Currie & Brown

UK construction market outlook

April 2024

Predictions for a potential end-of-year market upswing could mean that now is the time to proactively plan how to capitalise on opportunities.

What is paving the way for a construction market upturn?

The construction industry is poised for a period of adjustment across the UK. The anticipation of lower interest rates towards the end of the year coupled with a recovering supply chain could create fertile ground for growth. While supply chain disruptions haven't entirely disappeared, there are signs of normalisation. The flow of materials is improving, alleviating some of the project delays and cost escalations experienced in recent times.

However, a note of caution is necessary. The risk of supplier insolvencies remains, especially for those companies still struggling with the aftershocks of economic disruption. Close monitoring of suppliers' financial health is crucial to mitigate potential project delays in the face of unforeseen supplier issues.

The possibility of a market upswing at the end of the year presents both opportunities and challenges. To capitalise on this potential rise, construction companies need to be proactive. Securing skilled labour is paramount. The construction industry has long grappled with a lack of qualified workers. This could become a major bottleneck if the market picks up significantly. Proactive solutions like targeted training programs, apprenticeships, and fostering a more inclusive work environment to attract a wider talent pool are essential.

2024 is set to be the biggest election year in history, with an unprecedented number of general elections taking place across the world. This will generate regulatory and policy uncertainty in the short and medium term and could have a significant impact on the construction industry, both in the UK and globally. We might see delays in investment decisions until the political landscape becomes clearer. And any change in government could lead to policy shifts and delays in approving new projects. But the exact effects will depend on the outcome of the elections and the policies of the winning parties.

Our latest market outlook report examines the latest economic and market data and anticipates the impact of these trends on the construction industry – both in the near and longer-term.

Nick Gray
Chief Operating Officer, UK and Europe
Currie & Brown

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Key findings

1
Stagnation shifting to growth
Construction growth to remain weak in 2024, before picking up in 2025-27.

2
Falling prices, but long-term labour pressures loom
A downward trend in price offers some relief, however rising labour costs due to factors like skilled worker shortages and minimum wage increases could eventually lead to higher prices down the line.

3
Investor caution
Investors are adopting a prudent approach due to uncertainties surrounding corporate performance and evolving regulatory landscapes.

4
An ever-complex environment
The industry continues to navigate increasingly complex technical demands with evolving commercial pressures and an ever-changing regulatory landscape.

5
The procurement predicament
Choosing the right procurement strategy offers its own set of challenges and a complete understanding of the risks is crucial.

Economic indicators

GDP
Source: ONS

2023 Q3:
-0.10%

2023 Q4:
-0.30%

Inflation (CPI)
Source: ONS

2023 Q4:
3.9%

2024 Q1:
3.4%

Materials and commodities
Source: DB&T

2023 Q4:
-2.3%
on the year

2024 Q1:
-1.6%
on the year

Labour costs
Source: BCIS

2023 Q3:
6.8%

2023 Q4:
6.9%

Government borrowing
Source: OBR

2023 Q2:
£2,634bn

2023 Q3:
£2,654bn

UK economic outlook

The economic forecast, although currently subdued, offers some cautious optimism.

With two consecutive quarters of negative economic growth, the UK is in a shallow technical recession. Although a full-scale recession seems unlikely, we anticipate that the economy will flatline for the rest of 2024.

Whilst falling inflation affords some relief on project costs, stifled growth and high government debt create headwinds. By reducing national insurance contributions, the Chancellor is banking on an increase in available personal income prompting a modest economic boost; but this also makes an election before October less likely.

An approaching general election – particularly one with a potential for a change in government – will introduce a period of heightened uncertainty within the investment landscape.

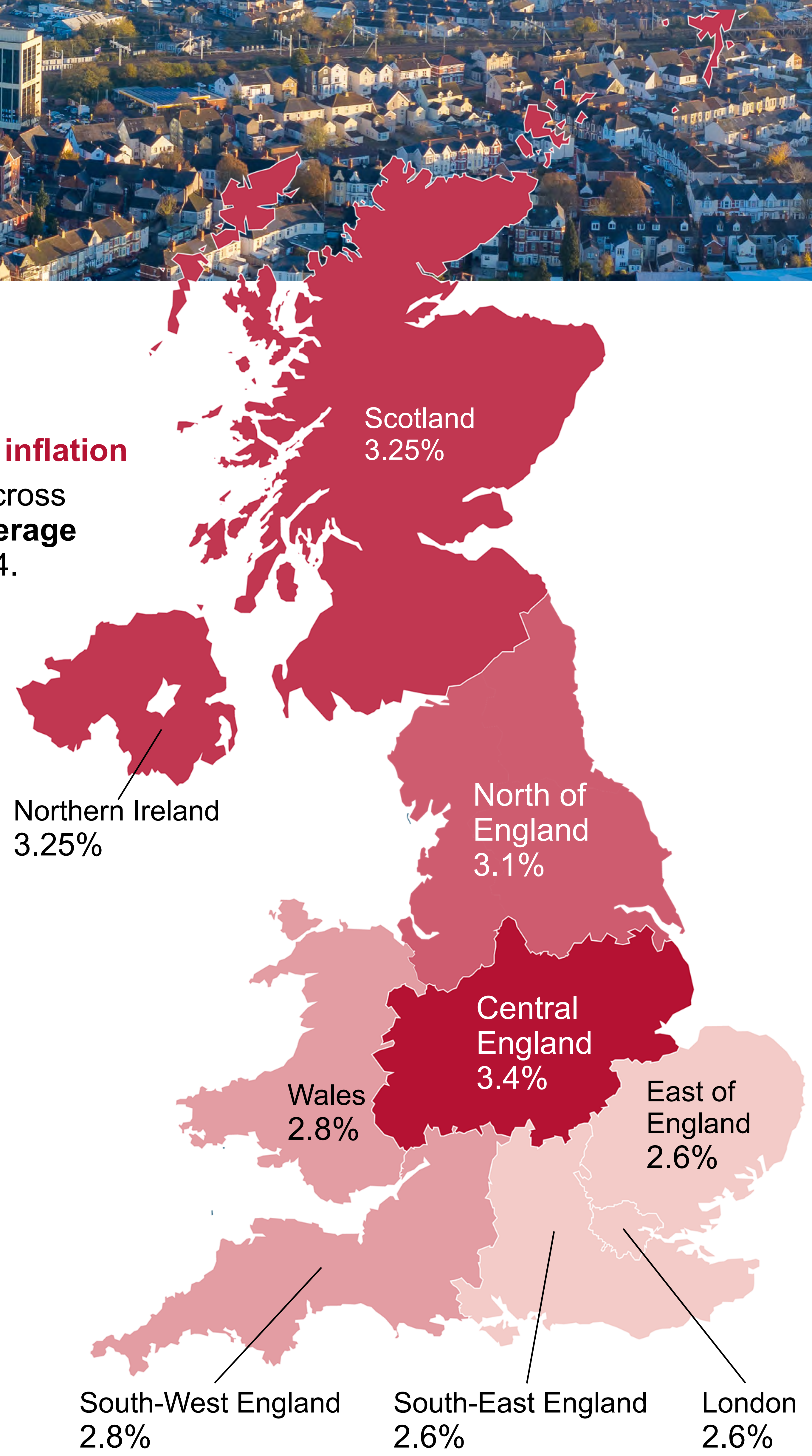
This may lead to a strategic postponement of major capital expenditure decisions across various sectors until the back end of the year. It is likely that the public sector will potentially experience a more pronounced pause due to the inherent policy and regulatory shifts that accompany a change in leadership.

On a promising note, unemployment rate fell from 4.2% to 3.8% in the last quarter of 2023; and is now where it was in December 2022 (ONS). The OBR expects inflation to average at 2.2% this year and 1.5% in 2025 – suggesting a reduction in interest rates toward the back end of this year. Meanwhile, the BCIS predicts construction output will fall by 5.3% this year but grow in 2025 (by 3.8%).

The most affected sectors are private residential and commercial – both of which have had viability challenges, as well as the need to negotiate an increasingly complex planning and regulatory landscape. With more accommodating economic conditions, we could see a significant project pipeline ready to go to market from Q4 this year.

Regional tender price inflation

Tender price inflation across regions expected to **average at around 3.0%** in 2024.



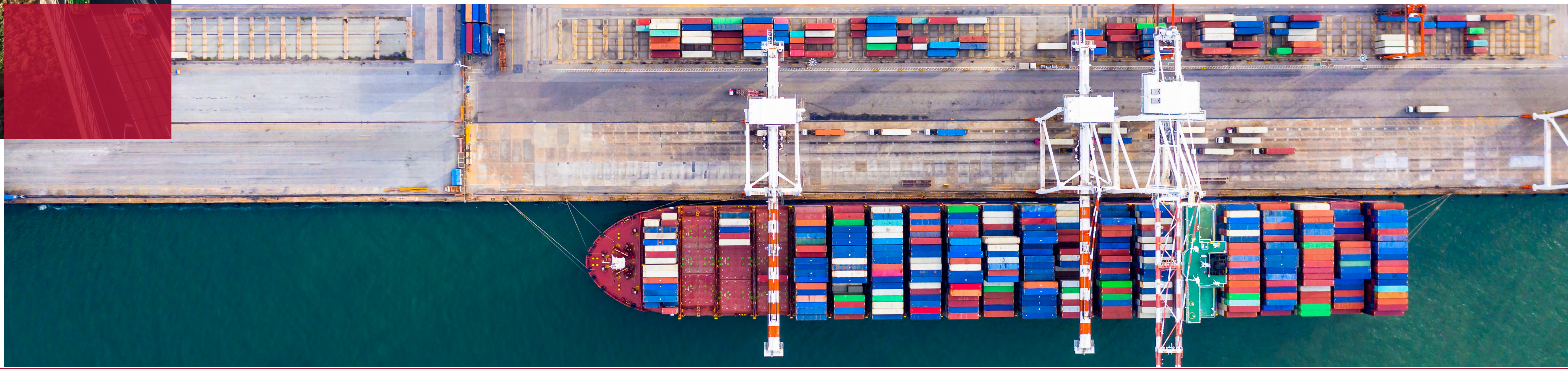
Global economic outlook

According to the IMF, 80% of the world's economies will see lower inflation this year. With fuel and commodity prices stabilising, we're likely to see inflation coming back under control.

Overall, global growth is expected to be around 3% p.a. for the next two years. This is a broadly positive outlook, but does fall below the long-term average of 3.8%. EU growth is likely to be subdued, partly due to the regions' exposure to the ongoing conflict in Ukraine.

Regions predicted to have above average growth rates include China – based on possible government investment to support its floundering real estate sector; India – which should see growth of around 6.5% p.a. through 2025; and MENA – in particular Saudi Arabia, which is in the middle of a major development pipeline to 2030.

Much of this remains subject to risk of geo-political and weather shocks. Events in the Red Sea, and the prospects of wider Middle East conflict, will have an immediate ripple effect on resource availability, supply chains and freight and commodity prices, especially for European markets.



Construction outlook

Output and new orders

▼ **Construction output**
down **-1.3%** in Q4 2023

▼ **Monthly construction output**
down **-0.5%** in December 2023

▼ **New orders**
down **-13.1%** in Q4 2023

The latest ONS data highlights the impact that the recent escalation of inflation and interest rates is now having on the ground.

Overall output figures mask a significant fall in new build output – a fall of 5.0% in Q4 2023 – due to a near corresponding uptick in repair and maintenance work. Data on new orders indicates that output will decline markedly in 2024 before recovering in 2025 through to 2027.

Materials and commodities

▼ **DB&T material price index for 'all work'**
down **-1.6%** to January 2024

▼ **The index**
down **-0.2%** in January 2024

▲ **BCIS** is forecasting
a rise of **0.5%** in 2024, and **2.0%** in 2025

Overall the price for materials continue to ease and any rise is likely to be modest throughout 2024 and 2025.

China has a significant impact on global supply markets; the relative weakness of that economy should help to keep inflation down in the UK. That said, the global market remains highly susceptible to geopolitical shocks, which cannot be discounted over the forecast period.

Procurement

For most large-scale projects, and certainly those over **£20 million**, two-stage design and build procurement still dominates.

Projects that were on pipeline for 2024 are being deferred. This has resulted in contractors actively chasing new opportunities. Many are expanding into new markets or types of projects to maximise new opportunities.

There has been a noticeable tightening of pricing on projects, especially below £20m. That said, the changing attitude to risk is creating a mixed picture. Recent company insolvencies mean that there is a reluctance to overstretch, and two-stage procurement still dominates.

Currently there is more convergence across the regions – although clearly some on-going hot spots have their own issues. The stabilisation of material price is positive. Set against this, MEP pricing continues to run at several percentage points over general building inflation – largely owing to ongoing shortages of raw materials, logistical challenges, geopolitical factors, and skilled labour shortage which are particularly acute in MEP trades.

Other cost pressures include concrete prices, due to carbon offsetting considerations, and in the cost and availability of insurance products.

Our TPI forecast

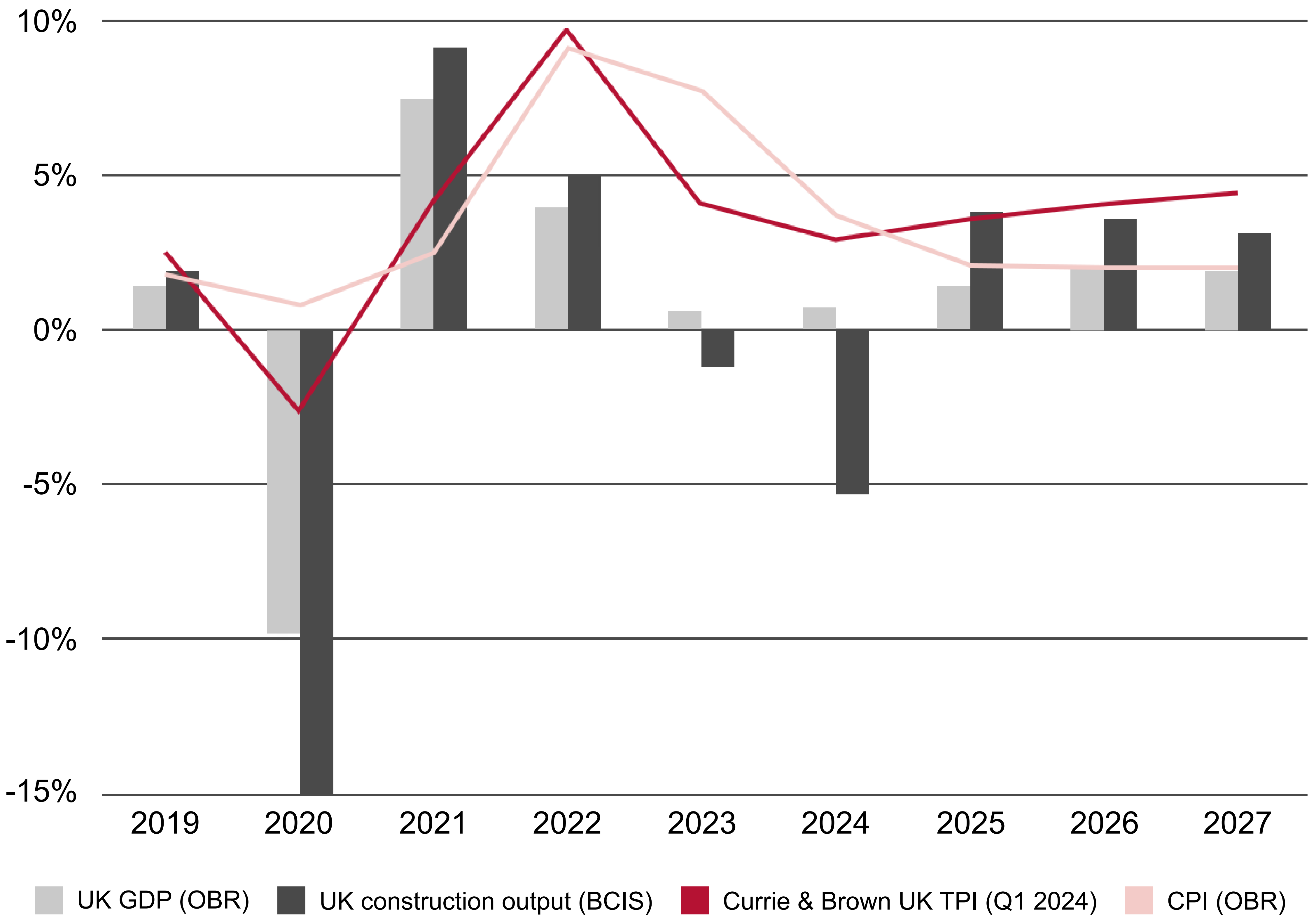
Construction activity is typically a mirror of the wider economy. Our latest four year tender price forecast reflects a softening in new orders. This is expected to continue through 2024, pushing back major project starts into 2025 and beyond.

Since our last report we have lowered our TPI forecast figures across the board for the period 2024-2027, as per the table.

UK Tender Price Inflation forecast by region (2023-2027)

Region	2023	2024	2025	2026	2027
East Anglia	3.8	3.4	4.3	3.9	4.4
East Midlands	3.8	2.7	3.4	3.9	4.3
West Midlands	4.0	3.9	4.7	4.1	4.5
North East	3.5	3.1	3.8	3.9	4.4
Yorks & Humber	3.8	3.1	3.6	3.9	4.3
N West	4.3	3.7	4.5	4.1	4.5
N Ireland	4.3	3.5	4.1	4.1	4.6
Scotland	5.0	2.8	3.3	4.1	4.6
London	4.3	2.6	3.3	4.1	4.5
South East	3.5	2.4	3.0	4.0	4.3
South West	4.3	3.0	3.6	4.5	4.5
Wales	4.5	2.6	3.1	3.9	4.5
UK Average	**4.1**	**3.0**	**3.6**	**4.1**	**4.4**

Indicative economic data forecast (%) (2019-2027)



Key insights

The data indicates a better outlook ahead. With improving economic conditions we expect construction growth to pick up towards end of the year.

Anticipated rise in construction projects

We anticipate an increase in construction activity, which could strain the currently limited labour and contracting resources. It is crucial to avoid a synchronised rush where everyone pursues projects simultaneously.

Proactive measures

A substantial volume of project work is likely to remain in the planning and pre-procurement stages. This presents a valuable opportunity to proactively engage the market now. By getting into contractor pipelines early, clients significantly improve their chances of securing a favourable response and securing the best resources.

Strategic positioning

By taking a proactive approach, clients can ensure they are well-positioned within the market. This strategic manoeuvring will optimise outcomes across various aspects, including securing the most competitive pricing and the most qualified contractors for projects.

Long-term demand

Despite near-term slowdown, the data underscores an enduring need for housing and infrastructure development. Those companies that position themselves strategically can be well-placed to capitalise on the eventual recovery.

Sustainability and net zero

Whilst the uptick in repair and maintenance work on existing buildings could be a stepping stone towards future retrofits, the short-term focus on functionality might not prioritise energy efficiency.

Contractor diversification

With contractors expanding out from their core markets or project scales, clients can potentially tap into a wider range of expertise and experience by considering contractors venturing outside their comfort zones. This could open doors to new possibilities and be beneficial for complex projects requiring a broader skillset.

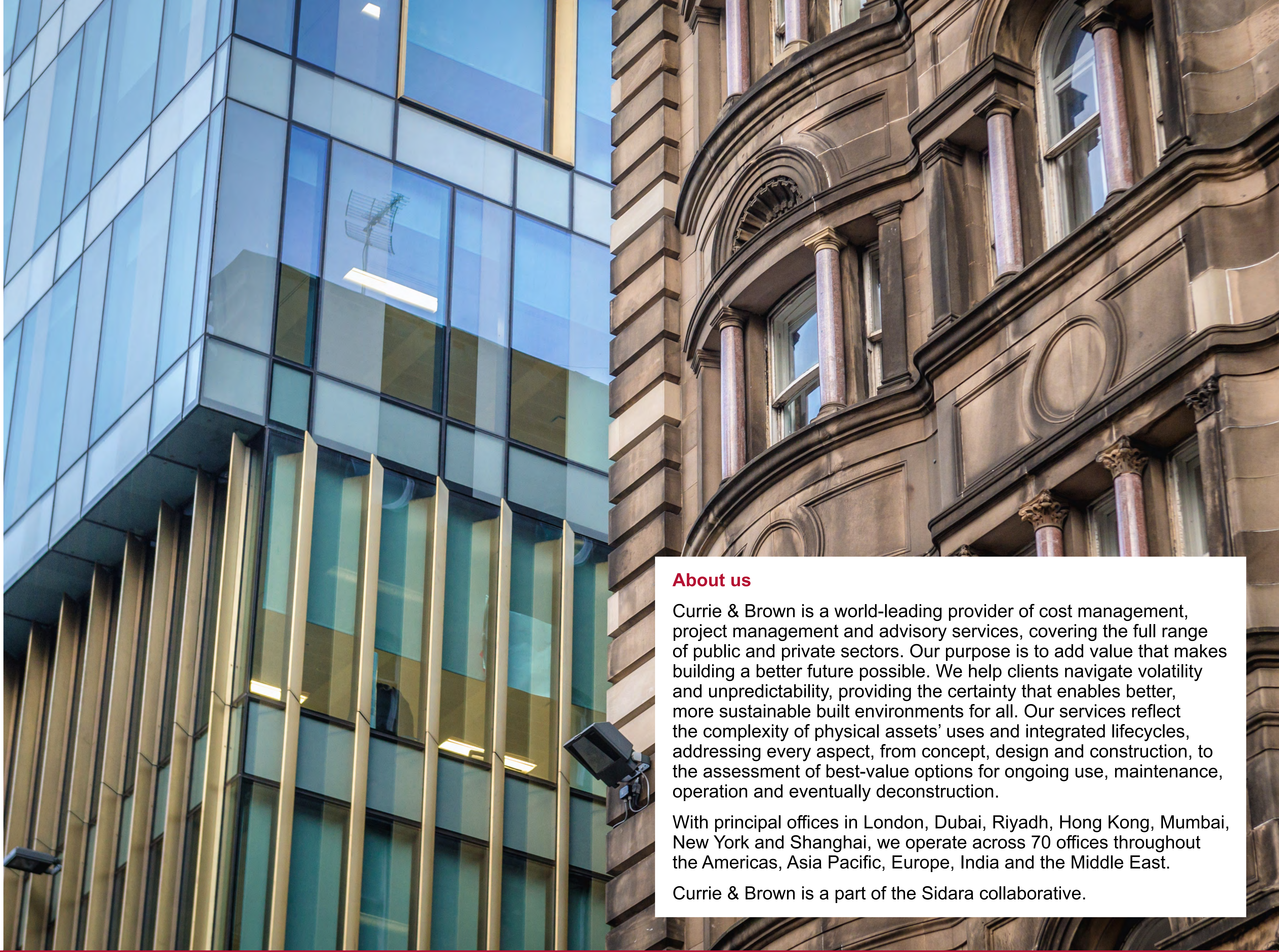
The influx of new players in a pool of potential contractors can lead to more competitive bids, potentially driving down project costs. Additionally, contractors with experience in different markets or project scales might bring innovative approaches and solutions to the table.

However, due diligence is crucial. As contractors move outside their core areas, it is vital to ensure they have the necessary experience, qualifications, and track record for the specific project requirements.

Contact us

Nick Gray
Chief Operating Officer,
UK and Europe
+44 20 7061 9000
Nick.Gray@curriebrown.com

Richard Hill
Director
+44 20 7061 9000
Richard.Hill@curriebrown.com



About us

Currie & Brown is a world-leading provider of cost management, project management and advisory services, covering the full range of public and private sectors. Our purpose is to add value that makes building a better future possible. We help clients navigate volatility and unpredictability, providing the certainty that enables better, more sustainable built environments for all. Our services reflect the complexity of physical assets' uses and integrated lifecycles, addressing every aspect, from concept, design and construction, to the assessment of best-value options for ongoing use, maintenance, operation and eventually deconstruction.

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