



# Construction Insights Update

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04/04/2017

## Overview



- The UK Economy
- Construction Output
- A changing world
- What this means for Architects

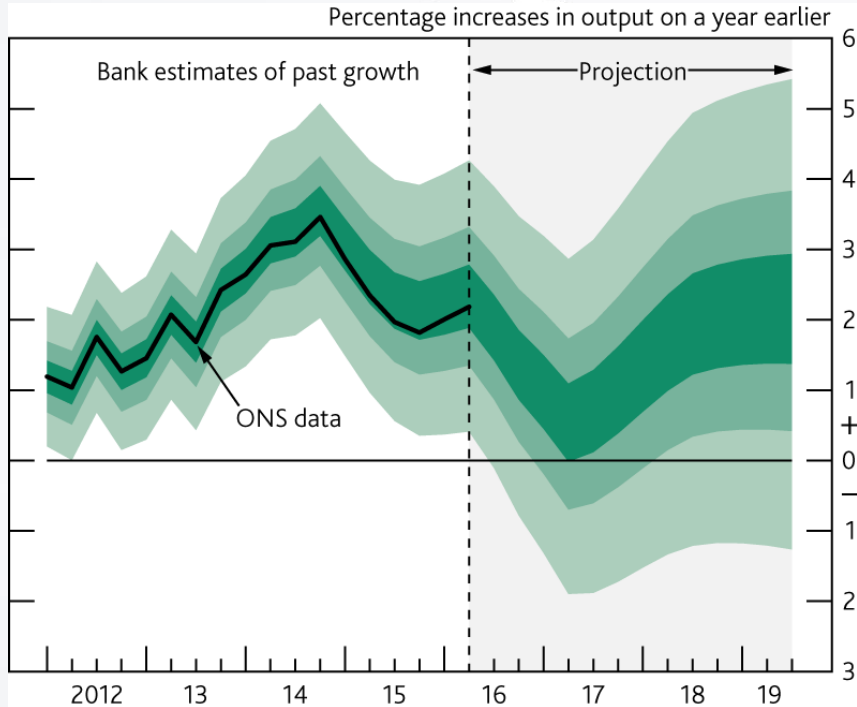
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## Article 50

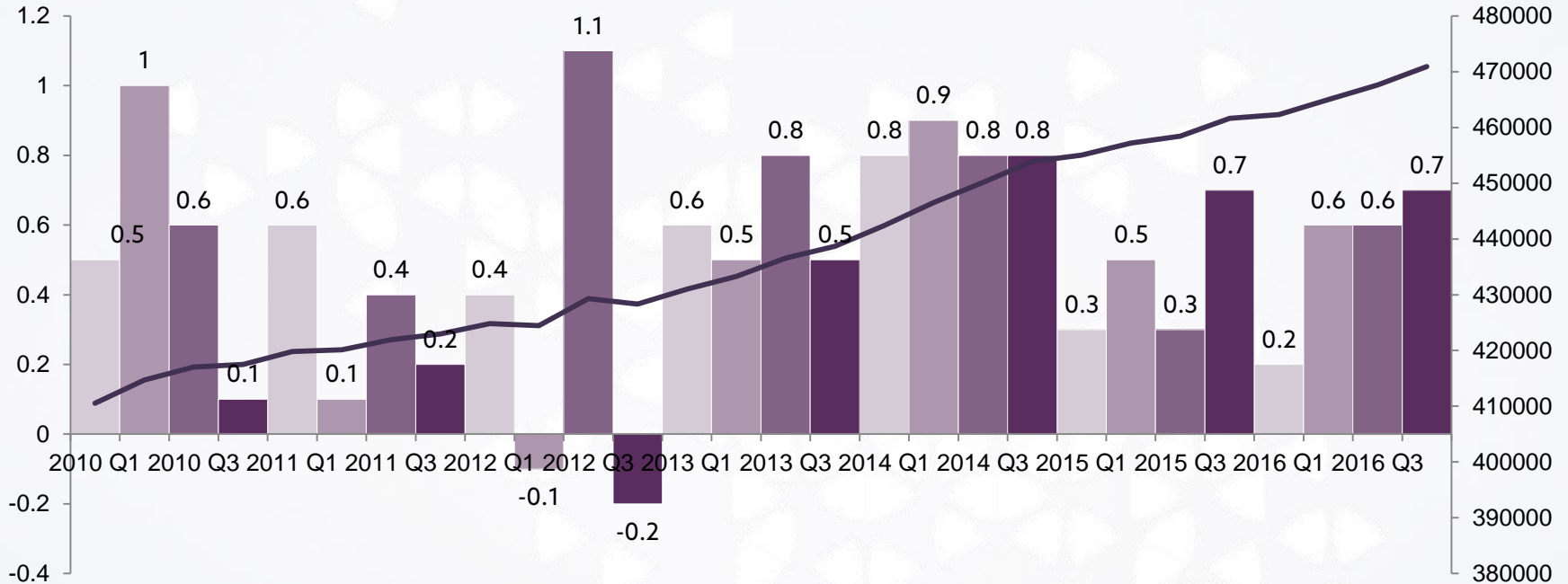
1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.  
  2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
  3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
  4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.
- A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.



## Bank of England GDP Forecast August 2016

Source: Bank of England

*"The largest revision to our GDP forecast since the MPC was formed almost two decades ago."*



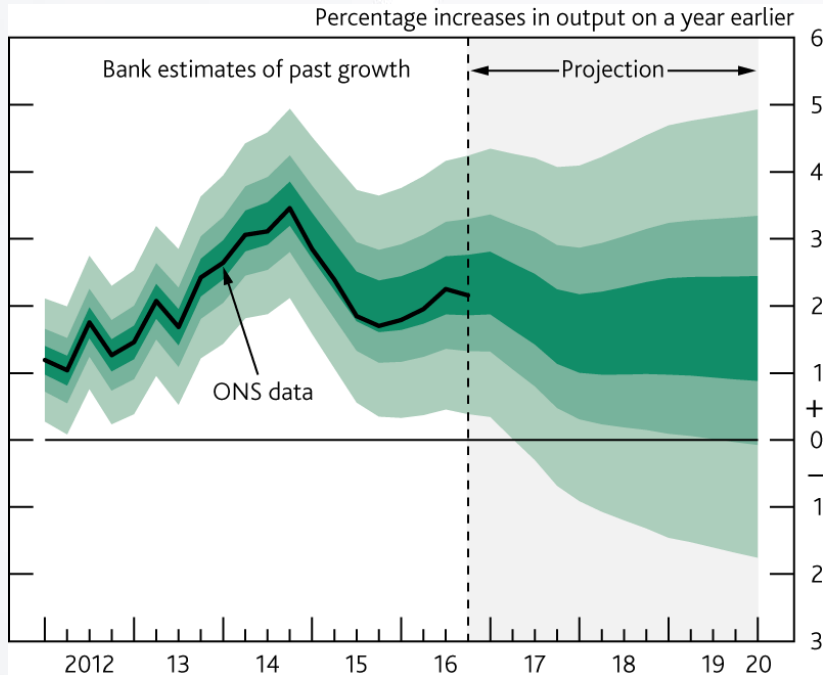
Source: ONS



# Construction Industry Update

## Bank of England GDP Forecast February 2017

Source: Bank of England



*"Growth has remained resilient since the referendum, with the UK posting the fastest rate in the G7 last year."*

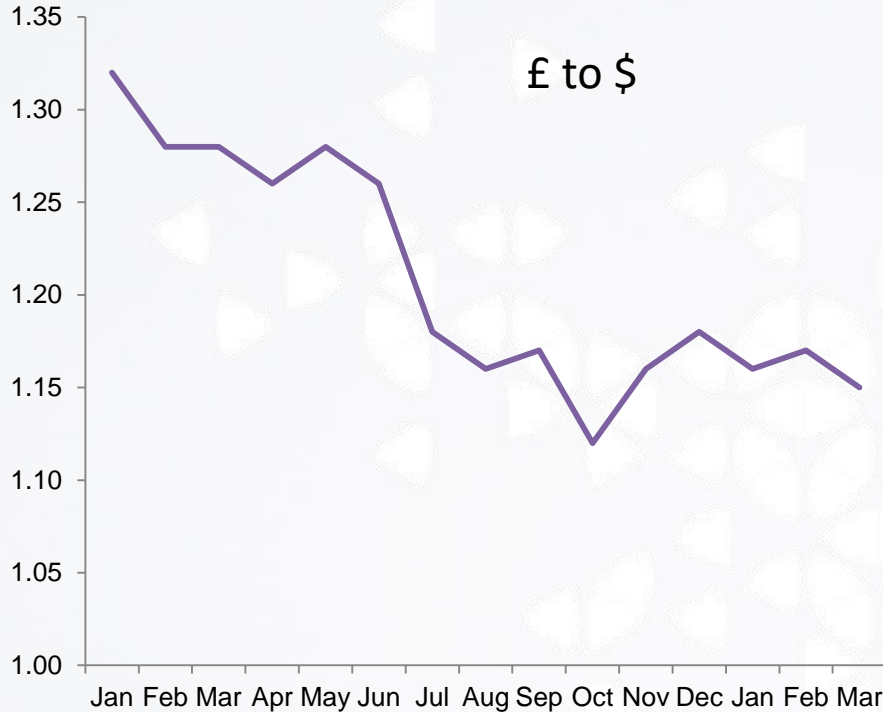
*The economy [is] now projected to expand by 2.0% in 2017 and around 1¾% thereafter.*

## Construction Industry Update

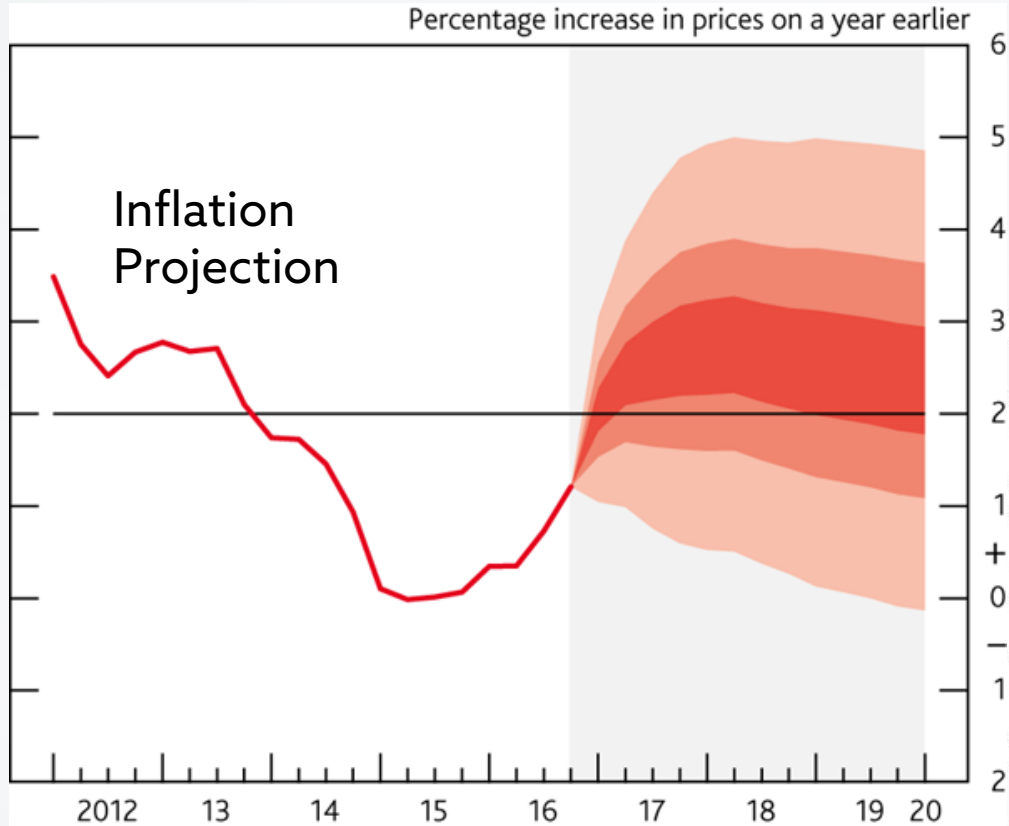
*“Sterling’s decline was clearly prompted by the referendum result. It also seems likely that the foreign exchange market has decided the consequences are negative.*

*The most plausible explanation for the depreciation is that, in the eyes of the market, leaving the EU will make exporting harder and more costly. To help compensate the currency needs to be cheaper. ”*

*Ben Broadbent – Bank of England*







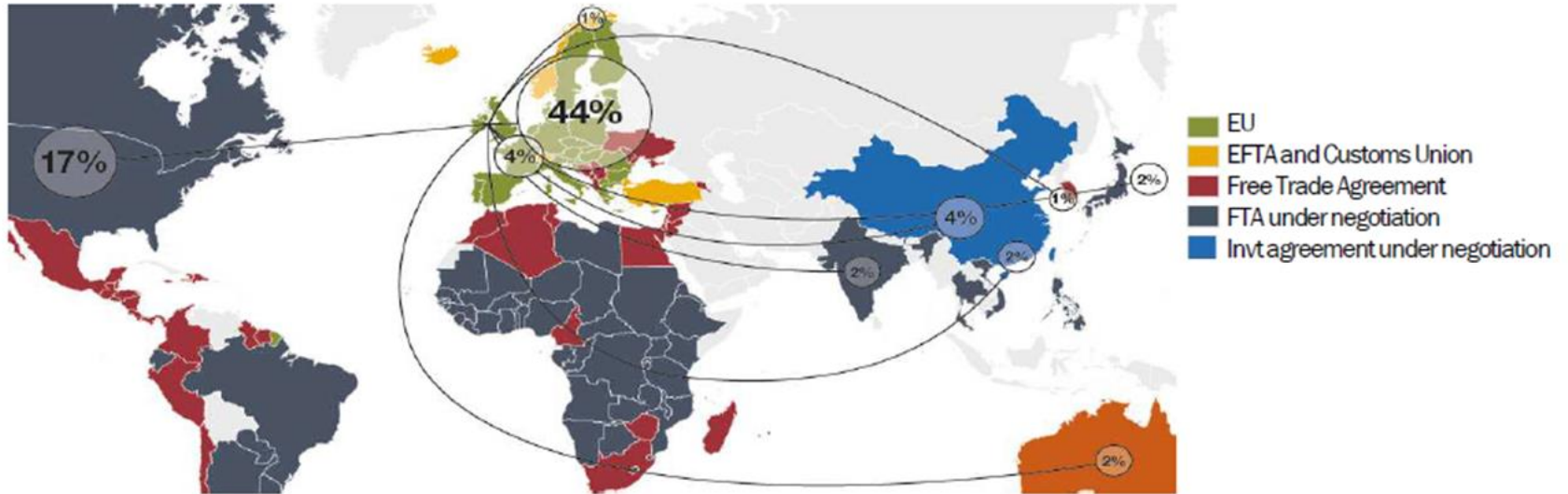
Inflation growth as a natural response to Stirling's Depreciation.

It's likely to weigh on consumer income.

What has led to this significant revision? There are four main reasons:

- First:** the government autumn statement indicated an easing of austerity measures.
- Second:** the outlook for the global economy is looking better than it did last year.
- Third:** the easing of “fiscal conditions” – a weaker pound and low interest rates - are helping the economy.
- Fourth:** consumer confidence remains strong. Households have not reduced spending. It was originally thought that the uncertainty caused by the referendum would mean consumers spend less. But no. Consumer spending continues to grow, in spite of an expectation of lower income caused by wage settlements not matching inflation.

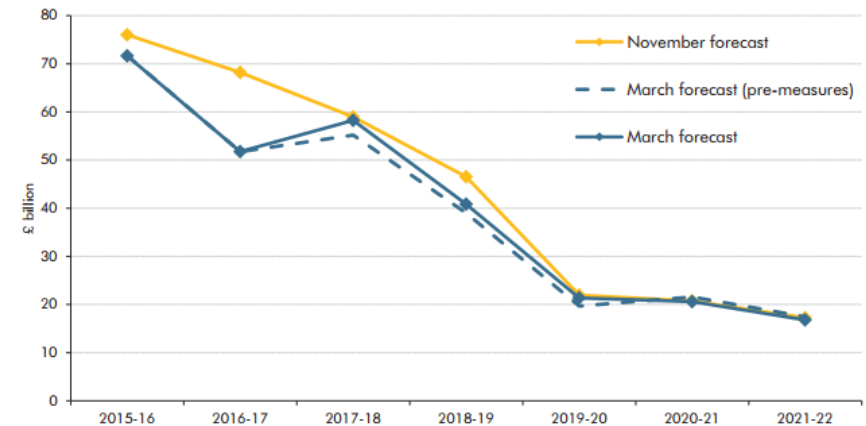
Trade flows of the UK (share of total)



	Scenarios	Outcomes	
		GDP (%)	GBP cost equivalent per household
Near term: 2020		-3.3%	-2200
Longer term: 2030	<i>Central</i>	-5.1%	-3200
	<i>Optimistic</i>	-2.7%	-1500
	<i>Pessimistic</i>	-7.7%	-5000

Source: OECD

Chart 1.1: Public sector net borrowing



Source: ONS, OBR

Source: OBR

*The biggest determinants of the UK's medium-term prosperity will be the country's new relationship with the EU and the reforms that it catalyses.*

*Some of the adjustments to this new reality may prove difficult and many will take time. But the UK can handle change. It has one of the most flexible economies in the world. It benefits from a deep reservoir of human capital, world-class infrastructure and the rule of law. Its people are admired the world over for their strength under adversity.*

## Overview

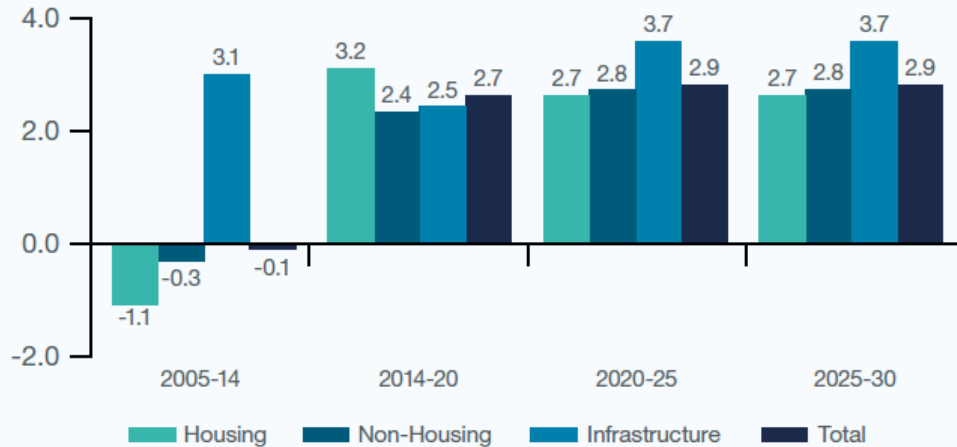
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The UK's construction sector was in a strong position.

Between now and 2030, the UK was set to rise to become the world's sixth largest construction market, overtaking Canada and Germany to also become Europe's largest construction market.

**Fig 73** Trend in the UK Construction Output by Sector 2005-2030

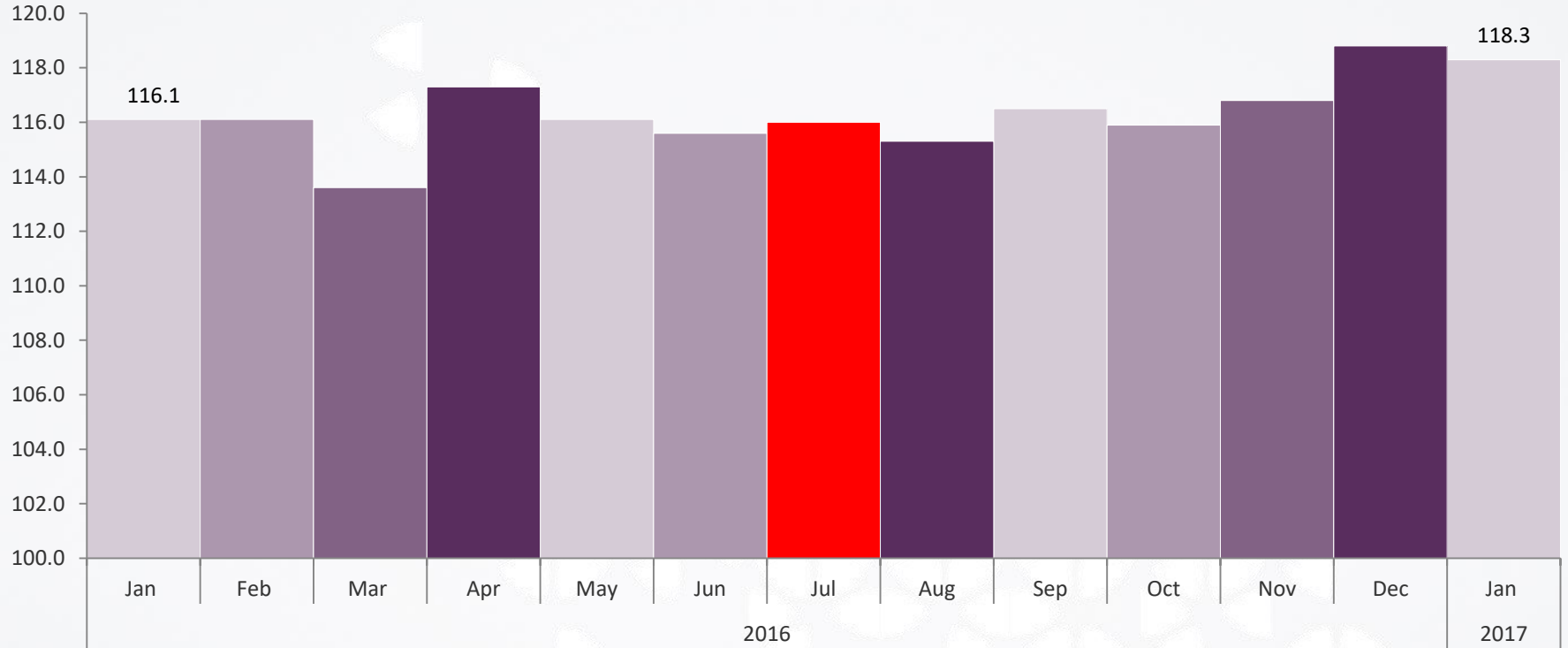
Average annual % change

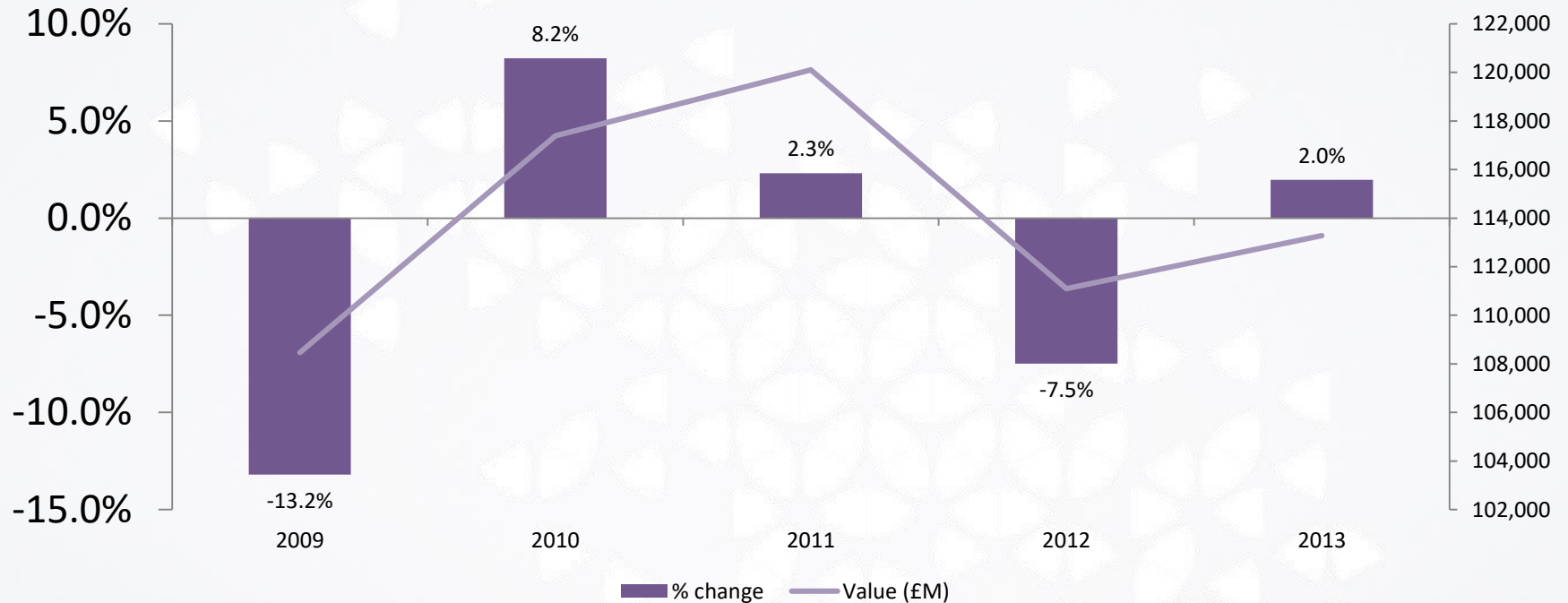


Source: Global Construction Perspectives, Oxford Economics

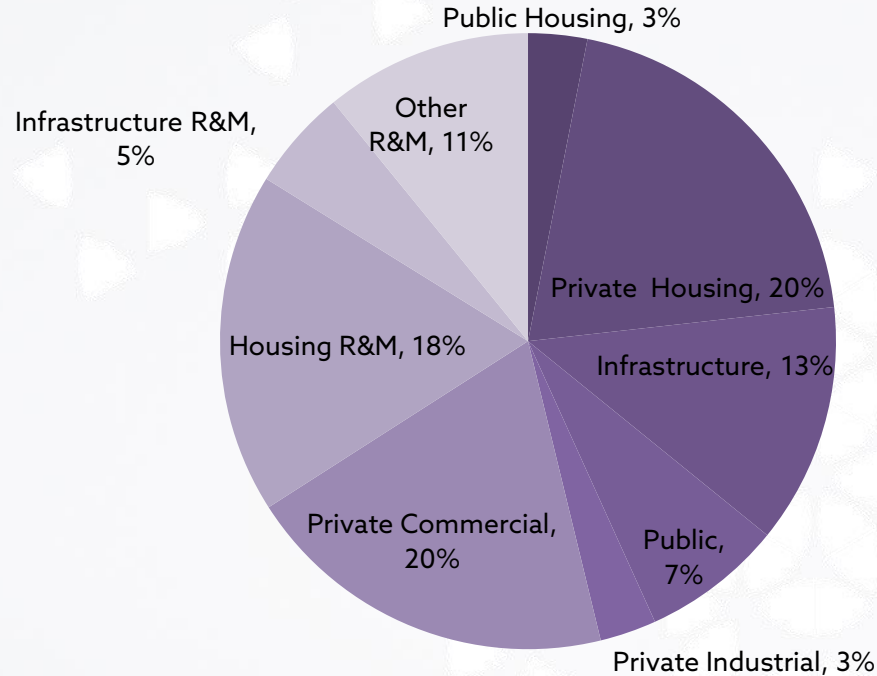
“We forecast that the volume of total construction output in the UK will increase by an average of 2.9% pa between 2014 and 2030, with the strongest growth in the infrastructure sector and the slowest for non-housing work.” *Oxford Economics*





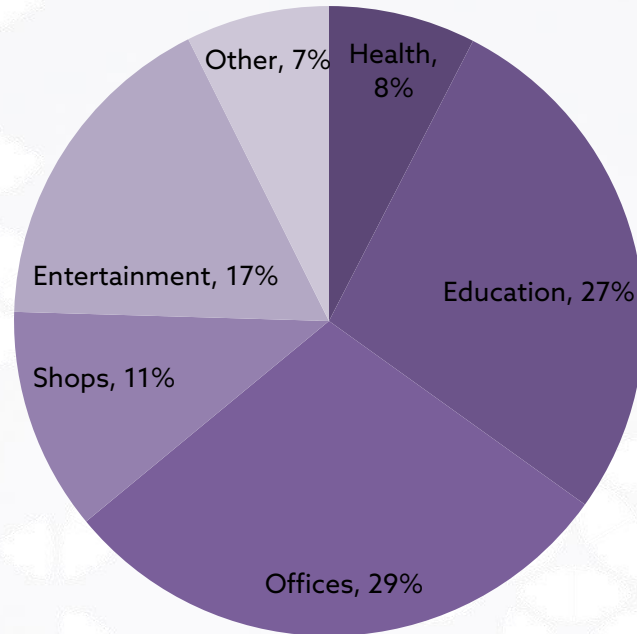


## UK Construction Output – by sector



UK Construction  
Output in 2016 =  
**£151,278 M**  
(current prices, non seasonally adjusted)

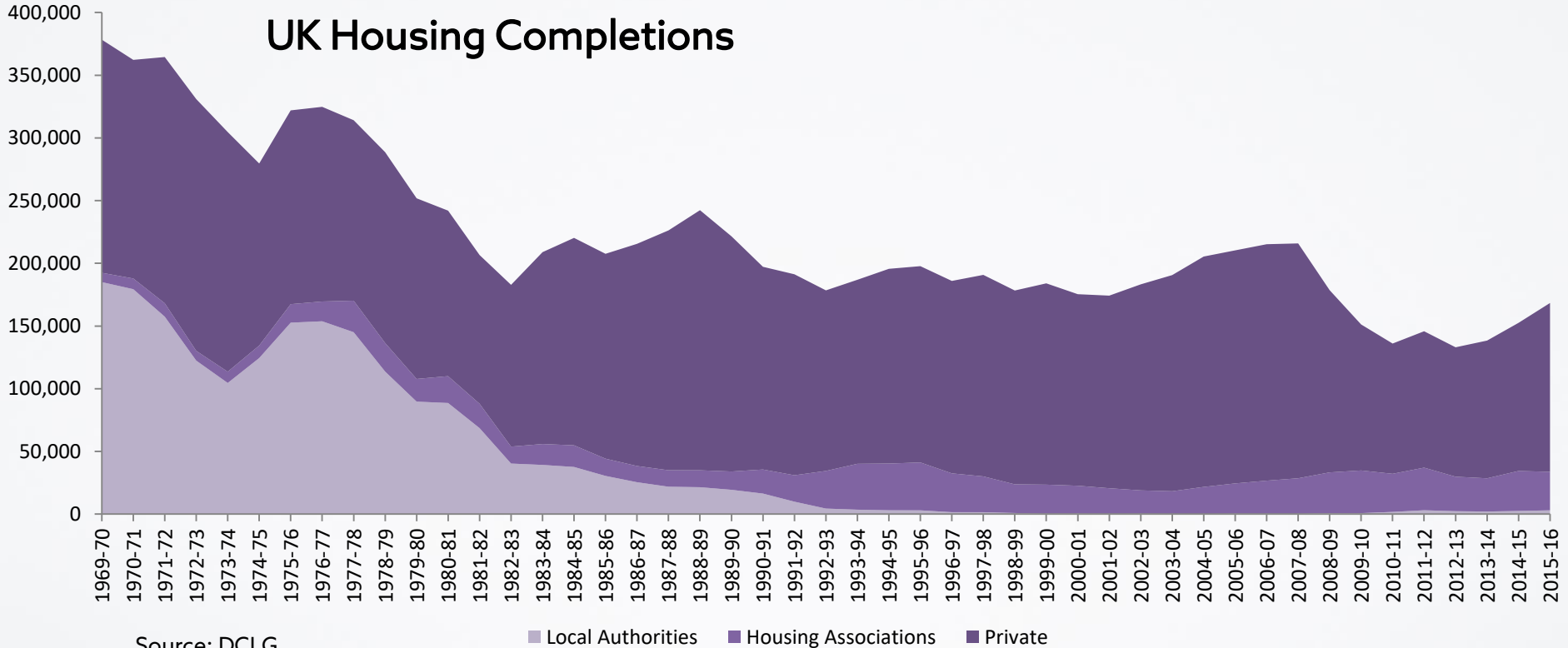
## Other Public Non-Housing and Private Commercial (2016)



Value shown =  
**£42,019 M**  
(circa 28%)

*“The need for additional housing in England is between 232,000 to 300,000 new units per year” - UK Parliament*

## UK Housing Completions



## Sectors

- **Housing :** Continued modest growth in the coming years
- **Commercial:** Contraction, in part as a result of the Brexit decision
- **Education:** Continued growth spurred by the Priority School Building Programme and HE work
- **Infrastructure:** Strong performer with significant year on year growth

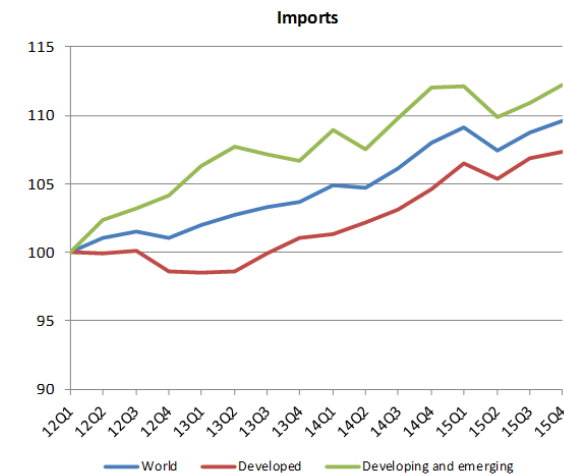
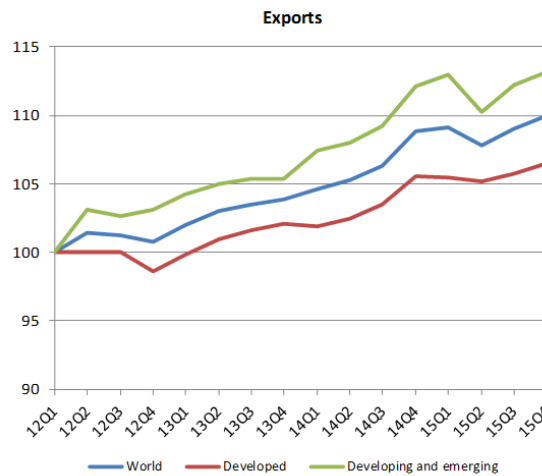
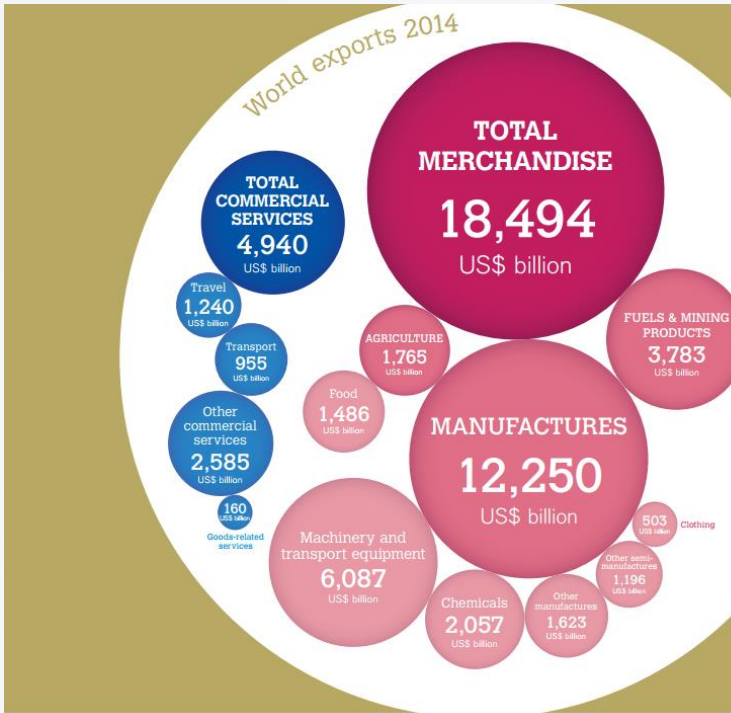
## Some issues for the construction sector:

- Uncertainty & outcome of Brexit negotiations
- Investment
- Material costs
- Labour

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**Global Poverty :** 42% in 1981 to 10% in 2013  
**Life Expectancy :** 48 in 1950 to 71 in 2015  
**Literacy:** 36% in 1950 to 85% in 2014  
**GDP per Capita** 450 US\$ in 1960 to \$10,000 in 2015 (current prices)





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How important is the UK's current integration into the EU? - Very

- Trade
  - Working on projects in EU countries
  - As an economy, trading with the EU
  - Being able to use European products in the UK
- Freedom of movement
  - Staff from other countries bring richness, diversity, different perspectives
  - People from different countries, have specific strengths
    - Spain – strong design approach
    - Eastern Europe – strong technical skills

- Immediate aftermath
  - Staff upset
  - EU staff feeling worried and unwelcome
- Workload
  - Immediate dip in work
  - Some EU projects put on hold, no new work
  - Picked up latter part of 2016
  - Although some say clients still holding back
- Trade
  - Cost of some materials have increased
- Uncertainty

But architects are adept at managing through change

- Boom and bust (1990s and 2008). “
- Brexit
- Policy: New Labour investment into public buildings : Too much money, too quickly; but new procurement approach squeezing design
- Technology: BIM
- Skills shortage
- Changing role of the architect

## Lower costs

33%

Reduction in the initial cost of construction and the whole life cost of built assets.

## Lower emissions

50%

Reduction in greenhouse gas emissions in the built environment.

## Faster delivery

50%

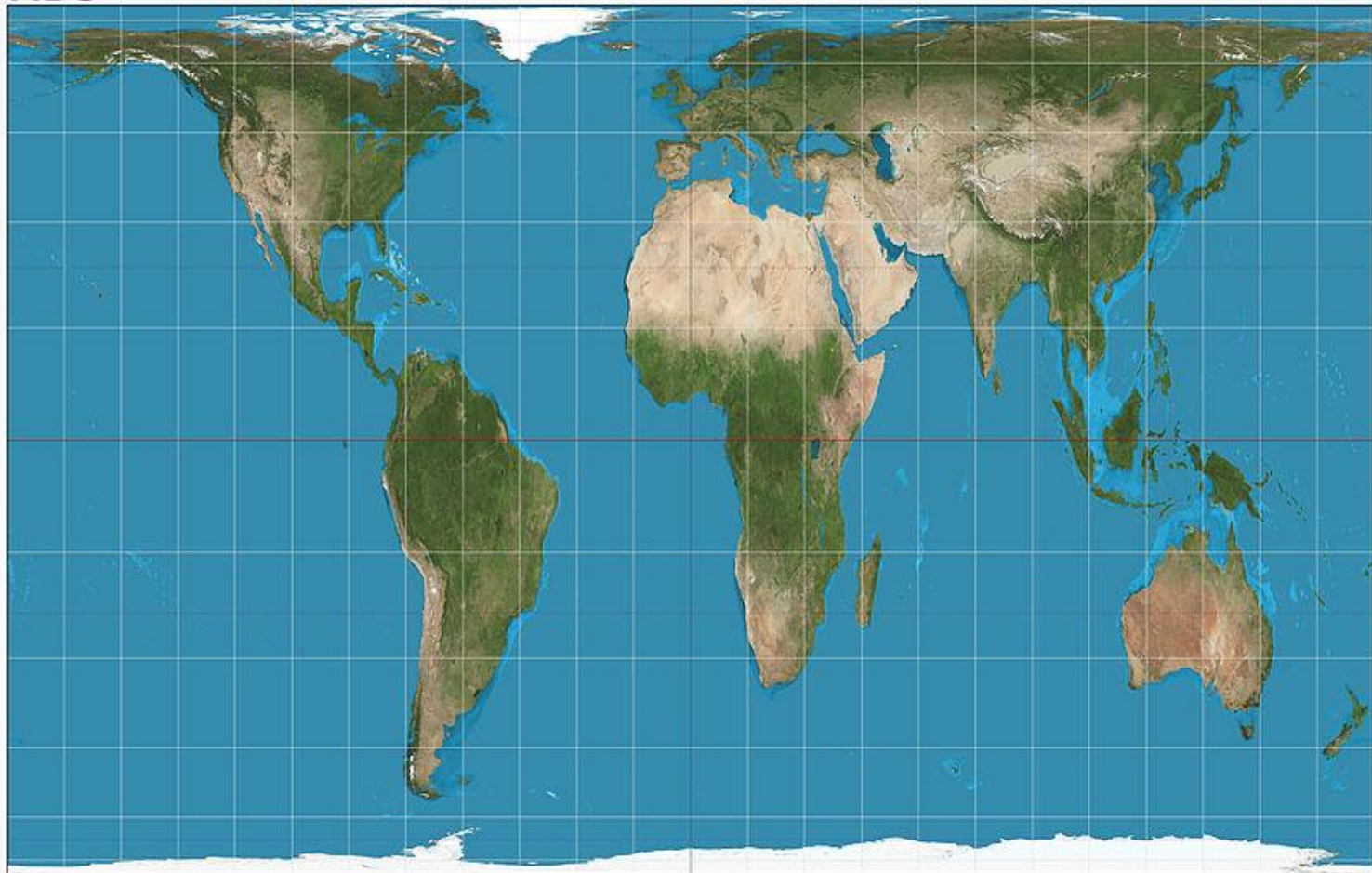
Reduction in the overall time, from inception to completion, for new build and refurbished assets.

## Improvement in exports

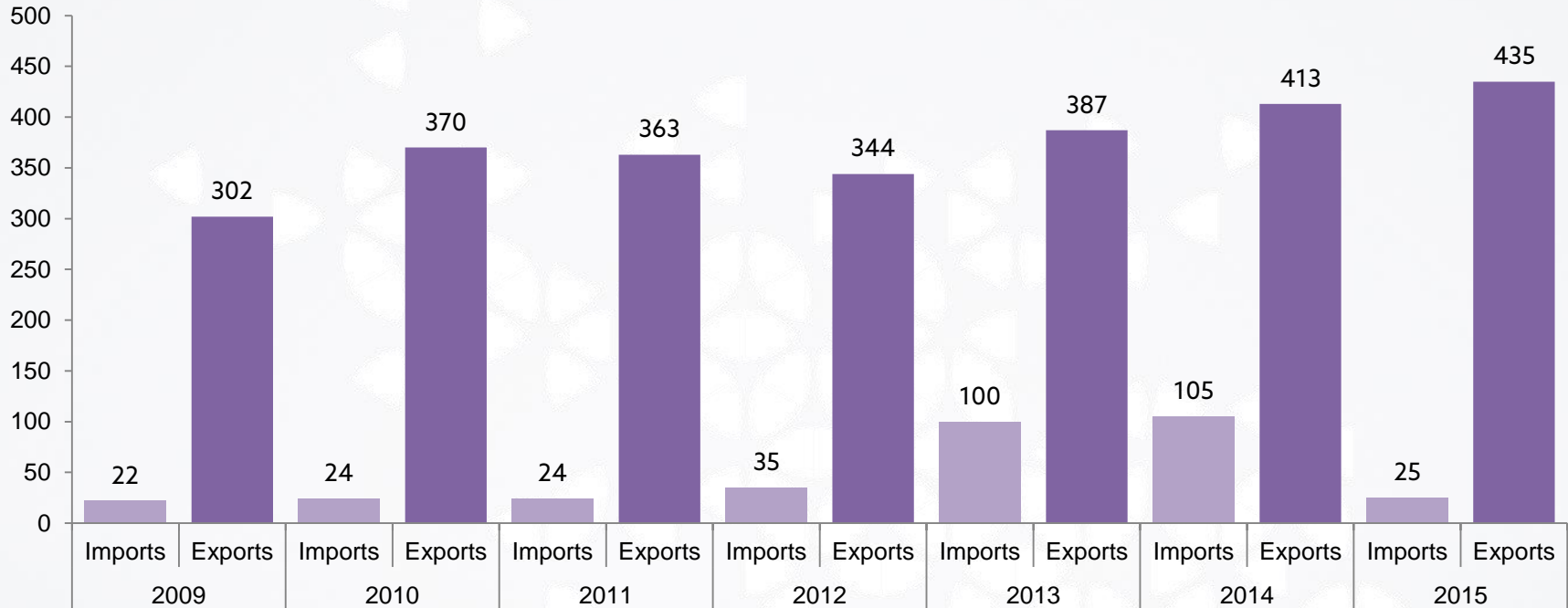
50%

Reduction in the trade gap between total Exports and total imports for construction products and materials.

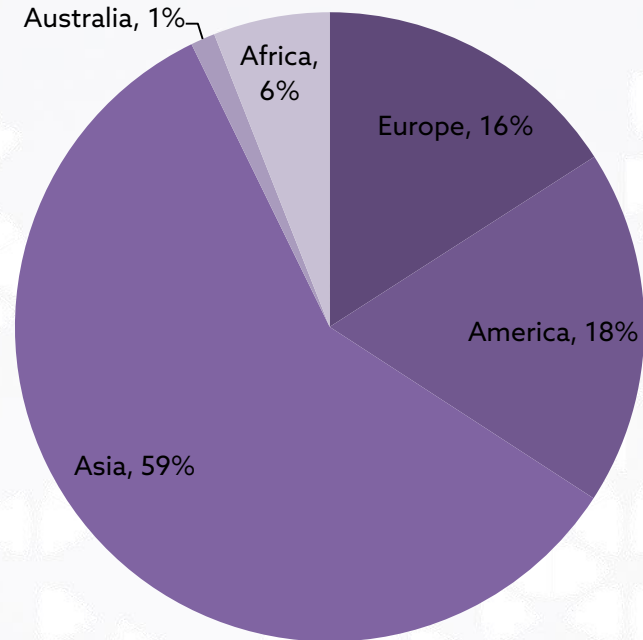




## Trade in Services - Architectural (£m)



## UK Architecture Exports 2014



Thank you

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