

# CONSTRUCTION INDUSTRY FORECASTS – OVERVIEW

## SUMMARY

2009 was estimated to be the sharpest annual fall in construction on record and despite expectations of a return to economic growth in 2010, construction output is still anticipated to fall 3%. Recovery in the construction industry will clearly be driven by the private sector, given the financial constraints likely to be encountered by the public sector. Yet the low growth rates for construction overall, between 0.4% and 0.5% per year between 2011 and 2013 illustrate the challenging situation that the industry is likely to be in with considerable falls in public sector construction. If government spending is cut even sharper than anticipated then this could prolong the three year long construction recession for years to come.

Construction Industry Forecasts - Winter 2009/10						
£ million 2005 constant prices						
	2008	2009	2010	2011	2012	2013
% annual change	Actual	Estimate	Forecast	Forecast	Projection	Projection
<b>Housing</b>						
Private	14,870	10,706	9,850	10,638	11,063	11,506
	-19.2%	-28.0%	-8.0%	8.0%	4.0%	4.0%
Public	3,490	3,267	3,084	2,934	2,810	2,708
	-7.6%	-6.4%	-5.6%	-4.9%	-4.2%	-3.6%
Total	18,359	13,973	12,934	13,571	13,873	14,214
	-17.3%	-23.9%	-7.4%	4.9%	2.2%	2.5%
<b>Other New Work</b>						
Public Non-Housing	10,603	13,249	14,037	13,328	11,531	9,729
	15.2%	24.9%	5.9%	-5.0%	-13.5%	-15.6%
Infrastructure	7,125	7,813	8,373	8,723	9,085	9,540
	15.1%	9.7%	7.2%	4.2%	4.1%	5.0%
Industrial	3,861	2,476	2,431	2,574	2,826	3,055
	-19.3%	-35.9%	-1.8%	5.9%	9.8%	8.1%
Commercial	22,529	16,645	14,134	13,975	14,572	15,668
	1.6%	-26.1%	-15.1%	-1.1%	4.3%	7.5%
Total other new work	44,118	40,183	38,975	38,600	38,014	37,992
	4.2%	-8.9%	-3.0%	-1.0%	-1.5%	-0.1%
Total new work	62,477	54,156	51,909	52,172	51,887	52,206
	-3.2%	-13.3%	-4.1%	0.5%	-0.5%	0.6%
<b>Repair and Maintenance</b>						
Private Housing RM&I	15,507	13,801	13,525	14,066	14,770	15,508
	3.0%	-11.0%	-2.0%	4.0%	5.0%	5.0%
Public Housing RM&I	8,170	7,843	8,157	7,749	6,974	5,928
	2.3%	-4.0%	4.0%	-5.0%	-10.0%	-15.0%
Private Other R&M	15,440	12,970	12,970	13,294	14,092	14,373
	-3.3%	-16.0%	0.0%	2.5%	6.0%	2.0%
Public Other R&M	8,106	7,660	6,894	6,619	6,552	6,684
	9.6%	-5.5%	-10.0%	-4.0%	-1.0%	2.0%
Total R&M	47,224	42,275	41,547	41,728	42,388	42,493
	1.8%	-10.5%	-1.7%	0.4%	1.6%	0.2%
<b>TOTAL ALL WORK</b>						
	109,701	96,431	93,456	93,900	94,275	94,699
	-1.1%	-12.1%	-3.1%	0.5%	0.4%	0.4%

Source: ONS, Construction Products Association

## PUBLIC HOUSING

The public housing sector is currently subject to two currently conflicting forces. On the one hand, 50% of public housing has been provided by the private sector through section 106 agreements and as a result, public sector housing has been affected by the private sector downturn. Partly in response to this, over the last 15 months, the Government has made a stream of announcements stating that a total of £2.7 billion would be introduced into housing through the fiscal stimulus.

Although only £1 billion of this has so far been allocated, public housing has avoided the sharp downturn that has affected the private housing sector to date. However, the Pre-budget Report stated that capital funding for housing through the Department for Communities and Local Government in 2010/11 would be £6.7 billion compared to £7.4 billion in 2009/10. In addition, the Chancellor stated that housing would not be one of the few areas to be isolated from sharp funding cuts. As a consequence, public funded housing is expected to fall at the same time that the privately delivered element rises due to the improving private housing market.

As a consequence, public housing starts are estimated to have remained at 25,000 in 2009, a similar figure to 2008. With no growth going forward due to anticipated spending cuts from government offset by growth in public housing from the private sector, public housing starts are expected to remain at 25,000 between 2010 and 2013.

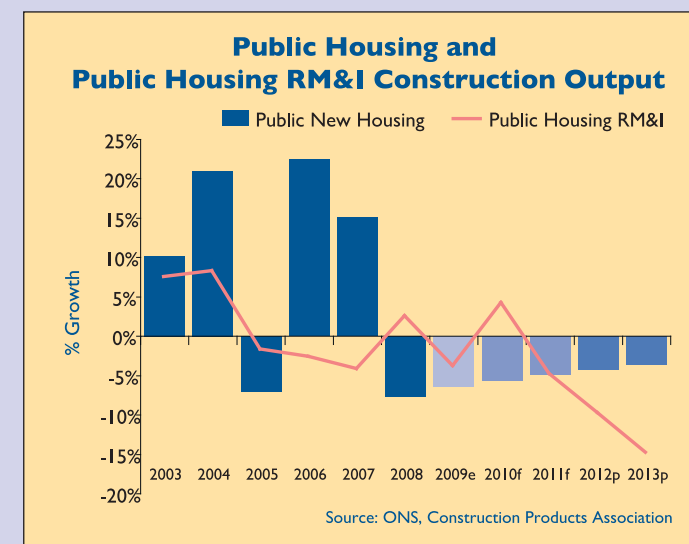
Public Housing Starts and Completions Great Britain						
	2008	2009	2010	2011	2012	2013
	Actual	Estimate	Forecast	Forecast	Projection	Projection
Starts (000s)	25	25	25	25	25	25
	13%	-2%	0%	0%	0%	0%
Completions (000s)	31	32	30	29	27	24
	15%	2%	-4%	-5%	-8%	-8%
Output (£m)	3,490	3,267	3,084	2,934	2,810	2,708
	-8%	-6%	-6%	-5%	-4%	-4%
RM&I Output (£m)	8,170	7,843	8,157	7,749	6,974	5,928
	2%	-4%	4%	-5%	-10%	-15%

Source: CLG, ONS, Construction Products Association

## PUBLIC HOUSING RM&I

The main driver of work in the public housing repair, maintenance and improvement sector in recent years has been the 'Decent Homes for All' programme in England, expected to finish in 2010. Similar programmes are in operation in Wales and Scotland. However, with the majority of work over in England and Government transferring £350 million from its budget to Building Britain's Future, the outlook does not appear promising for the sector especially in an environment where Government is looking to curtail expenditure in relatively low profile areas.

Sector output is estimated to have fallen 4% in 2009. Output is expected to rise in 2010 due to an increase in work to finish as much as possible with the 'Decent Homes for All' deadline looming, in addition to work on the schemes in Scotland and Wales. Furthermore, there may be a boost from local authorities attempting to use their finance while it is available before the anticipated spending cuts constraint their spending in all but the most essential maintenance areas. From 2011, output is expected to fall once again as cuts in central government expenditure and the end of the 'Decent Homes for All' reduce work. Output is expected to fall 5% in 2011 before falls of 10% in 2012 and 15% in 2013.



## EDUCATION

Education work accounts for over half of public non-housing output and is the key driver of work in the sector. The publicly funded education sector is estimated to have grown 24% in 2009 and has increased threefold over the last 13 years. Building Schools for the Future (BSF), valued at between £52 and £55 billion over 15 years and the Primary Capital Programme (PCP) have both contributed to this considerable growth in recent years. Secure funding for waves 3 and 4 should ensure that work continues throughout 2010 especially with 5 major programmes of BSF work each valued at £1 billion underway. However, in December 2009, the Pre-budget Report stated that DCSF's capital budget for 2010/11 will fall to £6.7 billion from £7.4 billion in 2009/10 and BIS stated that capital grants to higher education would fall from £0.9 billion to £0.4 billion highlighting the start of the anticipated spending cuts. As a consequence, education output is expected to fall 3% in 2011 before double-digit falls in output during 2012 and 2013.

## HEALTH

The health sub-sector has benefitted from significant investment over the last few years. Output rose 27% in 2008 and is estimated to have risen a further 21% in 2009 due to fitting out on large hospitals in addition to work continuing on an array of smaller hospitals and GP clinics, which is expected to continue in the first half of 2010. However, data on new contracts highlight only a few, small projects signed in the last six months and NHS capital funding for 2010/11 falls to £4.6 billion from £5.3 billion in 2009/10, with the anticipation of greater cuts in funding in future years. As a consequence, the Association anticipates that output in the publicly driven health sector is expected to fall 2% in 2010 followed by double-digit falls between 2011 and 2013.

