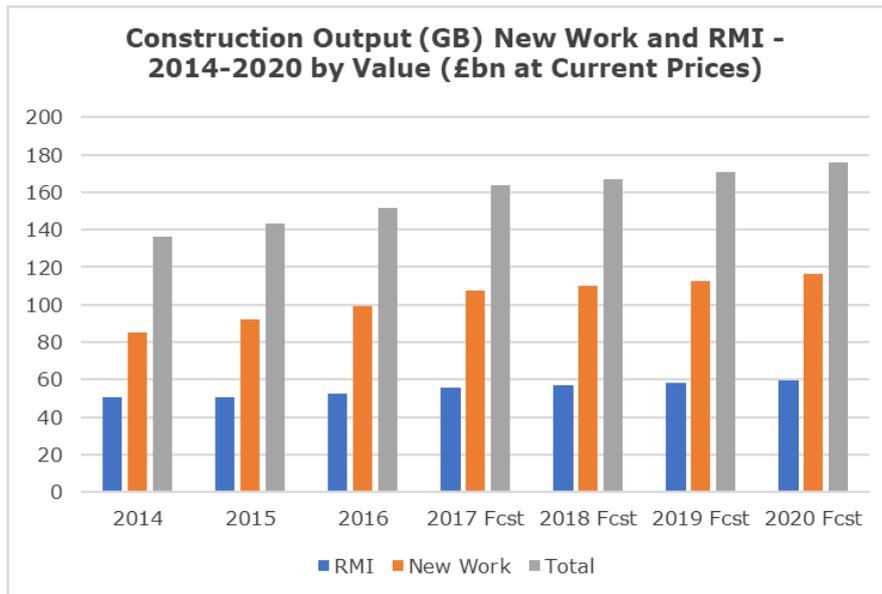


## Modest forecasts for construction output amid Brexit uncertainty

June 2018 – Cheltenham, UK



Recently revised data indicates that total construction output increased by 8% in 2017 compared with 2016, to reach a total value of £163.5bn. In terms of value, new work accounts for the largest share, with output growth having been particularly strong in the residential new work segment, which saw growth of 14% in the year. RMI output has also been stronger in the residential than in the non-residential sector. Overall RMI output increased by 7% in 2017.

Source: ONS/AMA Research

In H1 2018, the construction sector remains uncertain to moderately optimistic. Indications are that new orders remained positive into Q4 2017 and this should lead to some growth in terms of output into 2018 and beyond for certain key sub-sectors, and as a result, the outlook for the UK construction market remains mildly positive into the medium-term, although with lower rates of overall growth than previously forecast.

The outlook for the housing sector remains positive, if modest, with 17% overall growth in residential output currently forecast between 2017 and 2022. The imbalance between demand and supply for new housing will remain one of the key drivers for continued output growth for the residential sector, and the number of new programmes designed to address shortage in housing stocks should motivate output into the medium-term.

However, predicted growth in the newbuild sector is set against lower growth levels for completions, and also takes into account an element of materials inflation – in particular for the finishing of new housing, such as sanitaryware, tiles and electrical wiring products. RMI in the residential sector is currently forecast to remain relatively steady, with low annual growth rates reflecting consumer confidence levels.

The non-residential sector is facing more subdued growth into the medium-term with output currently forecast to reduce to 1-2% 2018-19, followed by annual growth of around 3% to 2022. The issue of business confidence and investment levels and the “wait and see” approach regarding the commitment to future funding and capital commitments are all likely to act as a brake on output levels into the medium-term.

Infrastructure will remain the largest sub-sector with growth underpinned by HS2 which has the potential to deliver £3-4bn pa of output to 2022. However, the HS2 works also bring into question the issue of capacities both in terms of materials but also workforce which could result in skills shortages for other sub-sectors into the medium-term.

The entertainment & leisure sector output is forecast to see good overall growth to 2022, when output is forecast to be around £10.9bn. Following growth of around 33% in 2017, annual growth rates are currently forecast to fall back to around 3-5% from 2018 to 2022.

The retail sector is currently forecast to perform less well, due to a combination of structural changes within the sector and also potential reduction in consumer confidence and spending levels, and the public sector is likely to see less investment in capital projects into the medium-term, particularly given the focus on the collapse of Carillion and their extensive involvement in PFI contracts. Pa

*"Overall growth in construction output is forecast to reduce to around 2% for 2017-18, but improving to 3% for 2019-22" said Jane Tarver of AMA Research. "This more modest forecast takes into account the continuing uncertainty surrounding the Brexit process affecting the timing of business investment decisions."*

The '**Construction and Housing Forecast Bulletin - GB 2018-2022**' is published four times a year by AMA Research. The bulletin provides analysis of the overall construction market in current prices, in terms of new work and RMI activity, also public and private sectors and new orders, housing starts and completions, as well as forecasts to 2022. It is sold on a subscription basis and can be ordered online at [www.amaresearch.co.uk](http://www.amaresearch.co.uk).

### **Editors Note:**

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