gleeds

Q1 2019 Economic & Regional Inflation Report

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Bank rate maintained at 0.75%

GDP growth slows to 0.2% in Q4 2018

Construction output down 0.3% in Q4 2018

Industry news & updates

PREPARING FOR A NO-DEAL BREXIT

While Westminster remains gridlocked over the UK's departure from the EU, the construction industry has been active in preparing to protect the sector against potential negative effects of no-deal Brexit. This was the topic of discussion as a recent conference hosted by the Construction Leadership Council (CLC) at the Institute for Civil Engineering's (ICE) London headquarters.

The ICE continues to call for government to enhance physical infrastructure to maintain beneficial links with the EU and warns about the potential loss of construction workers amongst other types of labour, should rights to work in the UK become too restrictive post-Brexit.

The CLC has set up a Brexit Contingency Group tasked with reviewing the industry's skills and migration requirements with a report of their proposals due imminently.

In February, government announced a simplification of importation rules, known as the Transitional Simplified Procedures, which will delay the need to make customs declarations at borders for at least the first 15 months in the event of a no-deal Brexit. This has been welcomed as a positive step by industry given that 60% of construction materials are imported from the EU.

Note: Sentiment regarding Brexit deal negotiations reflects the situation at the time of writing this report.

INTERSERVE WOES

Interserve has unveiled plans for a second rescue deal which will see lenders cut what they're owed by half by swapping their stakes for shares. This would see net debt reduced to approximately £275m, with approximately £480m of new Interserve equity released to its creditors. As a result, they will own 97.5% of the company, leaving current investors in possession of 2.5%. However, New York-based hedge fund Coltrane Asset Management, which has a 17% stake in the business, opposes the plan and has launched a revolt against it. Coltrane is demanding a general meeting to be held before the end of March and intends to oust all but one of the group's board.

It has been reported that Interserve's woes are largely because of several failed Energy from Waste contracts. Government is keen to avoid another 'Carillion' and the Cabinet Office was actively involved in rescue talks. Full details of the rescue plan are yet to be unveiled and the firm is set to publish its full end of year results for 2018 in March 2019.

FIRE SAFETY

Following amendments to Part B of the Building Regulations in December 2018, (which now bans the use of combustible materials in external wall systems of buildings above 18m tall which contain a component of residential accommodation), government has released its full response to the Hackitt enquiry.

Building a Safer Future: An Implementation Plan sets out planned improvements for the industry and its regulatory framework, and legislation will be developed over the coming months. In the meantime, government continues to support remediation of existing buildings.

As of 31 January 2019, there were 73 high-rise residential and public buildings in England that had completed remediation works to remove Aluminium Composite Material (ACM) cladding systems. This leaves 361 building with ACM cladding systems that are unlikely to meet Building Regulations.

SKILLS SHORTAGES

A cross-industry research report led by the Civil Engineering Contractors Association has identified which construction occupations are in short supply. Based on the responses of 276 companies, employing more than 160,000 people collectively, these include:

- Construction and building trades supervisors
- General labourers
- Quantity surveyors
- Construction project managers
- Civil engineers
- Bricklayers
- Carpenters
- Plant and machine operatives
- Production managers and directors
- Chartered surveyors

The report makes recommendations to address this shortage through collaboration with industry and for the Migration Advisory Committee to model the impact of policy decisions on the construction industry.

Note: The above news content reflects the situation at the time of writing this report.

New projects in the pipeline

EDUCATION

- Leeds Beckett University has appointed Galliford Try and Wates to build a new **£45m sports hub** at its Headingley campus, part of a wider £200m campus revamp. This phase of the scheme is expected to complete in the autumn.
- **Trinity College, Oxford** has been granted permission to build a cluster of four Adam Architecture designed buildings to deliver both residential and teaching space.
- Kier has been appointed by Manchester Metropolitan University to construct a 491-bed student residence at the Met's Hulme campus.
- Mace has begun work on a **£140m scheme** for the London School of Economics on the site of the former home of Cancer Research UK.

REGENERATION

- Birmingham council has launched a public consultation for the second phase of the Perry Barr regeneration programme. Initial plans for the site have been drawn up by Arcadis and Phil Jones Associates and include **400 new homes** and a new secondary school.
- Planning consent has been granted for Bennetts Associates' **£31.5m cultural scheme** Woolwich Creative District intended to rival the Southbank Centre; listed buildings within the Royal Arsenal will be transformed into 15,000m^2 of concert venues, rehearsal and studio spaces, offices and restaurants.
- Lendlease has been selected for Peabody's **£8bn** Thamesmead Waterfront **regeneration** scheme, which will see **11,500 new homes** delivered in the London Borough of Greenwich over a 30-year period.
- Buckingham has been chosen for a £120m Acme designed Swansea city centre regeneration scheme, which includes a 3,500-capacity digital arena and more than **20,000m^2 of public space**.

COMMERCIAL OFFICE

- Bam is set to build the **first new-build office building in Bath for over 25 years**; a £21.5m development at Bath South Quays.

HEALTHCARE

- Sutton Council is seeking interest in their plans for a **£350m commercial centre for cancer research** at the London Cancer Hub Centre, designed by Haptic Architects and Nordic; firms have until 11 March to register their interest.

INFRASTRUCTURE

- Balfour Beatty has secured an additional four-year contract with **Transport for London** (TfL), worth **£200m**, to deliver the new London Underground track renewals programme after first being appointed by TfL in 2010. The contract is for an initial four years, with the option of up to a further 6-year extension.

SPORT & LEISURE

- Graham Group has won a £39m contract with Edinburgh city council to build the new Meadowbank **sports centre** in the city.

◄
Lombard Street
London

Economic overview

Gleeds' Economic and Regional Inflation Report reviews factors affecting UK construction, considering inflation, construction output and orders and employment. It also assesses wider social, political and economic matters which could impact on the economic environment and general confidence in the market.

Looking back to Q3 2018	Q4 2018 – the latest figures
GROSS DOMESTIC PRODUCT (GDP)	
▲ According to data from the Office of National Statistics (ONS), GDP increased by 0.6% in Q3 2018	▼ GDP growth fell to 0.2% in Q4 2018, lower than previously expected
INFLATION	
◀▶ CPI in the year to October 2018 was 2.4%, unchanged from September 2018	▼ In the year to January 2019, CPI fell to 1.8%
◀▶ CPIH was 2.2% in October 2018, unchanged from September 2018	▼ CPIH also fell to 1.8% in the 12 months to January 2019
CONSTRUCTION OUTPUT	
▲ Construction output increased by 2.1% in Q3 2018 compared to Q2 2018	▼ Construction output decreased by 0.3% in Q4 2018 when compared to the previous quarter (Q3 2018)
▲ Over the previous 12-month period construction output increased by 3.0%	▼ Over the previous 12-month period (December 2017 to December 2018), construction output has decreased by 2.4%
EMPLOYMENT	
▲ In Q3 2018, the unemployment rate edged up to 4.1%	▼ Unemployment falls to 4.0%
▲ ONS predicted that average weekly earnings (total pay) in the construction industry rose by 3.6% in the year to Q3 2018	▲ Average weekly earnings for construction workers rose by 4.3% in Q4 2018 compared to a year earlier

"The UK's imminent departure from the EU continues to dominate the industry with many clients implementing contingency plans for a 'no deal' Brexit. This is impacting on the construction market and is reflected in the current inflation figures, particularly in London."

PAUL SWEENEY
DIRECTOR, GLEEDS

Gleeds' regional inflation forecast

Annual % change	Q1 19 to Q1 20	Q1 20 to Q1 21	Q1 21 to Q1 22	Q1 22 to Q1 23
Eastern	3.0	3.0	4.0	4.5
Greater London	1.0	2.0	4.0	5.0
North East	3.5	4.0	4.5	5.0
Yorkshire & Humberside	4.0	5.0	5.0	5.0
Northern Ireland	4.0	4.0	5.0	6.0
Midlands	4.5	5.0	6.0	6.0
North West	3.0	3.0	4.0	4.0
Scotland	3.5	3.5	4.5	4.5
outh East (excluding London)	4.0	4.5	5.5	5.0
South West	3.5	4.5	4.5	5.0
Wales	4.0	4.0	4.0	4.0
UK Average (rounded)	3.5	3.9	4.6	4.9

Note: these are average regional forecasts based on activity and market awareness within Gleeds' regional offices. Actual inflation will be determined by a combination of macroeconomics and micro project situations. Consequently, forecast inflation at a project level needs to be carefully considered based on the project's characteristics and prevailing local conditions. All published statistics can be misleading and subject to later revision and should be used with caution. (Figures may not sum due to rounding.)

Background to economic outlook

The bank rate has been maintained at 0.75%
CPI falls below 2% target
Global growth continues to slow

UK ECONOMICS

In their February 2019 Inflation Report, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.75%. The MPC also voted to maintain the stocks of non-financial investment-grade corporate bond purchases at £10bn and UK government bond purchases at £435bn.

The MPC's latest projections assume a smooth adjustment to the UK's eventual trading relationship with the European Union (EU). The Committee states that the monetary policy response to Brexit will not be automatic and could be in either direction, depending on the nature of the UK's departure from the EU. Whatever form Brexit takes, they will endeavour to keep inflation low and support the economy.

Gross Domestic Product (GDP) growth slowed in the second half of 2018, falling to 0.2% in Q4 (lower than the anticipated rate of 0.3%). UK economic growth is expected to remain subdued in the immediate future. Consumer spending is modestly growing but remains around the level of real income growth (1.5%) suggesting a more cautious consumer approach. There is potential for unusual volatility in reported statistics over the coming months and, as such, these statistics may not be truly representative. The Bank believes that Brexit-related uncertainty is causing a growing number of companies to increase stockbuilding and delay investment in fixed capital and that households may cut back on spending in the short term.

Consumer price inflation (CPI) has now fallen to below the MPC's 2% target owing to a sharp fall in oil prices; it is expected to fall further in the near term. As the effect of this unwinds, the MPC expects CPI to settle at slightly above 2% requiring an ongoing tightening of monetary policy to return inflation to target sustainably. On the premise of a smooth Brexit with a transitionary period, the Bank expects one small upward movement to the interest rate by the end of 2019.

UK productivity growth has now stalled, reflecting weakness in the financial services and low levels of investment in the manufacturing industries. Recent investment in R&D should help to improve efficiency and increase automation in the long term, but how long this takes will depend largely on the outcome of Brexit.

GLOBAL ECONOMICS

The global economy has continued to slow, partly because of initial impacts of trade tensions on business sentiment, notably the higher tariffs on trade between the US and China. As a result, global growth prospects have deteriorated, and this has exerted a downward pressure on UK trade. Global GDP is expected to have grown by 0.4% in Q4 2018 and should stabilise in the near term.

GDP growth in the euro area averaged just 0.2% in Q4 2018 but much of this weakness is thought to be due to temporary factors such as the recent protests in France which disrupted some service sector activity. Growth is expected to remain sluggish in the short term as trade tensions persist. US GDP growth remains relatively strong at 0.5% in Q4 2018, although down from 0.8% in Q3 2018, and it is expected to slow further in the near term. GDP growth in China continues to slow slightly, down from 1.6% in Q3 to 1.5% in Q4 2018.

Source: Bank of England, Quarterly Inflation Report, February 2019

Statistics & figures

GDP grows 0.2% in Q4 2018

CPI and CPIH fall to 1.8% in the year to January 2019

RPI falls to 2.5% in the year to January 2019

GDP

Following a strong Q3, GDP slowed to 0.2% in Q4 2018, contributing to annual GDP growth for 2018 of 1.4%, the lowest rate seen since 2012. Car and steel product manufacturing declined sharply, and construction output also fell quarter on quarter.

The **Services** sector provided the only positive contribution to GDP in Q4 2018, increasing by 0.4%. Growth came primarily from professional, scientific and technical activities but real estate, and health and social work activities also made positive contributions. Annual services growth was 1.7%, the lowest since 2011.

Following several months of solid growth, output in the **Construction** industry decreased by 0.3% in Q4 2018. Annual construction growth was 0.6%, again the lowest it has been since 2012.

Production growth fell by 1.1% in Q4 2018, with all four of its component sectors declining. One of these, manufacturing, saw growth fall by 0.9%. Annual production growth was 0.7%, the lowest since 2013.

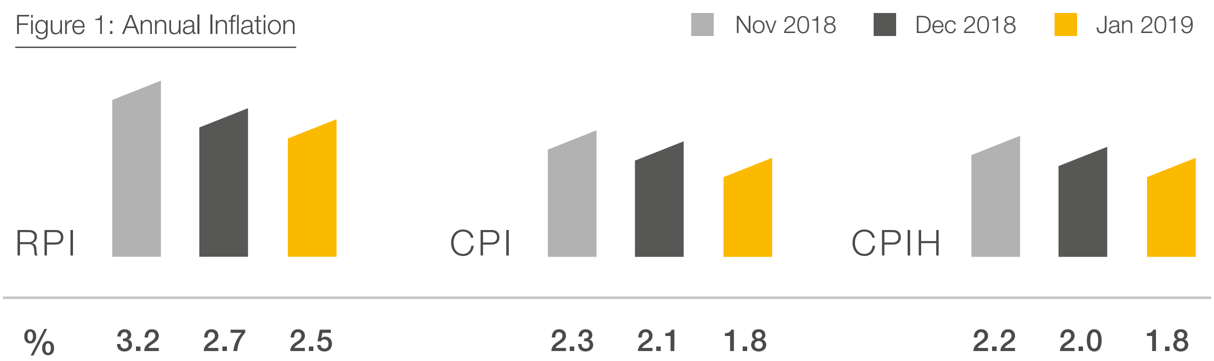
INFLATION

CPI in the year to January 2019 was 1.8%, down from 2.1% in December 2018. It is now below the BoE's 2% target for the first time since January 2017. Downward pressure from electricity, gas and other fuel prices was partially offset by air fares.

The Retail Prices Index (RPI) fell to 2.5% in the year to January 2019, down from 2.7% in December 2018.

The CPI including owner occupiers' housing costs (CPIH) inflation rate was also 1.8% in January 2019, down from 2.0% in December 2018.

Figure 1: Annual Inflation

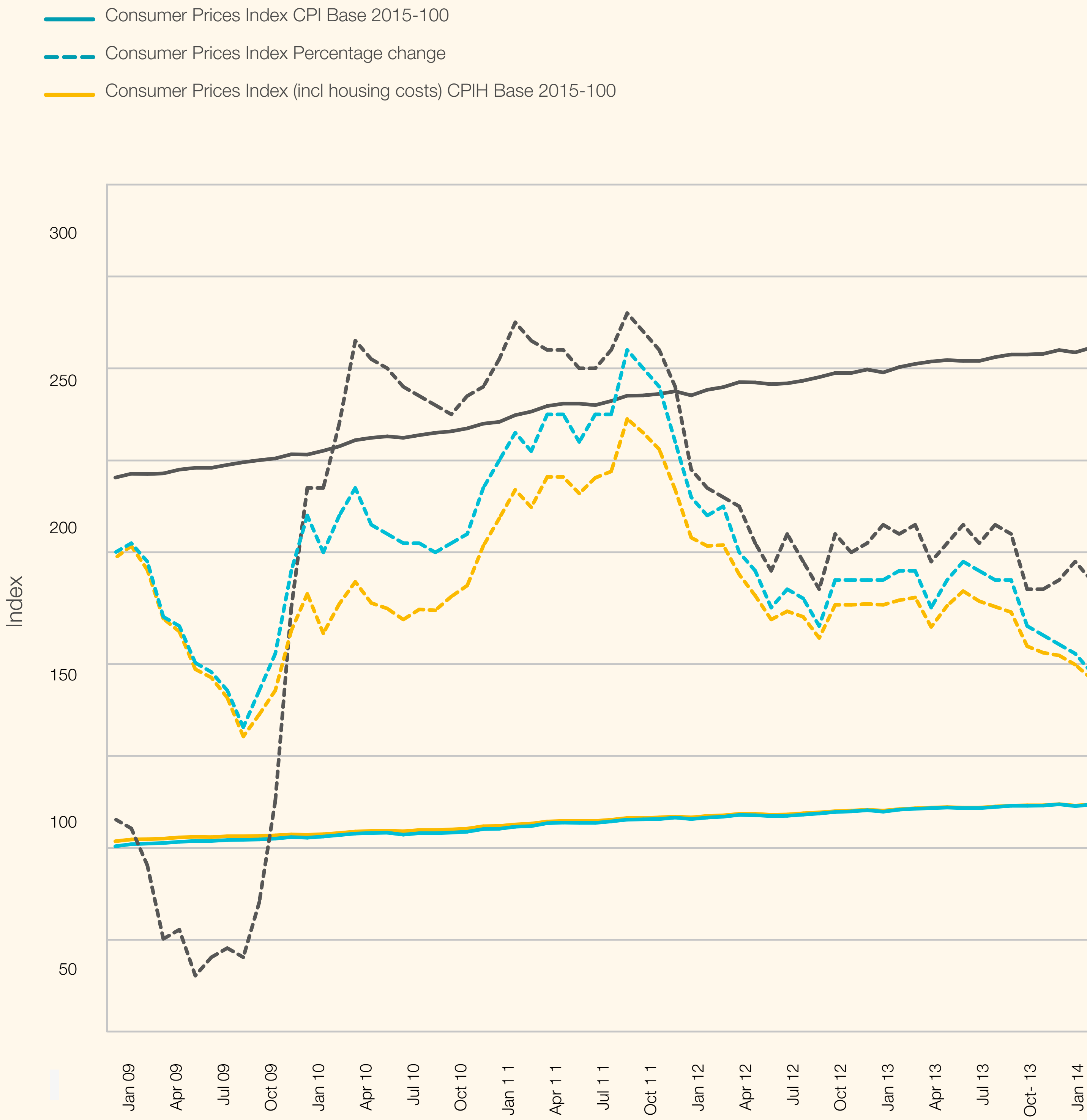


Note: CPIH is the most comprehensive measure of inflation as it includes a measure of the costs associated with owning, maintaining and living your own home as well as Council Tax, which are not included in CPI.

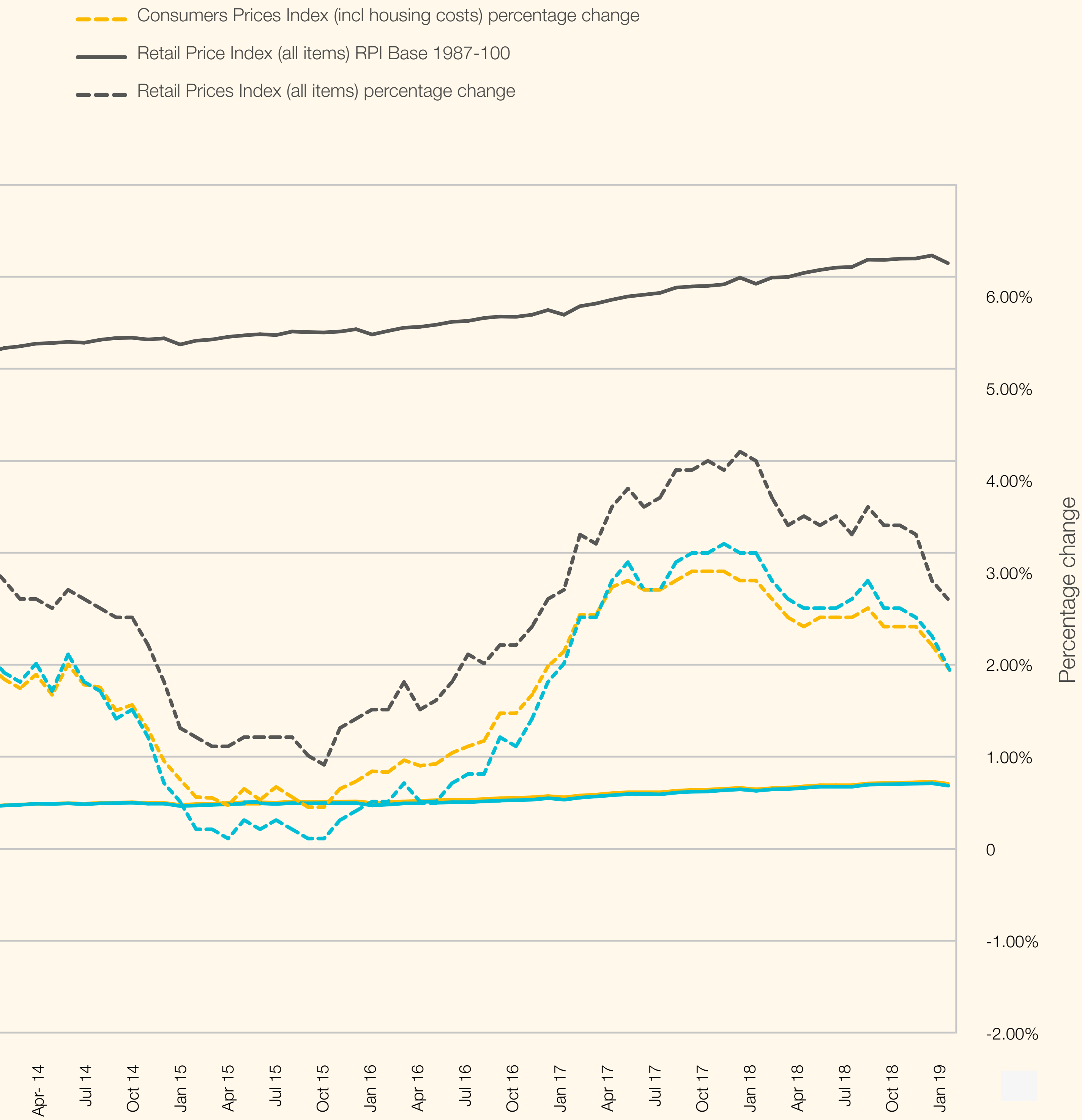
Sources: Office for National Statistics, UK GDP monthly estimate: December 2018; Office for National Statistics, UK consumer price inflation: January 2019

Figure 2: Annual Inflation Rates: Office for National Statistics Q1 2019

The graph below details the movement of CPI, CPIH and RPI over the past 10-year period.



Source: Office for National Statistics, UK consumer price inflation: January 2019


Consumers Prices Index (incl housing costs) percentage change
Retail Price Index (all items) RPI Base 1987-100
Retail Prices Index (all items) percentage change
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0
-1.00%
-2.00%
Percentage change
Apr- 14
Jul 14
Oct 14
Jan 15
Apr 15
Jul 15
Oct 15
Jan 16
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
Oct 17
Jan 18
Apr 18
Jul 18
Oct 18
Jan 19

GDP & INFLATION FORECASTS

Predictions for the movement of GDP, CPI and RPI are detailed in the table below.

	2019	Mov*	2020	Mov*	2021	Mov*	2022	Mov*	2023
GDP growth (%)	**1.4**	▲	**1.6**	▲	**1.7**	◀▶	**1.7**	▲	**1.8**
CPI (%)	**1.9**	▲	**2.0**	◀▶	**2.0**	◀▶	**2.0**	▲	**2.1**
RPI (%)	**2.8**	▲	**3.2**	◀▶	**3.2**	◀▶	**3.2**	◀▶	**3.2**

Source: HM Treasury Forecasts for the UK Economy, February 2019
**Movement*

Forecasts for the UK Economy is a summary of published material reflecting the views of a selection of forecasting organisations which are subject to review. This edition contains 23 new forecasts, all of which were received between February 1st and February 19th 2019. The table summarises the average of February's forecasts.

TENDER PRICE FORECASTS

Gleeds considers that tender prices, on average, grew by 2.4% between Q1 2018 and Q1 2019. For the same period, the **Building Cost Information Service (BCIS)** forecasts a 1.3% increase in prices.

BCIS predicts that tender prices will increase over the four-year forecast period as follows.

Year on Year	Current BCIS forecast	Gleeds average forecasts
Q1 19 to Q1 20	**+4.0%**	**+3.5%**
Q1 20 to Q1 21	**+4.8%**	**+3.9%**
Q1 21 to Q1 22	**+4.8%**	**+4.6%**
Q1 22 to Q1 23	**+6.2%**	**+4.9%**

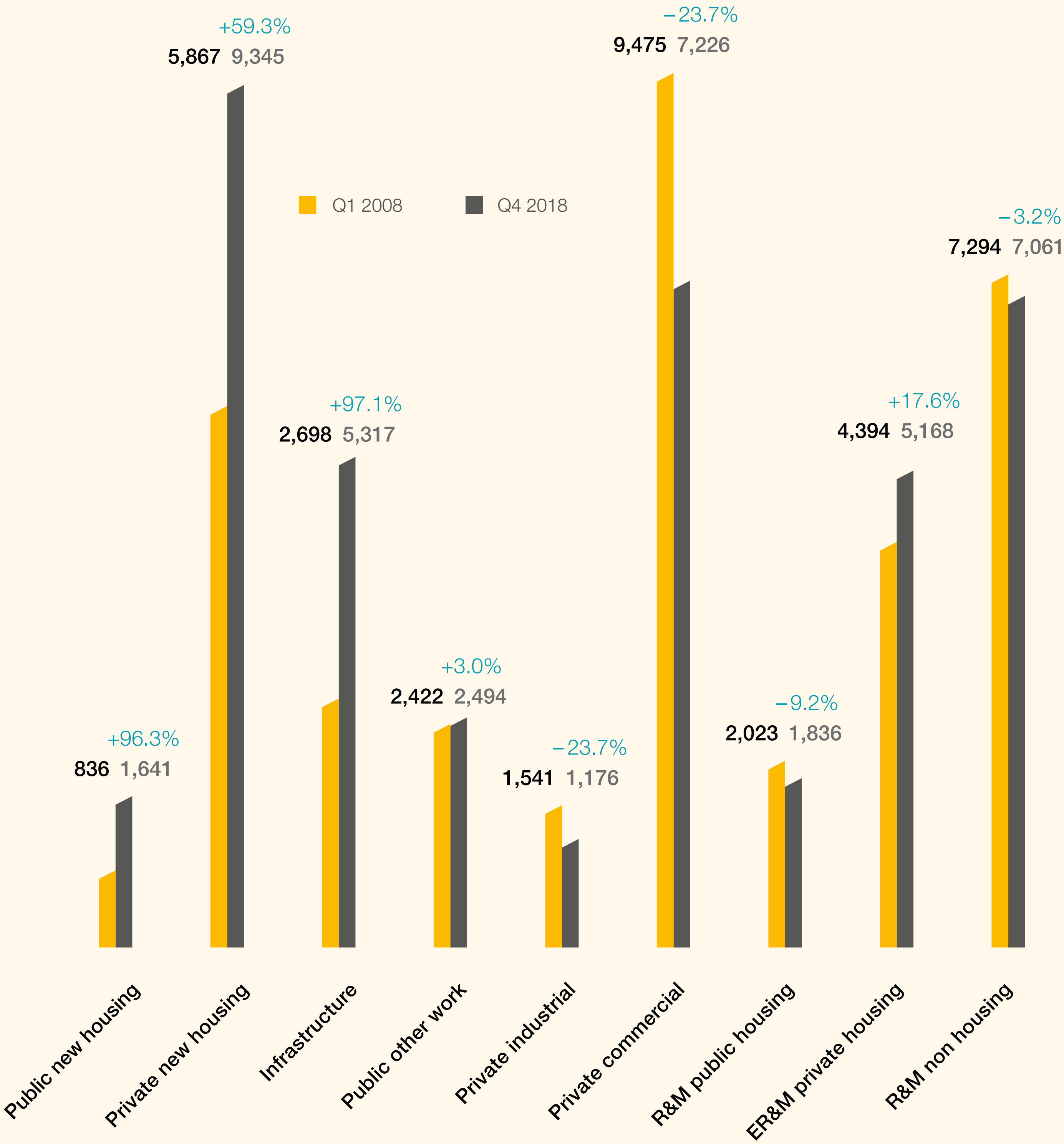
Source: BCIS All-in Tender Price Indices, 15 February 2019

▶
Culzean Castle & Country Park,
Maybole

Construction output

VOLUME OF CONSTRUCTION OUTPUT

Figure 3: Difference between Q1 2008 (peak) and Q4 2018 (values shown in £m)



Looking at the volume of construction output, the ONS reports that:

- In Q4 2018, **total construction output** fell by 0.3%, following strong growth in Q3. This drop in output was driven by **repair and maintenance (R&M)** works which fell by 2.8% over the quarter. **All new work** increased by 1.1%.

- Private housing and non-housing R&M made the biggest contribution to the decline in output, falling by 4.0% and 2.9% respectively between Q3 and Q4 2018. Areas of growth include both public housing new work and R&M, which were up 3.4% and 1.8% respectively.

Despite this quarter's dip, the level of construction activity is still relatively high compared to the first half of 2018.

VALUE OF CONSTRUCTION OUTPUT

Sector	Quarter on quarter change Q3 18 to Q4 18	Quarter on year change Q4 17 to Q4 18
All Work	**0.4%**	**4.0%**
All New Work	**2.0%**	**5.2%**
New Public Housing	**4.7%**	**6.1%**
New Private Housing	**0.9%**	**7.3%**
New Private Commercial	**2.3%**	**-0.5%**
New Private Industrial	**-0.9%**	**0.4%**
New Public Non-housing	**2.1%**	**1.0%**
New Infrastructure	**3.3%**	**13.6%**
All R&M	**-2.5%**	**1.7%**
Public Housing R&M	**2.1%**	**2.6%**
Private Housing R&M	**-3.8%**	**-3.3%**
Infrastructure R&M	**-2.3%**	**3.4%**
Public Non-housing R&M	**-5.7%**	**6.5%**
Private Non-housing R&M	**-1.8%**	**7.2%**

Source: Office for National Statistics, Construction output in Great Britain: December 2018

Employment

During Q4 2018, the UK-wide unemployment rate fell by 14,000 to 4.0%, down from 4.1% in Q3. The number of people classed as employed increased by 167,000 and the employment rate increased to 75.8%, up from 75.5% in Q3 2018. The proportion of people classed as economically inactive (i.e. not seeking or not available to work) decreased by 94,000 to 20.9%, the lowest figure since comparable records began in 1971.

The employment rate for women aged 16-64 increased to 71.4% in Q4 2018, up from 71.0% in Q3. This is the highest employment rate for women since comparable records began in 1971. Women's employment has been increasing over the last few years due to ongoing changes to the State Pension age for women, meaning fewer women retire between the ages of 60 and 65 years.

The number of EU nationals working in the UK has fallen by 61,000 over the past year (Q4 2017 to Q4 2018).

Workers' earnings excluding bonuses (regular pay), rose 3.4% in Q4 2018 compared to a year earlier, up from 3.2% in Q3. Total pay also increased by 3.4% over the same timeframe. In real terms, regular pay increased by 1.2% and total pay by 1.3%.

In the construction industry, average weekly earnings (total pay) rose by 4.3% in Q4 2018 compared with a year earlier, while regular pay (excluding bonuses) rose by 3.9% over the same timeframe.

Source: Office for National Statistics, UK labour market: February 2018

Market reports

RICS MARKET SURVEYS

The Q4 2018 **RICS Construction & Infrastructure Market Survey** indicates a broad-based deceleration to the pace of growth across the industry. A net balance of 11% of respondents reported an increase in total workloads, down from 20% in the previous quarter.

Most sectors experienced a moderation to growth, with the commercial and industrial sectors seeing little or no growth at all over the quarter. However, private housing activity continues to grow with a net balance of 20% of contributors reporting a rise, although this is down on 30% in Q3. Public housing was also on the up (14%, up from 7% in Q3) while public non-housing work faltered (8%, down from 11% in Q3).

Despite an uncertain outlook for the economy and reduced optimism for the construction sector in general, 24% more contributors expect construction activity to rise rather than fall, although this is down from 33% in Q3 and 41% in Q2. A net balance of 15% anticipate an increase in recruitment.

Financial constraints remain the most significant impediment to growth (78%, up slightly from 75% in Q3). Other capacity constraints persist, namely difficulties with access to bank finance and credit, cash flow and liquidity challenges and less favourable market conditins generally. Planning delays and restrictive regulations have eased over the course of 2018. Skilled labour shortages have lessened but remain a significant challenge for 50% of respondents.

Building tender prices are expected to rise by 51% of respondents indicating higher input costs and mounting competitive bidding pressures.

Workloads are decreasing across all geographic regions, most notably in London and the South East. New business enquires over Q4 were highest in the North (+24%) and lowest in Northern Ireland (-21%).

Source: RICS, UK Construction and Infrastructure Survey, Q4 2018

"Strong performance of the industrial sector remains in stark contrast to retail, driven by the structural shift in consumer spending. Political uncertainty is holding back activity, with lack of clarity causing decisions to be delayed."

RICS
UK COMMERCIAL PROPERTY MARKET SURVEY
Q4 2018

THE GLENIGAN INDEX

Glenigan's February 2019 Index reveals a subdued start to the year with most regions and sectors experiencing weakened project starts. This is underpinned by low economic growth and continuing political uncertainty. The value of project starts in the three months to January 2019 was down 14% on a year ago and 11% lower than in preceding three-month period.

Overall, residential starts were 14% lower than a year ago and 9% down on the previous quarter, owing to weaker house price inflation and fewer property transactions. In the private residential sector, project starts were 20% down on the same period a year ago and 15% down on the previous three months. The extension of Help to Buy to 2023, announced in Budget 2018, should help support project starts going forward. Social housing starts remained at the same level as last year and rose 7% against the previous three months.

Non-residential project starts were 13% lower than a year ago and 18% lower than last quarter; although industrial and office starts remained strong (up 6% and 20% respectively against the same period a year ago); there were significant declines in other sectors (for example, community & amenity and hotel & leisure starts declined by 58% and 31% respectively over the same period).

In contrast to this, civil engineering projects starts increased 23% on the previous three months, although they were down 14% on a year ago. This can be attributed to a 75% quarter on quarter increase in utilities starts while infrastructure was also up 11% over the same timeframe.

While most parts of the UK experienced a fall in the year on year value of project starts, the South East, North West and West Midlands saw increases of 5%, 3% and 14% respectively. The steepest declines were seen in London, the South West and Scotland with starts declining by 32%, 21% and 26% respectively against a year ago.

Source: The Glenigan Index, February 2019

Peabody Estate St Johns Hill,
London
▼

BCIS FORECASTS

BCIS considers that there is still a great deal of uncertainty in respect of Brexit. It continues to produce forecasts for the construction industry based on different scenarios, each of which are deemed equally probable in the current climate. Assumptions are likely to be revised as more certainty on these matters becomes available.

The three different scenarios are:

- **An ‘upside’ scenario** – the UK will remain a member of the EU (but with no voting rights) and will retain access to European construction operatives after cessation of a two-year transitional period
- **A ‘downside’ scenario** – the UK will experience a ‘hard Brexit’ (i.e. no transitional period) with less favourable trade agreements with the EU and restricted movement of labour and that there will be a relatively modest recession like that following the financial crisis of 2007
- **A ‘central’ scenario** – the UK will remain a member of the EU (but with no voting rights) but there will be some restrictions to the movement of labour and less favourable trade agreements

BCIS expects the slower rate of GDP growth seen in 2018 to continue into 2019. Due to the historic close relationship between GDP and construction output growth, the latter is also anticipated to slow or fall in the coming year.

Source: BCIS Quarterly Briefing, December 2018

Nottingham Hub Staton,
Nottingham

New workout output

Year on year	Upside Scenario	Central Scenario	Downside Scenario
2019	**6.8%**	**0.8%**	**-9.1%**
2020	**7.8%**	**3.5%**	**-2.5%**
2021	**6.7%**	**5.7%**	**10.0%**
2022	**6.7%**	**6.1%**	**10.4%**
2023	**7.7%**	**6.3%**	**7.4%**

Source: BCIS Update on the Quarterly Briefing, January 2019

Construction output

Sector	Year	Experian	CPA
Total Construction Output	2018	0.8%	-0.2%
	2019	0.4%	0.3%
	2020	2.5%	1.6%
Total New Work	2018	0.8%	-0.8%
	2019	0.0%	0.2%
	2020	2.6%	1.8%
Repair and Maintenance	2018	0.9%	1.0%
	2019	1.2%	0.5%
	2020	2.3%	1.2%
Public Housing	2018	-2.0%	-2.0%
	2019	3.0%	1.0%
	2020	7.0%	0.0%
Private Housing	2018	8.0%	5.0%
	2019	2.0%	2.0%
	2020	3.0%	1.0%
Infrastructure	2018	5.0%	0.9%
	2019	8.0%	8.8%
	2020	10.0%	7.7%
Public Non-Housing	2018	-14.0%	-13.6%
	2019	1.0%	-0.6%
	2020	3.0%	0.3%
Private Industrial	2018	7.0%	9.0%
	2019	0.0%	2.5%
	2020	1.0%	4.4%
Private Commercial	2018	-5.0%	-5.3%
	2019	-9.0%	-8.0%
	2020	-5.0%	-1.5%

Source: BCIS Summary of Output Forecasts, February 2019

Gleeds' insight

Gleeds monitors construction activity and confidence levels in each UK region. As well as an analysis of region-wide activity, members of Gleeds' inflation panel directly engage with local contractors and industry contacts to understand their experiences and how these are changing over time. Feedback, while not entirely scientific, should provide a useful insight into the views of those at the core of industry.

Although difficult to predict future trends or pre-empt potential stressors, careful monitoring of regional activity can provide us with the ability to adapt to adverse conditions more rapidly and effectively.

BREXIT

This quarter, our panel was asked to describe how their region was being impacted by the ongoing Brexit negotiation process. The responses were split between a neutral or no impact and a negative impact with no positive impact being seen at this time.

In general, refurbishment and fit-out works are proceeding unaffected. In most regions, new projects are also starting irrespective of Brexit, however, some are seeing redevelopment plans stalled as clients and funders await a known outcome before committing to projects.

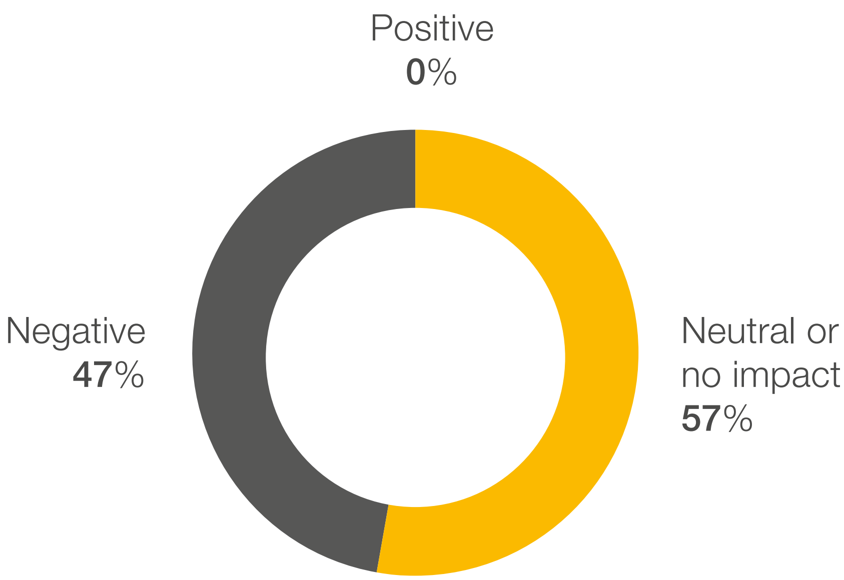
Contractors appear to be more nervous; there are instances of inflated pricing to cover an assumed increased level of risk exposure and others asking for 'Brexit clauses' to be built into contracts as added protection. Consultants are aggressively pursuing contracts to secure future workloads and potentially increasing competition.

Contacts are also nervous that the current skills shortage could be further impacted by the loss of EU workers which could then result in increased labour costs due to competition for resources. This is a particular concern of our staff in Scotland. There is also increase concern over potential material price rises once the UK exits the EU.

There is a sense of business and consumer confidence reducing due to Brexit. This is most felt in the private sector where clients and investors alike are putting potential projects on hold. Impacted sectors include commercial, retail and industrial, including manufacturing where products are typically exported to Europe.

Clients within the higher education sector have been able to resist any negative impact due to private funding and continue to release tender opportunities to the market. Growth in the science, technology and pharmaceuticals sub-sectors also continues unabated. The weaker pound may be stimulating interest from the Asian and US markets.

Figure 4: The impact of Brexit on regional constructon activity Q1 2019



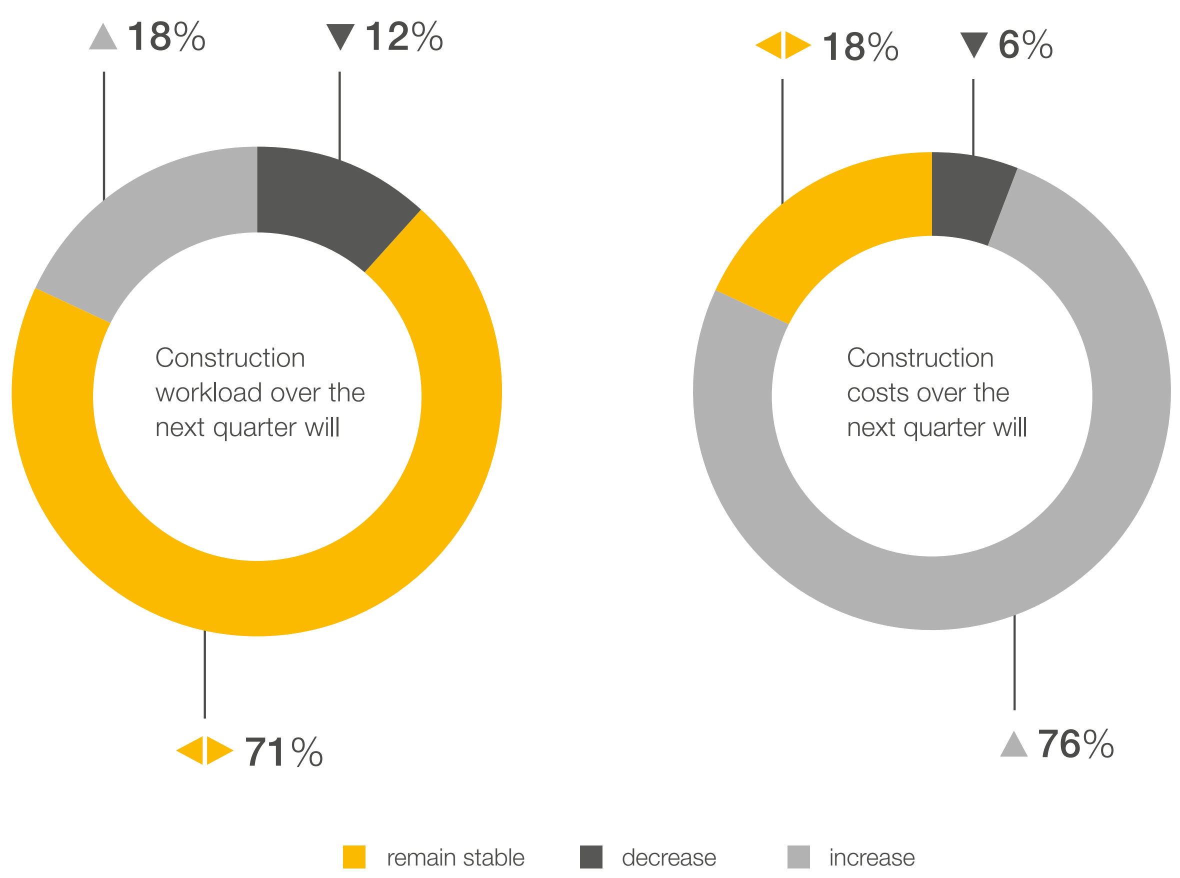
OTHER EXTERNAL FACTORS

While Brexit is seen as the biggest influence on the industry at present, other external factors are important to note:

- Investment in large-scale projects such as HS2 and the Commonwealth Games facilities is providing a boost to overall workloads in certain regions
- The new 'Tall Building' regulations are having an impact
- The shortage of good quality bricklayers is driving up the cost of masonry construction
- Increased liquidation of contractors and sub-contractors is having a negative impact on tender returns in some regions
- The collapse of Carillion and the subsequent labour redeployment as well as other contractor restructuring is creating market uncertainty

Looking ahead, construction workloads are projected to remain stable over the next quarter while costs are expected to increase, although there may be regional variations on this.

Figure 5: Predictions for construction workloads and costs over the next quarter




1-29

Spotlight on the energy sector

Gleeds' Gloucester office has been predominantly occupied with energy sector projects with the EDF Hinkley Point C, Horizon Wylfa Newydd and Renewi Energy from Waste schemes central to its portfolio.

Hinkley Point C is progressing steadily with off-site works for the temporary workers accommodation having been completed, the marine works nearing completion and on-site reactor bases, support buildings, service tunnels and haul road progressing well.

At Horizon, the decision by Hitachi to suspend project activities until a financial investment package has been agreed has seen large scale ejection of skilled workers from the area. Discussions into the possibility of redeploying labour to support the Bradwell C project with CGNE have taken place.

The Renewi project has concluded its second phase and is awaiting a contractual response from Interserve.

Other works on a pharmaceutical project in Dorset are reaching the significant milestone of becoming watertight. Work supporting other infrastructure schemes (Highways and Land Disputes) has commenced.

These comments relate to the area and sectors around the Gloucestershire area and serviced out of the Gloucester office, which comprise predominantly major civil engineering works in the energy, rail and highways sectors and should not be considered relevant to the residential, retail, education, or health sectors.

The uncertainty around what impact Brexit will have on imported goods, trade, migrant workers, migrant workers and currency variation should not be underestimated. Gleeds believes initial impacts have contributed to the suspension of Wylfa Newydd and delays to completion of Crossrail, Heathrow's second runway and HS2 project delivery.

GARY MILLS
GLEEDS ENERGY

Regional reports

WALES
NIGEL WATKINS

Activity levels in the Welsh construction industry remain buoyant with new opportunities arising in multiple sectors. Student accommodation schemes are aplenty, with commercial office developments and higher education projects making up the bulk of the remaining workload.

At present, the local supply chain can support this level of activity apart from where specialist sub-contractors are required.

Major works are ongoing in Cardiff and further large-scale projects are due to commence in the coming months. Swansea is hosting an increasing number of larger scale projects. However, Hitachi's decision to axe the £16bn Wylfa Plant in Anglesey has been a real blow to Wales and the UK's energy sector. There remains a need for critical large infrastructure projects to proceed across the country and, at present, there is not the confidence needed to progress these.

In our previous quarterly report, we reported that levels of construction activity in Wales were good with several new opportunities coming to market.

◂
British Council for Wales
Cardiff

SCOTLAND
BRIAN STEVENSON

According to statistics published by the Fraser of Allander Institute, Scottish economic growth is on track to be at its highest rate since 2014. The Institute predicts growth of 1.4% in 2019, 1.5% in 2020 and 1.4% in 2021 - presuming the UK secures a smooth transition from the EU. Much of the pickup in recent times arguably reflects a degree of 'catch up' after a challenging period for the Scottish economy.

Construction industry growth is predicted to be slightly lower than the overall economic growth at 1.1% in each of the years 2019, 2020 and 2021.

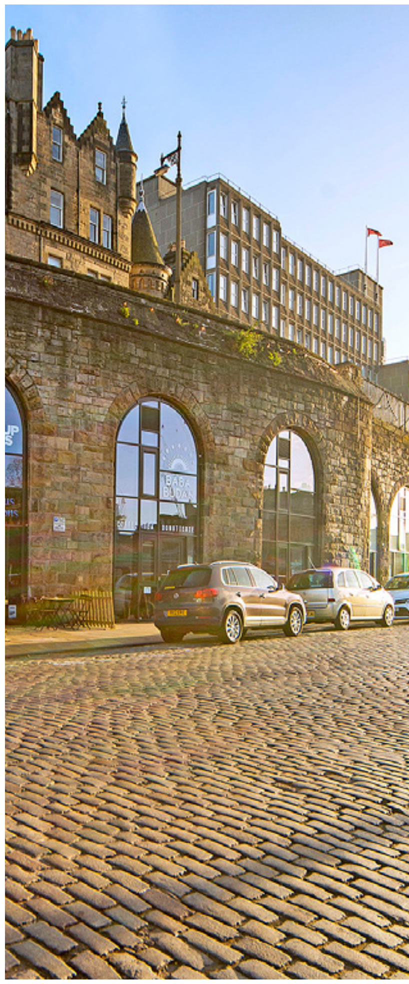
Despite Brexit continued levels of investment are being seen and looking forward, there are projects being progressed for future implementation. However, the threat of a potential second independence referendum could have an impact on the Scottish economy.

An uplift in public sector capital investment should help support infrastructure, but wider measures of activity - including commercial property and house-building - remain relatively subdued.

Bankruptcies and administrations continue, effectively reducing the contractor and sub-contractor tender pool; this is in turn likely drive up tender prices and potentially result in reduced quality as the market struggles to cope with the workload. Contractors are being more selective with tendering opportunities; however, this may change as a result of the Brexit outcome with fewer tendering opportunities a possibility.

A disorderly Brexit remains the biggest threat to Scottish jobs and growth. The current skills shortage could be further impacted by EU workers leaving Scotland, resulting in increased labour costs due to the lack of competition. Whilst there is a general concern over availability of materials in the long term, most of the retail projects we are currently involved in are short duration and are unlikely to be affected. Bricks, blocks, timber and roof tiles remain in short supply.

Last quarter, the Scottish construction industry was busy, driven by retail and education projects, despite significant labour shortages.



▲
Arches,
Edinburgh

EASTERN ENGLAND
GALVIN TARLING

Eastern England remains fragmented with varying fortunes across the region. Norfolk and Suffolk are experiencing weakened levels of demand, while South Cambridgeshire and Essex remain relatively buoyant despite the on-going economic uncertainty of Brexit.

The region benefits from a dearth of universities which have been able to withstand Brexit pressures. Private finance has enabled their pipelines to progress relatively untroubled.

Stable levels of demand within the higher education, commercial, science and residential sectors are expected to continue into 2019. This, coupled with material price rises across the industry, is set to fuel tender price inflation.

Last quarter, the Eastern region was suffering from an increased level of uncertainty with projects being stalled as more and more clients became unwilling to commit in the short to medium term.

▼ The Arch, Bury St. Edmunds

In last quarter's report, we reported on a buoyant Northern Irish construction industry supported by the infrastructure, commercial, hotel and residential sectors.

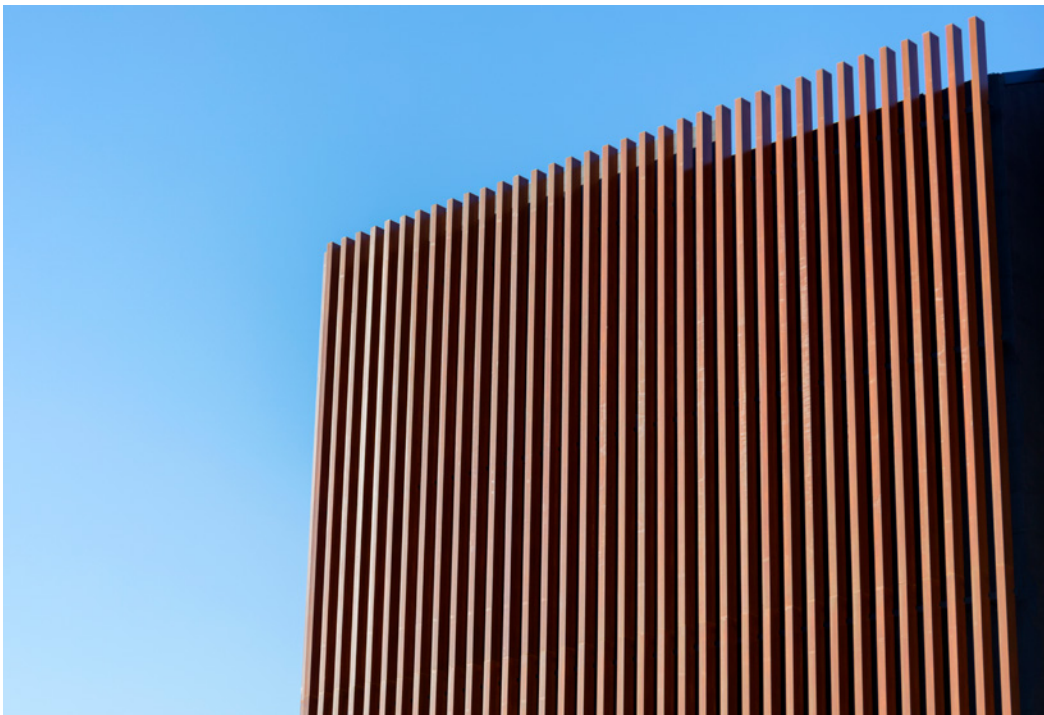
NORTHERN IRELAND
GEOFF WARKE

According to the Northern Ireland Statistics and Research Agency (NISRA), the Composite Economic Index (roughly equivalent to GDP) in Northern Ireland grew by 0.4% in Q3 2018 compared to the previous quarter and by 2.1% on the same quarter in 2017.

Despite fluctuations, construction activity in Northern Ireland grew by 5.5% over Q3 2018 and remains 2.0% up on Q3 2017.

Most of this growth has come from infrastructure works, new Grade A offices, hotels and the residential market. Following the post-election deal between the Conservatives and the DUP, £1bn of new money is now being spent on infrastructure projects such as the Belfast Transport Hub and the York Street road interchange project. This will provide a boost to the local construction market during 2019.

Labour availability remains a cause for concern with evidence that migrant workers are moving out of the local area; the current level of resource is considered insufficient. Construction workloads are expected to decrease over the next quarter while costs are likely to be on the increase.



GREATER LONDON
PAUL SWEENEY

Good levels of construction activity in London are currently being sustained by a buoyant fit out and refurbishment market. This is the case across the sectors but primarily in the case of medical and technological facilities up to a certain size. New builds are also progressing irrespective of Brexit concern although developers are tending to withdraw from lengthy and potentially risky developments.

The market is competitive, and workloads are expected to remain stable in the near term. Labour shortages persist and there are reports of migrant workers relocating elsewhere. Client/investor confidence remains low and shortages of cladding and lifts are apparent.

Despite what sounds like a relatively good report, there are concerns about a fall-back in work which is likely to be reflected in subdued pricing growth.

In our previous quarterly report, we reported on subdued demand for new developments in London.

▼ 45 Cannon Street, London

In our previous report, the Midlands construction industry was reported as strong with good levels of demand for residential, commercial and infrastructure schemes in particular.

MIDLANDS
PHIL WRIGHT

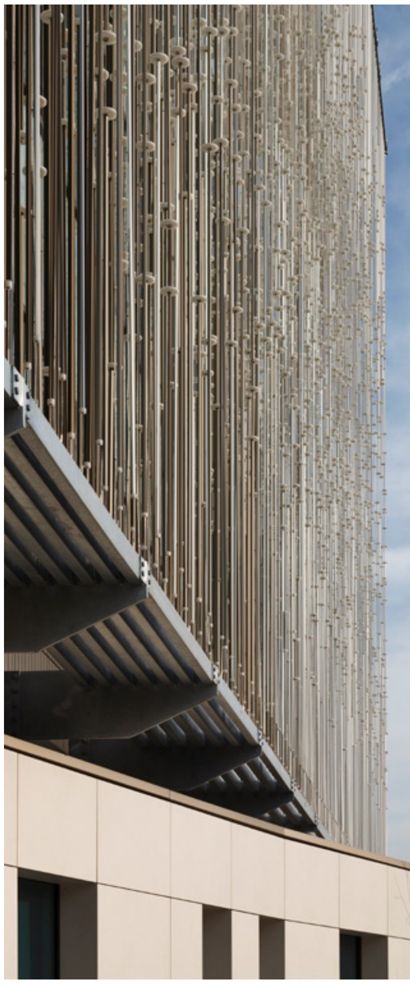
The construction market across the Midlands remains busy although Brexit is thought to be having a detrimental effect on confidence levels. This is leading to funding issues which are consequently impacting on the viability of prospective schemes.

Workloads in the region have been sustained by good demand for residential schemes as well as commercial developments and infrastructure works, although there are reports of a slight slowdown during the second half of 2018. This may be because investors and clients were holding off until the new year as well as the impact of the ongoing Brexit negotiations.

Output levels in Birmingham remain particularly strong, with significant developments on site or in planning at Snowhill, Digbeth, Smithfield, Paradise, Arena Central, Centenary Square and Eastside. These schemes are a mix of residential (PRS, private ownership, student accommodation) and commercial space. The local universities are also developing long term masterplans which will provide a strong pipeline of work for the region. Infrastructure schemes are progressing across the local area, with preparations for HS2 beginning, together with extensions to the tram network, cycle routes and development of public access amenity space.

The East Midlands continues to experience material and labour price increases and difficulties with availability of these resources. There have been moves to secure supplies from the Eurozone prior to the finalisation of Brexit or to find suitable alternatives that will be less susceptible to price risk. Contractor selectivity continues and, overall, contractors are less prepared to undertake a competitive tendering process, instead favouring a two-stage process or negotiation.

Rising material prices are expected to feed-in to increased tender prices in the coming months.



▲
BioCity,
Nottingham

NORTH EAST ENGLAND
PETER BURNS

Whilst most businesses in the North East are trying to maintain a 'business as usual' approach, concerns regarding Brexit are mounting as the UK's future relationship with the EU and the potential impact this would have on the industry remains unclear. Several contracts are being put on hold although contractors' workloads are generally secure for 2019 and at the same level as they were in 2018.

The private commercial, education and residential sectors remain the main catalysts of growth with firms focussing on these areas. Concerns regarding Brexit and the likely impact both labour and materials supplies will have on future projects remain and, for the time being, Gleeds is seeing a mixed picture around labour availability with specific uncertainty regarding imported materials.

Contractors remain cautiously optimistic moving forward and are constantly reviewing their business strategy to reflect the market requirements in the North East region.

In the previous quarter, the North East was busy, particularly in the residential sector, although this was largely overshadowed by slowing business confidence and investment concerns as a result of Brexit uncertainty.

◄ Hilton Hotel, Gateshead, Newcastle

NORTH WEST ENGLAND
ALEX HALLIDAY

In the North West of England, Brexit is increasingly creating uncertainty for some developers, particularly where there is a reliance on external funding. This is exemplified by funders either withdrawing from funding agreements, limiting the level of funding available and/or tightening their due diligence checks before agreeing funding arrangements. Increased vigilance by fund monitors has also been noticed on live projects whereby increased scrutiny of programmes, risks and costs is now commonplace.

However, workloads in the region remain good. Contractors are inclined to be selective over the works they choose to pursue.

Material resourcing is becoming difficult; it has now become the accepted norm that plasterboard, brickwork, cladding materials, and electrical components, for example, are in short supply.

In our previous quarterly report, the North West construction industry was dominated by the residential and education sectors with numerous opportunities in the pipeline.

The Point,
Manchester

YORKSHIRE & HUMBERSIDE
STEVE GREEN

The Yorkshire and Humber construction industry is buoyant, with student accommodation and commercial office projects dominating the market. Retail re-structuring projects are also coming to the fore with the aim of rejuvenating shopping centres and retail parks following the reported decrease in retail sales over the Christmas period. The hotel sector remains busy and several high-value P22 healthcare projects are steadily emerging. Bidding for large projects has seen a marked increase.

Clients are typically adopting a risk averse approach and are focussed on achieving value for their investment. Brexit is impacting the region by increasing uncertainty regarding the cost and sourcing of materials and associated implications for programming. Labour availability remains sufficient and there has been no noticeable loss of skills from the region. Workloads and costs are anticipated to increase over the coming months.

In the previous quarter, the Yorkshire and Humberside region saw good activity levels across a number of sectors and particularly so in the higher education, commercial, hotel and health sectors.

Hiscox Building,
York

SOUTH EAST ENGLAND

RICHARD HINE

Construction activity is steady across the South East region with housebuilding remaining the strongest sector. Private commercial and infrastructure projects are experiencing a modest pace of growth while the retail sector remains stagnant with more insolvencies than investments. The education sector remains busy, while the commercial sector continues to be hesitant particularly regarding manufacturing and associated works. Consultants report a low, if steady, level of enquiries but increasingly find that jobs are not proceeding past the planning stage.

The nearby London market is continuing to have an impact on tender prices and this is reflected in the general volume of tender returns as well as magnitude. Political uncertainty in terms of the outcome of the Brexit negotiation process and the possibility of a no deal is creating a degree of nervousness in the construction industry and this is preventing new projects from progressing. Nevertheless, existing projects are continuing regardless of Brexit uncertainty.

In our previous quarterly report, the formerly dominant South East housing sector was experiencing a slowdown and Brexit was weighing heavily on confidence levels.

◄ Knole House, Sevenoaks

In our previous quarterly report, the outlook for the South West region was improving and already high workloads were expected to increase in the year ahead.

SOUTH WEST ENGLAND

MATTHEW QUIRK

Construction activity in the South West remains buoyant and the region is managing to attract investment for PRS and build-to-rent schemes.

Although existing projects have been largely unaffected, it is considered that Brexit will have a negative impact on the region's construction and property sector, based on an assumption that this would lead to delayed deliveries and deferred investment.

There are also concerns over post-Brexit labour and material price rises and the present general economic uncertainty means that some clients are being more cautious about how they spend their money.

Bristol published its first ever One City Plan in January 2019 outlining a commitment to achieving a "fair, healthy and sustainable city" by 2050. Focus is on improving homes and communities, and the delivery of 60,000 new homes has been targeted. Planning has recently been approved for a new 26 storey tower to be built on the site of a former ambulance station adjacent to Castle Park. Further high-rise developments are also planned by the University of Bristol at Temple Quarter, Change Real Estate at Redcliffe Quarter, and Firmstone Consortia One's St Catherine's Place in Bedminster.

Tate, St. Ives

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(All data current as of 20 February 2019)

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Inflation Report, Bank of England

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NI Composite Economic Index, Northern Ireland Statistics and Research Agency

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RICS UK Commercial Property Market Survey

RICS UK Construction & Infrastructure Market Survey

The Glenigan Construction Index

Update on the BCIS Quarterly Briefing

Key:

ONS: Office for National Statistics

NISRA: Northern Ireland Statistics and Research Agency

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors

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