



Construction Industry Tracker

October 2014

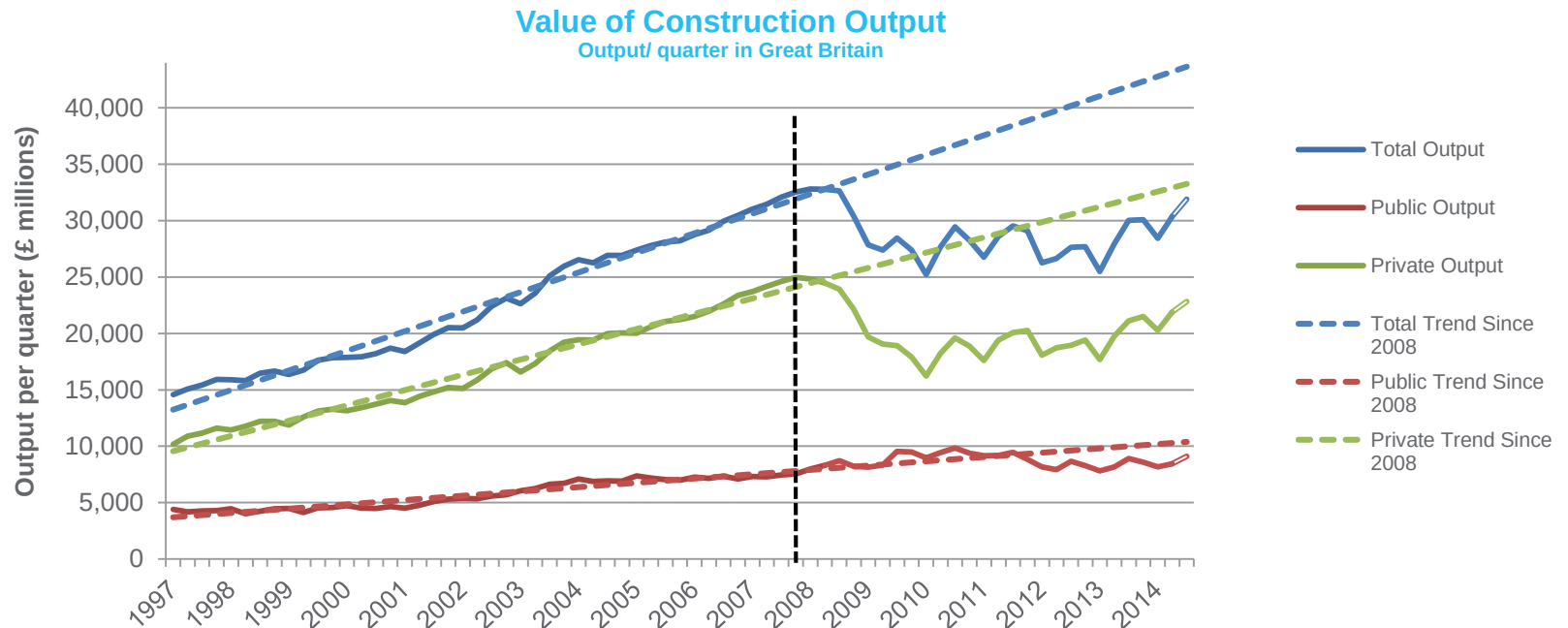
Overview

Construction output is 26% short of pre-recession growth trajectory and set to be 3% below 2008 actual

New analysis of public and private construction output using latest ONS data by Scape, the UK's leading construction procurement specialist

Private and Public Sector Output

- The recent growth in GDP and positive statements from the IMF have masked the full extent of the UK's reduced construction output.
- Based on the output growth up until 2008, the current **total construction output** levels are a significant 26% below where they should be.



Graph 1:ONS output figures to Q2 2014 with Scape predictions for Q3 2014

Mark Robinson, Group Chief Executive of Scape comments:

“Some progress has been made but the construction industry is not out of the woods yet. Looking back over 17 years it is clear to see that after a period of more or less consistent growth, the recession sent shockwaves through the industry and we have not yet recovered. Even with the recent upturn, we are still significantly below where construction output should have been if the pre-recession growth had continued.”

- Total output is expected to be 3% below pre-recession levels in Q3 this year, despite achieving an anticipated 5% quarterly growth
- The private sector is the slowest to recover with expected output levels 31% below where they should be based on the trend up until 2008
- Despite an anticipated 4% quarterly growth in Q3 this year, private sector output remains 7% below the 2008 peak
- Public sector construction output has remained stable and supported the industry, although growth has been relatively stagnant since 2008. Public sector output is expected to be just 9% below the 2008 growth trend.
- Output in the public sector is expected to grow 8% in Q3, remaining 9% up on pre-recession levels.

Peter Hansford, the Government's Chief Construction Adviser, said:

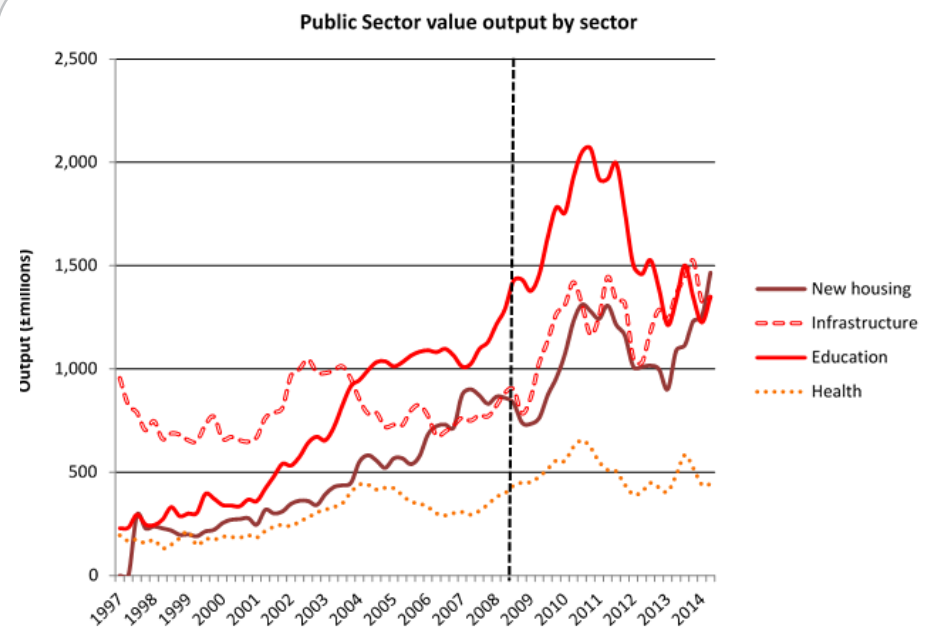
“This research shows the dramatic and profound impact the downturn has had on the construction industry. Confidence within the sector is yet to recover fully. The analysis also highlights the importance of the public sector development projects as part of the wider construction industry, especially during periods of financial uncertainty.”

Pre-recession is taken as Q2 2008, before the Lehman Brothers collapse of September 2008.

Public Sector Output

Core Sector Breakdown

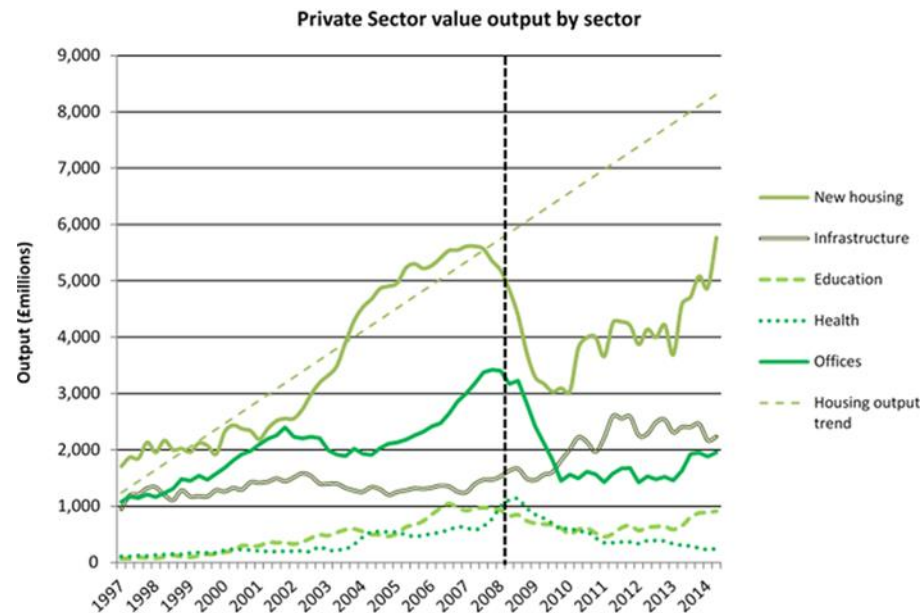
- New housing output has increased by 70% compared to pre-recession levels and quarterly output is up 17% already this year (Q2 2014)
- Infrastructure output has also risen 53% when compared to 2008 levels. In Q2 the sector remains robust and has grown by 2%
- Education output is up by 4% from pre-recession levels and increased on quarter by 10% in Q2 this year
- As seen in the adjacent graph, output in this sector has been erratic. After a promising period of accelerated growth between 2007 and 2010, construction in the education sector collapsed over the last four years, following the scrapping of the Building Schools for the Future programme
- Health sector output is 11% higher than pre-recession levels, and has increased on the quarter by 1%



Graph 2: based on the most recent analysed ONS data of the core sectors

Private Sector Output – Core Sector Breakdown

- Surprisingly, **new housing** output has grown 19% compared to pre-recession levels and 18% in Q2
- Despite this recent growth, as the trend line shows, the current output is 30% below where it should be had production continued on its 2008 trajectory
- Examining the non-core sectors, **office** construction saw one of the sharpest falls in output since 2008, decreasing by 38%
- **Infrastructure** output in the private sector has increased 37% compared to 2008, and is down 7% annually
- **Education** sector output is 10% higher than pre-recession levels and has seen a quarterly rise of 3% in Q2 this year
- Output in the **Health** sector has plummeted by 78% compared to pre-recession levels. This sector has increased by 9% in Q2 this year, but is down 19% annually



Graph 3: based on the most recent analysed ONS data of the core sector

Future Activity in the Construction Industry

Planning

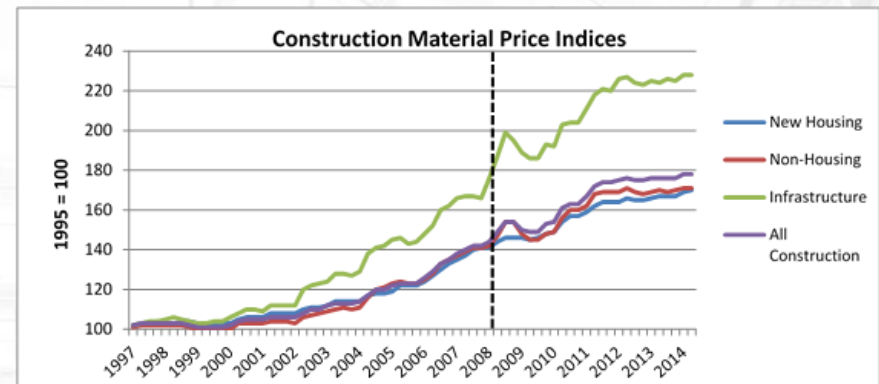
- Following a significant drop during the recession in the number of successful planning applications granted in Q2 2014 are still 19% below pre-recession levels of 2008
- Despite the slow recovery, the rate of growth is beginning to improve, up 1% annually in Q2 of this year and 18% on the quarter
- As such Scape predicts that Q3 will show applications rising further, by approximately 3% on the quarter and 1% annually



Graph 4: CLG data planning applications granted until Q2 2014 and predictions from Scape on Q3

Cost of materials

- The construction material price index is 18% higher in Q2 this year than pre-recession levels, highlighting the escalating cost of materials across the sectors
- Materials for infrastructure have seen the sharpest rises, up 22% since 2008, though prices have remained flat on Q2 this year and only risen 2% annually



Graph 5: based on the most recent analysed BIS/ Aecom data of Resource Costs

A Summary Table

	% shortfall from 2008 forecast	Most recent annual % change	% change since the recession (Q2 2008)
Total Output	-26%	6%	-3%
Public Output	-9%	2%	9%
Private Output	-31%	8%	-7%
Public New Housing	N/A	35%	70%
Public Infrastructure	N/A	-1%	53%
Public Education	N/A	1%	4%
Public Health	N/A	-9%	11%
Private New Housing		26%	19%
Private Infrastructure	N/A	-7%	37%
Private Education	N/A	41%	10%
Private Health	N/A	-19%	-78%

What Needs to Change?

Peter Hansford, the Government's Chief Construction Adviser, concludes: *"The need for creativity and innovation within the construction industry should be prioritised alongside efficiency. The skills and techniques which our industry has developed are exported across the globe and we need to ensure that this legacy is continued and protected."*

"The recession reduced employment opportunities and many veterans of the industry retired, taking their knowledge with them. We are now facing a serious shortage of talented young professionals coming through the ranks and we need to address this immediately. I'm always struck by the amount pride people employed in the sector have in their work; we need to communicate that to the younger generations and show that far from being just a vocation, construction is a respected and admired career choice."

Here are Scape's short, medium and long term solutions:

Short Term

1. Spend the leaner budgets wisely and do not be tempted to buy the cheapest possible option. The policy of placing contracts with the cheapest supplier does not help the industry raise its standards in respect to training or innovation. Businesses which prioritise their local community and seek to innovate should be supported.
2. Prioritise high impact projects and quickly. As the economy recovers and the cost of materials increases, large projects will become increasingly expensive, so it is important that these projects are expedited.
3. Use standardised products that can provide faster, high quality design solutions for a number of sectors which are experiencing budgets cut. This process can help ensure the money is spent with greater certainty, that the quality of the building/project is maintained and it reduces build delays.

Medium Term

1. Infrastructure is key for growth – whether it is roads or railways. Infrastructure projects tend to take a long time to implement, but it is clear from Europe that where good investment has been made in infrastructure, cities grow and in turn create greater wealth in the regions that are intrinsically linked to them.
2. Creativity within the system should be encouraged. For example, government departments currently have budgets for capital spend and money for maintenance (revenue). This traditional ‘capital’ and ‘revenue’ funds split can be joined together to get the best approach to projects – some revenue can be capitalised.
3. De-centralise economic investment. London is currently the primary city, dominating the economy. Work needs to be done with the Core Cities and those aligned with them to decide what business expertise is required in the UK and help the Core Cities achieve it. Cardiff, Edinburgh, Glasgow and Belfast should be included in this.

Long Term

1. Focus on housing. The population grew by 400,000 last year (the size of Bristol) but housing need is still behind by 40,000 units a year. This shortfall must be addressed.
2. Focus on Extra Care and Lifetime Homes. There needs to be a model of housing for the future that enables people to remain in their homes and communities throughout their lives rather than relying on the NHS or moving into specialist care in later life. This will allow housing stock to pass down the generations, maintaining communities.
3. Address the skills shortage. There needs to be an aspiration for people to want to work in property and construction, in order to attract the brightest young people into the industry and compete on the world stage.

Methodology

The report was compiled by Wriglesworth Research – winner of several industry awards for use of research including the CIPR Awards, Golden Hedgehog Awards and PR Week Awards. Property prices values are based on sales subject to completion.

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Graphs 1 uses ONS data from 1997 to July 2014 and Scape predictions for the total of Q3; Graph 2-3 uses ONS data from 1997 to June 2014, Graph 4 uses data from the DCLG on the District planning authorities – Planning applications received and decided as well as predictions from Scape on the Q3 2014 and Graph 5 uses analysed BIS/ Aecom data of Resource Costs.

About Scape

Scape is a local authority owned built environment specialist that offers a full suite of national procurement frameworks and innovative design solutions.

Scape is the only built environment organisation enabling the development of highly measurable and rapidly deployed solutions that are designed to encourage continually reducing costs, ever increasing quality, as well as stimulating local growth and community benefits; all of which directly supports our clients' needs to deliver 'more for less'. For more information visit: www.scapegroup.co.uk



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