

This update was prepared prior to the 8 June General Election.

A glance at the economy this quarter

- UK construction grew for the fifth consecutive quarter in Q1
- Construction activity fell in April indicating a slow start to Q2
- Public housing output increased 4.3% to its highest level since April 2015 at £404m
- By value, the residential sector had the highest proportion of contracts awarded in April, accounting for 40%
- May saw the lowest growth in house prices in almost four years at just 2.1%
- The majority of contracts awarded in April by value were in the North West at 17% of the UK total
- Tender price inflation forecasts for the next four years have been reduced by BCIS and other major cost consultants.
- The quarter has ended with potential shocks to the construction sector in the shape of a hung parliament and the investigation and subsequent fallout of the Grenfell tragedy.

According to the Office of National Statistics (ONS) in Q1 2017 construction work output increased by 0.2%, compared to Q4 2016. March 2017 observed a decrease of 0.7% despite the growth in the quarter. Total repair and maintenance work decreased by 0.2% and contributed to the decrease in total construction output. Barbour ABI reports a 15.9% decrease in construction levels in April 2017 compared to March 2017. (see **Figure 1**)

Tender price inflation forecast.

Figure 2 represents the projected tender price inflation between 2017 and 2020 envisaged by some major consultants post-Brexit, alongside BCIS to provide a more realistic average forecast.

Figure 1 Construction activity trends between Q4 2016 and Q1 2017 (Source: ONS)

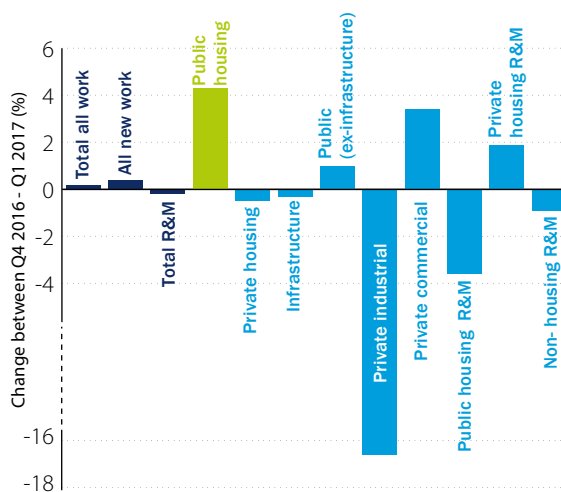
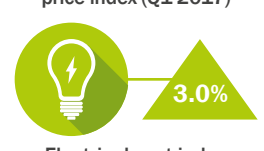
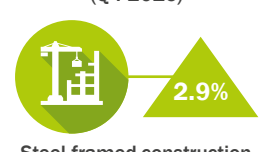
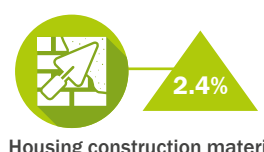
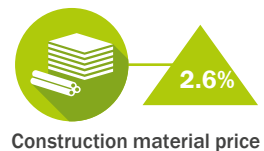
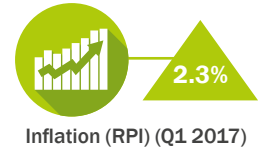
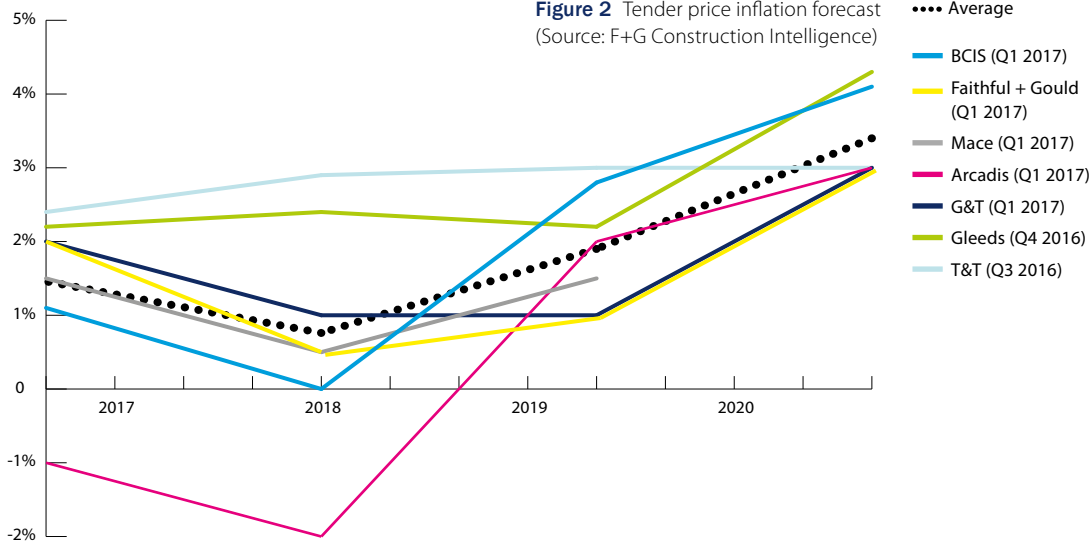


Figure 2 Tender price inflation forecast (Source: F+G Construction Intelligence)



Base = 0
In comparison to previous quarter

Private housing output decreased in Q1 2017.

Figure 3 shows public and private housing output in Q1 2017. New housing grew significantly in March, increasing its quarter-on-quarter growth by 0.2%. In Q1 2017, public housing output increased by 4.3% to its highest level since April 2015, at £404m. Private housing decreased 0.5% in Q1 2017 but increased 3.2% in March, compared to February. This increase may result from the UK Government's '1M new homes by 2020' pledge, lowering interest rates to make borrowing easier, and a loosening of planning restrictions.

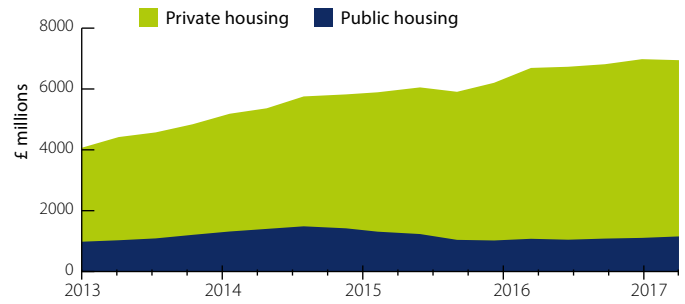
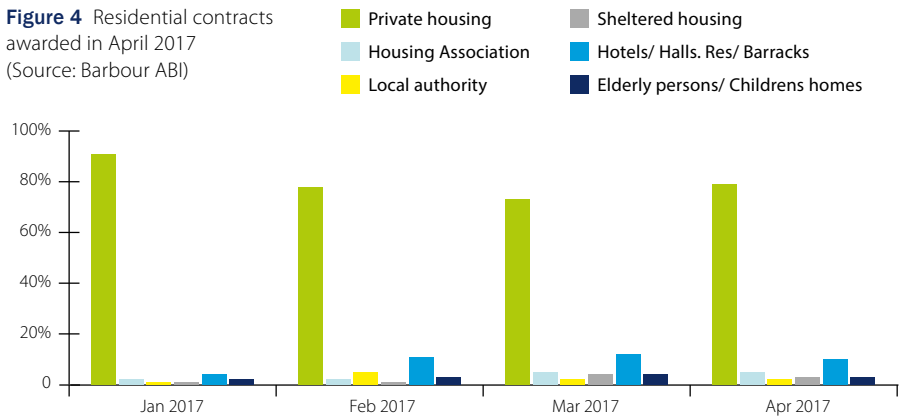


Figure 3 Public and private housing output activity (Source: ONS)

Private housing nets 79% of all residential contracts awarded in April 2017.

Figure 4 shows residential projects by sector awarded in Q1 2017 and April 2017. Private housing accounts for 79% of all residential contracts awarded, followed by hotels/ halls of residence at 10%.

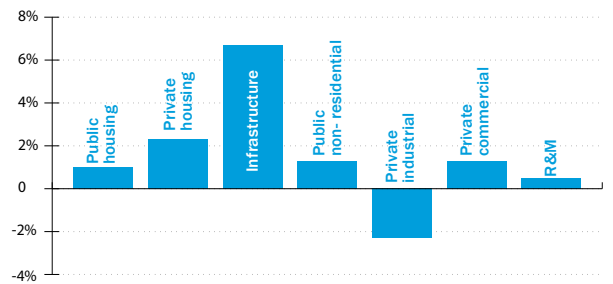
Figure 4 Residential contracts awarded in April 2017 (Source: Barbour ABI)



Construction output forecast 2017-2019

Experian and the Construction Products Association (CPA) are forecasting even slower growth than earlier predictions for 2017, 2018 and 2019. Experian reduced its construction output forecast for 2017 from 1.7% to 1% but upgraded its forecast for 2018 from 1.7% to 2%, while forecasting 3% growth in 2019. CPA revised its predictions from 1.3% down to 0.8% growth in their 2017 forecast; from 1.2% to 0.7% in 2018; and from 2.3% to 2.2% in 2019. **Figure 5** represents Experian's average construction output forecasts sector-by-sector over the next three years.

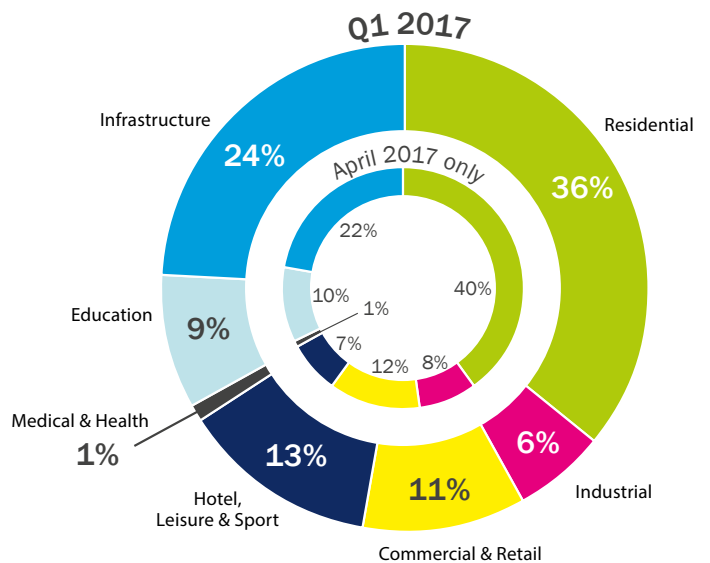
Figure 5 Construction output forecast by sector (Source: CSN, Experian)



Residential had highest proportion of contracts awarded in April 2017.

By value, residential had the highest proportion of contracts awarded at 40% (see **Figure 6**) in April, owing to major projects such as the £80m Warden development (792 units), London, and Birmingham's £77.2m Bristol Street scheme (772 units). In Q1 2017, residential saw 36% of all contracts awarded.

Figure 6 Type of projects awarded in Q1 2017 and April 2017



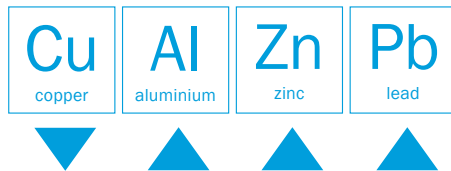
Construction salaries have increased by 11% in April to May 2017



May 2017 saw the lowest growth in house prices in almost four years at just **2.1%**

Infrastructure accounted for the second highest proportion of contracts awarded in April, standing at 22%. This major increase in performance is owed to high value projects including the £330m West Cumbria water mains in Thirlmere, and Bristol's £252m Avonmouth 33MW waste to energy plant. Despite a slow start, infrastructure accounts for 25.3% of the total contracts awarded in Q1 2017.

Metal price trends Q1 2017



Levels of activity in the medical and health sector were at their lowest in April, accounting for just 1% and 1.3% of the total contracts awarded in Q1 2017.

The commercial sector is bouncing back after a significant drop in activity due to the lack of investment interest following the Brexit vote, affecting both the private commercial and industrial sector. Due to the rising demand for office space, general retail and landmark office developments in the pipeline, the sector saw an increase in April to the third highest proportion of contracts awarded, at 12%.

The majority of contracts awarded in April 2017 by value were in North West.

According to Barbour ABI (Figure 7), this accounts for 17% of the UK total, owing to the aforementioned twin water mains project in Cumbria.

London was the second highest at 15%, owing to projects such as the One Crown Place development in Hackney and the aforementioned Warden development in Poplar. The South East was the third highest at 13%.

In summary, 2017 will be dominated by discussions around Brexit and the impact on construction, as well as the £8bn being put towards the UK Government's pledge to deliver '1m new homes by 2020' target. Infrastructure, commercial and housing can be perceived in encouraging terms due to upcoming opportunities, despite the somewhat slow start to Q2 2017.

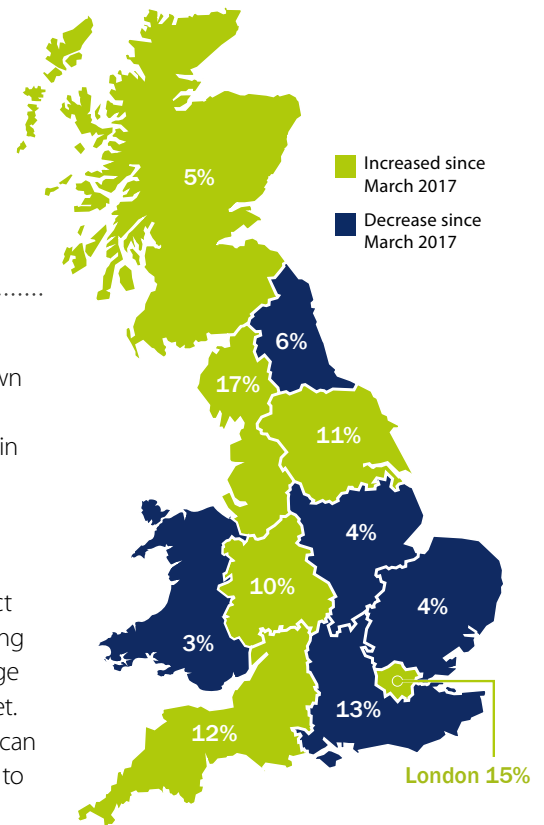


Figure 7 Regional construction contracts awarded in April 2017 (Source: Barbour ABI)

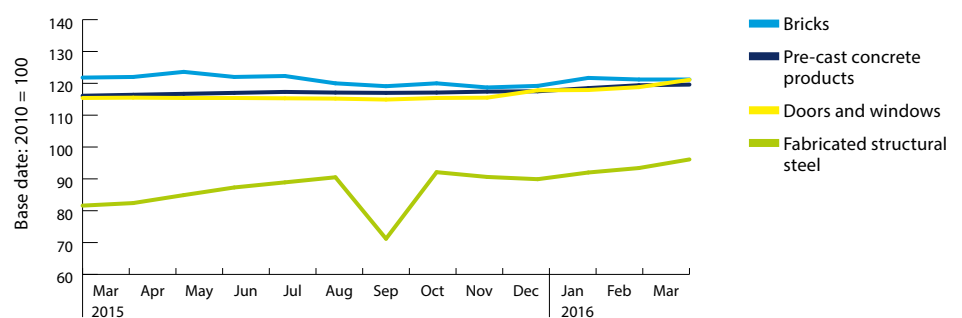
Average wages vs House prices

Figure 8 Average wages vs house prices (Source: *Land Registry, **Monster UK and ***Home.co.uk)

	UK	London
Average house price*	£215,847	£474,704
Average earnings**	£26,513 (£2,209/month)	£34,762 (£2,897/month)
Average mortgage repayment	£1,130/ month	£2,485/ month
Average rent***	£904/ month	£1,519/ month
% spent of mortgage	51%	86%
% spent on rent	41%	52%

Material prices for construction are set to rise

Figure 9 Material price trend (Source: National statistics - Department for Business Innovation & Skills)



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