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Special Report
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Quarterly Snapshot: The Construction Sector

In this special report, IBISWorld analyses the key trends and events affecting the construction sector over the past three months

Despite a third consecutive quarterly decline, there are signs of optimism in the sector

Despite recording its third consecutive quarterly decline in the three months through December 2017, construction output has begun to show signs of optimism. IBISWorld values construction output over the three months through January 2018 at £39.1 billion, representing modest quarter-over-quarter growth of 0.4%. Underpinned by the highest monthly value of housebuilding output since 2007 over December 2017, and compounded by a backlog of infrastructure initiatives, it appears the construction sector has started to fill some cracks in the wall left by the Brexit wrecking ball. However, intense supply chain cost pressures have continued to weigh on the UK construction sector over the past three months. Meanwhile, sector-wide job creation for full-time positions eased as risk-averse firms increasingly turned towards subcontractors.

Snapshot statistics for the three months through January 2018

Average Risk Score	4.28*
Total Revenue	£203.4 billion*
Total Employment	1.2 million*
Average Wage	£28,062.11*
PMI (Jan 2018)	50.2**
Construction Output (Dec 2017)	£13.1 billion***
Construction Output (Jan 2018)	£13.2 billion*
Construction Output (Three months through Jan 2018)	£39.1 billion****
Quarter-over-Quarter output value growth (Nov17-Jan18/Aug - Oct17)	0.43 % ****

SOURCE: *IBISWORLD **IHS MARKIT ***ONS ****ONS/IBISWORLD

Quarterly feature: Carillion

Carillion entered into compulsory liquidation on 15 January 2018 as the company was saddled with net debts in excess of £900 million. As the company was a main supply chain partner for almost 450 public-sector contracts, the UK government will provide the funding required by the liquidator to maintain public services once delivered by Carillion's staff, subcontractors and suppliers. However, Carillion, which employed approximately 43,000 people, was engaged in numerous major construction contracts which have now fallen into limbo, including a £1.2 billion joint venture contract for High Speed 2. While it is likely that projects formerly led by the Wolverhampton-based firm will be tendered to other construction companies, questions remain regarding how Carillion's project partnerships and joint ventures will be delivered if partnership firms are unable to muster the necessary resources needed to fill the void left by Carillion. Ultimately, downstream clients are likely to face delays to project end dates, or even cancellations. Meanwhile, Carillion's private-sector supply chain partners have begun to feel the brunt of the company's bankruptcy as they now become creditors without the prospect of Carillion's credit.

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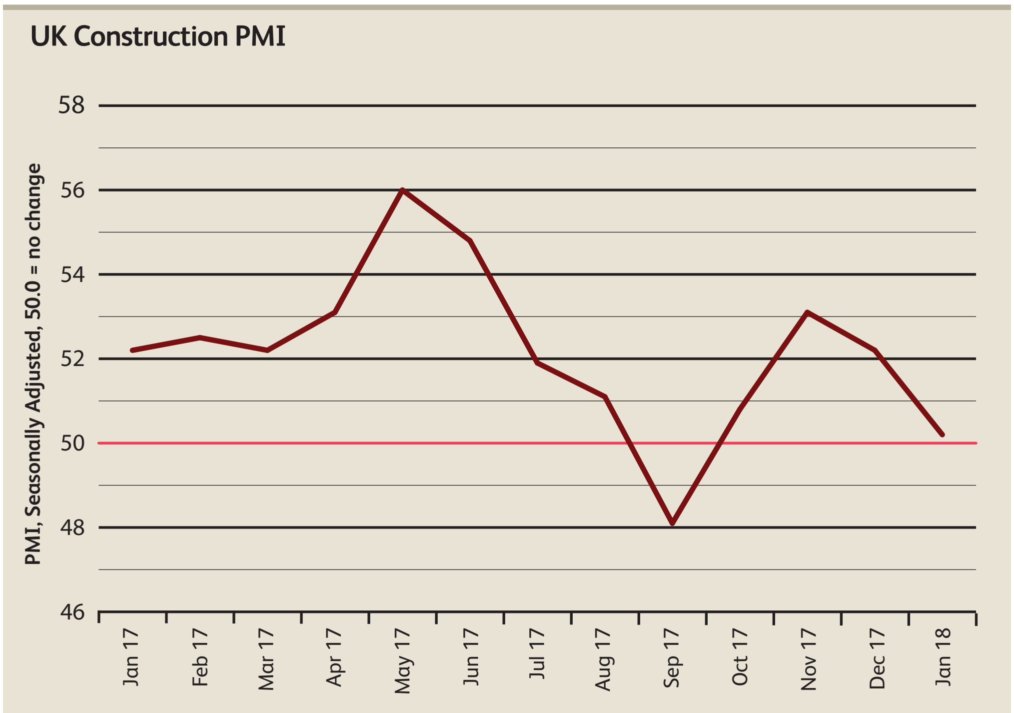
Raise the Roof: Housebuilding reaches new heights

Unprecedented housebuilding output underpinned modest overall growth in the construction sector over the past three months. The value of new residential construction output over the three-month period through January 2018 is expected to have been £10.2 billion, representing 26.1% of total construction output value. While plans to build 300,000 new homes per annum by mid-2020 appear ambitious, a supportive policy backdrop for property developers to increase the housing supply supported an upsurge in private housing and created vast opportunities for operators in the Residential Building Construction industry (see IBISWorld report F41.202). On 11 January 2018, the Housing Secretary launched Homes England, the successor to the Homes and Communities Agency, to foster growth prospects as set out in the government's housing white paper. Over 2017, housebuilders registered plans to construct over 160,000 new properties, the highest amount since the financial crisis, indicating that the consensus among construction contractors is that forward-looking opportunities reside in the residential market.

Selling dreams: The commercial market shows a hint of optimism

Month-on-month commercial output growth over the quarter through January 2018 was near stagnant, valued at just over £7 billion. A gradual recovery in new orders towards the end of 2017, as private investors and commercial businesses developed a degree of optimism, helped to stunt a decline in commercial activity seen for most of the past year. However, despite a degree of respite for contractors in the Commercial Building Construction industry (see IBISWorld report F41.201), satisfactory output was unable to rectify the long-term detriments of disrupted commercial investment activity. Moreover, investment in new high-profile commercial developments and retail space, particularly in London, remained minimal over the past three-month period as private equity investors wait for more clarity on Brexit. The value of new private commercial construction output is expected to have declined by 2.8% quarter-over-quarter through January 2018.



SOURCE: IHS Markit/CIPS UK Construction PMI

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Civil construction: Carillion's collapse has fostered doubts, but the value of infrastructure construction has grown

Despite pressure on government budgets and caution among investors, civil engineering has fostered satisfactory growth in recent months. The value of infrastructure construction output over the three-month period through January 2018 is expected to have been £5 billion, up 5.3% on the previous quarter. Following Carillion's well-documented collapse, a question mark hangs over the long-term scope of pipeline high-value projects, like High Speed 2, and the schedule for current projects, most notably the Royal Liverpool Hospital. However, an abundance of new work in the rail infrastructure market and elsewhere in road transport market has driven quarterly growth in civil engineering output.

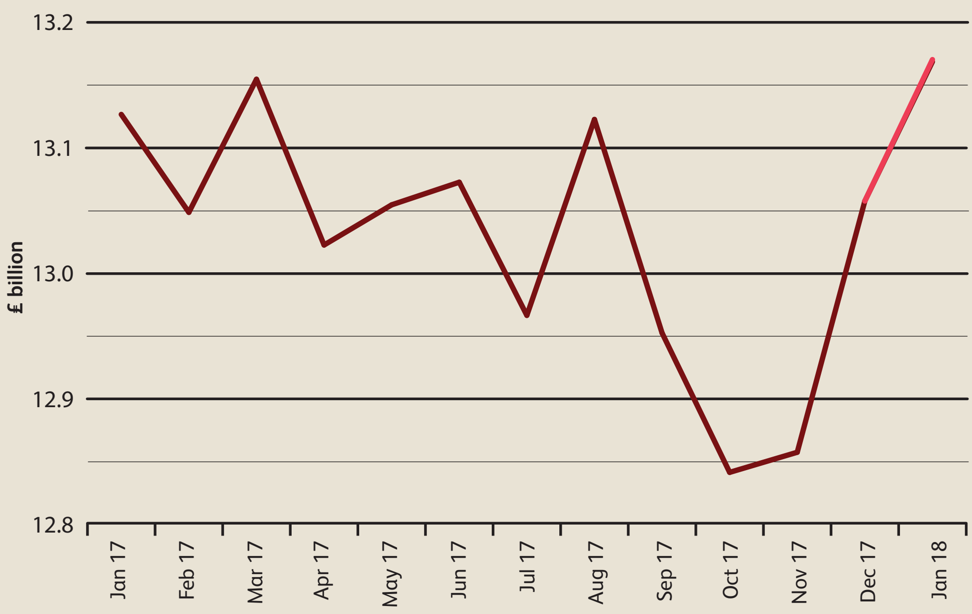
Coming up short: Subcontracted labour has assuaged the skills shortage

New job creation for permanent employees eased over the three-month period through January 2018 on the back of a long-standing construction sector skills shortage. In contrast, despite only recording marginal expansion, subcontractor usage across the sector increased at its sharpest rate since the EU referendum as lead contractors continue to stringently regulate their cost structures and attempt to close a wide skills gap with subcontracted specialists.

Unstable foundations: Supply chain cost pressures threaten bottom lines

Input prices for materials and fuels rose by 4.7% in the year through January 2018. Continuing a trend seen since the EU referendum, sharp input price inflation has piled supply chain cost pressures on construction contractors throughout the past three-month period. Despite exchange rate-driven price increases losing intensity, higher levels of new work towards the end of 2017 have pressured supplier capacity. Ultimately, lead times for construction inputs have lengthened, which has kept input price inflation high. According to the Construction Products Association, 82% of civil engineering contractors and 82% of main construction contractors reported higher raw materials prices passing through the supply chain over the final quarter of 2017.

Monthly Construction Output
Seasonally adjusted



*Pink denotes IBISWorld forecast

SOURCE: IBISWorld and the Office for National Statistics

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F41.100	Building Project Development in the UK
F41.201	Commercial Building Construction in the UK
F41.202	Residential Building Construction in the UK
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