Value of contracts awarded in March reached £5.3 billion

The South East topped the regions for contract awards with 18.5%

Infrastructure was at its lowest contract value since Barbour ABI began tracking the series
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Barbour ABI is part of global events-led marketing services and communications company, UBM.

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Growth slows in UK in 2017 while G7 economies strengthen

Quarter 4 data showed growth but overall the rate slowed in 2017, with the UK being the only economy with a slowing growth rate.

A small upwardly revision to UK GDP meant that the economy expanded by 1.8% in 2017 compared to 1.9% in 2016. Comparing this rate of growth to the other major G7 economies shows that the UK was the fifth fastest growing behind Canada, Germany, USA and France (see fig. 1.1). This contrasts markedly from the UK's position as the fastest growing G7 economy in 2016. The UK was also the only economy with a slowing growth rate in 2017 compared to 2016. Stronger domestic demand and external demand for exports has boosted growth in the other G7 economies while the United Kingdom has lagged behind. Anticipation of United States tax reform was particularly significant for global growth as it has spurred investment by US firms and boosted trade with its partners in the G7. The prospect of a trade war between the United States and China harms the longer term outlook but uncertainty related to Brexit is likely to prove a drag on the United Kingdom in the short to medium term.

A survey by GFK showed that consumer confidence increased in March with credit lending £1.6 billion up from £1.4 billion. Conditions in the housing market remained subdued with mortgage approvals falling in February to 63,910 down from 67,110 in January. A survey by Hometrack showed that average annual rate of house price growth in London was 1% compared 4.3% the previous year. A survey by the Society of Motor Manufacturers and Traders showed that new car sales were 15.7% lower in March than in the same month last year, with sales of diesel cars in particular significantly down.
ECONOMIC CONTEXT...

Further evidence from the quarterly national accounts highlights the pressure on UK consumers with the household savings ratio, which is household disposable income minus consumption, declining. The ratio in 2017 was 4.9%, the lowest annual rate ever recorded with the rate dipping to 3.7% in Quarter 1 before recovering in the remainder of the year (see fig. 1.1). This highlights the squeeze that is currently being put on UK consumers as consumption, in the form of higher prices, increases faster than disposable incomes. In fact over the course of 2017 Real Household Disposable Income (RHI) grew by only 0.3%, the lowest level since 2011.

Inflation

The level of inflation is easing however, which may provide some respite to squeezed households. The latest indicator for the Consumer Prices Index including housing (CPIH) recorded a figure of 2.5% in February, down from 2.7% in January (see fig. 1.3).

The price pressure in the transport sector has eased with the sector contributing 0.4% to the overall rise in CPIH compared to 0.8% in February 2017. The other categories have remained broadly consistent in recent months with the housing, water, electricity, gas and other fuels category contributing the largest proportion to overall inflation. Housing, water, electricity and gas contributed 0.5% of the overall CPIH figure of 2.5%, and it has consistently been the highest contributor since April 2017.

Unemployment

The labour market continued to perform strongly with the unemployment rate remaining steady at 4.3% in the three months to January 2018. The actual number of unemployed individuals increased but the proportion of working age population remained the same. The number of unemployed people increased by 24,000 up to 1.45 million in the three months to January compared to the previous three months (see fig. 1.4). Taking this small increase into account the unemployment rate remains at its lowest rate since the 1970’s. Another notable finding from the latest labour market statistics is that in terms of gender the rate of unemployment for females increased by 0.3 percentage points in the three months to January. And analysing the figures from a demographic perspective shows that the level of unemployment in the 25 to 34 year olds category is at a record low. Looking at those in work, the levels of employment continued to increase with 32.25 million people now employed in the UK in levels of employment continued to increase with the number of full-time employees, the numbers of which rose by 182,000 to 20.29 million in the three months to January, which was 168,000 more than the previous three months and 402,000 more than the same period in 2017. The majority of this change was due to an increasing number of full-time employees, the numbers of which rose by 182,000 to 20.29 million in the three months to January 2018 compared to preceding three months.

Outlook

Taken together this data shows an economy that is growing, but is underperforming compared to its peers. The UK economy is the only one of the G7 cohort to experience a decline in its growth rate, albeit a small one. However, set against such strong global growth it is a disappointing performance. Attention will focus on the Bank of England, who have hinted at increasing interest rates at its next meeting. The consensus is that this will happen but the slowing growth in the economy suggests it will be an isolated increase rather than the start of a series of rises.

ECONOMIC CONTEXT 1.3

Inflation | Source: ONS

ECONOMIC CONTEXT 1.4

Unemployment rate | Source: ONS
The latest figures from the ONS indicate the construction sector in the UK declined by 0.8% in the three months to February 2018 compared to the previous three months. This followed a decline of 0.3% in the three months to January. Construction also shrank in the monthly series with a decline of 1.6% in February and a decline of 3% compared to the February 2017 series. This is the largest month-on-year decline since March 2013.

The main reason for the three month decrease in output are falls in repair and maintenance work and new work in the commercial and industrial sectors. Total repair and maintenance declined by 2.6% in the three months to February compared to the previous three months. Within this, private housing repair and maintenance declined by 2.9% in the three month series and by 0.7% in February 2018 compared to February 2017. New private commercial work declined by 1.4% in the three month to three months series and also declined by 7.7% in February compared to February 2017. Output in the industrial sector also fell in the latest figures with a three month on three month decline of 5.7%, however it increased by 4.7% in February 2018 on February 2017 in the monthly series. The one sector which continues to grow is new private housing. This sector increased by 2.8% in the three months to February compared to the previous three months. It also increased by 7.6% in February compared to February 2017 (see fig. 2.1). The challenge for the industry remains whether continued growth in housing can offset the declines in the other large sectors such as commercial.

Construction Output
Major revisions to the construction data in the National Accounts paints a more positive picture of recent performance in construction. Construction output data is often subject upward revisions mainly due to the late returns of data to survey participants. Growth was revised upwards in all quarters in 2017 which means that the industry did not endure a technical recession (two successive quarters of negative growth) last year. In particular, the third quarter saw an upward revision of 0.7% alone meaning an initial estimate of a 0.3% decline in construction is now 0.4% growth. The result of this is that construction output growth for the whole of 2017 has been revised upwards to 5.7% from 5.1% in the previous figures (see fig. 2.2). However, the first two months of 2018 have been particularly weak in terms of growth meaning that the industry is likely to have declined in the first quarter of 2018 though the severity of that is uncertain given likely future data revisions.

Downturn in February has been followed by 8.7% increase in contract awards for March, with residential and industrial the leading sectors.

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<td>All New Work</td>
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<td>• Infrastructure</td>
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CONSTRUCTION SECTOR...

Construction Sector
According to Barbour ABI data on all contract activity, the value of new construction contracts awarded in March 2018 was £5.3 billion based on a three month rolling average (see fig. 2.4). This is an 8.7% increase on February 2018 but 18.3% lower than February 2017. The number of contracts awarded in March was 594 which is 0.3% lower than February 2018 and 9.6% lower than March 2017.

Projects by Region
The South East was the region with the largest share of contract awards value in March at 18.5%, followed by the North West with 15.9% and London with 14.6% of contracts award values (see fig. 2.3). The highest value contract award in March was in the North West and was the £159.7 million project by Kier Living to provide 256 residential units as well as a neighbourhood centre and retail units at Preston Road in Longridge, Lancashire. The largest contract award in the South East was the £70 million project to provide 507 student bedroom accommodation and associated retail space at Cumberland Place in Southampton. In London, the highest value contract was the £100 million Hare Wharf development at Tottenham to provide 505 residential units over five storeys on a 2.28 hectare site.

Types of Project
In terms of project types, residential accounted for the largest share of contract awards in March 2018 with 49%, followed by industrial with 13% share and commercial and retail with 10% share of contract awards (see fig. 2.5). The dominance of the residential sector meant that in March 2018 three out of the top five contract awards were for residential projects which had a total combined value of £329.7 million. The highest value residential contract was in the North West with the £159.7 million development at Preston Road in Longridge. The highest value industrial contract was the £70 million Amazon Distribution Centre at the East Midlands Gateway in Castle Donnington. Other notable industrial contract awards included the £50.5 million temperature controlled distribution facility by P & O Developments at London Gateway. Salford was the location for the largest commercial and retail contract in March 2018 with the £50 million office building development at 100 Embankment. Other notable commercial and retail contracts included the £40 million redevelopment of the former Taff Vale Shopping Centre in Pontypridd and the £23.3 million project in Plymouth to provide a new The Range retail outlet and associated offices.

Source: Barbour ABI
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