.3%	88.9%
New Private Commercial	-2.0%	-14.2%
New Private Industrial	-1.0%	-15.9%
New public Non-housing	1.9%	7.7%
New Infrastructure	4.5%	102.9%

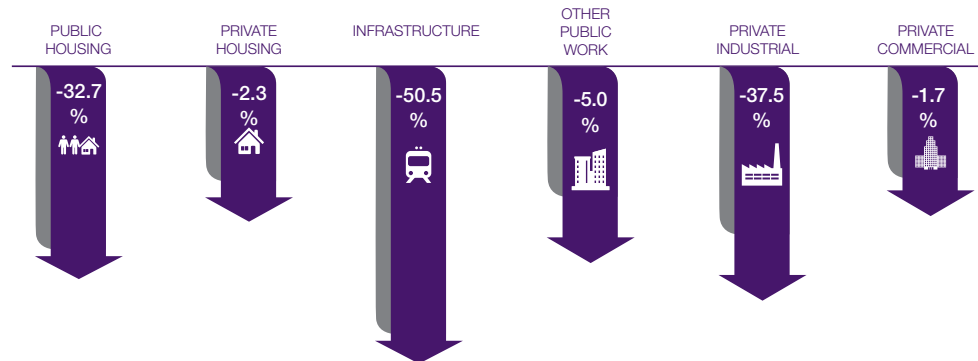
R&M	Q3 2017 – Q4 2017	Q1 2008 – Q4 2017
All R&M	1.2%	12.7%
Public housing R&M	1.9%	-4.8%
Private housing R&M	2.3%	50.3
Infrastructure R&M	0.0%	N/A
Public non-housing R&M	-9.1%	-50.9%
Private non-housing R&M	3.9%	-27.8%

Source: ONS, Construction output in Great Britain: December 2017

Value of New Orders for Construction

According to the ONS, the total volume of new orders for the construction industry decreased by 25% in Q4 2017 compared with Q3 2017.

Comparing Q4 2017 with Q3 2017:



Source: ONS, New Orders in the Construction Industry, Q4 2017

Employment

During Q4 2017, the UK wide unemployment rate was 4.4%, a slight increase from 4.3% in Q3 2017 - the number of people classed as unemployed increased by 46,000 over Q4 2017. At the same time, the number of people in employment increased by 88,000 to a rate of 75.2%. This is because the number of people classed as economically inactive - those not seeking or available to work - decreased by 109,000.

In Q4, the employment rate for women aged 16 - 64 was 70.8%, equalling the highest rate for women since comparable records began in 1971. This is partly due to ongoing changes to the State Pension age for women, resulting in fewer women retiring before the age of 65.

Workers' earnings, excluding bonuses, rose 2.5% in Q4 2017 compared to a year earlier. However, when accounting for inflation, wages actually fell by 0.3% in real terms over the year - although this is an improvement from -0.5% in Q3 2017.

In the construction industry, average weekly earnings (total pay) rose by 1.4% over Q4 2017 compared with the previous quarter, while regular pay (excluding bonuses) rose by 2.9% over the same time frame.

Source: ONS, UK labour market: February 2018

Market Reports

The results of the Q4 2017 **RICS Construction & Infrastructure Market Survey** show a steady pace of growth relative to the previous quarter. A net balance of 21% of respondents reported an increase in workloads, marginally down from 22% in Q3 2017. Despite the largely positive tone of the survey's responses, comments received continue to highlight how Brexit related uncertainties are weighing on investment decisions.



Construction
Market Survey

22%
REPORTING
A RISE
IN WORK

**Q4
2017**

In Q4 2017, output increased across all subsectors with both new work and R&M activity rising steadily. The strongest rise in workloads was reported in private housing. Following modest growth in the previous quarter, private commercial workloads increased and the industrial sector seems to be gaining momentum. The increase in public sector workloads is more modest with 11% and 19% of contributors reporting an increase in public non-housing and housing, respectively. Infrastructure is on the rise, with 18% more contributors reporting an increase in workloads. It is expected that the rail, energy and roads categories will see the biggest increases in construction output over the coming 12 months.

62% of respondents expect tender prices to increase over the next 12 months, unchanged from Q3 2017.

Some respondents report financial constraints, labour shortages and

planning delays to be impeding growth (80%, 60% and 60% respectively). In addition, stricter conditions being placed on firms by financial institutions are also seen as an impediment.

62%
EXPECT TENDER
PRICES TO
INCREASE

The lack of sufficiently skilled workers remains a key obstacle for many.

In the Q4 2017 survey, an additional question was added to assess how contributors feel about policies included in the Autumn Budget and Housing White Paper. On a national scale, only 12% of respondents expressed any confidence in the overall strategy succeeding, while the remainder were evenly divided between a lack of confidence or being unsure. The £1.1bn fund to unlock strategic sites, including new settlements and urban regeneration schemes, was viewed as the most effective policy to boost housebuilding going forward (37%).

Workloads in all geographic regions are now reported to be increasing, particularly in the Midlands and Northern regions. Following a noticeable slowdown in the infrastructure sector, surveyors in Scotland are now reporting the first decrease in activity since Q3 2016. However, this has been somewhat offset by an improvement in workloads in Northern Ireland.



**LABOUR
SHORTAGE**

“

The Q4 2017 RICS UK Commercial Property Market Survey results show trends continuing to diverge across sectors. Industrial remains the clear outperformer, with retail continuing to lag significantly ... Meanwhile, sentiment across London is still more cautious ... although rising investment demand appears to be slightly at odds with current occupier market conditions.”

Source: RICS, UK Commercial Property Market Survey, Q4 2017

Construction Output Summary of Forecasts

SECTOR	YEAR	EXPERIAN	CONSTRUCTION PRODUCTS ASSOCIATION
TOTAL CONSTRUCTION OUTPUT	2018	1.0%	0.0%
	2019	1.6%	2.0%
	2020	1.8%	
TOTAL NEW WORK	2018	0.9%	0.5%
	2019	1.7%	3.1%
	2020	1.7%	
REPAIR AND MAINTENANCE	2018	1.2%	-0.8%
	2019	1.3%	-0.1%
	2020	2.0%	
PUBLIC HOUSING	2018	8.0%	3.0%
	2019	3.0%	3.0%
	2020	6.0%	
PRIVATE HOUSING	2018	5.0%	3.0%
	2019	4.0%	2.0%
	2020	1.0%	
INFRASTRUCTURE	2018	6.0%	6.4%
	2019	11.0%	9.8%
	2020	4.0%	
PUBLIC NON-HOUSING	2018	-4.0%	-2.9%
	2019	-4.0%	1.5%
	2020	-2.0%	
PRIVATE INDUSTRIAL	2018	4.0%	-3.1%
	2019	1.0%	-1.1%
	2020	2.0%	
PRIVATE COMMERCIAL	2018	-7.0%	-5.3%
	2019	-6.0%	0.0%
	2020	1.0%	

Source: BCIS Summary of Output Forecasts, October 2017

The Glenigan Index

Glenigan's monthly index points to a subdued start to the year for construction. The value of project starts in the three months to January 2018 were 14% down on a year ago, and 5% down on the previous three month period. This decline was driven by falls in commercial, civil engineering and public sector starts.


Residential starts in the three months to January 2018 were 7% lower than a year ago. This was due to a decline in social housing projects (-40%) which overshadowed a rise in private housing (+9%). In the same period, non-residential project starts were down 20% due to a decline in commercial and public sector work. Civil engineering was 16% lower, partly due to the continued weakness of utilities work and a drop in infrastructure starts. However, industrial projects starts were 21% higher than a year ago.

Across the UK, there has been a sharp divergence in the value of underlying construction starts. Scotland saw the sharpest rise with starts 47% higher than a year earlier. Year on year growth was also strong in the South East, South West, North East and Yorkshire and the Humber, with increases of 4%, 34%, 17% and 20% respectively. In contrast, the value of project starts dropped sharply in the East of England, London, Wales and Northern Ireland.


Source: The Glenigan Index, January 2018

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. They propose three equally possible political outcomes from the exit negotiations:

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

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

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

The BCIS expects that each of these scenarios would have different consequences for the construction industry and have prepared three forecasts for New Work Output, as summarised below. The January update shows no change from December's Quarterly Briefing. (Note: only the central scenario figures are published in the update. Upside and downside figures below are as per the December publication.)

Time Period	Upside Scenario	Central Scenario	Downside Scenario
3Q2017 – 3Q2018	4.6%	3.4%	1.9%
3Q2018 – 3Q2019	5.4%	-0.2%	-9.8%
3Q2019 – 3Q2020	6.2%	1.1%	-5.7%
3Q2020 – 3Q2021	6.4%	4.3%	6.5%
3Q2021 – 3Q2022	5.5%	5.7%	9.8%

Spotlight on the energy sector – Andrew McNeile

Both of Gleeds' primary clients in the energy sector, Horizon Nuclear Power and EDF Energy (Hinkley Point C), are currently placing high demands on resources. Hinkley Point C construction has now moved into a significant phase with nuclear concrete being poured, large ground works schemes continuing and the marine works and pier construction progressing well. At Horizon, the work to demonstrate sound engineering and construction capabilities are progressing well with significant supply chain engagement nationally and overseas and further white-collar professionals being employed on specialist items of works.

The potential to support local Energy from Waste projects and future Tidal Lagoon Energy schemes outside the area are still a possibility after recently securing a commission to work on the Derby Energy from Waste Scheme.

External factors are affecting the sector. The recent agreement by the Japanese Government to support Wylfa Nuclear power station and Horizon in Gloucester is a boost to the industry. However, results of the Independent Review of Building Regulations and Fire Safety following the Grenfell Tower fire and the fall-out from the collapse of Carillion are factors of uncertainty. In the long term, it is expected that the closure of apprentice training facilities run by Carillion will impact on skilled trade availability in the energy sector.



Regional Reports

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

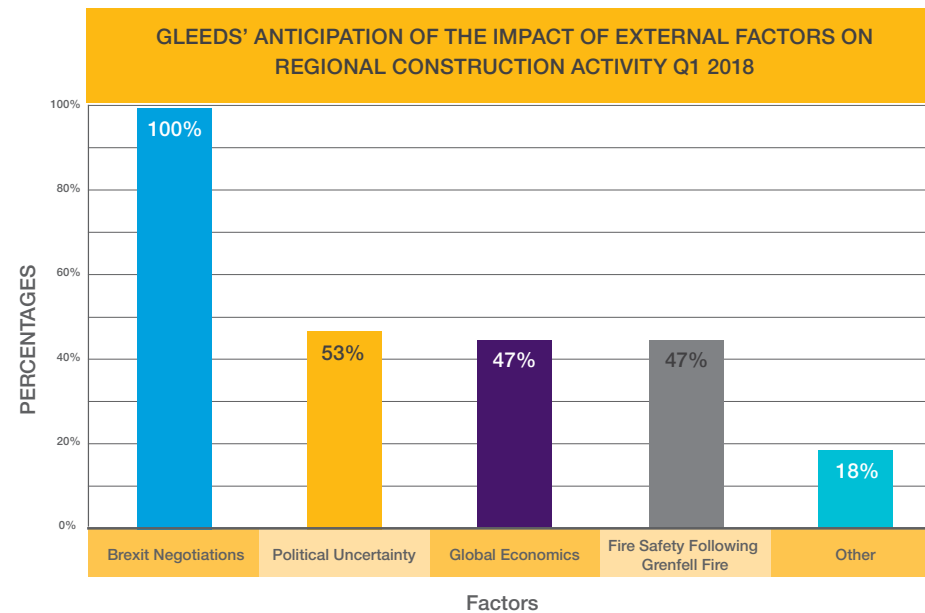
As well as activity analysis, we directly engage with local contractors and industry contacts to understand their experiences. As feedback contains a degree of opinion and anecdotal evidence, it is not purely scientific, but should provide useful insight into the views of those at the core of industry.

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

The most notable external factor impacting on local regions continues to be the progress of the Brexit negotiations, with 100% of our contacts expressing some concern.

Other areas of apprehension include ongoing political uncertainty in the UK, and repercussions for industry following the Grenfell Tower fire tragedy last year. In addition, a repeated theme among the regions this quarter was the collapse of Carillion and resulting impact on current and future projects.



Regional Reports

Each regional office is considering the impact of ongoing Brexit negotiations on their business.

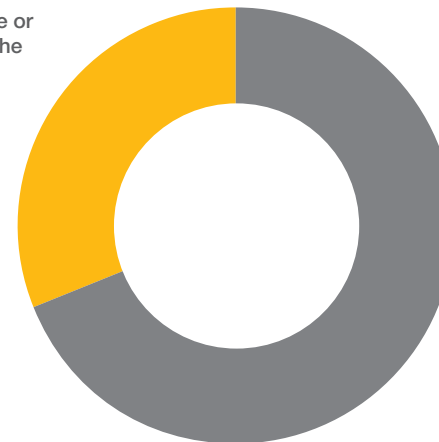
The economy is braced for fluctuations in market confidence due to a lack of detail around the transitional period and final deal. EU labour market restrictions are widely anticipated, and this could contribute to ongoing upward pressures from rising labour and material costs.

Anecdotal evidence continues to suggest that some migrant workers are returning home or moving out of the local area. This is most notable in Edinburgh, Northern Ireland, Southampton and South West England. The motivation behind this is unconfirmed but could be a combination of Brexit uncertainty and the UK seeming less attractive to work in due to following the depreciation in sterling.

Feedback suggests that labour shortages continue to be a concern to many and there are indications that this may worsen moving forward. Certain areas are benefitting from resurges in business confidence in different sectors; the higher education sector continues to drive growth in a number of regional cities while the residential or retail sector may be flourishing elsewhere. 71% of our contacts predict construction costs to increase over the coming quarter, while the majority (59%) also expect workloads to remain stable in the same period.

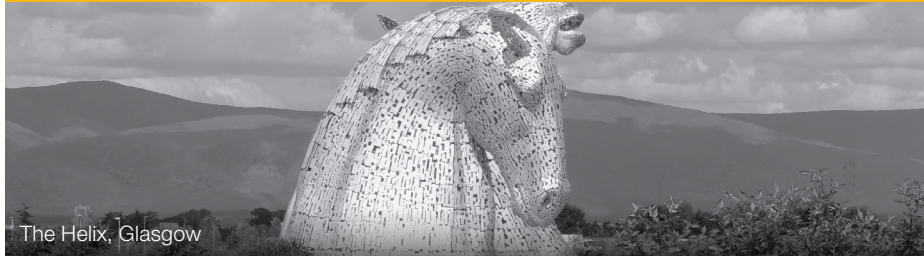
GLEEDS' VIEW OF THE CURRENT STATUS OF MIGRANT WORKERS Q1 2018

Returning home or
moving out of the
local area
31%



Remaining at
a constant level
69%

Regional Reports



The Helix, Glasgow



Brian Stevenson

Reporting on the Scotland Region

The Scottish economy remains fragile, driven by a continued sharp contraction in Scottish construction output; 3Q 2017 saw the seventh quarter of falling output. Annually, there has been an output decline of 4% due to reduction in infrastructure expenditure from record levels in 2015. Construction growth for 2018 is forecast at a disappointing 0.7%.

A major concern is the collapse of Carillion, adding further uncertainty to the already uncertain market (as a result of Brexit). Although this collapse will give other main contractors the opportunity to carry out these works, there is also a concern for smaller sub-contractors who may suffer as a result of Carillion's insolvency. Uncertainty around the robustness of other major contractors makes the current market difficult to predict. A number of former Carillion projects are at a standstill, thereby providing opportunities for others, but a degree of delay seems inevitable.

A number of major projects, particularly some large scale civil projects, have recently reached or are approaching completion. The ongoing upgrading of the A9 should replace some of this lost demand but it is unlikely to

meet the capacity which was required for the simultaneous delivery of the M8 upgrade, Queensferry Crossing and Aberdeen Western Peripheral Route. General construction also appears to be at a lower level than this time last year, with no obvious major public or private sector demand on the horizon. Anecdotally, contractors are on the hunt for workload.

The political discussions around the possible IndyRef 2 seem to have tailed off but the residual impact of this may still be having a negative effect on private sector inward investment in Scotland. Recent changes to Income Tax levels in Scotland may also effect investor sentiment.

🚩 **Last quarter, a number of Scottish projects were nearing or reaching completion which meant the possibility of decreasing activity levels moving forward. While there was no obvious major public or private demand on the horizon, the ongoing upgrading of the A9 was expect to replace some of the lost demand.**



Nigel Watkins

Reporting on the Wales Region

Discussions with local businesses confirm enough work to support contractors within Wales, although tendering remains competitive. Student accommodation, commercial office and education projects make up the bulk of the workload. The local supply chain is able to support this level of activity, although there appear to be insufficient specialist/large sub-contractors in the local area resulting in expertise being brought in from further afield.

Construction output in South Wales is likely to increase over the next few years, with areas such as Cardiff and Swansea having significant potential for schemes to commence across multiple sectors. The CITB's Construction Skills Network Forecasts (2017-2021) suggest that the construction industry in Wales could grow four times faster over the next few years than in the rest of the UK, creating around 20,000 jobs by 2020.

A significant job stimulus is anticipated to be provided by new major infrastructure projects such as the M4 Relief Road and South Wales Metro in the South and Wylfa Newydd (New Nuclear Power Plant for Horizon Nuclear Power) in the North. A number of large housing developments are either in construction or in the pipeline including a 1,500 home scheme in Creigau. Cardiff alone expects to build 41,000 homes by 2026.

The development of Central Quay, a joint venture between SA Brain and Rightacres, on the former SA Brains Brewery site in Cardiff, could see up to 280,000m² of new leisure, residential and office space in the city centre. Student accommodation and the wider education sector is also flourishing. University of Wales Saint David has secured £50m of funding from HSBC to develop the first phase of its Swansea Waterfront Innovation Quarter. Swansea Bay Tidal Lagoon is also firmly in the pipeline following the granting of planning permission in 2015. There is hope, as reported previously, that if successful, this could kick-start similar projects at Newport, Cardiff and Colwyn Bay.

🚩 **In our previous quarterly report, construction activity in Wales was stable. However, there were concerns that labour shortages could push up costs in the longer term. The potential loss of EU workers is a particular concern for the Welsh construction industry.**

Regional Reports



Childrens Hospital for Wales, Cardiff



Galvin Tarling

Reporting on the Eastern Region

Despite the ongoing political and economic uncertainty surrounding Brexit, the Eastern market remains buoyant across a number of sectors. This is particularly the case within the higher education sector where both the local universities and the top tier colleges remain committed to delivering their development pipelines. This remains a key driver of growth in the region.

The commercial office market, particularly within greater Cambridge, remains undersupplied with city centre rents hitting a new high during Q4 2017. Likewise, the scientific research, biotech and wider life science sectors continue to expand and there are a number of schemes in the pipeline as a response. Within the public sector, there is renewed focus on development opportunities on the regional airbases.

Business confidence is now stable and projects are no longer being stalled. Workloads are expect to remain steady over the coming quarter while construction costs increase.

🚩 In our previous report, activity levels in the Eastern region remained stable although some projects were stalling following a Brexit-induced loss of confidence. Spare capacity in the market, as a result of developments drawing to a close, were expected to suppress inflationary increases.



Geoff Warke

Reporting on the Northern Ireland Region

Northern Ireland's economic activity has grown by 1.2% from Q3 2016 to Q3 2017 and over the last two years, annual output averaged 1.8%. It is expected to grow by 1% during 2018 and 1.2% during 2019 encompassing Brexit related uncertainty and political considerations going forward.

Construction output growth continues despite the uncertainty of the Brexit negotiations and devolved settlement, with an annual growth rate of 11.3% between Q3 2016 and Q3 2017. As of Q3 2017, the volume of construction output in Northern Ireland is at its highest level for five years. Most of this growth has come from infrastructure works, new Grade A offices, hotels and the residential market. The hotel market will open seven new hotels during 2018 with an additional 1,000 rooms being available to accommodate the enormous growth in tourism in Northern Ireland.

The failure of the recent round of talks between the DUP and Sinn Fein in February makes the chance of direct rule from Westminster all the more likely. The post-election deal between the Conservatives and the DUP resulted in an additional £1bn of spending

in Northern Ireland and this is expected to be spent during the 2018 financial year. This will have a positive impact on infrastructure projects due on site over the next two years.

The labour shortage is evident across Northern Ireland with anecdotal evidence of migrant labourers returning home since the beginning of the Brexit negotiation process. How movement of workers between Northern Ireland and the Republic of Ireland is negotiated is a big area of contention at present and will likely impact on the available labour force.

🚩 In last quarter's report, the construction market in Northern Ireland was anticipating a period of heightened activity following the promise of extra funds from Westminster following the DUP's deal with the Conservative government. In particular, a number of infrastructure projects were expected to begin development.

Regional Reports



St Pancras Renaissance, London



Paul Sweeney

Reporting on the Greater London Region

The London market is cautious at present, although workloads differ between sectors. Commercial office work is generally falling across the capital, new build works have reduced dramatically. Yet smaller refurbishment and office fit-out activity is still buoyant.

There are presently numerous tender enquiries in the marketplace for projects worth in the region of £20-30m but not as many in the feasibility and planning phase, which could indicate a further slowdown in construction activity.

The use of imported materials forms a significant majority within a number of sectors across London. Increasing import costs could therefore have the potential to influence overall prices making projects more expensive and possibly less desirable. However tender pricing remains competitive at present and

construction costs are expected to remain stable over the coming quarter. While causation cannot be inferred, there remains a number of projects on hold at present.

In our previous quarterly report, we reported a lull in new build commercial project activity in London and that this was expected to continue for the foreseeable future. Meanwhile, the fit-out and refurb market was still buoyant. Low levels of competition were helping to subdue tender price rises.



Phil Wright

Reporting on the Midlands Region

Construction activity in Birmingham remains strong. The opportunities provided by the forthcoming Commonwealth Games and HS2 coming to the city requires the provision of infrastructure, commercial and residential development investment.

Large commercial schemes, being built over a number of years are continuing with the likes of 3 Snowhill, Arena Central and Paradise in construction and with additional phases coming through. The scope of the fallout of the Carillion collapse and the impact this will have on schemes is still yet to be determined, and may only be fully understood over the coming months.

Demand for multi-room residential schemes across the region as a whole (and PRS projects in the West Midlands specifically) continues and this is driven by the commencement of HS2 and an increasing volume of commercial office developments. Industrial and warehousing projects – both those with intended end users and speculative developments - are also coming forward in the wider region. In the East Midlands, the development landscape is dominated by student accommodation projects and the higher education sector.

Land acquisition speculation and insufficient availability of good opportunity land is becoming a major issue in Birmingham, particularly with new entrants to the market driving up land prices unsustainably. This will impact on developer appraisals and schemes with extant planning approvals.

The construction industry continues to be greatly affected by the consequences of Brexit, the global economy and the UK's political difficulties. Contractors across all sectors report issues of material and labour price increases and difficulties of availability. Unless the uncertainty over Brexit is resolved very quickly the commercial developers may look to avoid risk by slowing or reducing investment which will only serve to suppress workloads.

In our previous quarterly report, the Midlands region was experiencing healthy levels of construction activity and it was expected that this would continue in the short term. Materials on long lead-ins were reported and seen as a possible impediment to grow going forward.

Regional Reports



Peter Burns

Reporting on the North East Region

Over recent years there has been a substantial increase in the amount of new build residential housing schemes, as well as an ongoing demand for high quality new build city centre student accommodation. There has also been a greater diversity of construction projects, with an increased volume of new bespoke commercial office projects, light industrial units, city centre retail fit-outs and an increasing (but relatively low level) of investment into local road and rail infrastructure projects.

Whilst there has been enough interest from local contractors to competitively tender for small/medium value projects. The larger value high profile projects tend to be more attractive where negotiation is possible - unless tender information is significantly advanced and the number of tenderers limited.

The recent news of Carillion's collapse, will affect some of the large scale projects in the region. A number of these projects may well stall in the short term where the construction works need to be re-tendered with other contractors.

The region continues to suffer longer supply periods for roof tiles and some facing bricks mostly due to the increased volume of new house building.

In the previous quarter, construction activity in the North East region was diverse and busy. An ever-increasing demand for city centre student accommodation and improving infrastructure investment were the key drivers of growth.



Alex Halliday

Reporting on the North West Region

The North West region is currently undergoing a surge in workloads, both at pre-planning stage and commencement on site. Residential development continues as the main driver of growth across the region, however large infrastructure projects are due to start within the first half of this year with major civil works to the existing motorway network leading the way.

Regeneration is also seeing a big push within the city of Liverpool with a number of large schemes being discussed with Liverpool City Council. Retail and office space also continues to increase with a few new out of town retail parks and business parks being developed.

However, a number of projects stalled towards the back end of last year and this appears to be a trend within the region.

The ability to contract with preferred sub-contractors and suppliers is an increasing problem; many have lengthy lead-in periods or have increased costs. The concrete and precast concrete frame market has grown significantly over the past year with some local contractors indicating a 5 - 10% increase in price. Workloads are expected to remain stable or increase in the forthcoming 12 months.

In our previous quarterly report, the North West region was presented as buoyant and confident, with construction activity on the rise. This was particularly the case for the private and student residential sectors.



Steve Green

Reporting on the Yorkshire & Humberside Region

The construction industry in the Yorkshire and the Humber region is buoyant, with private residential and higher education projects on the rise. We are also seeing signs of healthcare projects emerging from P22 which is slowly but surely starting to move forward. Opportunities are arising for work on both the client's and contractor's side.

Following the demise of Carillion, clients are tending to be more risk averse and have started to focus their attention on diligence undertaken throughout contractor selection and procurement. They are generally more cautious regarding contractor selection capability and availability of resources.

Uncertainty surrounding the Brexit negotiation process and fire safety changes following the Grenfell Tower fire continue to have an effect on construction activity in the region.

In the previous quarter, the construction industry in the Yorkshire and Humberside region was reported as being competitive with new opportunities appearing in the already-buoyant health sector.

Regional Reports



Richard Hine

Reporting on the South East Region

Having sustained reasonable growth during 2017, construction activity in the South East appears to be resilient heading into the first quarter of 2018. The region continues to benefit from the knock on effects of the buoyancy of the London market.

The primary area of activity remains the housing sector with over half the contracts awarded coming from this area, some of these comprising of mixed developments of mainly residential with limited commercial and retail uses. South East activity in private commercial and infrastructure projects has exhibited a modest pace of growth, having eased slightly since the final quarter of 2017. New development of residential care homes also seem to be advancing throughout the region unabated by short term market fluctuations.

The impact of the London market means that contractors remain bullish about tender prices and the outcome of the deal with the EU is likely to influence sectors such as the commercial sector.

The already uncertain market in Hampshire has been exacerbated by the recent Carillion collapse. Whilst there has been an increase in fee bid enquiries in recent weeks, it will take a while before these are covered into on-site construction. Labour availability is described as insufficient and the quality average. This is perhaps a consequence of migrant workers moving out of the local area.

A combination of uncertainty and labour shortages is seeing projects being put on hold. Nevertheless, workloads are expected to remain stable over 2018, while construction costs increase.

In our previous quarterly report, there were mixed fortunes across the South East region. The Tunbridge Wells/Kent area continued to exhibit resilience while further south there was a lack of confidence generally.



Matthew Quirk

Reporting on the South West Region

Despite the economic uncertainty, the overall sentiment of the regional market remains positive with above average take-up in 2017 and a significant number of properties under offer at the start of 2018. Consultants are optimistic that the volume of work will increase in the region and this is reflected with the volume of tenders increasing.

Permitted Development Rights (PDRs) have succeeded in converting approximately 110,000m² of redundant offices into residential dwellings. The resultant limited supply for occupiers has inevitably given rise to an increase in rental prices with Grade A rents having broken the £323m² ceiling.

Local contractors and consultants report an increasing skills shortage in certain trades and professions with many struggling to employ good quality staff for realistic pay awards. With fewer professionals entering the workforce, the ensuing demand for services is creating inflationary wage pressures with people moving from one company to another. The additional workforce required to plan, design and construct the Hinkley Point nuclear power plant is also contributing to the reduced resource pool.

The level of supply of commercial office space in Bristol is at its lowest for 10 years – especially the availability Grade A space. Elsewhere in the region, the higher education sector is committing to major capital projects.

In our previous quarterly report, the South West region was reacting to high levels of uncertainty owing to the Brexit negotiation process with the general assumption that the industry would be adversely affected by Brexit. Raw material price hikes were expected to continue in to 2018.

Acknowledgements

Thank you to the following:

(All data current as at 13 March 2018)

BCIS Summary of Output Forecasts
 BCIS Update on Quarterly Briefing
 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
 Output in the Construction Industry, Office for National Statistics
 New Orders in the Construction Industry, Office for National Statistics
 RICS UK Commercial Market Survey
 RICS UK Construction & Infrastructure Market Survey
 The Glenigan Index

For additional information contact:

Lucy Vencatasamy-Jones

Gleeds Corporate Research & Development
 Wilford House, 1 Clifton Lane, Nottingham, NG11 7AT

Tel: 0115 977 8000

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

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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