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Construction Industry Reliant on Infrastructure and Housebuilding to Avoid Declines in 2018

For most construction firms it will be difficult to escape the impact subdued economic growth, rising inflation and falling real wages will have on the industry over the next two years. In addition, negotiating unprecedented uncertainties as the UK leaves the EU is expected to result in little growth, with output expected to rise 0.7% in 2017 and remain flat in 2018.

The latest forecasts from the Construction Products Association come at a time where any growth at all will be reliant on government's delivery of infrastructure projects. This is likely to have a profound effect on construction output, which if not realised would lead to an industry-wide decline of over 1.0% in 2018. Infrastructure activity is forecast to grow 25.4% by 2019 and will be due to major projects in rail and water & sewerage such as HS2 and the £4.2 billion Thames Tideway Tunnel.

House building will continue to be a primary driver of growth, with private housing starts rising by 5.0% in 2017 and 2.0% in 2018. In 2017 Q2 the government's Help to Buy equity loan accounted for 40% of new homes and has been a significant policy for supporting building activity. The additional £10 billion that government announced for the scheme in October will continue to sustain house building despite the slowdown in the general housing market.

The sharpest decline will be in the commercial sector, and particularly felt in the offices sub-sector as EU Referendum-induced wariness among investors has led to a sharp fall in contract awards. Office construction is expected to decline 5.0% in 2017, worsening to a 15.0% decline in 2018, and is likely to accelerate if it proves to be the case that the UK will not be part of the Single Market and financial services firms choose to transfer operations out the UK into other EU member states.

Noble Francis, Economics Director at the Construction Products Association said: "Construction activity is currently high, particularly in cities outside the capital such as Birmingham and Manchester. However, the forecasts highlight that the fall in construction new orders since the second half of 2016 is now starting to feed through to activity on the ground as projects signed up to pre-referendum end and are not being replaced. This is especially the case in key areas such as the construction of new commercial offices in London, where demand for new high profile office space from the financial sector has slowed considerably.

"The falls in commercial construction may be offset by growth in house building and infrastructure. In house building, government's announcement of £10 billion of additional funding for Help to Buy is forecast to support growth. However, due to the slowdown in the general housing market, particularly in London, house building is only expected to grow by 2.2% in both 2018 and 2019.

"Infrastructure is expected to be major driver of construction activity in the next few years with work on major projects but the sector has been dogged by constant cost overruns and delays. Given that construction activity is

forecast to be flat in 2018, if government cannot improve delivery of its infrastructure plans, construction output is likely to decline next year.”

ENDS

NOTE TO EDITORS:

The [Construction Products Association](#) represents the UK’s manufacturers and distributors of construction products and materials. We are committed to raising the profile of our industry and members’ businesses, helping grow the market and reducing regulatory risk. The sector directly provides jobs for 300,000 people across 22,000 companies and has an annual turnover of more than £55 billion. The CPA is the leading voice to promote and campaign for this vital UK industry.

The CPA produces a range of economic reports including the quarterly Construction Industry Forecasts, Construction Trade Surveys and the State of Trade Surveys. All are available to members or subscribers via our website.

Much of the CPA’s work is focused on serving as the first point of contact for politicians and policy makers requiring advice and information about matters that affect construction products or the wider construction industry. This includes understanding the need for investment into manufacturing or the built environment, new housing and energy-saving retrofitting of the existing housing stock; helping to develop effective, UK and EU legislation, regulations and product standards; and promoting the role of manufacturers in delivering a resource efficient built environment.

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