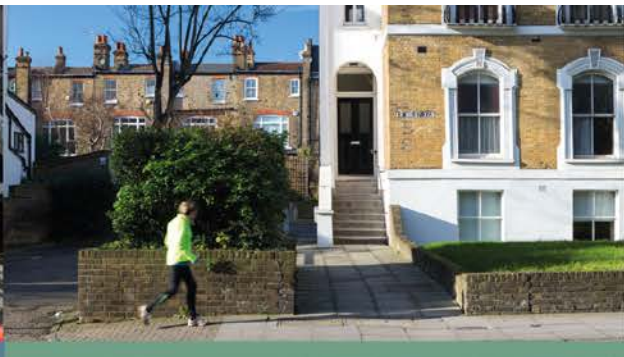


Brexit – Construction Issues



Professor Noble Francis
Economics Director



Introduction

The government has divided British industries into high, medium and low priority in the Brexit negotiations, leading to complaints from businesses and ministers, who described the leaked list as “dynamite”.

The medium-priority industries include electronics, fisheries, chemicals and furniture, and low priorities include steel, construction, oil and gas, telecoms, environmental services, water and medical.

The Times, 9 February 2017

Does Government understand the complexity of issues for an industry such as construction?

Key areas of concern once the UK exits the EU will be labour flows and the terms of UK trade in products and services.



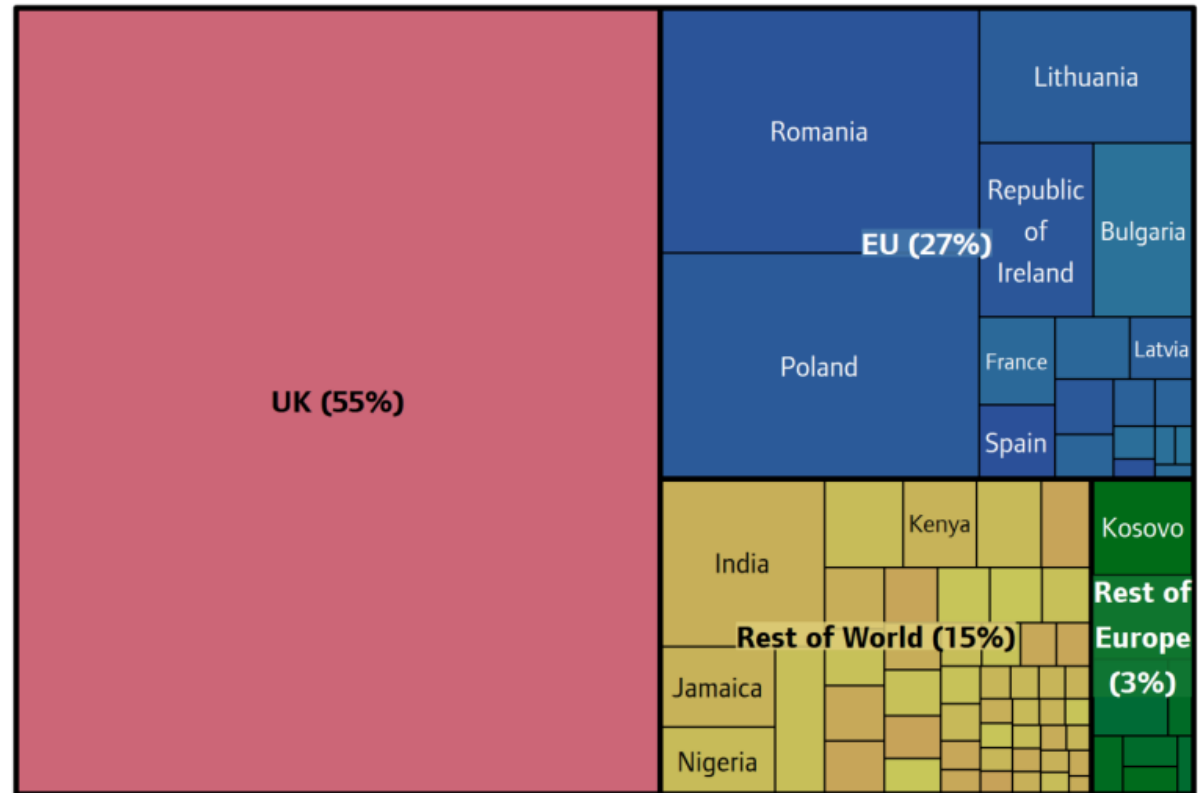
Construction Labour

Construction Skills Issues

- Already skills issues in construction
- Reliance on foreign labour in London: 45% from abroad

Anecdotally house builders suggest it is closer to 60%-70%

Country of birth of construction workers in London, 2014-16 (Labour Force Survey)



Source
Labour Force Survey data, 2014-16

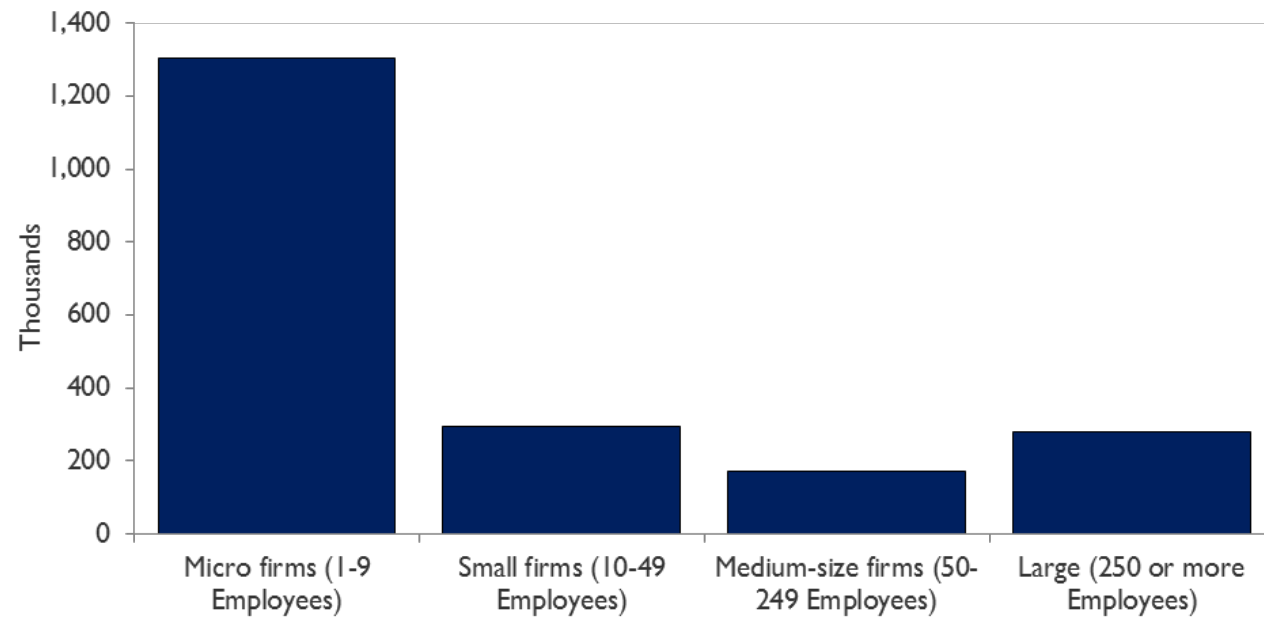


How Can SMEs Deal With the Skills Issues?

- 86% of construction employment in SMEs
- Labour restrictions will have financial & admin costs

SMEs least able to deal with additional resource required

Employment in the Construction Sector by Size of Firm in 2016

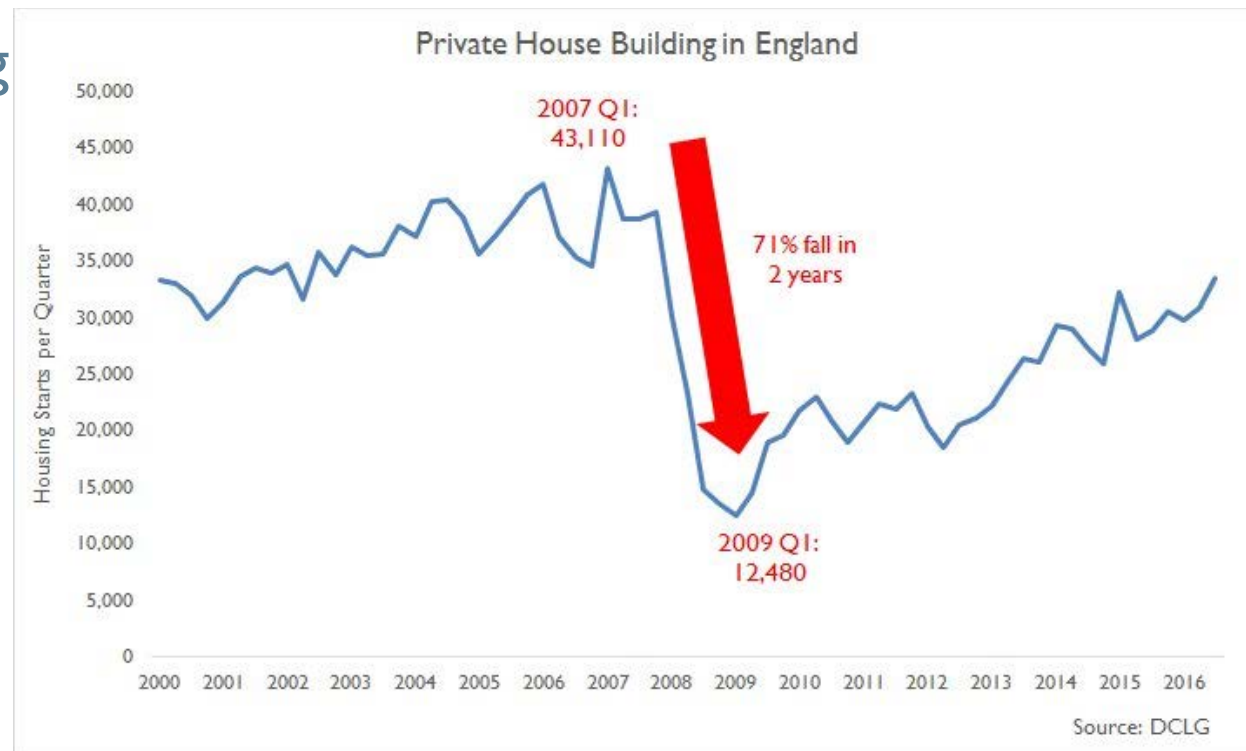


Source: BIS



Can Off-site Manufacturing Solve Skills Issues?

- Off-site manufacturing is manufacturing... it doesn't like volatile markets
 - House building sector has developed to deal with the volatility
- It has potential in niche markets; (PRS) & Housing Associations





Off-site Manufacturing – Cultural Aspects

	Japan	England
Housing Starts (2013)	980,025	124,960
Demolitions (2013)	121,397	12,060
Pre-war Housing Stock	3.0%	36.8%
% Fall in Starts due to Financial Crisis	37%	71%
Level of Starts after Financial Crisis	788,410	86,130

Japan uses off-site manufacturing to a greater degree esp. for housing

It has a much larger, less volatile house building market

Japan renews its housing stock more often; it demolitions almost as many homes as we build and only 3% of housing stock is pre-war



Construction Materials & Products

Government view: exports Good, Imports Bad

- From the Government Construction Strategy in 2013*

Improvement in exports

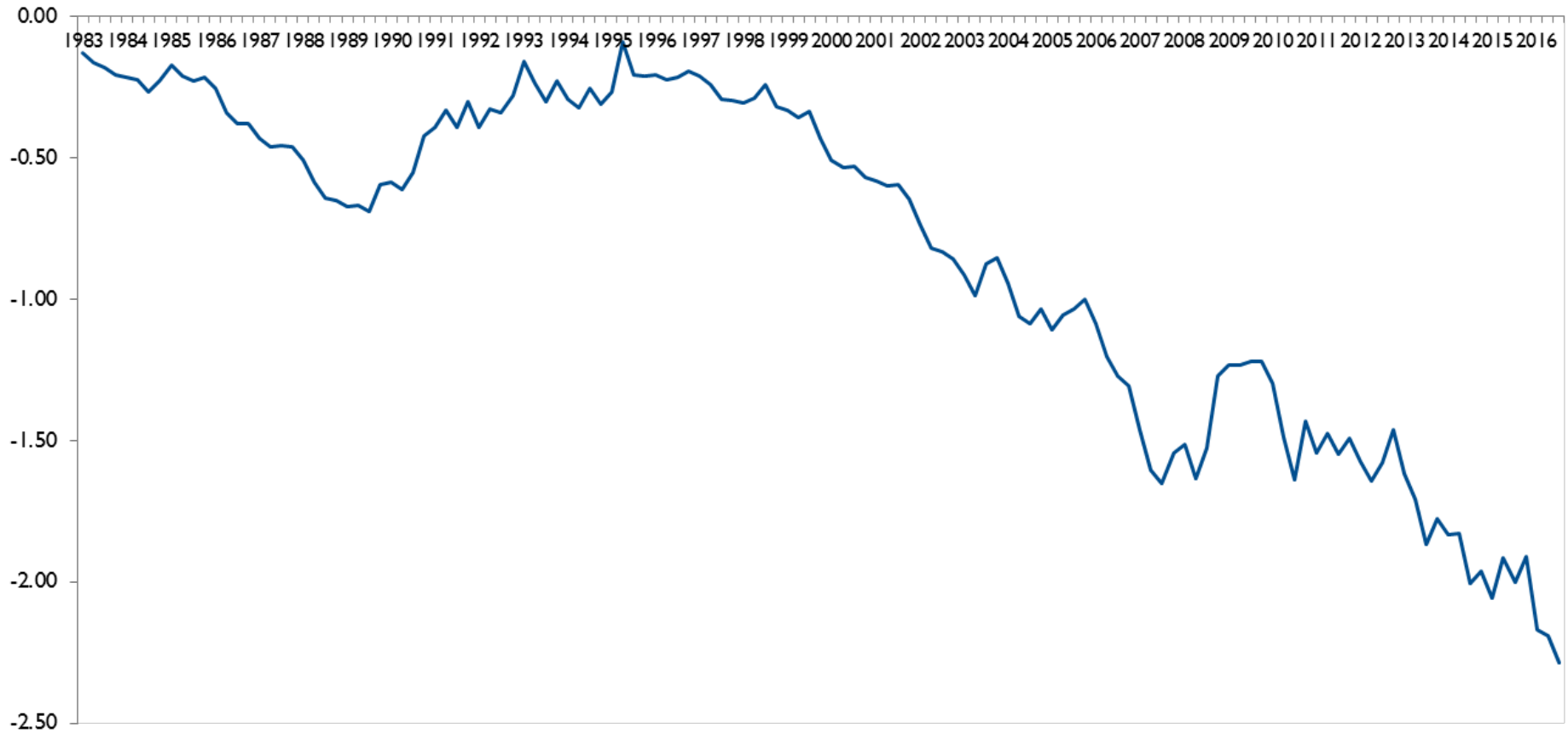
50%

reduction in the trade gap between total exports and total imports for construction products and materials

*not the Government Construction Strategies in 2011 or 2016



UK Construction Products Trade Deficit

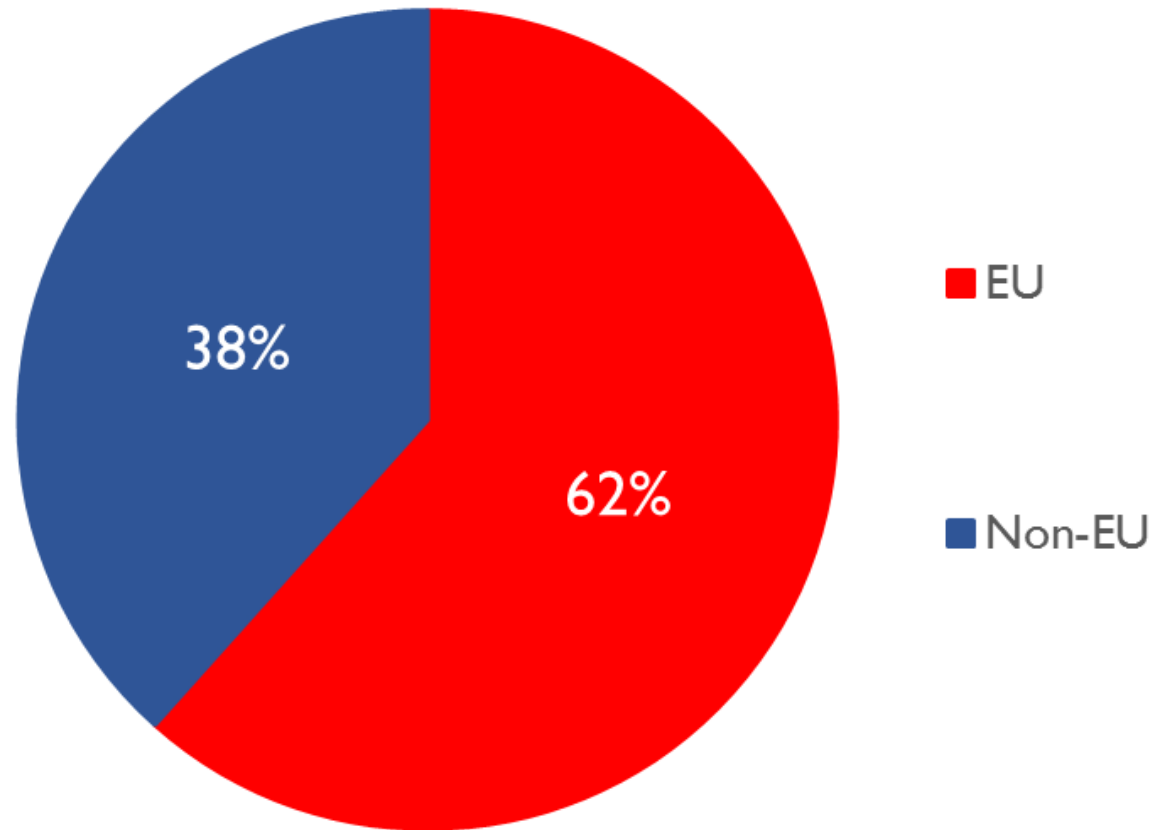


Source: DTI, BERR, BIS



UK Construction Products Imports

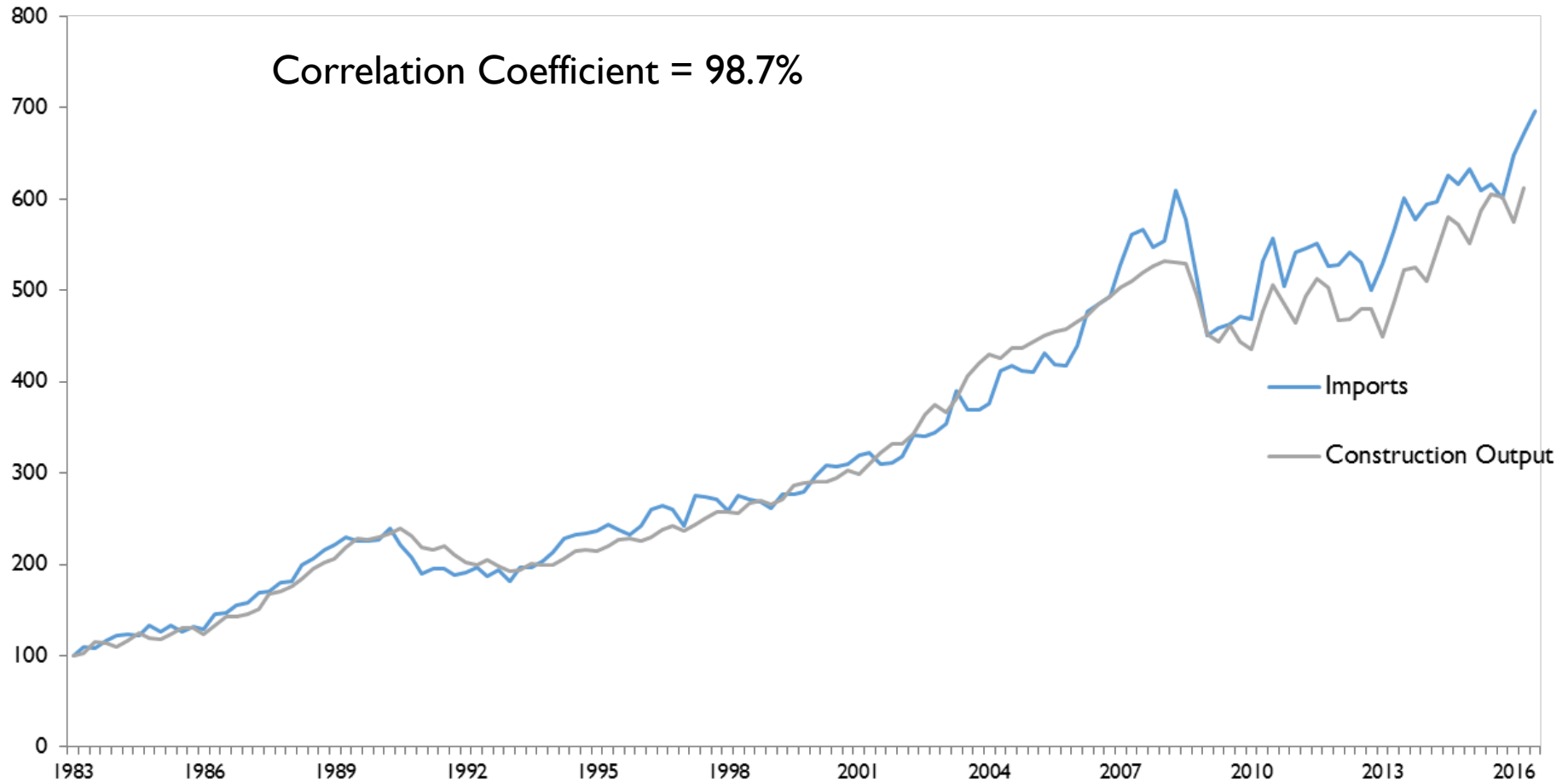
EU and Non-EU Trade of Construction Products in 2016



Source: BEIS



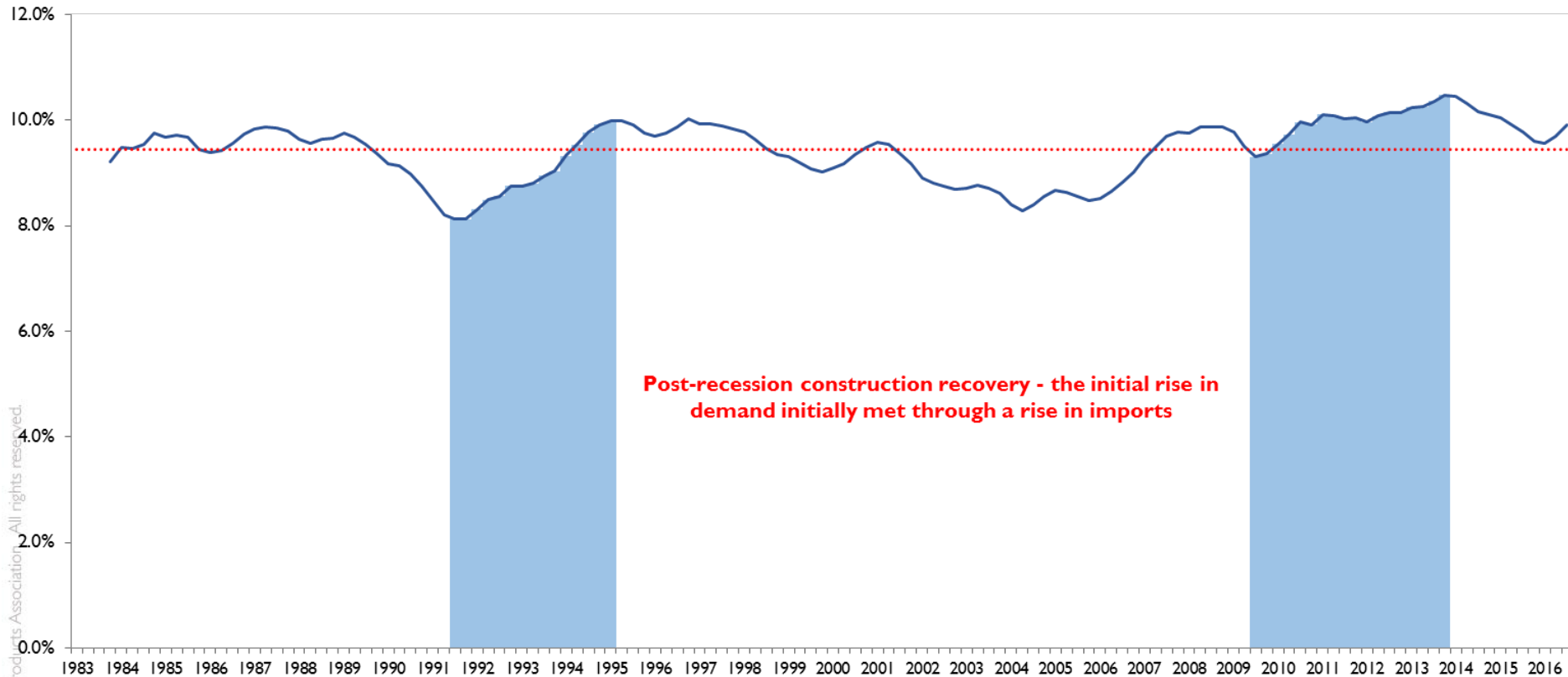
Imports Move with Construction Output



Source: ONS, DTI, BERR, BIS



Imports Move with Construction Output



Post-recession construction recovery - the initial rise in demand initially met through a rise in imports

Source: ONS, DTI, BERR, BIS



Materials Business Models – Example Timber

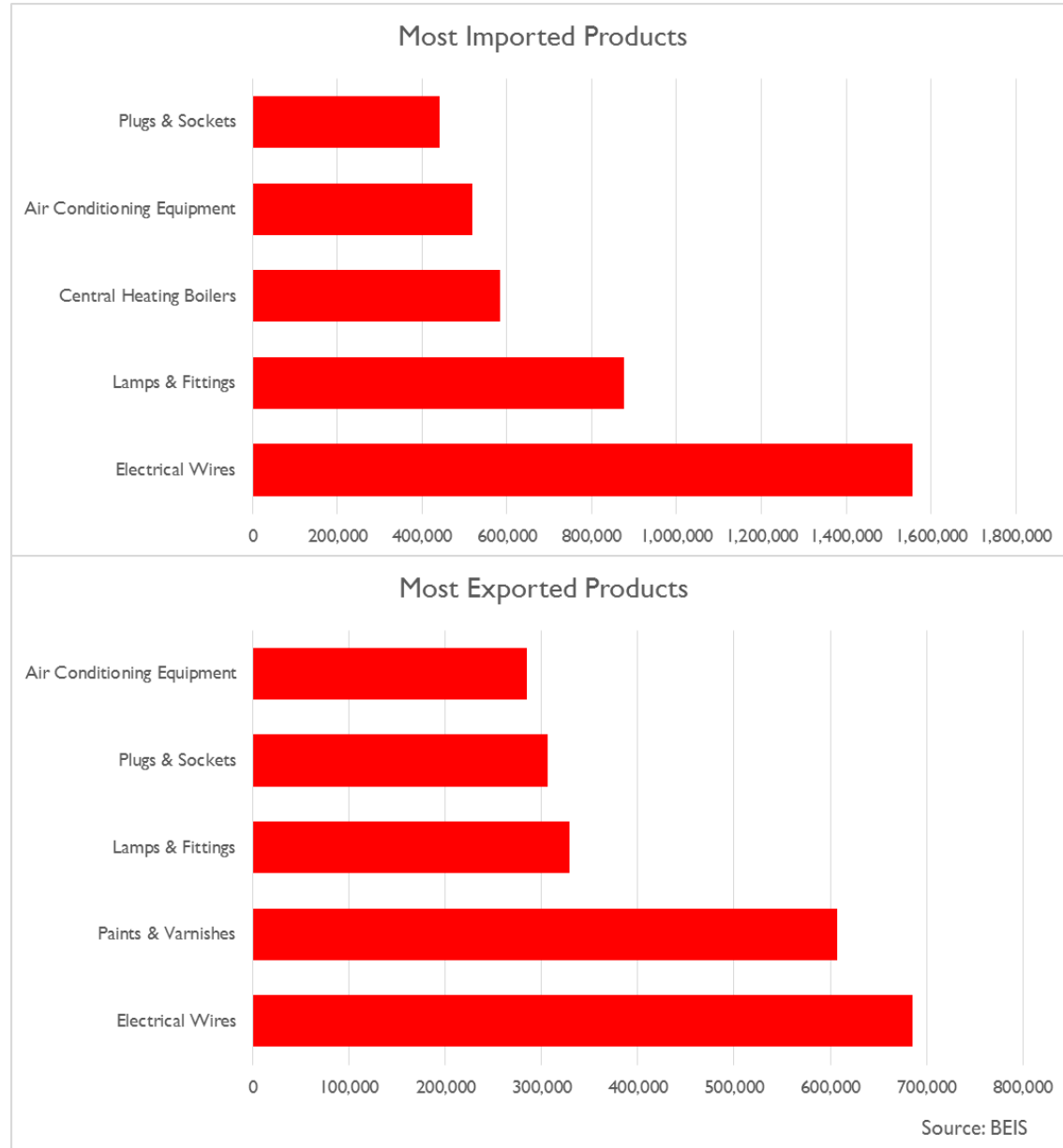
- 92% of softwood timber is from the EU
- Not suddenly going to grow more trees & cut them down!
- Depreciations in Sterling have already led to 20% price rises so far...
- Barrier-free access not just tariff-free access? What happens when goods are physically slowed down? Ports, HGV drivers?

United Kingdom	Current Prices (€'000)
	2015
Sawn Wood > 6mm thick	783,597
Aluminium for Fabrication	494,514
Paints & Varnishes	437,542
Structural Units (steel)	242,664
Copper Pipes	232,193
Structural Units (aluminium)	229,463



Export Potential?

- 4 out of the top 5 exported products in 2015 also in the top 5 imported products
- Importing cheap, exporting quality? If so, there is export potential
- International supply chains? If so, limited benefit to net trade



Source: BEIS



Overall

- Brexit provides many challenges and some potential opportunities
- Change(s) in business models required
- To what we don't know as the business models change to suit the market environment
- Two years isn't enough to discuss the labour, trade and regulations/standards issues with the EU and rest of the world
- The uncertainty at the moment and in the years as will impact on investment (particularly where it is high investment up front for a long-term rate of return)

For Questions please contact:

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