



Total construction industry output still 9% down on what it was 10 years ago

The private sector will need to grow by a third of a billion a quarter to maintain output levels if public sector cuts continue

Public sector output has increased by 12% in the last 10 years, whilst private sector output has shrunk by 15%.

This increase in public sector spending, in combination with the beginnings of a recovery in the private sector during 2010 / 2011, meant that by the second half of 2011, total output for UK construction peaked at nearly 5% higher than it had been in 2002.

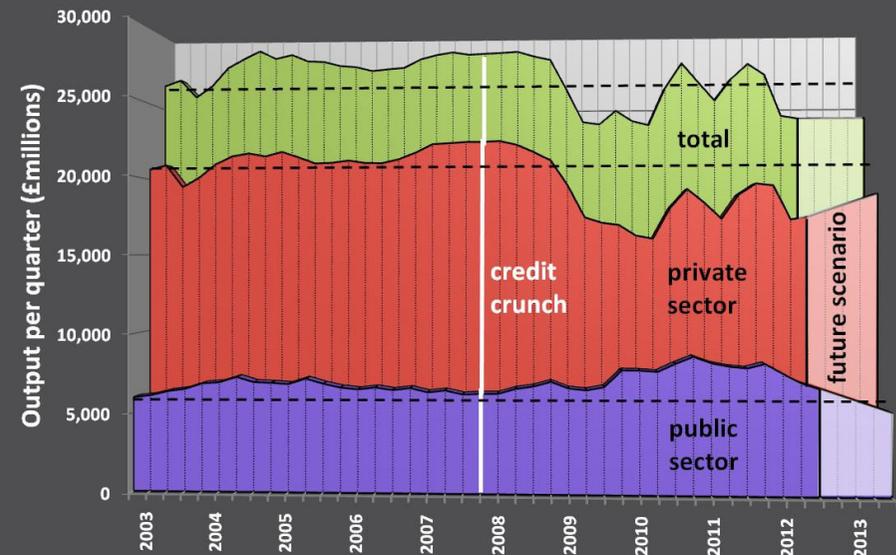
However, in the first half of 2012, both public and private sector output fell, resulting in total output dropping to a level 9% lower than it was in 2002.

If the public sector continues to shrink at this rate, the private sector will have to grow by more than a third of a billion pounds a quarter just to keep total output at its current level (see the future scenario illustrated on the adjacent graph).

If the public sector continues to shrink, and the private sector does not grow to fill the void, the industry will enter a double dip recession.

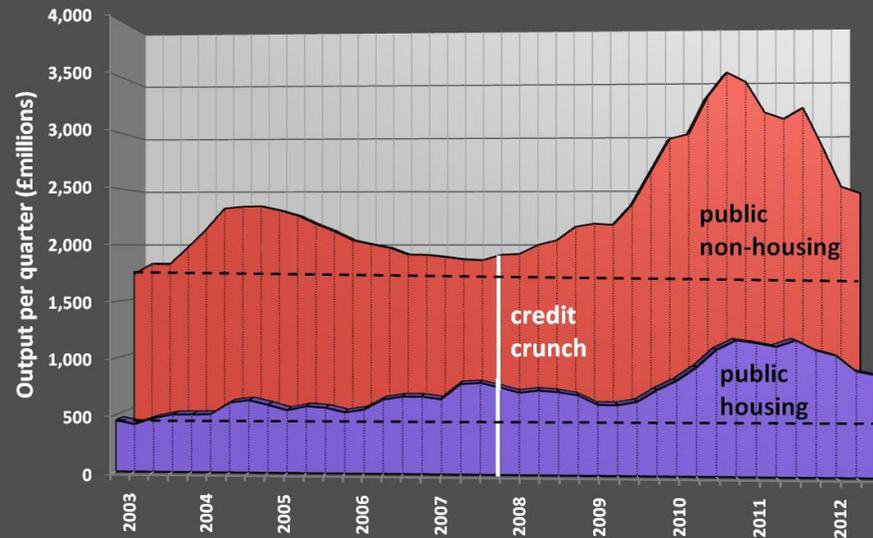
Volume of construction output

Non- seasonally adjusted output/quarter in Great Britain (£millions at 2005 prices)



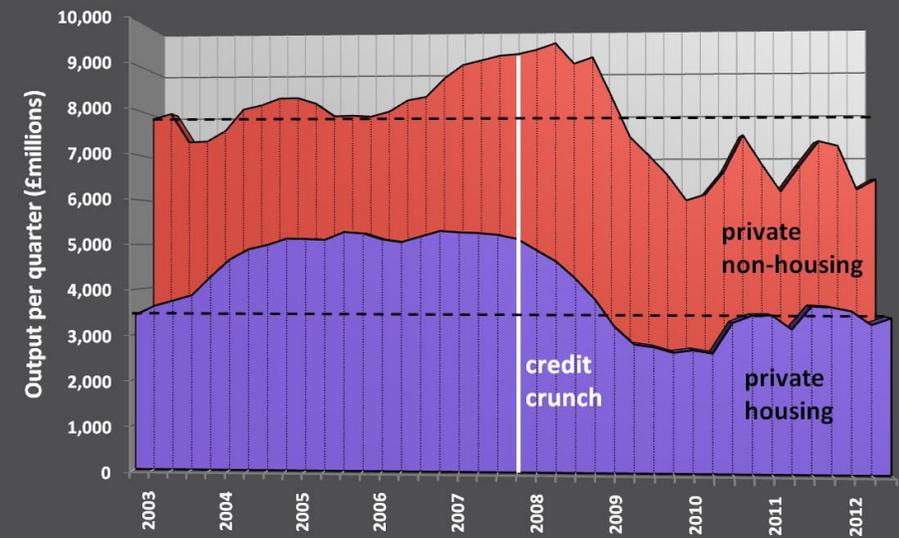
Public sector housing and non-housing

Output/quarter (£millions 2005 prices) in Great Britain



Private sector housing and non-housing

Output/quarter (£millions 2005 prices) in Great Britain



The post credit crunch rise in new public sector projects was dramatic, as has been its recent decline. Between the beginning of 2008 and the peak in 2010, public sector housing grew by 60% and public sector non-housing by an extraordinary 78%.

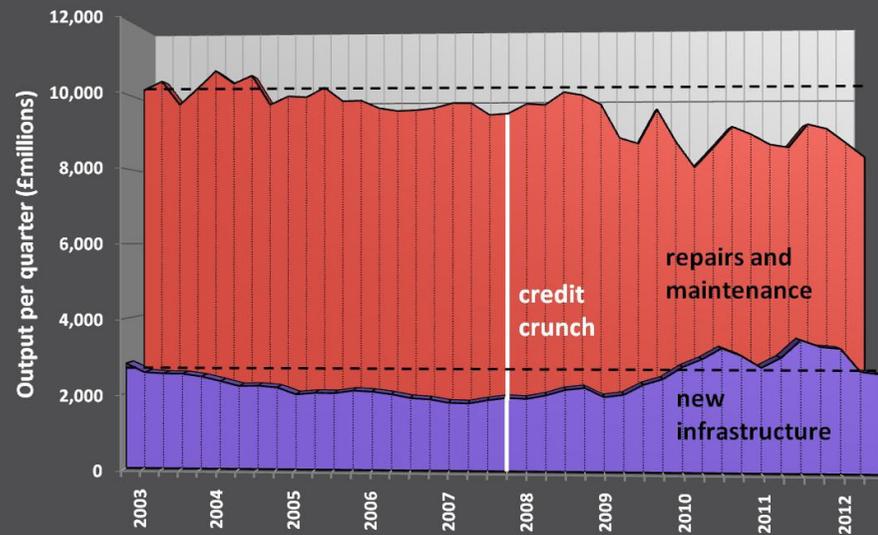
Since that peak, public sector housing has shrunk back by 25% and public sector non-housing by 31%.

Private sector housing and non-housing collapsed with the loss of confidence and withdrawal of finance following the credit crunch. At their lowest, private sector housing was 50% below its peak, and private sector non-housing was 38% below its peak. They have subsequently been experiencing a patchy and slow recovery, but are still well below their peak.

David Trench CBE, Chairman of Designing Buildings Wiki comments: "Until the beginning of this year, the construction industry had held up pretty well, supported by increases in public spending. But in the last three quarters, public spending has dropped, and if the current trend continues we are headed for a perfect storm. Our analysis shows that to make up for public sector cuts, the private sector will have to increase output by more than a third of a billion every quarter just to maintain the current level of total output. The phenomenal level of private sector growth required to actually bring about a recovery could only be achieved through a clear, combined Government/industry investment policy, and it needs to happen now."

Infrastructure, repairs and maintenance

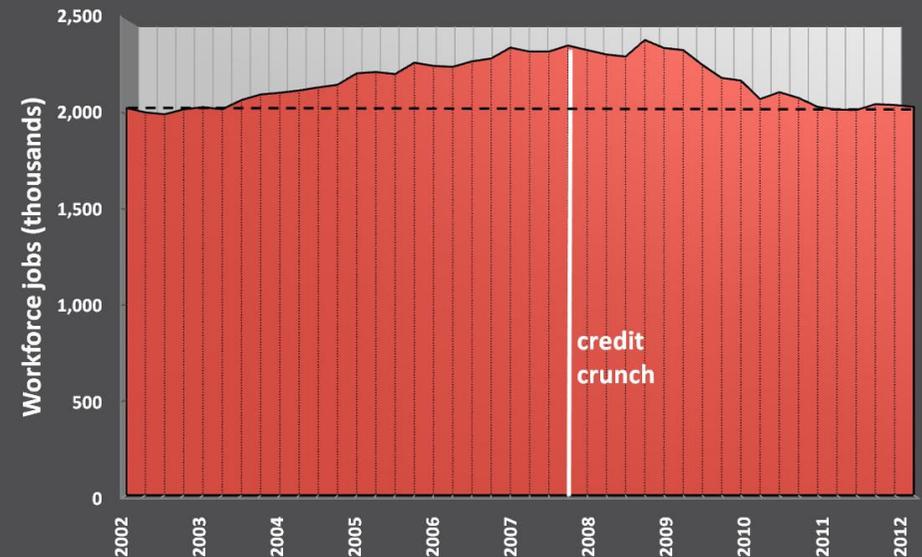
Output/quarter (£millions 2005 prices) in Great Britain



Repairs and maintenance have progressively declined since 2004, falling to 19% below their 2002 level. In contrast, new infrastructure projects peaked at 27% higher than their 2002 level. Since the middle of 2011 however, infrastructure projects have fallen back.

Workforce jobs

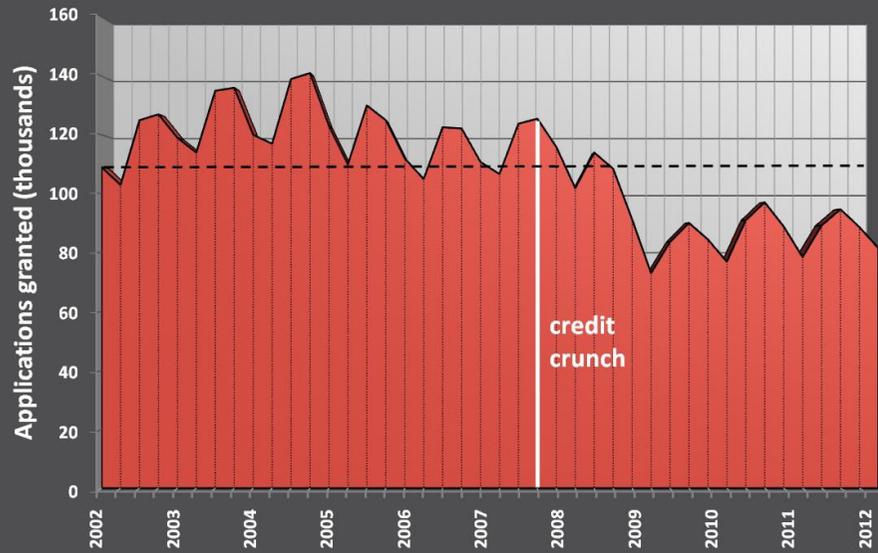
Seasonally adjusted (thousands) in the UK



Despite dramatic and rapid changes in the make up and size of the industry, employment has remained relatively stable, 15% lower than its peak, but roughly level with its position in 2002.

Planning applications granted

Thousands in England

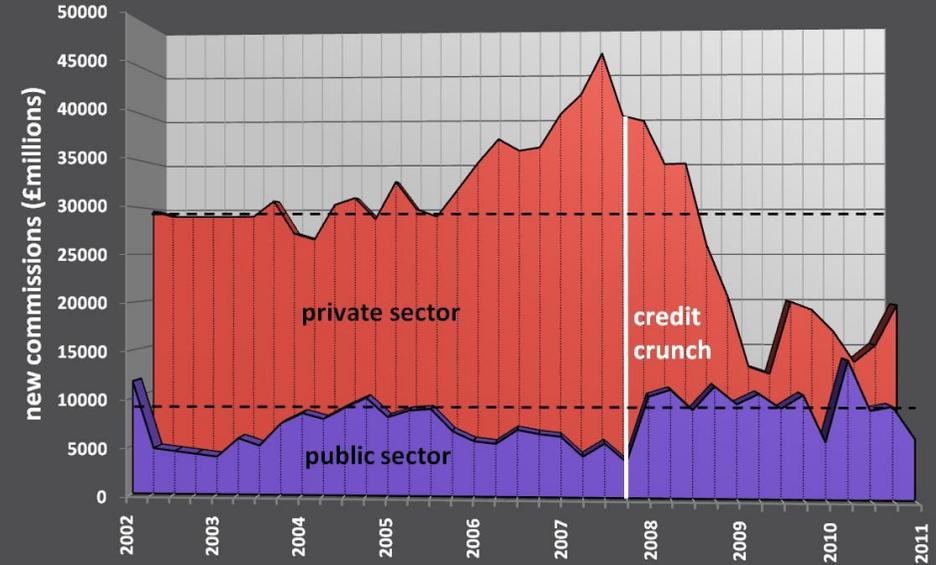


Construction is generally preceded by a successful planning application, and so the number of applications granted can be a useful indicator of the outlook for construction.

Whilst there are some slight signs of a recovery from the lowest period in 2009, permissions remain 30% lower than they were in the same period in 2004, suggesting that the outlook is poor.

Architects' workload

Estimated value of new commissions (£millions at 2005 prices) in the UK



Planning applications are generally preceded by architectural design. Public sector architectural commissions held up relatively well until the second half of 2010. However, private sector commissions collapsed by 74% between their peak in 2007 and the beginning of 2009 and were showing little sign of recovery by the end of 2010.

Regrettably, this data set has been discontinued by the Office for National Statistics. However a number of deductions can be made from the RIBA future trends survey. This survey indicates that whilst there was some optimism at the beginning of 2012, by July of this year, architects were predicting that their workload would remain constant or decrease across all sectors in the next 3 months. This suggests that the outlook for construction is poor.

Where do we go from here?

David Trench, Chairman of Designing Buildings Wiki, concludes: "The construction industry accounts for around 8% of GDP and is the fundamental lynch pin in getting the UK out of recession. The full effects of the Government's austerity plans are yet to be seen and our analysis shows that once they do, total output levels could fall off a cliff if the private sector does not pick up."

"The Government is beginning to introduce policies that could help, such as re-assessing planning obligations for stalled projects, the introduction of the infrastructure investment guarantee fund and the funding for lending scheme, but it could be too little too late with the UK not reaping the rewards until at least 2013."

"The success of the London Olympics has shown us that the UK construction industry has the ability to lead the world but the Government needs to continue this momentum by encouraging financial institutions to lend. We need to facilitate growth in the private sector and unless the whole industry is content with crossing its fingers and hoping for the best, the time for action is now."

Too many people believe the tap can be turned on and off easily and the full flow of employment and economic benefit will be quickly reached. This is not the case. Construction projects have a lead time that generally takes longer than the build period - new airport facilities (such as Terminal 5) take over a decade in planning and design.

So how should the government address these issues in order to galvanise the construction industry and stimulate the economy, beyond possible plans to ease planning laws and reduce enforced quotas for social housing?

Here are Designing Buildings Wiki's top five solutions:

1. **Re-introduce tax relief on mortgages.** This would instantly encourage house builders to dust off their mothballed schemes to meet the surge in demand and affordability.
2. **Re-introduce a selective employment tax giving tax breaks for employees engaged in manufacturing.** This would help redress the balance between manufacturing and service industries and act as a catalyst for construction companies to seek out ways of prefabricating assemblies off site in factories. Inevitably this will lead to regions hard hit by the downturn capturing contracts for sites that might be hundreds of miles away.
3. **Re-introduce stock relief allowances.** This would encourage continuity of supplies instead of the current stop/go "just in time" policies that hamper efficient production right up the supply chain.

4. **Avoid focusing on new grand projects.** Instead kick start those projects that have been placed on hold, that have planning consent and that have a completed design. These are the projects where funding dried up following the banking crisis. A National Development Agency staffed by highly qualified individuals should examine such schemes and assess economic viability prior to the government standing as guarantor to a reputable funding institution.
5. **Re-introduce capital allowances.** Ernst & Young calculate that UK corporations are sitting on a staggering £750 billion, around half the UK's GDP. These companies prefer to use the cash to reduce debt, rather than take it on. To get things moving and release this cash the government should re-introduce generous capital allowances not only for plant, machinery and stock but for refurbishment of premises. Refurbishment requires short lead in times and seldom involves planning consent. It is fast turnover with labour peaking much more quickly than for new developments.

Sources of information

ONS Output in the Construction Industry, June and Q2 2012

<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-252111>

ONS Construction Statistics No. 13, 2012 Edition

<http://www.ons.gov.uk/ons/rel/construction/construction-statistics/no-13--2012-edition/art-construction-statistics-annual--2012.html>

ONS JOBS02: Workforce jobs by industry

http://www.ons.gov.uk/ons/publications/re-reference-tables.html?newquery=*&newoffset=25&pageSize=25&edition=tcm%3A77-222507

CLG Table P120: District planning authorities - Planning applications received and decided

<http://www.communities.gov.uk/planningandbuilding/planningbuilding/planningstatistics/livetables/livetablesondevelopmentcontrolst/>

RIBA Future Trends Survey

<http://www.architecture.com/Files/RIBAProfessionalServices/Practice/FutureTrends/July2012.pdf>