



# Building economic success: The role of SME construction

FMB Building Conference  
8 November 2022

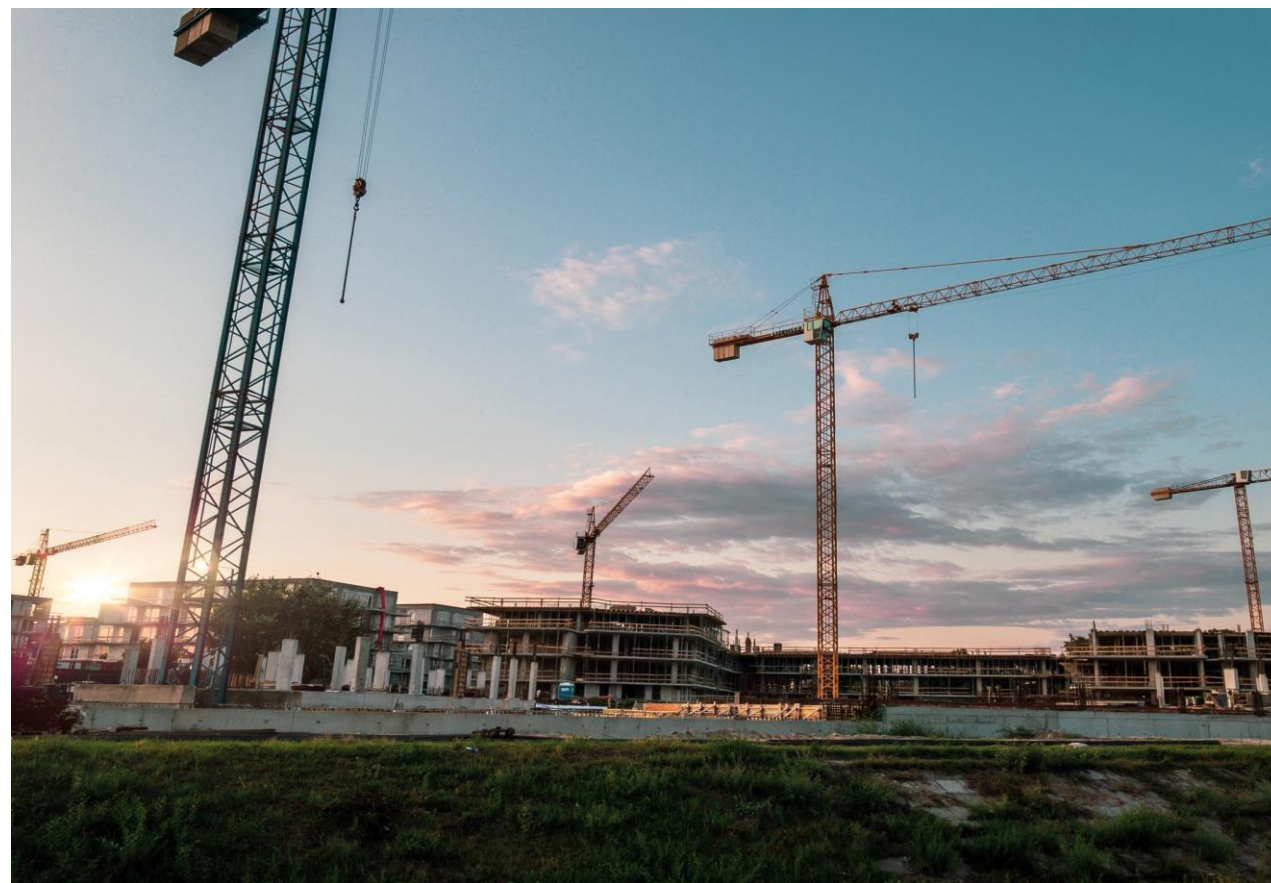
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# Agenda

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- UK economy and major risks
- Consumer environment
- Construction output
- Inflation & shortages
- Planning activity across smaller projects
- Outlook



# Introduction

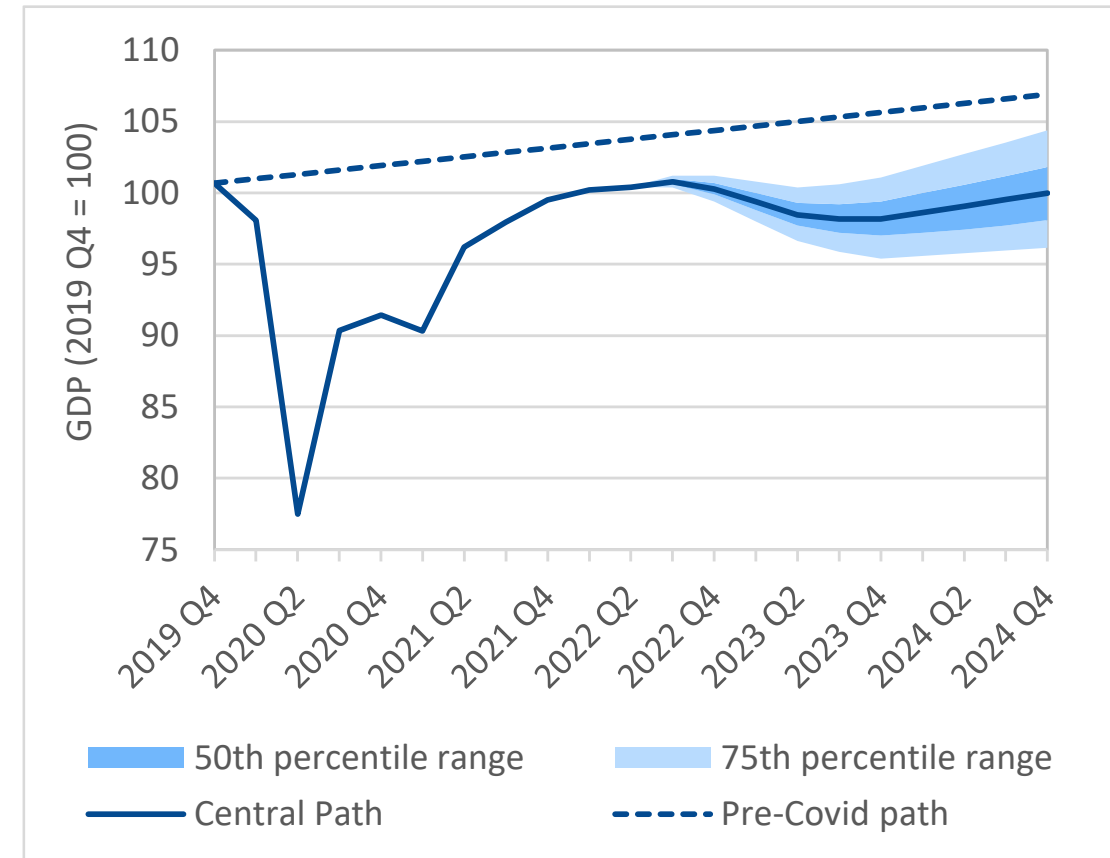
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- An improving post-Covid horizon has given way to significant uncertainty
- Major risks over remainder of 2022 and well into 2023
- 2023 recession highly likely
- Uncertainty remains high = predictions are difficult
- Construction is holding up well in the face of challenges (for now)



# Macro risks

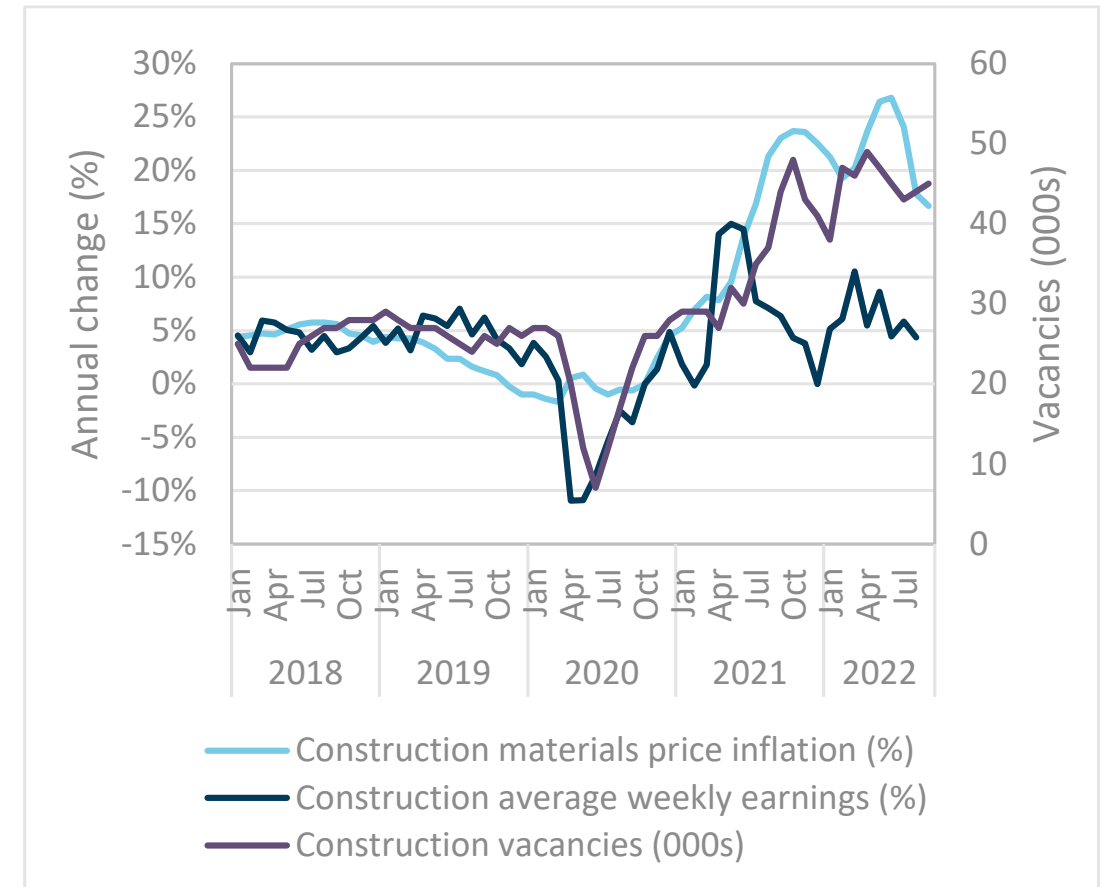
- Major risks over remainder of 2022 and 2023:
  - External factors causing a global slowdown
  - UK likely to be least shielded from the impacts
  - Inflation of >10% = ~4% fall in real incomes in 2022 & 2023
  - Mortgage rates to double if base rate hits 5%
  - Flatlining business investment since 2016
  - Trade barriers obstruct export-led growth
  - A return to austerity in the November statement
- On the positive side:
  - Employment remains very tight
  - Consumer spending has held up better than expected so far
  - Energy price cap will offset some of the inflationary impacts and avoid some affordability issues
- Expect continuation of impacts into 2024





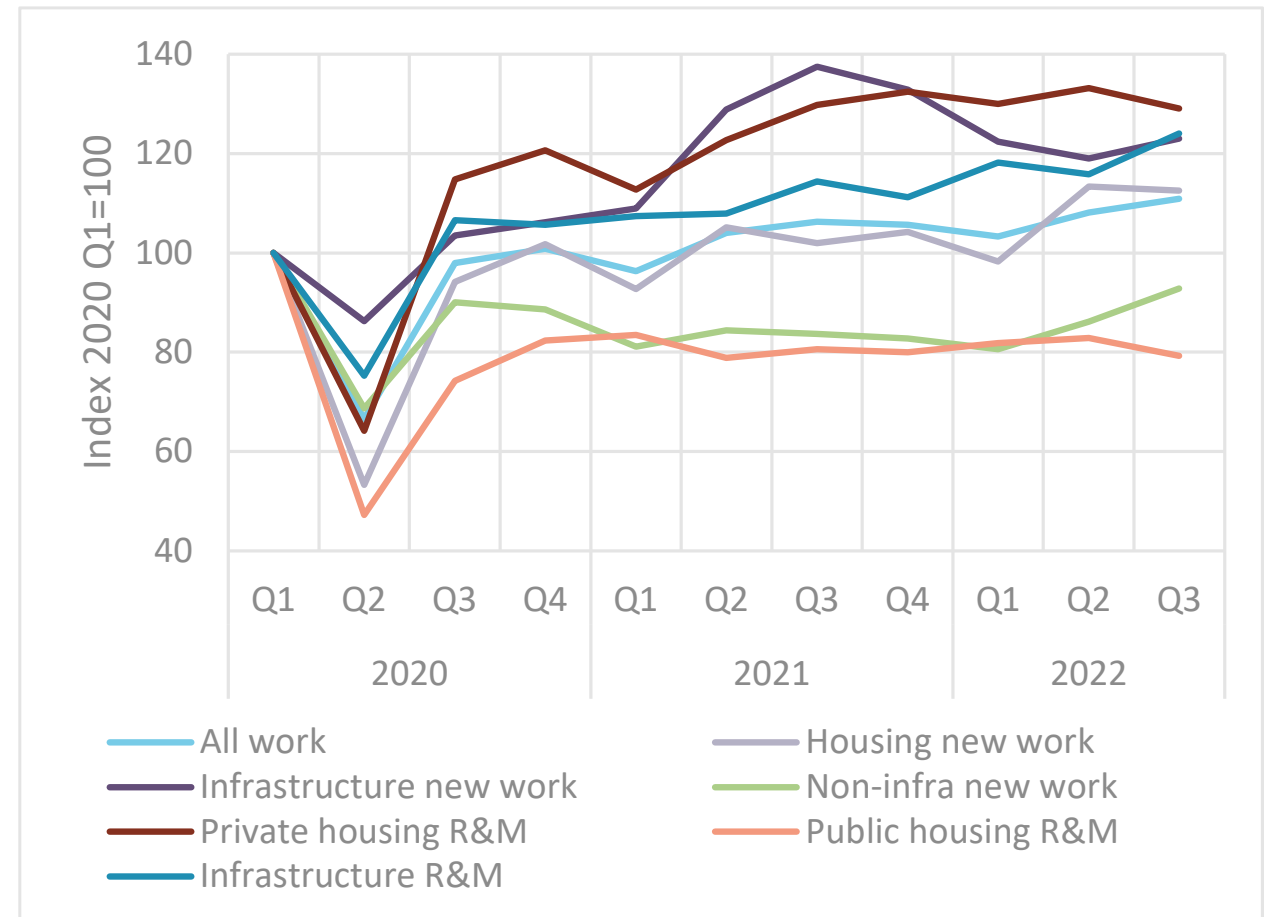
# Inflation and shortages

- Materials inflation and shortages remain a major issue
  - Materials annual inflation running at 25%
  - Structural steel, timber, reinforced concrete & finished goods, more recently insulation
  - Continuation of issues expected through 2023
- Vacancies:
  - Vacancies ~50,000 since middle of last year
  - Particularly felt in London & SE due to fall in migrant labour
  - Not translating into significant wage pressures: Pay inflation running at 5%



# Construction output & planning

- Output returned to late-2019 levels in early 2022
- Infrastructure (new work & R&M) and private housing R&M have led the post-Covid recovery
- Commercial & public housing remain well below 2019 levels
- Planning environment:
  - 25% gap in contract awards over Covid
  - Recovery over 2021
  - New all-time record in Q1 2022
  - Since Q2, activity has returned to average levels
  - Falls in the commercially sensitive sectors
  - Activity held up by infrastructure and warehousing



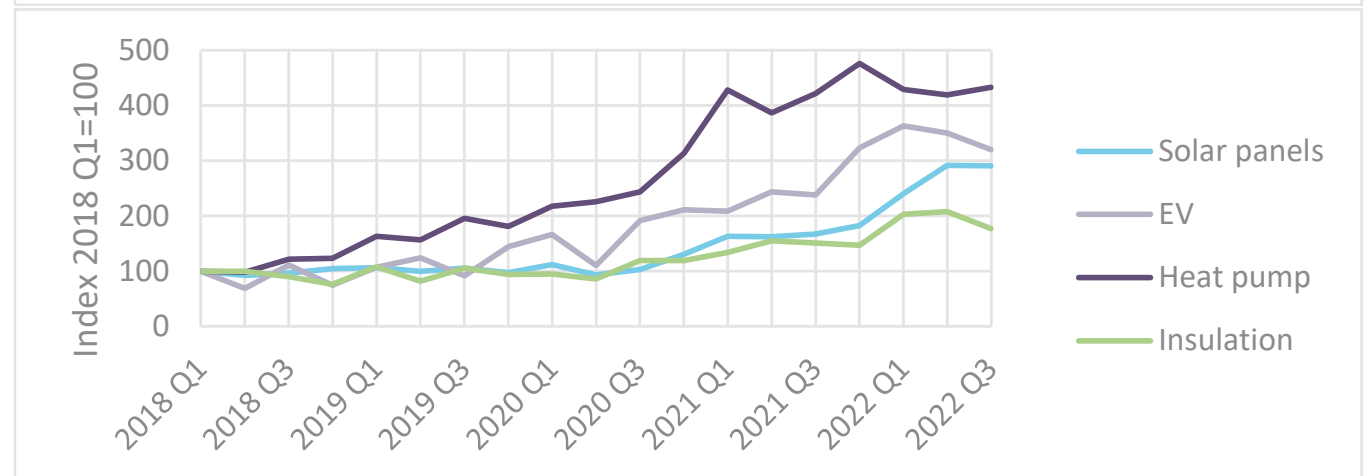
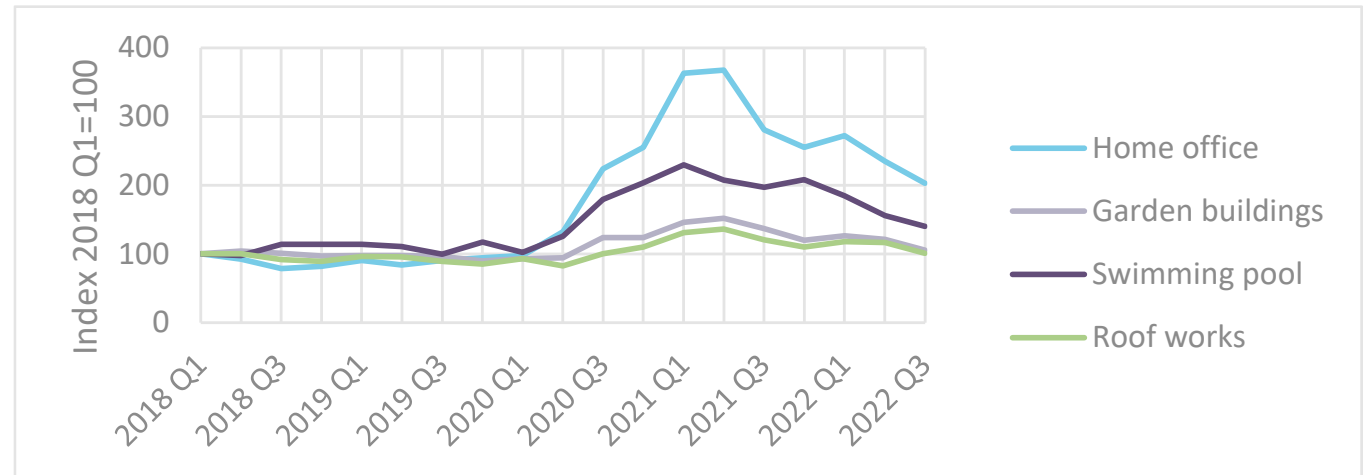
# Home improvement

- Unprecedented spike in planning applications over the Covid-19 pandemic
  - People built up lockdown savings and reassessed their living requirements
- Since we've seen a fall back over H2 2021 and H1 2022
- A further steep fall in Q3
  - Greater fall in “more space” – extensions, lofts, basements
  - Internal and external improvements holding up better
  - London and SE remain the largest regions by a distance but relatively have been more impacted
  - Highest activity across Northern England, Scotland & Wales



# Structural changes

- Some of the changes over Covid-19 have been maintained:
  - Home offices (+100% vs 2019)
  - Garden works (+40%)
  - Roof works (+20%)
- Sustainability & energy efficiency in the home increasing at a fast rate:
  - Solar panels (+200% vs 2019)
  - EV (+200%)
  - Heat pump (+150%)
  - Insulation (+100%)
  - Less regionality (due to income?)





# Commercial

- Commercial activity is unsurprisingly subdued
- Difficult trading conditions over Covid-19
- No post-Covid bounce – merely the resumption of the previous trends
- Positive: no falls in ventilation & AC activity
- Retail, shop fronts, signage all remain on a downward trend
- Signage & shop fronts took 18 months to return to pre-Covid trend
- Likely difficult times ahead in 2023



# Summary

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- Bank of England warns that the level of shock is greater than in the 1970s
- Underlying demand for construction remains strong
  - Infrastructure, warehousing, healthcare likely to hold up the industry over the short-medium term
- Levelling down and a return to austerity a major risk in the November statement
- Construction issues will remain at least well into 2023:
  - Materials & product inflation and supply chain issues
  - Labour shortages particularly in the SE
  - Margin pressure due to cost overruns
- For smaller projects:
  - The bow-wave of Covid projects should sustain output over the short-term
  - Major growth area in energy efficiency
  - Demand from higher income groups likely to be maintained

