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Q1 2017

Economic and Regional Inflation Report

Special Feature: Spring Budget 2017 Review

Economic

- CPI hits two-year high of 1.8%
- Bank of England maintains interest rate at 0.25%
- Construction output stabilises over Q4 2016

Spring Budget 2017

- 'T-Levels' to boost technical skills
- £655 million for free schools
- Rising NICs for self-employed

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Introduction

Gleeds' Economic Report assesses and summarises the factors affecting UK construction, taking into account inflation, construction output and orders, employment, and other topical matters such as the implications of triggering Article 50 and the uncertainty surrounding this in preparation for negotiating our exit from the EU.

This quarter, we also review the Spring Budget, specifically focusing on announcements that may impact the UK's industry, including funding availability.

> **"Whilst some projects have returned following the post Brexit slowdown the expectation is for tender inflation to fall over the coming year. The possible reduced supply of skilled labour from EU countries could impact on both consultants and contractors.**
>
> ROSS SAVAGE, DIRECTOR, GLEEDS

LOOKING BACK TO Q3 2016 | Q4 2016 - THE LATEST FIGURES

Construction output

Looking back to Q3 2016

- According to the Office of National Statistics (ONS), construction output decreased by 1.1% in Q3 2016 compared to Q2 2016
- When compared to Q3 2015, construction output had increased slightly by 0.1%

Q4 2016 - the latest figures

- Construction output increased by 0.2% in Q4 2016 when compared to the previous quarter (Q3 2016)
- Over the course of 2016, construction output increased by 0.6%

Pay and employment

Looking back to Q3 2016

- In Q3 2016, the unemployment rate fell to 4.8%, a small improvement on the previous quarter (4.9%)
- ONS predicted that average weekly earnings (total pay) in the construction industry rose by 5.4% between September 2015 and September 2016

Q4 2016 - the latest figures

- In Q4, the unemployment rate remained at 4.8%
- Average weekly earnings for construction workers rose by 5.2% in the year to December 2016

Construction orders

Looking back to Q3 2016

- New orders in Q3 2016 were up 0.3% compared with Q2 2016, and up 2.0% on Q3 2015

Q4 2016 - the latest figures

- New orders were up by 0.3% in Q4, compared with Q3, and up 2.9% on the same quarter in 2015

Gleeds' regional inflation forecast

ANNUAL % CHANGE	Q1 17 to Q1 18	Q1 18 to Q1 19	Q1 19 to Q1 20	Q1 20 to Q1 21
EASTERN	2.5	3.0	3.0	3.0
GREATER LONDON	2.0	1.5	2.0	5.0
NORTH EAST, YORKSHIRE & HUMBERSIDE	2.5	2.5	3.0	3.5
NORTHERN IRELAND	2.5	2.5	2.5	2.0
MIDLANDS	2.5	3.0	3.0	4.0
NORTH WEST	3.0	3.0	3.0	3.3
SCOTLAND	2.0	2.3	2.8	3.0
SOUTH EAST	2.0	2.0	3.5	4.5
SOUTH WEST	1.5	2.0	3.5	4.0
WALES	3.0	3.0	3.5	4.0
UK AVERAGE	2.4	2.5	3.0	3.6

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

Spring Budget 2017 Review

Phillip Hammond's first Budget (and the last one to held in the spring) was billed as putting 'economic stability first' with the ambitious aims of restoring public finances to health and tackling the UK's productivity challenge, taking Britain back to 'living within its means'.

Headlines

One of the key themes of this Budget was the Chancellor's proposal to lay the foundations for the future by putting in place measures to promote training and a good education for children and adults alike. This future-focussed approach also saw Mr Hammond announcing investment for technology and support for the NHS and social care.

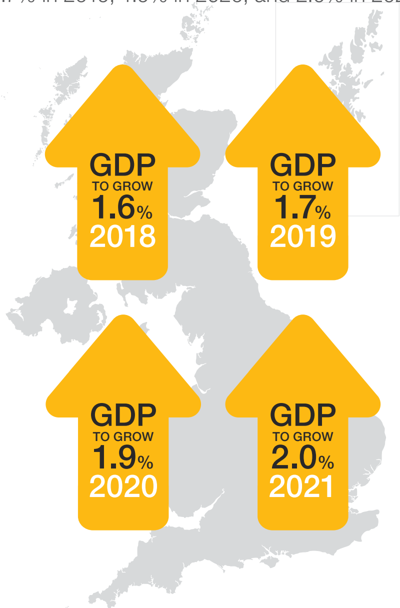
Government's main aims, as outlined in the Spring Budget 2017, are as follows:

- Help young people from ordinary working families get the skills they need to gain high paid, high skilled jobs of the future
- Give more children the chance to go to a good school
- Support the social care system and the NHS
- Invest in technology to keep Britain at the forefront of the global technology revolution
- Continue to reduce the deficit so Britain gets back to 'living within its means'

Economic Forecasts

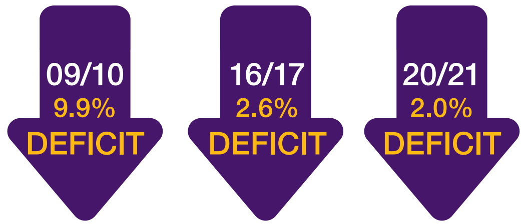
The Chancellor outlined economic expectations for the forecast period (2017-2021), as advised by the Office for Budget Responsibility (OBR), highlighting that these make no assumptions over what international trade relationships may or may not be in place post-Brexit.

Predicted GDP growth for 2017 has been revised upwards due to stronger than expected household consumption in the second half of 2016. Hereafter, the OBR predicts a shallower, slightly longer period of growth, owing to economic uncertainty and post-referendum sterling depreciation; 1.6% in 2018, 1.7% in 2019, 1.9% in 2020, and 2.0% in 2021.



Throughout the forecast period, consumer spending is expected to decrease and private investments to remain subdued, while post-referendum sterling depreciation is expected to support exports and reduce imports in the short term.

The Government is committed to reducing the deficit, which has been cut from the peak of 9.9% of GDP in 2009-10 to 2.6% in 2016-17, down to 2.0% of GDP by 2020-21.



Spring Budget 2017 Review

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

Tax Rates & Employment

Taxation

Key announcements relating to taxation and levy rates include:

- Administrative changes to the Research and Development (R&D) Expenditure Credit to increase the certainty and simplicity around claims, and action to improve awareness of R&D tax credits among SMEs
- The introduction of a £1,000 business rate discount for public houses for one year from 1st April 2017
- The delay of the reduction in the filing and payment window for Stamp Duty Land Tax until 2018-19
- HGV VED and Road User Levy rates will be frozen from 1st April 2017 (discussions will start in the spring to update the Levy to incentivise an efficient use of roads and improve air quality)
- Air Passenger Duty rates for 2018-19 will be upgraded in line with RPI, rates for 2019-20 will be set at Autumn Budget 2017
- The Aggregates Levy rate for 2017-18 is to be frozen at £2 per tonne, continuing the freeze that has been in place since 2009

Work & Employment

In a move to make employed and self-employed Britons pay for public services in the same way, Spring Budget 2017 announced that:

- The 9% National Insurance levy (NICs) on profits of the self-employed will rise to 10% in April 2018 and to 11% in April 2019
- The tax-free dividend allowance, commonly the source of payment for the self-employed, will be reduced from £5,000 to £2,000 from April 2018

Education

Schools

In the Autumn Statement 2016, the Government confirmed £50 million per year of new funding to expand existing grammar schools. The Budget sets out further steps Government is taking to ensure every child has the opportunity of a place at a good school. These include:

- £320 million investment within this Parliament to help fund up to 140 Free Schools, including: independent-led, faith, selective, university-led and specialist maths schools; 30 of which will open by September 2020 and count towards the government's existing commitment of 500. Following a rigorous assessment on local factors, the schools will be located where they are most needed in order to improve parental choice
- An additional £655 million for the extension of the free schools programme in the next parliament (2021/22 onwards)
- A £216 million investment in school maintenance to improve the condition of the current school estate over the next three years

T-Levels

Following Lord Sainsbury's independent review on technical education, which was published in July 2016, the Budget announces a number of measures to deliver on the review's recommendations, including:

- Increasing the number of hours of training for 16-19 year olds by 500 to over 900 hours per year from 2019-20 onwards (including industry work placements). This will be bolstered by over £500 million of additional funding
- The introduction of Further Education maintenance loans available for students on technical education courses at levels 4 to 6 in National Colleges and Institutes of Technology from 2019-20

Lifelong Learning

- With an appreciation of the need to retrain and upskill, the Budget also sets out plans to enable people of all ages to develop their skills, including:
  - £40 million investment by 2018-19 for the testing of different approaches for 'lifelong learning'
  - £5 million for return-to-work support

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Spring Budget 2017 Review

Infrastructure

The National Productivity Investment Fund (NPIF)

Further detail has been provided on the NPIF as announced previously at Autumn Statement 2016. The NPIF will provide £23+ billion to focus on priority areas that are critical for improving productivity, including: economic infrastructure, housing, and R&D.

Overall, the NPIF will support:

- The roll out of fast and reliable full-fibre connections
- Tackling congestion and ensuring the UK's transport networks are fit for the future
- Enhancing the UK's position at the forefront of technological progress globally
- Accelerating the new housing supply

Individual measures include:

- £740 million of investment in digital infrastructure, by 2020-21, to support the next generation of fast and reliable mobile and broadband communications for consumers and businesses
- Launch of a new national 5G Strategy setting out the steps for the UK to become a world leader in the next wave of mobile technology
- £200 million of investment to fund a programme of local projects to test ways to accelerate market delivery of new full-fibre broadband networks, including looking into directly connecting public buildings such as schools and hospitals
- Transport improvements including:
    - £1.1 billion to support local transport and £220 million to address pinch points on the national road network (previously announced at Autumn Statement)
    - Local project support for improvements in Blackpool town centre, the A483 corridor in Cheshire, major maintenance of the Leicester Outer ring road, a new roundabout at Hales in Norfolk (£690 million more will be competitively allocated to local authorities, with £490 million made available by early autumn 2017)
- A £270 million initial investment to the Industrial Strategy Challenge Fund (ISCF) to kick-start the development of disruptive technologies that have the potential to transform the UK economy. These might include:
    - Batteries for electric vehicles
    - Artificial intelligence and robotics systems for extreme and hazardous conditions, including off shore energy, nuclear energy, space and deep mining
    - New medicine technologies

While there is much to be optimistic about with the NPIF, these announcements do not elaborate on what was promised at Autumn Statement 2016.

Health

A&E

The Government will provide an additional £100 million to NHS England in 2017-18 for capital investment in A&E departments. This will enable NHS Trusts to invest in measures to help manage demand on A&E services and ensure that patients are able to access the most appropriate care as quickly as possible.

Social Care

An additional £2 billion will be available to councils in England over the next three years for spending on adult social care services. The Budget stipulated that half of this will be provided in 2017-18 to ensure that councils can take immediate action to fund care packages for more people, support social care providers, and relieve pressure on the NHS locally.

These plans could represent opportunity for the construction industry and we await further detail on the specific targets of this funding.

Sustainability & Transformation

Following the development of local Sustainability and Transformation Plans, Spring Budget 2017 announces the government's intention to invest £325 million over the next three years to support the local proposals for capital investment. Decisions will be made based on the strongest case to deliver real improvements for patients, and to ensure a sustainable financial position for the health service. Further proposals will be reviewed and considered in the autumn.

Spring Budget 2017 Review

Industry reaction

The Budget was short in support for the construction industry, but there are some items worth noting.

The good news...

The construction industry will welcome extra spending in the education sector as a way of sparking construction activity, although this optimism could be tempered by past cost overruns on the Free Schools programme. The boost for school maintenance should provide a more reliable stimulus for construction activity in the sector.

The announcements for 'T-level' funding represents an essential investment in the development of technical training within the UK, and although not likely in the immediate future, it is hoped that this will have tangible benefits for the construction workforce going forward. The industry should take some surety from the fact that the skills shortage has been acknowledged in this way and the Chancellor seems to understand that this cannot be addressed without changes to our approach to technical and vocational education.

Investments to tackle 'pinch points' on the national road network will provide opportunities for growth in the infrastructure sector, as will funding for A&E departments.

And the bad...

The Budget ignored the impact that the 3% stamp duty levy on second homes (and rental properties) having on to the property market in terms of lower receipts, reduced transaction volumes, and a slower rate of housebuilding, as well as missed the opportunity rectify this.

However, the big worry comes from the changes to National Insurance Contributions for the self-employed. Given the high volume of people self-employed in the construction sector (up to 40%), this could have wide-ranging implications discouraging entrepreneurialism and jolting the dynamics of the industry.

"This was a budget which included measures designed to paper over the cracks of our industry's skills shortage, and while it is good to see this recognised as a priority issue, whether it will help with immediate shortages seems unlikely.

The changes in NI and dividend allowances will not be welcomed by the plethora of self-employed tradespeople but new money announced for schools is to be welcomed. Overall, a budget shaped by Brexit worries - fiscally and politically conservative as was expected.

RICHARD STEER
CHAIRMAN OF GLEEDS WORLDWIDE

Summary

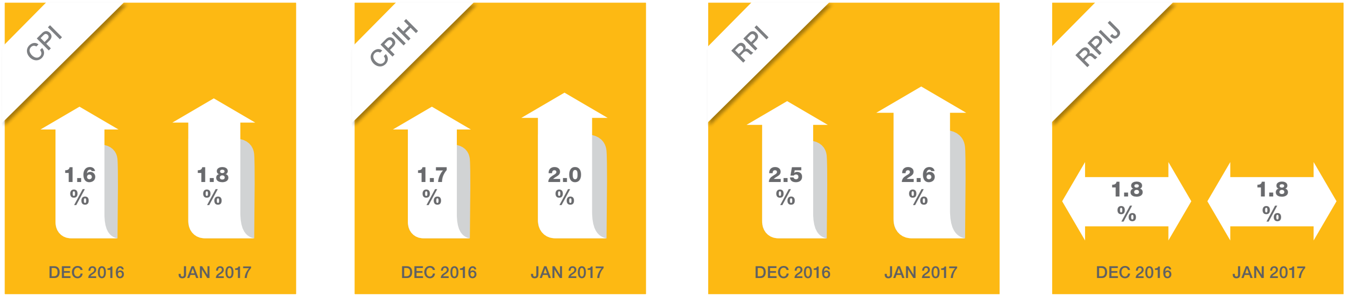
In the early stages of his speech on Wednesday 8th March 2017, the Chancellor was keen to emphasise the Budget's role in preparing Britain for not only a brighter future, but a global future outside the EU.

However, the focus does seem to be firmly on stability with little in the way of new work. The report was heavily theoretical rather than practical, or more talk than action, with disappointingly few announcements of importance to the construction sector.

Given the very cautious approach, and yet ambitious aims, it will be interesting to see how Brexit unfolds and how the Chancellor's plans will stand up to this rigour. Many of the announcements seen here will not be fully understood for some time, much in the same way as Brexit.

Statistics & Figures

Outlook for GDP & inflation



Source: Office for National Statistics, UK Consumer Price Inflation, February 2017

In the six month period preceding their February 2017 Inflation Report, the Bank of England (BoE) assesses that the economy has recovered substantially. With GDP growth stronger than was predicted at the time, there is now no evidence to suggest that the economy slowed in H2 2016, despite predictions made in the August Report.

The preliminary estimate of quarterly UK-weighted global GDP growth in Q4 2016 was 0.6%, driven mainly by activity in the service sector; this is expected to be unchanged in the mature estimate. This is the third consecutive quarter that GDP has grown by this amount. Output growth is expected to slow to 0.5% in Q1 2017.

In the year to January 2017, Consumer Price Inflation (CPI) picked up to 1.8%, a rise from 1.6% in the year to December 2016. This is the highest rate of inflation seen since June 2014.

Upward inflationary pressure has come from rising motor fuel prices and stabilizing food prices. The BoE anticipates that the annual inflation rate target of 2% will be surpassed before the end of Q1 2017, rising to 2.8% in the first half of 2018, before falling back to 2.4% in 2020.

The ONS has announced that from 21st March 2017, Consumer Prices Index (including owner occupiers' housing costs (CPIH)) will become the preferred headline measure of inflation. It is considered that CPIH offers a more credible picture of inflation due to the inclusion of an element of housing costs (including Council Tax) and a number of improvements made to address flaws and limitations of the existing methodology. CPIH was higher than CPI by 0.1% in December 2016 and by 0.2% in January 2017.

In February, the BoE's Monetary Policy Committee (MPC) again voted unanimously to maintain the Bank Rate at 0.25%, for the second time since the cut from 0.50% in August 2016. While the MPC also agreed to continue with the programme of sterling non-financial investment-grade corporate bond purchases, designed as a catalyst to encourage spending, the committee is keen to stress that the outlook for the economy has greatly improved over the past six months.

Expectations for GDP growth in 2017 are now 2.0%, as the effects of a stimulatory Autumn Statement, growing momentum in global activity levels, and more supportive credit conditions impact on the economy. However, given the influences of sterling depreciation and higher import costs, real household income growth is predicted to be muted (at best) over the coming few years. For this reason, real consumer spending is likely to slow.

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

Summary

- The Bank Rate is maintained at 0.25%
- CPI rose to 1.8% in the year to January 2017, the highest rate seen since June 2014
- Rising fuel prices has helped push up inflation
- The 2% inflation target is expected to be surpassed in the coming months rising to 2.8% by 2018
- GDP rose by 0.6% in Q4 2016 compared with the previous quarter, faster than previously expected

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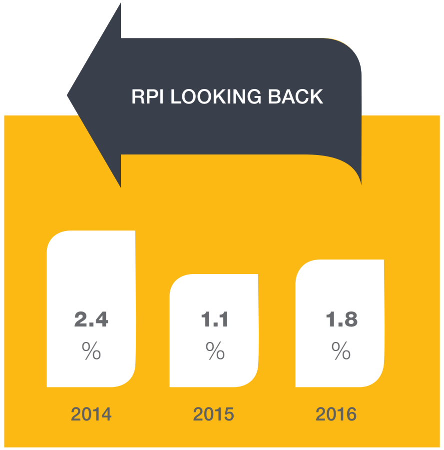
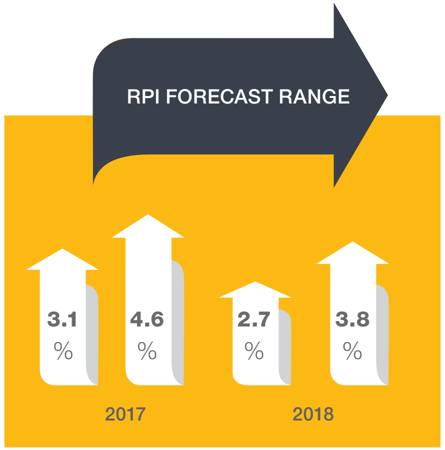
GDP, CPI & RPI Movement Predictions

	2017	MOVEMENT	2018	MOVEMENT	2019	MOVEMENT	2020	MOVEMENT	2021
GDP growth (%)	1.7	↓	1.6	↑	1.8	↑	2.0	⟷	2.0
CPI (%)	2.6	↑	2.8	↓	2.3	↓	2.1	↓	1.9
RPI (%)	3.5	↓	3.5	↓	3.2	⟷	3.2	↑	3.3
Sterling index (Jan 2005 = 100) (HM Treasury)	80.6	↓	80.5	↓	80.3	↑	80.8	↑	83.4
Official Bank rate (annual average, %) (HM treasury)	0.3	↑	0.4	↑	0.6	↑	0.9	↑	1.3

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





Despite uncertainty surrounding the details of the UK's departure from the European Union, which is potentially causing some projects to stall, the construction industry remains relatively stable.

SARAH DAVIDSON
DIRECTOR OF RESEARCH & DEVELOPMENT

Tender Price Forecasts

Following the EU Referendum, the Building Cost Information Service (BCIS) revised its tender price forecasts to reflect the forecast of reducing prices in the construction industry. These forecasts have since mediated slightly, and continue to indicate that tender prices will decrease over the course of 2017, before beginning to recover over the rest of the forecast period, as seen in the table below.

BCIS Forecasts of Tender Prices

	Forecasts		
Year on Year	Pre-Brexit (May Quarterly Briefing, BCIS)	Post-Brexit (08/07/2016)	Current Forecast (13/03/2017)
Q1 2017 to Q1 2018	+4.3%	-3.0%	-0.7%
Q1 2018 to Q1 2019	+4.1%	-0.4%	+1.4%
Q1 2019 to Q1 2020	+4.2%	+3.5%	+5.5%
Q1 2020 to Q1 2021	+6.6%	+4.5%	+6.5%

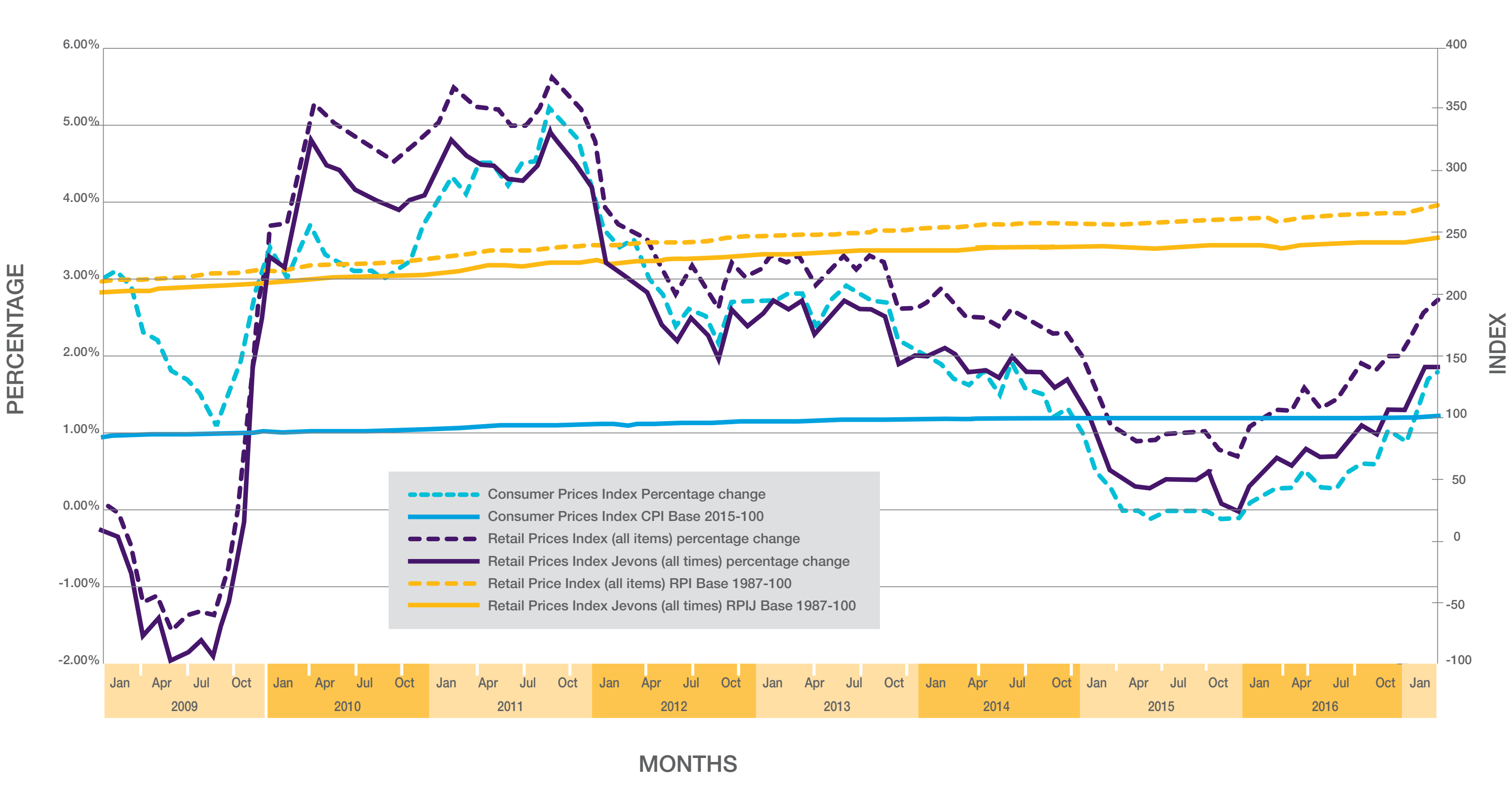
Gleeds anticipates tender prices to rise over the next four years (Q4-Q4) at a UK average rate of:

- +2.4% between 2017-18
- +2.5% between 2018-19
- +3.0% between 2019-20
- +3.6% between 2020-21

Interestingly, the declines seen in the BCIS All-in-TPI forecast updates following the referendum have not been reflected in Gleeds' forecasts. While BCIS are of the opinion that tender prices began to fall in Q3 2016, the industry as a whole is not in consensus. While BCIS predicts a sharp rise from 2019 onwards, Gleeds' estimates are more modest. Given the recent reduction in the value of the pound, and the fact that the UK construction industry imports up to 65% of its materials, is it possible that construction costs will increase, at least in the short term.

Annual Inflation Rates

ANNUAL INFLATION RATES, OFFICE OF NATIONAL STATISTICS (Q1 2017)



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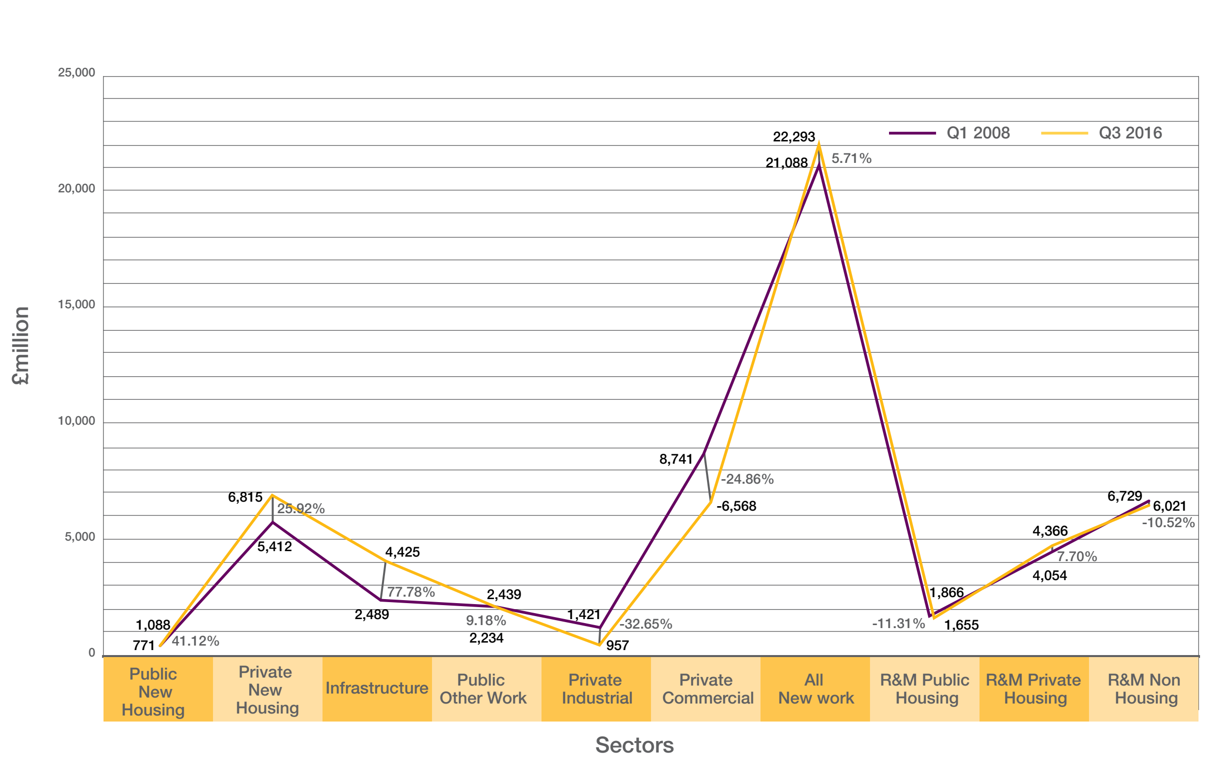
Construction Production & Orders

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

- There was a 0.2% increase in **all construction output** in Q4 2016 compared with the previous quarter, providing signs that activity in the industry may be beginning to stabilise following the uncertainties of 2016. Comparing December 2016 to December 2015, gives an increase of 0.6% over the 12 month period.
- **All new work** in Q4 2016 increased by 0.3%, with housing the main contributor to this rise; public housing and private housing increased by 1.7% and 1.4% respectively.
- In Q4 2016 **all repair and maintenance works (R&M)** output remained stable (0.0%) when compared to the previous quarter (Q3 2016). Public non-housing repair and maintenance declined by 0.3% with public housing, and private housing R&M output increasing by 0.5% and 0.2% respectively over the quarter.

CONSTRUCTION OUTPUT - DIFFERENCE BETWEEN Q1 2008 (PEAK) AND Q1 2017



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

New work	Q3 2016 -Q4 2016	
Sector	Output	Movement
New public housing	↑	1.7%
New private housing	↑	1.4%
New infrastructure	↑	0.4%
New private commercial	↑	0.3%
New public non-housing	↓	-1.7%
New private industrial	↓	-2.8%

R&M	Q3 2016 - Q4 2016	
Sector	Output	Movement
Public housing R&M	↑	0.5%
Private housing R&M	↑	0.2%
Non-housing R&M	↓	-0.3%

A comparison of output activity between Q1 2008 and Q4 2016 reveals that:

Private industrial is down by 33.2%

Private commercial is down by 17.7%

Infrastructure is up 49.8%

New private housing is up by 32.3%

New public housing is up 26.5%

New public non-housing is up by 24.6%

All repair and maintenance is up by 12.9%

All work is up 15.0%

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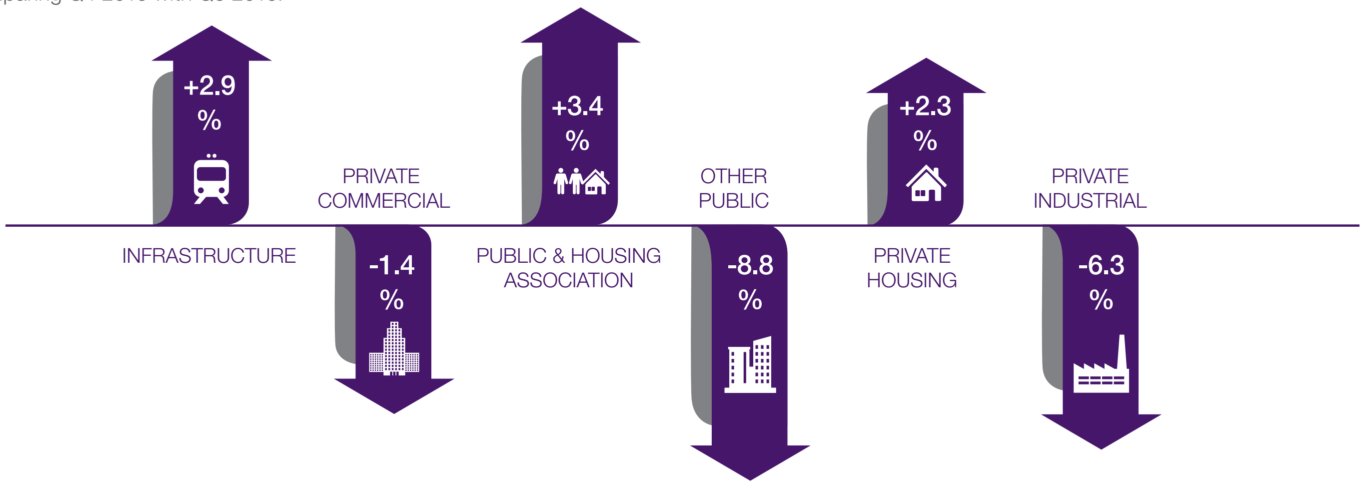
Value of Orders for New Construction in Great Britain

According to the ONS, the total value of new orders for the construction industry fell by 1.2% in Q4 2016, compared with Q3 2016, but is up 5.6% on the same quarter in 2015.

Comparing Q4 2016 with Q3 2016:



Employment

UK wide unemployment remained stable over Q4 2016 at an 11 year low of 4.8%

The number of people in employment increased by 37,000, increasing to 74.6%, the highest figure since comparable records began in 1971

Average weekly earnings (total pay) in the construction industry rose by 5.2% on the year to December 2016

Regular pay for employees (including bonuses) increased by 2.3% between Q3 2016 and Q4 2016, and regular pay (excluding bonuses) increased by 1.3% in the same period

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Market Reports

The Q4 2016 RICS Construction Market Survey continues to indicate positive workloads, with the private housing sector showing the strongest momentum. The net balance of respondents who reported a rise in activity remained similar to the last quarter (18% in Q4 2016, compared to 19% in Q3 2016).

RICS

Construction Market Survey

Q1 2017

Construction output was portrayed as being on the rise in all sectors, apart from public non-housing. The strongest rise of 27% in opinion was in the private housing sector, with both the private commercial and infrastructure sectors reporting a rise of 18%.

RISE IN OUTPUT

Respondents to the survey are expecting output of the infrastructure sub-category rail to boom, particularly in regions such as London, the North West, Yorkshire & Humberside, Wales, and the West Midlands. Other parts of the UK expect road output to be stronger, while the majority are of the opinion that this output is likely to be from R&M works.

27% REPORTING A RISE IN WORK

Labour shortages remain a key impediment to growth in the industry, although this now reported by 50% of respondents, down from a high of 67%. According to 66% of respondents, the shortage of quantity surveyors is a particular concern, while only 44% report difficulties in acquiring bricklayers (compared to 71% in Q3 2015). Financial constraints remain the most significant constraint to growth with 66% of respondents reporting on this. Planning and regulatory delays are also seen as problematic by 53% of respondents.

LABOUR SHORTAGE

BRICKLAYERS 44%

QUANTITY SURVEYORS 66%

Expectations of growth continue to improve, with 57% of respondents anticipating a rise in workloads over the next 12 months, up from 49% in Q3 and 23% in Q2. Furthermore, 41% also anticipate a rise in the employment level.

57% ANTICIPATE A RISE IN ACTIVITY

Assessing the UK as a whole, Northern England, Scotland and Northern Ireland saw growth over Q4 2016. In comparison, whereas the pace of expansion continued to ease in London and the South East.

41% ANTICIPATE A RISE IN EMPLOYMENT LEVEL

> “The Q4 2016 RICS UK Commercial Property Market Survey results show investment demand continuing to pick-up following the volatility reported around the time of the EU referendum. Trends on the occupier side of the market are somewhat flatter, with only the industrial sector seeing a rise in tenant demand during Q4. Meanwhile, sentiment remains more subdued across London, with respondents (at an aggregate level) expecting rents and capital values to weaken a little further in the near term.
>
> RICS, UK Commercial Property Market Survey, Q4 2016

Regional Reports

Following the referendum result in June, and the beginning of the EU exit process, Gleeds continues to monitor the macroeconomic and trade matters in each region of the UK, with the aim of anticipating the effects these may have on construction activity and demand.

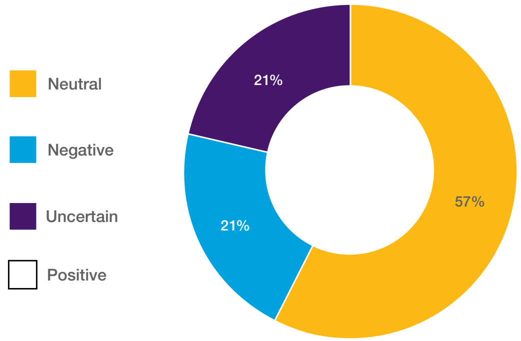
Each of our regional commentaries, provide a general view of the construction industry in our regional offices and consider how the local industry might be impacted by the wider political situation.

The chart on the right provides an idea of the mood across the UK in respect to Brexit movements. The picture is continuing its shift from a broadly negative outlook towards a more neutral stance with 57% of respondents reporting neutral effects of Brexit as the industry continues to adjust to the new political climate.

Our regional offices report a mixed picture of construction activity across the UK. Some regions are still afflicted by the economic uncertainty following the Brexit vote, while others are benefiting from an increased appetite for investment and the pragmatism of their clients. The weakened pound and relative cost of imported materials and equipment continues to impact on costs, but now affects progress to a lesser degree than previously noted.

Gleeds' regional offices report as follows:

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



Galvin Tarling

Reporting on the Eastern Region

Construction activity in the Eastern region continues to be hindered by the impacts of Brexit, with projects remaining on hold or being cancelled as a result. Uncertainty is a key issue, with many clients continuing to review their portfolios and prospective schemes while confidence is low.

There are positive signs suggesting that the local market is ready for recovery when it does arrive; the availability of labour and materials is good and, although a decrease in the value of tenders is anticipated, construction workloads are expected to remain stable over the next quarter. Tender activity remains buoyant and pricing is competitive. Tender prices in the region are expected to rise moderately over the coming twelve months before gaining momentum in the longer term.

In our previous quarterly report, we reported on the negative impact that the Brexit vote had been having on construction in the Eastern region, with projects stalling and being cancelled over the course of Q3 2016. While many contractors were comforted by full order books at the present time, a longer term slowdown was expected. Construction costs were anticipated to be on the rise in 2017.

Paul Sweeney

Reporting on the Greater London Region

The London construction market continues to be busy. A slowdown in activity is anticipated in the near future, reflecting stalled and cancelled projects in the city. Workload security is beginning to become a concern, and is anticipated to decrease over the next quarter.

However, despite the current uncertainty-leaden environment, it is predicted that once the conditions of Brexit are understood and a deal is reached, this uncertainty will clear and optimism in the industry will improve. Both contractors and consultants are expressing their concern about order books for 2018, and the forecast for how this will play out is dependent on how long it will take before the Brexit deal is agreed to enable the economy and the industry to adjust accordingly.

There is an increase in construction materials needing to be imported, although this is not yet reflected in rising construction costs. The brief period of labour shortage in Q3 has now been alleviated and this no longer having an impact on capacity.

In our previous quarterly report, London was beginning to suffer from a shortage of labour and locally produced materials. The need to import greater amounts of construction materials was impacting on construction costs and a weakened appetite for construction in the current climate.

Regional Reports

Phil Wright

Reporting on the Midlands Region

The construction industry in the Midlands remains uncertain as a consequence of Brexit. There is a fall in construction activity in general, which is a result of rising import costs due to the weakened pound. This is effecting façade, steelwork, and mechanical and electrical plant and materials, in particular. Uncertainty around price rises may be affecting the confidence of forecasts, which in turn, may reduce the appetite of investors.

The wait-and-see approach remains with a number of projects on hold until the state of the economy becomes clear. Contractors are once again being selective with the schemes they will tender, which reflects full order books. There is an ongoing requirement to be aware of the effects of inflation on the market, driven in part by increased energy prices in the UK.

Whilst we remain busy within our team the market is very competitive with tight fee levels and is overshadowed by the uncertainty created by Brexit. Lead in time for steel remains a concern for some schemes and there is a very high demand for tower cranes.

The impact of HS2 on the region remains positive and is driving development within Birmingham city centre, and to a certain extent the wider West Midlands region. Residential schemes are increasing in order to fulfil the demand driven by HS2, coupled with a demand for commercial office developments. Industrial and warehousing schemes are also being developed in the wider region.

In our previous quarterly report, the construction industry in the Midlands region was seen to be adopting a wait-and-see approach while the market assesses the damage of Brexit. Despite this, a healthy level of construction activity continued.

Steve Green

Reporting on the North East, Yorkshire & Humberside Region

In the North East, some of the short-term nervousness post-Brexit has dissipated and we are now seeing demand-led growth across a number of sectors, in particular housing. However, public sector spending remains muted. In the short term, it appears as though the Brexit referendum result has not significantly affected any current or proposed local projects - uncertainty over the longer term picture continues.

The increasing diversity of projects coming to our attention continues, with a higher volume of new bespoke commercial space, shopping centre redevelopments and new infrastructure projects progressing. The region is expected to be hit by rising construction costs over the next quarter, but this is not anticipated to impact on workload in the near future.

The appetite for single stage tendering continues, albeit with limited tender return numbers. The cost savings associated with switching to competitive tendering remains, and it is still possible for this to achieve high quality results.

In the previous quarter, the North East market reported a concern over the level of demand for 2017, particularly in relation to reduced public sector spending. Despite this, present levels of activity were buoyant with a diverse range of construction projects coming to the fore.

Queen Elizabeth Hospital, Birmingham

Ross Savage

Reporting on the Northern Ireland Region

Research from the latest edition of the Northern Ireland Construction Bulletin notes that in Q3 2016:

- The total volume of construction output decreased by 1.9% compared with the previous quarter, but was up by 8.8% compared to the same quarter in 2015. This followed three consecutive quarters of increasing construction output.

The fall in construction output was accounted for by:

- 5.6% decrease in new work
- 9.2% increase in repair and maintenance

The decrease in new work was made up of:

- 2.4% decrease in other work
- 0.6% decrease in infrastructure output
- 1.0% increase in housing output

- Northern Ireland's decline in construction output in Q3 2016 mirrors the situation in the rest of the UK where construction output recorded a 0.8% decrease over the same period.

In our previous quarterly report, we considered that the volume of construction output in Northern Ireland had increased by 4.1% over Q2 2016.

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statistics
regions

Regional Reports

Liverpool School of Tropical Medicine

Alex Halliday

Reporting on the North West Region

Construction activity within the North West continues to be buoyant with private developer led projects driving growth in the region. In general, construction workloads and costs are increasing, and this is particularly the case within the residential sector.

While material and labour costs are expected to rise over the coming months, this is not anticipated to be directly Brexit-induced. The expected impact of Brexit in the region is still unknown, although the Manchester region has witnessed a halt to some projects, particularly those reliant on public funding.

There has been potential for an increase in foreign investment due to the weakened pound. However, it is important to note that the number of bankruptcies does not appear to subsiding, which is a boost for their competitors, yet presents a concern over the longer term stability and capacity of the industry in the North West.

In our previous quarterly report, concerns over the availability of EU funding in the North West was reported to be having an impact on construction in the region, which was compounded by increased construction costs in general. Despite this, the market remained buoyant, particularly in the residential sector.

The Helix, Glasgow

Brian Stevenson

Reporting on the Scotland Region

Construction in Scotland is suffering from a lack of confidence due to the uncertainty surrounding Brexit. In particular, there is great concern over the implications of exchange rate associated material price hikes, and what effect this might have on tender prices. As a result, anticipated growth of the Scottish economy has been downgraded and a greater number of clients are choosing to delay projects until they have greater clarity on the impact of Brexit.

The possibility of a further Scottish Referendum also plays heavy on the mind of a number of clients and many believe that this, coupled with a 'hard' Brexit, will have negative implications for the Scottish economy.

Although the number of initial enquiries from contractors on projects are usually good, main contractors are beginning to become more selective in the projects they submit tenders for. However, the tender prices that are received indicate that the market is still very competitive.

The construction industry in Scotland continues to suffer with availability of bricks and a multitude of materials (such as granite, steelwork, curtain walling, light fittings, and M&E equipment) are being imported in order to meet demand.

In our previous quarterly report, as in the quarter before, Scotland was reported as experiencing heightened levels of uncertainty, with a sense of unease about the market moving forward. While contractors were, at that time, exercising selectivity over tendering opportunities, there was the sense that the market remained competitive.

Regional Reports

Bristol Civil Justice Centre, Bristol

Richard Hine

Reporting on the South East Region

The initial drop in activity due to the Brexit vote in the local Southampton area has largely stabilised, although a level of caution remains and is likely to persist until full details of the Brexit deal are confirmed. Despite a number of projects having been cancelled or stalled in the wake of Brexit, the effect this is having on the region has neutralised somewhat and construction activity within the whole South East region appears resilient heading into 2017.

Housebuilding remains the key engine of growth, experiencing a boom in orders towards the end of 2016. However, progress is being limited from shortages of bricklayers, carpenters and joiners. The commercial and infrastructure sectors appear slow-moving in comparison to housebuilding while overall, contractors are reporting their order books are 50%+ secured for 2017.

The continuing downward trend in sterling is expected to affect the cost of imported goods and in particular, prices of curtain walling and M&E equipment are expected to rise. There is also growing concern within the supply chain, with some trades (particularly bricklayers, dry liners, and plumbers) being drawn into the London construction bubble, and costs associated with these professions are rising above the general cost increases in the area. The region is still experiencing difficulty with the availability of bricks and the acquisition of curtain walling is becoming more problematic.

In line with predictions made last quarter, workload security is relatively low and this uncertainty may lead to a greater number of bankruptcies in the region, particularly if the expectation for decreasing tender volumes rings true.

In our previous quarterly report, the contrasting stories continued across the South Eastern region; the uncertainty and delays experienced in the Southampton area were not being reflected in Tunbridge Wells. Construction activity in the latter was reported to be growing, with the residential sector being a key component in this.

Matthew Quirk

Reporting on the South West Region

The South West has seen a minimal number of cancellations to projects and, where this has occurred, it's often not been related to Brexit. Some schemes are still facing delays due to withdrawn funding. The picture for the South West is largely positive, with contractors reporting that their order books are at the level they would expect them to be for this time of the year and there is evidence of increasing competition on some new tenders.

However until the details of Brexit are defined, it is anticipated that an element of commercial uncertainty will linger, and this may influence total construction volumes as we move forwards. The potential for future interest rate rises also provides a level of uncertainty. The reduced value of the pound has already created inflationary pressures, with the necessity to import many materials and items of equipment having an impact on construction costs.

As reported in last quarter's report, large scale developments continue to drive growth in the region. These include Bristol's Megabus development, 3 Glass Wharf, the electrification of the rail line to London, and a number of student accommodation projects.

The recent announcement of plans for a new £300 million campus for the University of Bristol provides long term optimism for the city. The Temple Quarter Campus will be situated in the heart of the Enterprise Zone, a unique collaboration between the University, Bristol City Council, central government, industry and philanthropic partners, as well as the local business community. Not only will it provide an important catalyst for UK economic growth, job creation and opportunities for Bristol's communities, it will secure the University's future growth for generations to come. It is hoped that the campus will open in time for the start of the 2021/22 academic year. However it is worth noting that the Bristol Arena regeneration project, mentioned in last quarter's report, has now been delayed until 2020.

In our previous quarterly report, the South West construction market was seen as being able to resist the impacts of Brexit and, although some public sector projects were stalling due to withdrawn funding, private sector activity was on the rise. A number of large developments in the pipeline were adding to the optimism of the region.

Regional Reports

Childrens Hospital for Wales, Cardiff

Nigel Watkins

Reporting on the Wales Region

Fortunes in the Welsh construction industry continue to improve. Although there had been a number of projects on hold, these are now looking to proceed and the immediate effects of Brexit are beginning to neutralise. The South Wales market, in particular, remains busy and tendering remains competitive, irrespective of single stage, two stage or framework routes. Student accommodation and commercial office space remain the key drivers of growth locally.

Labour availability is a concern; it can be difficult to obtain sufficient numbers of skilled workers to meet demand. At present, the local supply chain is not reporting any problems sourcing materials. As well as materials becoming more readily available, designers are also looking at alternatives to those materials that are known to be in short supply, such as doors and bricks. Despite this, there is still the need for a number of items to be imported, and this is complicated by the effect of the weaker pound pushing up prices of imported materials and systems.

Student accommodation and commercial office space remain key sectors locally, alongside a number of ongoing large scale developments such as Swansea Bay Tidal Lagoon, Hinkley Point, Cardiff city centre regeneration, and the M4 Relief Road.

In our previous quarterly report, a number of projects in the region were on hold amongst a more risk-averse climate. A particular concern to the region was the potential loss of key EU funding. A number of large scale projects on the horizon were a concern for the supply chain, yet construction activity was nonetheless expected to increase over the next two to three years.

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Inflation Report, Bank of England
BCIS Quarterly Briefing
Output in the Construction Industry, Office of National Statistics
RICS UK Construction Market Survey
RICS UK Commercial Market Survey

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Key

ONS: Office for National Statistics

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors

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