Value of contracts awarded was 10.6% lower than January 2017

London led all regions with 32% of all contract award value

£800 million Spire London Hertsmere House development tops the projects
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Barbour ABI is a leading provider of construction intelligence services. With a team of in-house research specialists and a dedicated lead economist, it provides commercially relevant insight and unique analysis of trends and developments within the building and construction industry. Barbour ABI is the chosen provider of industry data and indicators for Government bodies including the Office for National Statistics and the UK Government’s Construction and Infrastructure Pipeline, which outlines future construction and infrastructure projects where public funding is agreed. Barbour ABI also provides data for independent organisations, such as the Construction Products Association.

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Michael Dall

Michael is Barbour ABI’s Lead Economist specialising in construction and the built environment. He leads on Barbour ABI’s research and outputs on the construction sector assessing the trends and developments which impact upon it. Michael is also a regular contributor to Building magazine, sits on the current CPA Forecasting Panel as well as being frequently noted in construction trade and the national press.

To contact Michael either:
T: 020 7560 4141
E: michael.dall@ubm.com
@MichaelGDall

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Hinderton Point, Lloyd Drive, Cheshire Oaks, Cheshire, CH65 9HQ
T: 0151 353 3500
E: info@barbour-abi.com
W: www.barbour-abi.com
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Final quarter growth for 2017 exceeds expectations

Quarter 4 data showed that economic growth increased but overall the rate slowed in 2017.

The latest economic output data from the Office for National Statistics shows that the UK economy grew by 0.5% in the final quarter of 2017. This follows on from growth of 0.4% in Quarter 4. These preliminary figures show GDP growth of 1.8% in 2017, which is marginally lower than the 1.9% recorded in 2016 (see fig. 1.1). It is evidence of a slight slowing of economic activity over 2017, with a slower first half of the year and activity picking up in the second half. This performance is much better than was predicted by both the Bank of England and the Office for Budget Responsibility immediately after the Brexit referendum. The Bank of England forecast growth of 0.8% and the Office for Budget Responsibility forecast 1.4%. However, both of these organisations forecast lower growth in 2018 and 2019 when they believe the majority of the "Brexit effect" will take place.

Annual growth

The reason for the fall in the annual rate of growth can be mainly attributed to a decline in service sector data. Quarter 4 data showed that economic growth increased but overall the rate slowed in 2017.

Other news this month on the UK economy includes:

- The Council for Mortgage Lenders reported that high street banks approved the lowest number of mortgages in nearly five years in December.
- The Bank of England signalled that it is likely to raise interest rates this year to combat the effect of strong global growth.
- UK consumer confidence recorded its highest monthly increase in a year according to a survey by YouGov and the Centre for Economic and Business Research (CEBR).
- A survey by the Society of Motor Manufacturers and Traders showed that new car sales were 6.3% lower in January than in the same month last year, with sales of diesel cars in particular significantly down.
ECONOMIC CONTEXT...

sector growth rates. This has been gradually declining since 2014 when it contributed 2.7% growth of the 3.5% annual Gross Value Added (GVA) growth. By 2015 this had fallen to 2% growth of the 2.5% annual growth rate, with similar levels in 2016 (see fig. 1.2). However in 2017 the service sector contributed only 1.3% of the total GVA growth of 1.9% indicating its waning influence and more subdued performance. The contribution from the construction sector to overall GVA also declined over the period, albeit at much lower levels, falling from 0.5% of 2.5% GVA growth to 0.3% of 1.9% total GVA growth. The only sector that had an increasing growth contribution was production (which is predominantly manufacturing) which increased from 0.2% contribution of 3.5% annual GVA growth to 0.3% of 1.9% GVA growth.

Unemployment

The labour market is still proving to be particularly robust with the level of unemployment remaining at 4.3% in the three months to November. This is the joint lowest rate of unemployment since the period March to May 1975. For males the unemployment rate was also 4.3% which is the lowest since June to August 1975 and for females it was also 4.3%, a very marginal increase from the previous month (see fig. 1.3). In numbers there are 1.44 million unemployed people in the three months to November, which is 160,000 less than the same period in the previous year. There are 768,000 unemployed men, 112,000 less than a year earlier and 671,000 unemployed women, 48,000 fewer than the year earlier. In terms of the length of unemployment for September to November 2017 there were 830,000 people who had been unemployed for up to six months, 124,000 less than in the same period a year before. There were 225,000 people who had been unemployed for between six months and one year which was 12,000 fewer than the year before. Finally, there were 384,000 people who had been unemployed for over one year, which was 24,000 less than a year earlier.

Inflation

Inflation pared back in December 2017 falling to 2.7%, down from 2.8% in November as measured by the Consumer Price Index including Housing (CPIH) index. This fall was expected since the impact of the falling value of the pound from the second half of 2016 on import costs has now worked its way through the figures. However, at 2.7% it is still above wage growth meaning real wages are still declining. The main driver of inflation in 2017 was increases in the price of transport and food and non-alcoholic drinks. Even as the overall level of CPIH increase moderated from April the influence of increasing food and drink prices continued to rise. This was offset by a fall in the level of price increases in transport and, more specifically, vehicle fuel (see fig. 1.4).

Outlook

Taken together this data shows a UK economy that is generally coping well with the headwinds currently facing it but signs that the rising level of inflation is impacting on overall consumer spending and therefore the level of economic growth is now below long term averages. The three consecutive quarterly declines in construction output is potentially a portent of a slowing investment climate. As the Brexit negotiations continue more certainty will help businesses with their investment decision process. However, given the lack of progress thus far it is difficult to assess its full impact on UK economic growth in the future.

Economic growth improved in Q4 2017 and unemployment continues to stay low despite inflation running above the Bank of England target of 2%. This is better than many predicted at the start of 2017 when it was expected that Brexit would have more of a dampening effect on the economy.
Positive growth for contract awards in January

New construction contract awards increased by 11.6% in January 2018 following downturn in December 2017, with number of projects increasing by 46.6%.

The latest figures from the ONS indicate the construction sector in the UK declined by 0.7% between Quarter 3 and Quarter 4 2017. This followed a decline of 0.7% between Quarter 2 and Quarter 3. Two consecutive quarters of decline is defined as a technical recession, so this is the interpretation from these figures. However, it should be noted that in December 2017 the industry grew by 1.6% (see fig. 2.1). The main reason for the quarterly decrease in output are falls in all types of repair and maintenance as well as private commercial work. Non housing repair and maintenance declined by 2.4% in the quarter while the corresponding private housing figure showed a decline of 1.7%. New work in the private commercial sector declined by 4.4% between Q3 and Q4. Over the same period output in the industrial sector fell by 3.1%. The one sector which continues to grow is new private residential. This sector increased by 5% in Q4 compared to Q3 2017. The challenge will be whether continued growth in housing can offset the declines in the other large sectors such as commercial.

CPA/Barbour ABI Index

The CPA/Barbour ABI Index which measures the level of contracts awarded using January 2010 as its base month recorded a reading of 127 for January (see fig. 2.2). This is a slight increase from the previous month and demonstrates that while contract activity remains higher than the base month, it is lower than this time last year. The readings for Private Housing were up over the month, and Commercial Offices continued to recover although it is still below 100, which signifies declines in activity. Commercial Retail recorded a marginal decrease in January and the reading for Industrial Factories was significantly lower.

Construction Sector

The Barbour ABI data on all contract activity indicated that the value of new contracts awarded in January 2018 was £5.4bn based on a three month rolling average (see fig. 2.4). This is 11.6% higher than December 2017 but 10.6% lower than January 2017. The number of construction projects also returned to growth in January with 46.6% increase on December 2017, but this was 19.3% lower than January 2017.
Positive growth for contract awards in January

Projects by Region
Analysis by region indicates that London had the largest share of contract award value at 32% of the UK total. This was followed by the North West with 13% of contract awards and Scotland with an 11% share (see fig. 2.3). The highest value contract awarded in January 2018 was the £800 million Spire London Hertsmere House development at West India Quay in London to provide a total of 861 residential units as well as commercial space in a 67 storey building. The highest value contract in the North West region was £100 million biomethane processing facility at Blackburn waste water treatment plant. In Scotland, the largest contract award was the £50 million Baird Family Hospital awarded to John Graham Construction which will provide new facilities as part of the Fosterhill Campus project.

Types of Project
Residential projects accounted for the highest share of contract awards values in January 2018 with a 47% share followed by infrastructure with 14% and commercial & retail with 13% (see fig. 2.5). As well as the Spire London development at India Quay, notable residential contract awards in January included the £95 million Telford Home project at Blackhorse Road in Walthamstow to provide 337 flats and the £90 million Plot L development at Angel Gardens in Manchester to provide 458 flats.

The largest infrastructure contract award in January 2018 was the £200 million Midland Metro extension between Brierley Hill and Wednesbury. Other notable infrastructure awards included the £100 million biomethane plant at Blackburn Waste Water Treatment Works, whilst one of the largest civil engineering projects was the £15 million flood defence works on the river Medway in Rochester. Within the commercial and retail sector one of the largest contract awards was the £150 million Paris Gardens development at Southwark to provide 60,751 sq m of space in a 26 storey structure, whilst one of the largest retail contract awards was the £20 million extension and refurbishment of the Cheshire Oaks shopping complex at Ellesmere Port.

Rank Project Value (£m) Region Sector
1 Spire London – Hertsmere House, West India Quay 800 London Residential
2 80 Fenchurch Street – offices & retail 200 London Commercial & Retail
3 Wednesbury to Brierley Hill extension 200 West Midlands Infrastructure
4 Paris Gardens & Hatfields – office, retail & restaurant 150 London Commercial & Retail
5 Blackburn Waste Water Treatment Works – Biomethane Process Plant – Amp 6 100 North West Infrastructure
6 Sellafield – Sprs Retreatment Facility 95 North West Infrastructure
7 Equipment Works, Black Forest Road – mixed development 95 London Residential
8 Noma Plot L – Angel Gardens – 458 flats/office 90 North West Residential
9 Alton Wind Farm – 50MW 76 Scotland Infrastructure
10 James Wolfe Road – student accommodation 75 South East Residential
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