



Construction and Housing Forecast Bulletin GB

UK 2020-2024

48th edition


AMA Research



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1. EXECUTIVE SUMMARY

This Forecast Bulletin takes the latest information available from ONS quarterly construction data and Barbour new orders data to provide a current view on construction. Being a year like no other, 2020 has been hard to predict throughout. The construction sector has proved itself resilient with a stronger than expected bounce back in Q3, meeting pent up demand. While demonstrating that it can continue, changing working practices to suit conditions, the demand for construction services is very much dependent upon the fortunes of individual sectors.

Sectors with the best 'bounce back' were housing, commercial and infrastructure. Of these, Infrastructure is most likely to continue positively through 2021. Sectors with the greatest downturn are industrial and commercial overall (especially retail). While there will be recovery, for the commercial sector this may be small, probably at around 5% growth through 2021.

Looking forward therefore we see a split between growth sectors and slow down; there could also be a division between big players taking work in the growth sectors, pulling materials and other resources in this direction, while smaller players work more piecemeal and face increased material costs. The divide could well be between gaining strength through size and collaboration or gaining power through a specialist niche - consolidation or innovation.

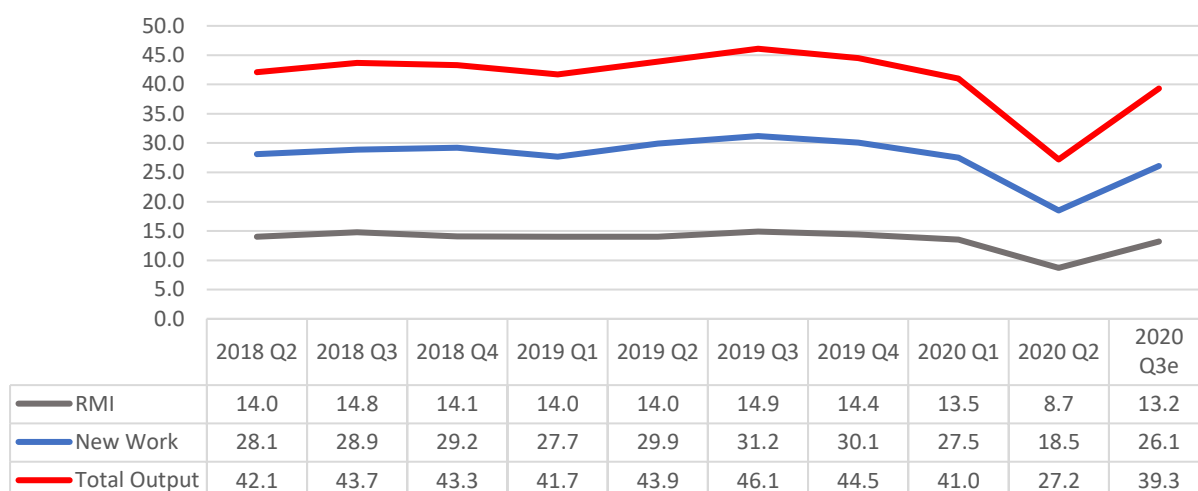
The economy is expected to end 2020 10.5% down and only return to pre-Covid levels by Q1 2022. Our question is: how has construction fared in this context, and what will 2021's recovery look like?

In summary, we anticipate a gradual recovery at rates of 3 to 5% per year through to 2024 and beyond. When recovery is slow it forces us to think. When it's no longer business as normal, it gives impetus to change. Those investing for the long term are re-evaluating how and where to spend. It is these changes in strategy that are fuelling new growth areas for construction, while putting others into decline.

With private sector investment being re-evaluated, building back better will rely heavily on public sector spend to keep progress, keep momentum and provide the work, training and experience to encourage new people into construction. Axing the autumn budget in favour of a Comprehensive Spending Review which in turn has also been axed, dashes the opportunity to provide confidence through a reliable program of investment and instead gives spending a short term one year focus, intended to support jobs and tackle Covid-19 but potentially not as well suited to building back better.

Some of the long term issues in construction of labour shortages and wage inflation are still present, but there are new forces impacting. With jobs scarce elsewhere, the necessity for training schemes is higher than ever to bring new people into construction. Adapting to safely-distanced working has changed the way things are done, new Site Opening Procedures have been put in place, necessity has delivered greater efficiencies in scheduling teams and work on site. Off-site working has gained further impetus too with increased pace of innovation in modular building and standardised approaches. While profits and output have been held back in 2020, working practices, collaboration and focus on efficiency have propelled forward.

**Chart 1: Quarterly Construction Output Q2 2018 to Q3 2020
- £bn at current prices**



Source: ONS/AMA Research Ltd

1.1 Construction overview and forecasts

- Total construction output for H1 2020 was -21% when compared to the same period in 2019, reflecting the impact that Covid-19 had had on the economy up to that point, the majority of which was seen in Q2 of this year.
- H2 performance is likely to be offset somewhat by the lifting of social distancing restrictions seen within Q3 of this year, but overall output will be hindered, although not likely at the same level as seen in Q2, by new lockdown measures introduced in Q4.
- These figures are in line with previous projections of -19% total output growth forecast for 2020 end of year.
- Preliminary data for Q1 2020 showed the year started with a decrease of 12% on previous quarter with a total quarter output of £43bn. This followed a 2% decrease in Q4 2019. Restrictions on work in Q2 2020 have led to a decrease estimated to be at 44% for the quarter. There has been significant rebound in Q3 but we anticipate Lockdown 2 in November will have a negative impact once more.
- In early 2020, the construction sector was optimistic, if subdued. A positive planning pipeline was tempered with uncertainties regarding finance of some key projects. As the year has played out, we look to emerge from 2020 with a very different view. Our previous forecasts warned of potential further unsettling disruption from a second wave. Now this has materialised, we see impact again on consumer spending, business confidence, investment levels and funding priorities.

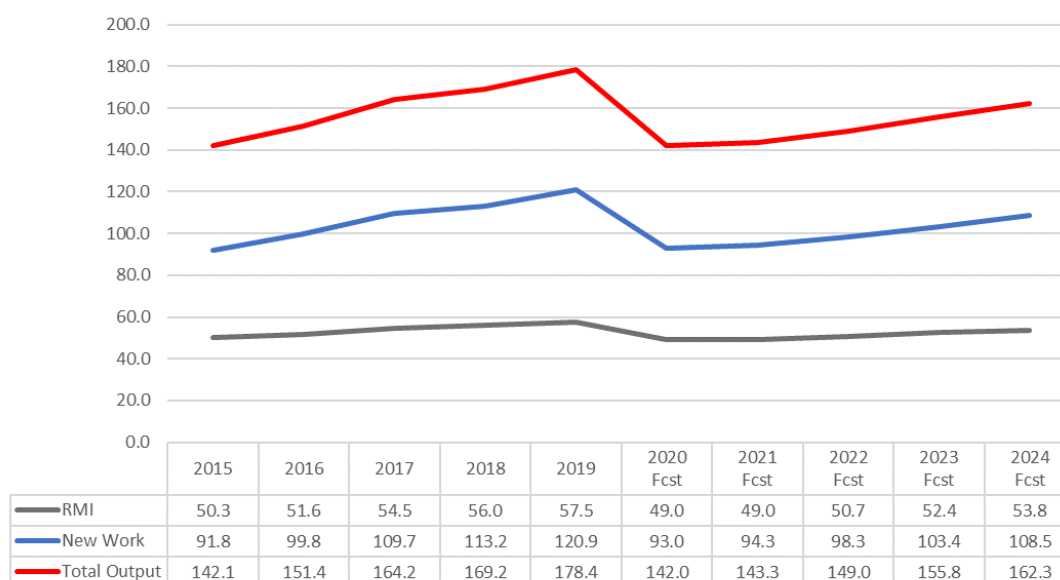
- The impact of the pandemic has left all sectors down, but some with quicker routes to recovery than others. While not a strong place from which to brace against the impact of Brexit in 2021, there has certainly been a concentration of minds, alignment of priorities and all-construction effort to maximise efficiencies and find new ways of working, all of which will increase the sector’s adaptability to new challenges.
- We look forward to stabilising, if slow, growth through 2021. Over the longer term, this has the potential to bring all construction output to just over £162bn by 2024, representing a five-year decline of 9%. Scrutiny of the detail requires a more florid calligraphy than the simple U, V, W or L- shapes described in many commentaries early in the pandemic.
- For context, the previous five-year period (2015 to 2019) saw total construction increase by 26%. Things will feel very different through the forthcoming recovery period.
- Future scenarios are beginning to take account of more fundamental changes to ways of life and operating as we adjust to living with the virus and responding to some of the positive cultural shifts that have arisen through the lock-down period.

**Table 2: Construction Output (GB) 2015 to 2024 by value
(£bn at current prices)**

	2015	2016	2017	2018 Revised	2019 Prelim	2020 Fcst	2021 Fcst	2022 Fcst	2023 Fcst	2024 Fcst
Total Construction Output	141.5	151.2	164.1	169.2	177.6	144.6	145.9	150.6	157.1	164.4
% change	+ 5	+6	+9	+ 3	+ 5	- 19	+ 1	+ 6	+ 4	+ 5

Source: ONS/AMA Research Ltd

**Chart 3: Construction Output (GB) New Work and RMI 2015 to 2024
- by Value (£bn at current prices)**



Source: ONS/AMA Research Ltd

1.1.1 New work

- New work accounts for 66% of all construction and forecasts suggest this proportion will have minimal change over the next five years.
- The non-residential sector share of new work in 2020 is forecast to be 63%, slightly higher than normal as a result of the greater impact on housebuilding of the pandemic.
- In recent years new growth in the non-residential sector was boosted by buoyancy in the infrastructure, agriculture, industrial and entertainment sectors countering decline in office and retail sectors. With entertainment sector construction now in decline, growth is more reliant on infrastructure in particular.
- A decline of 21% is anticipated for new work in 2020 with all sub-sectors likely to be affected. This will be followed by gradual growth of 1 to 5% through to 2024 when overall new work output will be around £109bn.
- The pipeline for new work is challenging. Typically volatile in normal times, new orders are likely to be especially difficult to project over the coming years.

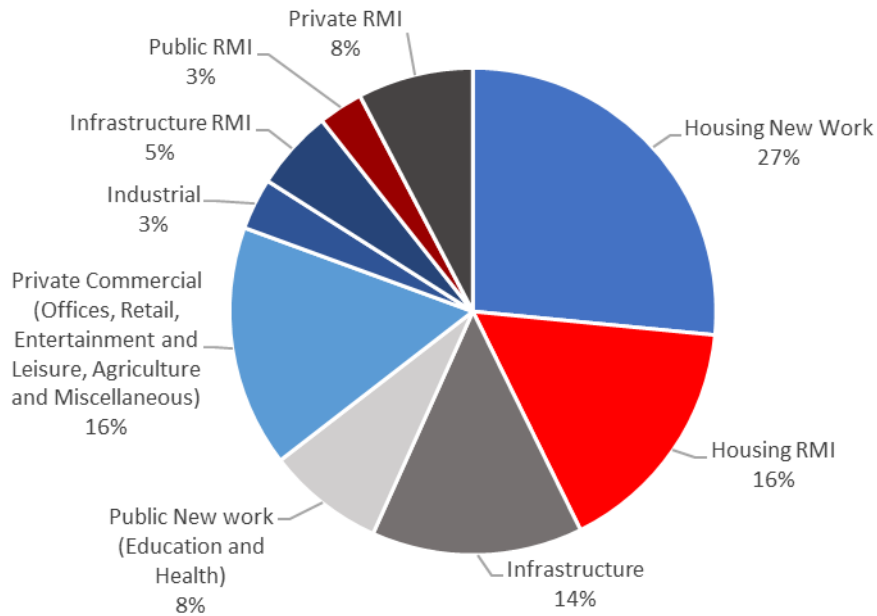
1.1.2 RMI

- Total RMI output decreased by an estimated 36% in Q2 2020 with a 43% decrease for residential RMI and 28% decline for non-residential RMI.
- While much of this recovered in Q3, with estimated growth of 44%, as pent up demand put supplies of labour and materials under pressure, a second lockdown is now impacting on ability to work, especially in homes, so we expect to see decline in Q4.

- Forecasts indicate that RMI is not likely to recover to 2019 levels by 2024.

1.2 Sector Highlights and Forecasts

Chart 4: Construction Output by Sector 2019



Source: ONS/AMA Research Ltd

1.2.1 Residential

- The residential sector is forecast to show the greatest shrinkage in 2020 with 24% decline for new work and 8% decrease for RMI.

1.2.2 Non Residential

- Though total output for the non-residential sector touched the £100bn threshold in 2019 it looks set to drop back close to £81bn in 2020 with a forecast 20% decrease.
- This decrease may be slightly worse for RMI, anticipated 21% down, while new work is expected to be down 19%.
- For context, in the previous recession we saw declines in non-residential overall output of 12% in 2009 and 9% in 2010.

2. INTRODUCTION

AMA's Quarterly **Construction Forecast Bulletin (GB)** provides a snapshot of construction today along with future perspectives on the pipeline of work on a sector by sector basis, taking a five-year forward view.

The bulletin covers both the residential and non-residential construction sectors. Analysis in current prices considers both new work and RMI activity across both public and private sectors. The residential and non-residential sectors are each reviewed in detail.

The main sub-sectors under analysis include:

Within residential

- New Build
- RMI

Within non-residential

- Offices
- Retail
- Entertainment & Leisure
- Health
- Education
- Infrastructure
- Industrial
- Agriculture and others

The report is compiled using Barbour ABI planning data alongside government statistics and further drawing on a wide range of other sources, including existing published data, websites and trade magazines. This is supported by interviews with construction product suppliers, distributor and other industry figures. AMA's expertise in researching construction and related sectors enables insightful analysis of the market and key factors influencing the trends and forecasts we report.

This edition of the bulletin features the preliminary data for **Q3 2020** for output and new orders for total GB construction, as well as the residential and non-residential sectors, though this may be subject to revision in the short-medium term. Please note that for each quarter of 2020 insufficient data was available for ONS to provide sub-sector splits so our estimates and forecasts at this level are based on in-house data and trend analysis.

3. ECONOMIC OVERVIEW

3.1 Pre-Covid-19 impact

- Brexit and political uncertainty held back the UK economy in 2019. A decade of growth-impairing austerity has left the economy structurally weak, with high consumer and business debt and low public and private investment. The certainty of the December election result and the UK's withdrawal bill gaining accession failed to produce a bounce in GDP, with output in December to February flat.

3.2 Economic impact of Covid-19

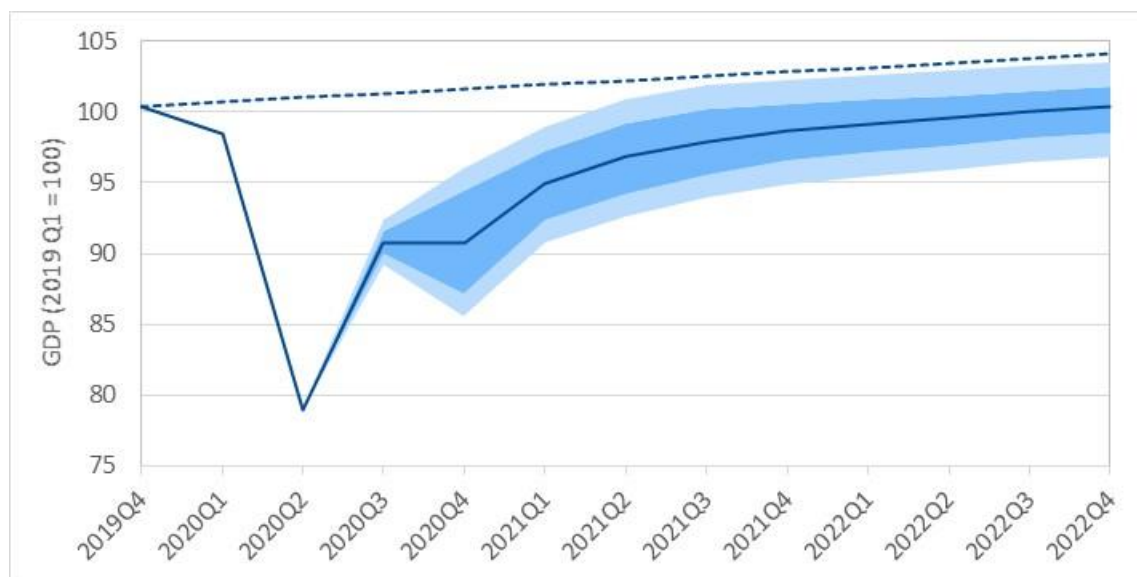
- GDP in April contracted by a record 20% as the UK hit the bottom of the Covid-19 trough. Output fell by around 25% over March and April. While the size of the fall in output is now clear, the path back to previous levels remains highly uncertain.
- The economy recovered strongly over June and July as activity resumed with many sectors putting social distancing in place. Activity recovered by 18% over May to July. However, in August the recovery faltered, despite low infection rates and a summer mini budget giveaway, growing by 2% compared to expectations of 5%.
- The re-emergence of significant Covid-19 cases in the population over September and October has now led to a month-long lockdown in November in an attempt to reduce the R-rate below 1. This will further impair the already stuttering recovery in Q4.
- Hopes for a faster recovery are increasing with Pfizer announcing a very successful initial vaccine trial. However, even with a vaccine available, activity will still struggle to bounce back: redundancies between July and September were a record high. Unemployment will increase significantly leading to unavoidable economic scarring. Social distancing will still be required for the near future impeding immediate recovery. Our view therefore is that the recovery will remain protracted.
- We have developed several different scenarios for the future path of GDP, taking the depth of the contraction and the length of recovery into account, combining them into a single "most likely" path for GDP. The scenarios' characteristics are summarised in the table below. This forecast assumes no subsequent lockdowns after December 2020.

Table 5: GDP Path Scenarios

Scenario	2020 H1 GDP Contraction	Duration of Recovery	Main Recovery Period
Faster	-22%	Q3 2020 - Q1 2021	Q2 2022
Slower		Q3 2020 – Q1 2022	Q4 2022
Productivity challenges		Q3 2020 – Q1 2022	Not before 2024

Source: AMA Research Ltd/Barbour ABI

Chart 6: GDP Growth 2019 to 2021



Source: AMA Research Ltd/Barbour ABI

- After a contraction in Q2 2020 of 20%, GDP has recovered by around 15%.
- We expect the second lockdown to impede activity in Q4. Activity restrictions are less onerous than before and the length is expected to be shorter, so the impact will be lessened and recovery faster.
- There remain many downside risks. With social distancing restrictions in place immediate recovery of lost output is highly unlikely. Increasing company insolvencies and labour market redundancies, plus high debt levels among consumers, firms and government are likely to act as a drag on growth. The Covid-19 crisis will therefore cause a loss in productive capacity in the economy.
- A disruptive or disorderly Brexit remains a major risk in early 2021. We are now at a critical point in the negotiations to avoid significant trauma.
- After the recent vaccine development announcements, we have updated our more optimistic scenario to the upside.
- The table below shows the path for GDP by quarter.

Table 7: GDP Growth Table Q1 2020 to Q4 2021 (%)

	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Central Path	-2.0%	-19.8%	15.0%	0.0%	4.7%	2.0%	1.2%	0.7%	0.5%	0.4%	0.4%	0.4%
25th Percentile	-2.0%	-19.8%	14.0%	-3.2%	6.0%	2.0%	1.5%	1.0%	0.6%	0.5%	0.5%	0.4%
75th Percentile	-2.0%	-19.8%	16.0%	3.1%	3.0%	2.0%	1.0%	0.4%	0.3%	0.3%	0.3%	0.4%

Source: AMA Research Ltd/Barbour ABI

- We also provide a forecast of key economic variables up to 2022 in the following table.

Table 8: Key Economic Variables 2019 to 2022

	2019	2020	2021	2022
GDP change (%)	1.4%	-10.5%	8.2%	2.8%
CPI Inflation (%)	1.8%	0.6%	2.0%	2.5%
Base Rate (%)	0.75%	0.10%	0.20%	0.30%
Unemployment Rate (%)	3.8%	5.0%	7.5%	5.0%
Average Earnings Growth (%)	2.8%	-4.0%	4.0%	3.0%

Source: AMA Research Ltd/Barbour ABI/ONS/Bank of England

3.3 Inflation

- Headline CPI inflation has averaged 0.6% since April, falling from 1.8% in January. It is expected to trend significantly below the Bank of England's target in the short term as demand remains subdued and the oil price remains low.
- However, inflationary spikes are anticipated in goods where demand outstrips supply and/or where demand patterns reduce significantly as a result of new conditions (especially in the case of a disruptive Brexit).
- As the economy recovers, inflation will pick up as deflationary impacts unwind and the oil price rebounds.

3.4 Interest rates

- The Bank of England is expected to maintain ultra-low base rates for the medium-term, only increasing the base rate conservatively as the economic situation improves. High levels of debt among governments, businesses and households will necessitate an interest rate policy at ultra-low levels for the foreseeable future.

3.5 Unemployment

- ONS data for September showed that redundancies have now increased to record levels. Unemployment will follow and has started to trend upwards in August and September, with the jobless rate jumping to 4.8% over the July-August period, compared to 4.1% in the summer.
- The government furlough scheme has now been extended until March 2020 which may temper some of the increase in unemployment. Nonetheless significant increases are still expected. Unemployment is often slow to fall so the expectation is for higher unemployment to continue over 2021 and 2022, acting as a drag on the recovery.

3.6 Average earnings

- Earnings are anticipated to contract over the short-term as unemployment increases. A larger reduction should be avoided due to government intervention to support businesses. Average earnings are expected to recover in line with the economy outside the near term.

4. HOUSEBUILDING SECTOR

Table 9: Residential Construction Output (£bn at Current Prices) 2015 to 2024

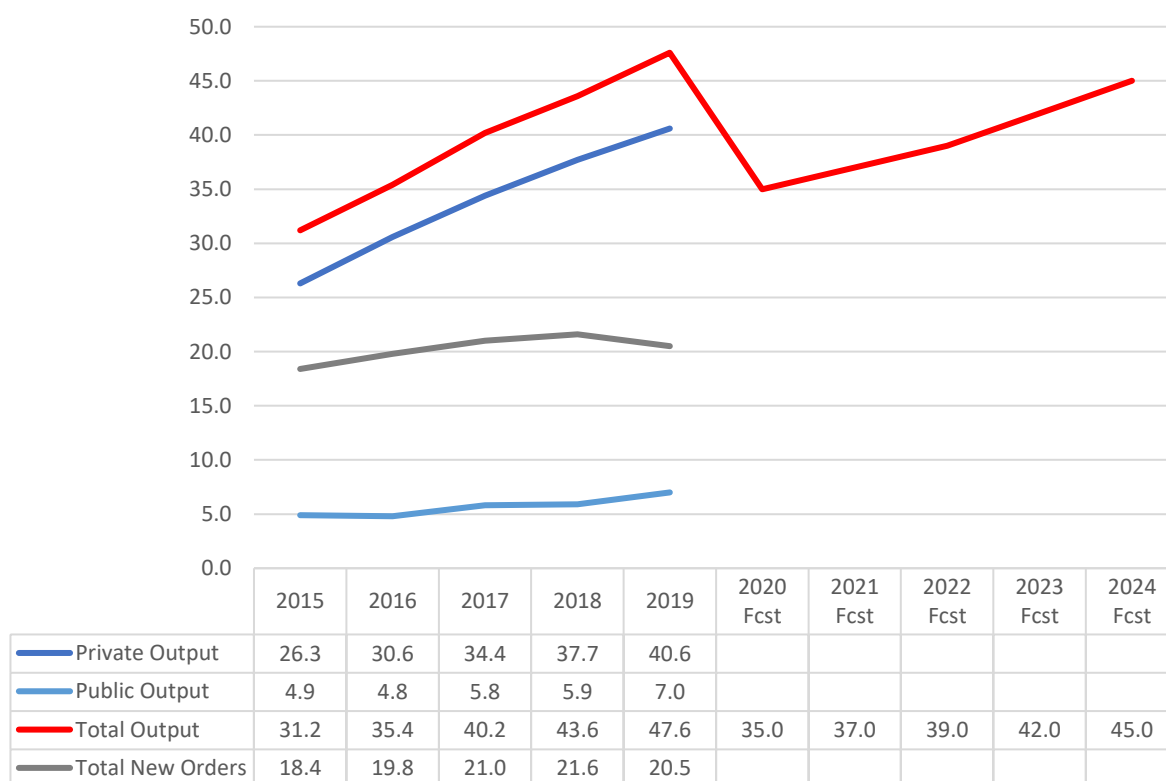
	2015	2016	2017	2018 Revised	2019 Prelim	2020 Fcst	2021 Fcst	2022 Fcst	2023 Fcst	2024 Fcst
New Work	31.2	35.4	40.2	43.6	47.6	35.0	37.0	39.0	42.0	45.0
% change	+ 6	+ 13	+ 13	+8	+ 9	- 24	+5	+ 6	+ 8	+ 7
RMI	26.2	27.1	28.5	28.7	28.8	26.4	25.6	26.3	27.1	27.9
% change	- 2	+ 4	+ 6	0	+ 1	- 8	- 3	+ 3	+ 3	+ 3
Total New Work and RMI	57.4	62.5	68.6	72.2	76.1	61.4	62.6	65.3	69.1	72.9
% change	+ 4	+ 9	+ 10	+ 5	+ 5	- 19	+2	+ 4	+ 6	+ 6

Source: ONS/AMA Research Ltd (Some numbers do not sum accurately due to rounding)

- Overall newbuild output for 2020 is estimated to decrease by a conservative 24%, while some industry commentators are suggesting it could be around 30%.
- RMI output is not expected to be as badly impacted due to both the higher degree of fragmentation across the contracting sector and because after the end of the first lockdown, there was a surge in demand for GSI (Get Someone In) services, to remedy botched DIY works undertaken by homeowners during lockdown.

4.1 Newbuild

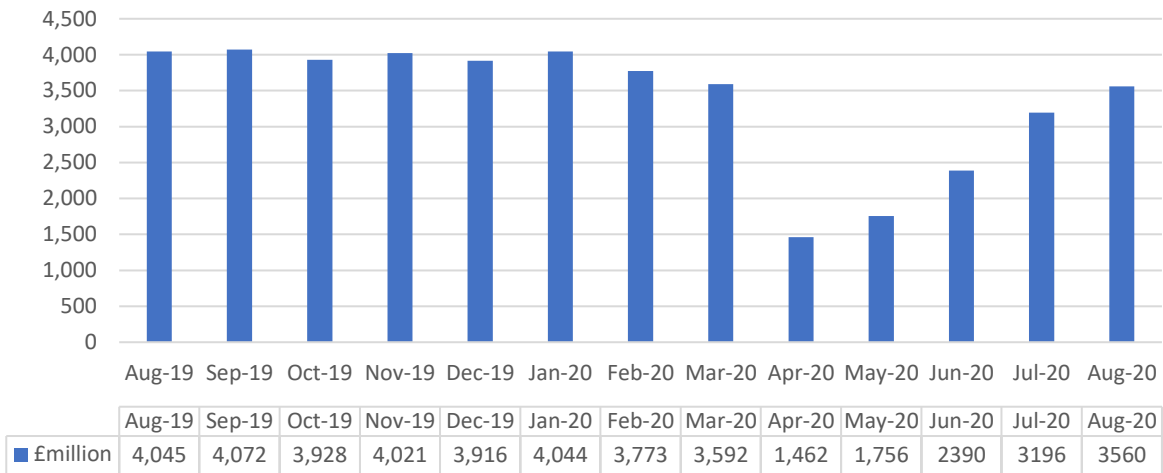
Chart 10: GB Private and Affordable Housebuilding Contractors Output 2015-2019 and Output Forecasts 2020 to 2024, by Value (£bn at Current Prices)



Source: ONS/AMA Research Ltd

- At the start of 2020, it looked as if it was going to be another year of growth for the private housing sector. Mortgage fixed-interest rates in Q1 were at their lowest for over 5 years, while in February mortgage approvals reached 73,660. However, with the onset of the pandemic and the exponential increase in cases and then the first lockdown, mortgage approvals plummeted in April, reaching a low point of just 9,273 in May.
- In April 2020, housebuilding had been the worst impacted of all construction sectors by the pandemic, accounting for around two-thirds of total project numbers and more than half the total value of projects put on hold during lockdown. This equated to around £38bn, in contrast to around only £2bn worth of projects confirmed as ongoing at the time.
- Most national and larger regional housebuilders had temporarily closed down all their sites and sales offices, although many smaller developments did remain active.
- Following the lifting of the first lockdown, contractors' output has grown month-on-month, by August almost reaching pre-lockdown levels seen in March. This is due to the larger housebuilding groups returning to full operations.

Chart 11: Monthly Housebuilding Contractors Output by Value August 2019 – August 2020 (£m at current prices)



Source: Office for National Statistics ‘Output in the Construction Industry’ April 2020

- However, most housebuilding activities during Q2 had been focused on completing developments originally scheduled for the period of the lockdown. During Q3 there was a marked return to the level of starts typical for summer.
- In June, with the easing of lockdown measures, there has been a resumption in house sales, albeit from a much lower base, signalling some recovery in the housing market. Some lenders are trying to re-stimulate growth using incentives such as re-introducing 75% LTV mortgages.
- While there has been some recovery in the build-to-sell and social housing sectors, it has been the build-to-rent sector where recovery has been the strongest in Q3. In this sector Q3 starts soared by 70% on Q2. Across Q1 to Q3, investment volumes totalled around £2.7bn, a similar level to the whole of 2019.
- Starts, completions and contractor outputs will all be much lower for 2020 than in recent years. Effectively there has been three months of inactivity, with key construction periods of late Spring and early summer lost, suggesting that output could be a third lower than in a normal year. The impact of social distancing measures on sites means it is unlikely builders will have been able to make up for the time lost.

**Table 12: New Housing Starts and Completions
(England, Wales and Scotland) (000's) 2015 to 2024**

	2015	2016	2017	2018	2019	2020 Fcst	2021 Fcst	2022 Fcst	2023 Fcst	2024 Fcst
Starts	177,755	179,750	190,352	196,632	181,641	146,000	154,800	167,180	179,000	190,000
% change		+ 1	+ 6	+3	-8	- 20	+ 6	+ 8	+ 7	+ 6
Completions	168,903	165,442	186,816	191,334	206,757	175,740	179,000	188,000	195,500	201,380
% change		- 2	+ 13	+2	+ 8	- 15	+ 2	+ 5	+ 4	+ 3

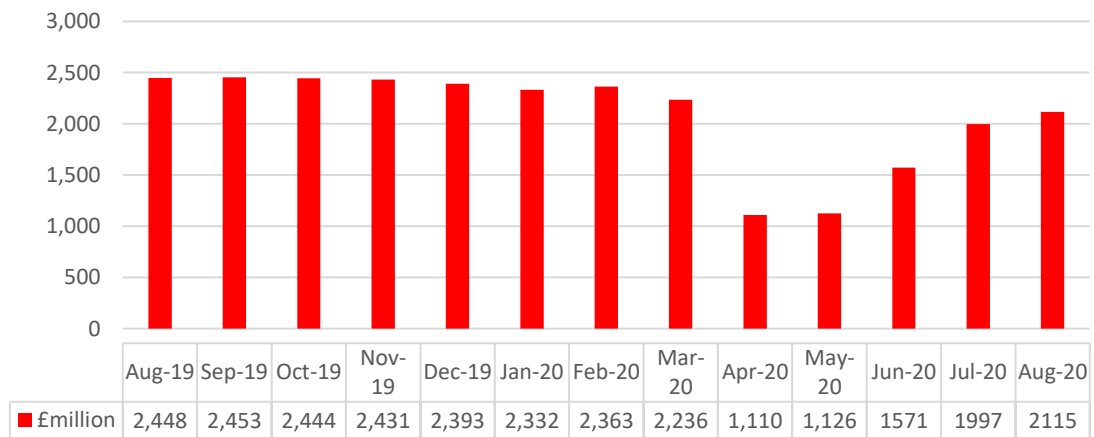
Source: ONS/AMA Research Ltd (Some numbers do not sum accurately due to rounding)

- While interest rates remain on the lower side, mortgage deals are likely to remain competitive, although interest rate rises could easily stifle growth in demand.
- In 2021, we forecast a modest recovery in completions and a higher increase in starts. Underpinning this is the extension of the Help to Buy equity loans scheme in England to 2023. Thereafter, it may be superseded by the government's new First Homes scheme, targeted at keyworkers with offers of discounts up to 30%. Furthermore, there are over 120,000 BTR homes in the development pipeline as of Q3, including those under construction and others with approval or soon to be approved or turned down.
- Against this, ongoing difficulties in the overall housebuilding sector may persist. The level of mortgage applications and approvals could be lower than in 2019 due to lower levels of confidence in the market among potential homebuyers and lenders. Lenders may also impose tighter restrictions on borrowing and unemployment levels will probably rise substantially, once furlough schemes end and more businesses go into liquidation. We would therefore expect demand for new homes to be impacted although offsetting this will be the continuance of Help to Buy and other financial assistance schemes
- On the downside, as well as the probability of the pandemic lasting well into 2021, it appears the government will not yield to pressure from many to extend the 'Brexit' transition period beyond 2020. Uncertainties concerning the security of building materials supply chains and a possible worsening of the shortage of skilled labour - if EU workers decide not to return to the UK – are likely to depress new orders and constrain the levels of starts and completions in 2021.
- Over the medium term to 2024, the ongoing shortage of housing will continue to underpin the need for housing of all tenures, in particularly social rent, affordable rent and private rent. In the private rental sector, a key driver for demand is a forecast decline in the number of small-scale private landlords who had originally entered the sector due to favourable buy-to-let mortgage rates. With the recent implementation of increased levels of taxation on additional residential properties, the anticipated exit of many buy-to-let landlords should open up opportunities for BTR investors and developers.

4.2 Housing RMI

- It needs noting that ONS data on RMI output is based on returns from contractors but does not include DIY output. As such data for private housing is on lower side.
- With the outbreak of Covid-19, monthly output fell during the April-May peak of the first wave of the pandemic. However, with the easing of lockdown, growth in output increased from June as demand for trades services increased due to the need to re-do badly done DIY jobs and catching-up on backlogs of local social housing work. However, output levels have yet to reach the levels seen in Q3 2019.

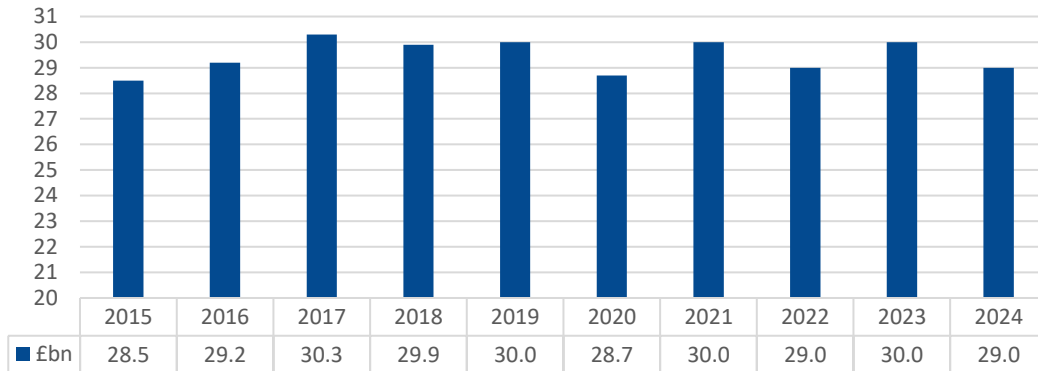
Chart 13: Monthly Housing RMI Contractors Output by Value (£m at seasonally adjusted current prices) August 2019 – August 2020



Source: Office for National Statistics 'Output in the Construction Industry' August 2020

- Following the easing of the lockdown from mid-May, in England the MHCLG published advice confirming that social housing landlords' repair obligations remain unchanged. As tenants have a right to a decent, warm and safe home to live, it is in the best interests of both tenants and landlords to ensure dwellings are kept in a good state of repair. In practice this means that, in the social housing sector at the start of the easing of lockdown, landlords were faced with a backlog of work that they must address.
- Housing RMI output tends to fluctuate by small amounts each year but because RMI typically comprises very large numbers of small works for a wide and fragmented customer base it is hard to make forecasts.

Chart 14: GB Housing RMI Contractors Output 2015-2019 and Forecasts 2020 to 2024, by Value (£bn at Current Prices)



Source: Office for National Statistics 'Output in the Construction Industry' April 2020

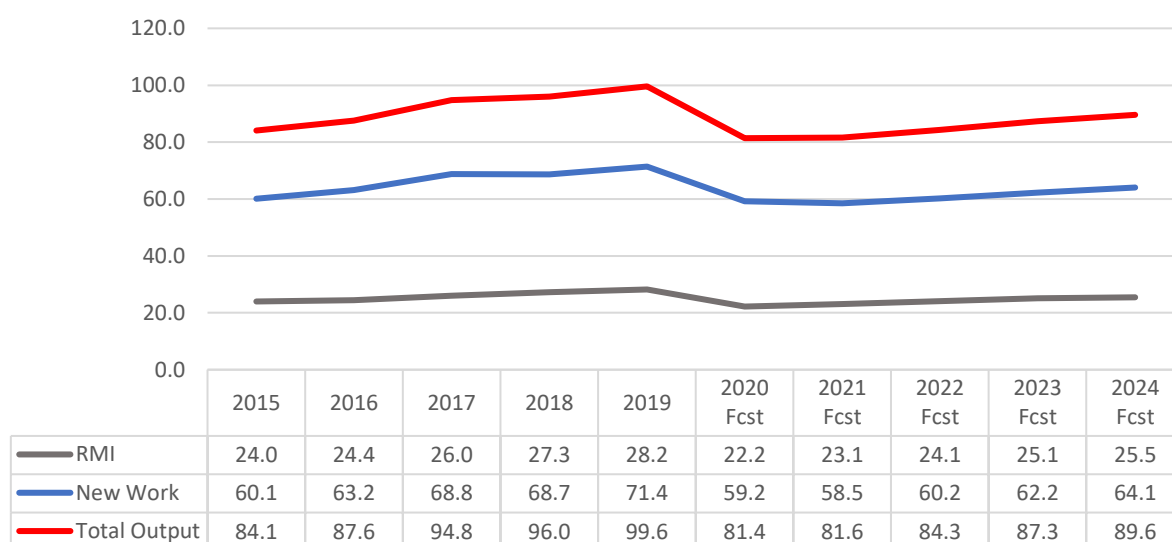
- For 2020, output will have decreased more than is typical from year to year due to the impact on demand of the two lockdowns. Thereafter, it is expected that it will return to normal levels although there are unknown factors that can drive demand up or down. For example: a long, very cold winter could accelerate demand for plumbing services if pipes freeze and burst. Or, a downturn in house-moving levels is likely to drive up demand for extensions and room conversions as it has done in the past.

5. NON-RESIDENTIAL SECTOR

5.1 Overview and forecasts

- Total output for the non-residential sector in Q3 2020 is estimated to be £22.0bn, an increase on Q2 of 25%, but 18% down on the same period last year. 2019's volatile quarterly view (decreases in Q1 and Q4 of 2% and 3% and increases in Q2 and Q3 of 3% and 8%) now looks steady by comparison.
- The non-residential sector continues to hold 57% of total construction output, unchanged since 2018.
- Non-residential new orders increased by 6% to a value of £42.4bn in 2019. The 2020 pipeline is weak meaning a return to 2019 total output levels is not envisaged before 2025.

Chart 15: Non-Residential Output, 2015-2019 with forecasts to 2024
- by value (£bn at current prices)



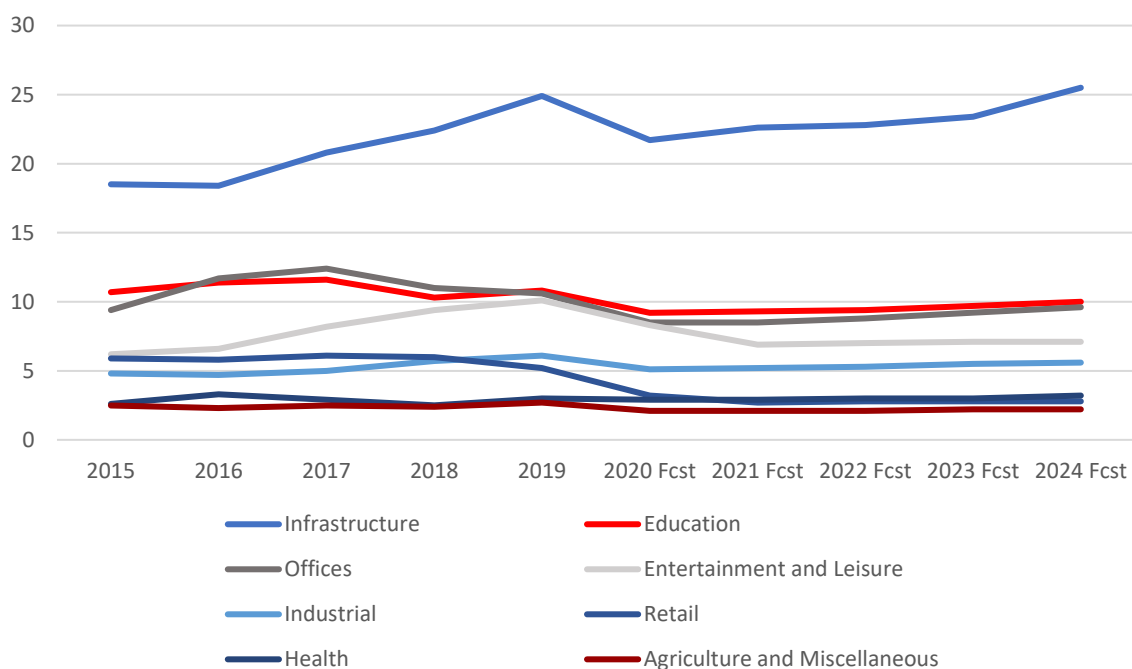
Source: ONS/AMA Research Ltd

5.1.1 Sector forecasts

- Unsurprisingly, there has been decline in every sector during 2020 caused by the majority of sites closing down during the first lockdown in March and April (for further details on these site closures and reopenings, see the AMA Research Covid Impact Reports).
- During this time Health and Infrastructure were the main sectors to see continuity of work, or new work.

- Construction was quick to get operational once lockdown was eased and focus was on building out and completing existing projects. Accommodation was made for social distanced working and schedules made more efficient. However, supply of materials proved difficult in some areas.
- Changing demands have impacted the kind of projects that are now in demand. Infrastructure projects continue and are seen as a means to get Britain building back better. The Industrial sector has benefitted from increased demand for warehouses.
- Sectors showing more doubtful recovery include retail, offices and education, all of which have had fundamental consumer behavioural change as a result of the pandemic.
- Our forecasts indicate slow recovery, only some sectors see return to 2019 levels by 2024. The commercial sectors - offices, leisure and entertainment and retail - will take longer to recover, as will education. Most positive growth in the short term will be for the infrastructure sector.

Chart 16: Non-Residential Construction New Work Output by Sector, 2015 to 2024 - by value (£bn at current prices)



Source: ONS/AMA Research Ltd

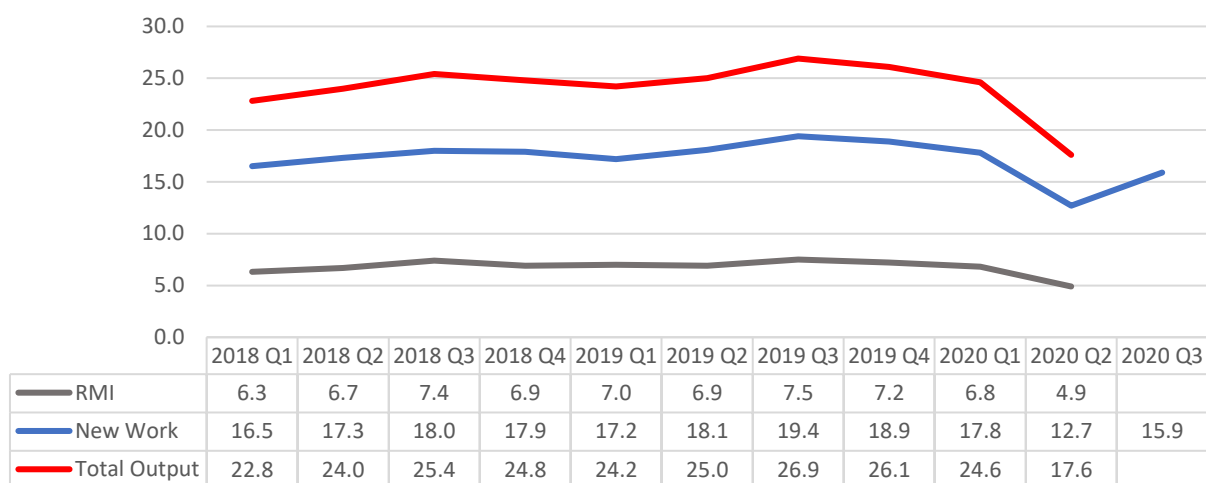
- Overall non-residential output is forecast to decline by 20% in 2020. Real increase may not be seen until 2022 at which point annual climbs of 3 to 4% will bring total output to just under £90bn by 2024. This is around 17% lower than our pre-Covid forecasts for 2024.
- Both new work and RMI will be impacted in 2020, forecast to experience decreases of around 19% and 21% respectively. RMI should recover more quickly than new work with a 3% rise anticipated for 2021 while new work may still be in decline into next year.

**Table 17: Non-Residential Construction Output by Sector
2015 to 2024 - by value (£bn at current prices)**

	2015	2016	2017	2018 Revised	2019 Prelim	2020 Fcst	2021 Fcst	2022 Fcst	2023 Fcst	2024
New Work										
Infrastructure	18.5	18.4	20.8	22.4	24.9	21.7	22.6	22.8	23.4	25.5
<i>% change</i>	+ 23	0	+ 13	+ 8	+ 11	- 13	+ 4	+1	+ 3	+ 9
Education	10.7	11.4	11.6	10.3	10.8	9.2	9.3	9.4	9.7	10.0
<i>% change</i>	+ 13	+ 7	+ 2	- 11	+ 5	- 15	+1	+ 1	+ 3	+ 3
Offices	9.4	11.8	12.4	11.0	10.6	8.5	8.5	8.8	9.2	9.6
<i>% change</i>	+ 16	+ 26	+ 5	- 12	- 4	- 20	0	+ 4	+ 5	+ 4
Retail	5.9	5.8	6.1	6.0	5.2	3.2	2.7	2.8	2.8	2.8
<i>% change</i>	+ 4	- 2	+ 5	- 2	- 12	- 32	- 16	-2	+ 2	+ 1
Ent and Leisure	6.2	6.6	8.2	9.4	10.1	8.3	6.9	7.0	7.1	7.1
<i>% change</i>	+ 3	+ 6	+ 25	+ 15	+ 7	- 30	- 17	+ 2	+ 2	+ 1
Industrial	4.8	4.7	5.0	5.7	6.1	5.1	5.2	5.3	5.5	5.6
<i>% change</i>	+ 11	- 2	+ 5	+ 14	+ 7	- 16	+ 2	+ 2	+ 4	+ 2
Health	2.6	3.3	2.9	2.5	3.0	2.9	2.9	3.0	3.0	3.2
<i>% change</i>	- 16	+ 28	- 12	- 14	+20	- 3	0	+ 3	0	+ 7
Agri and Misc	2.5	2.3	2.5	2.4	2.7	2.1	2.1	2.1	2.2	2.2
<i>% change</i>	- 26	- 7	+ 10	- 4	+ 13	- 22	0	0	+ 5	0
Total New Work	60.6	64.3	69.5	69.7	73.4	61	58.5	60.2	62.9	66
<i>% change</i>	+ 12	+ 6	+ 8	-	+ 5	- 17	-1	+ 2	+ 3	+ 5
RMI	24.0	24.4	26.0	27.3	28.2	22.2	23.1	24.1	25.1	25.5
<i>% change</i>	- 3	+ 2	+ 7	+ 5	+ 3	- 21	+ 4	+ 4	+ 4	+ 2
Total New Work and RMI	84.6	88.7	95.5	97.0	101.6	83.2	83.3	85.3	88.0	91.5
<i>% change</i>	+ 6	+ 5	+ 8	+ 2	+ 5	- 18	0	+ 2	+ 3	+ 4

Source: ONS/AMA Research Ltd (Some numbers do not sum accurately due to rounding)

Chart 18: Non-Residential Construction Output New Work and RMI, Q1 2018 to Q3 2020 - by Value (£bn at current prices)



Source: ONS/AMA Research Ltd

5.2 New Work

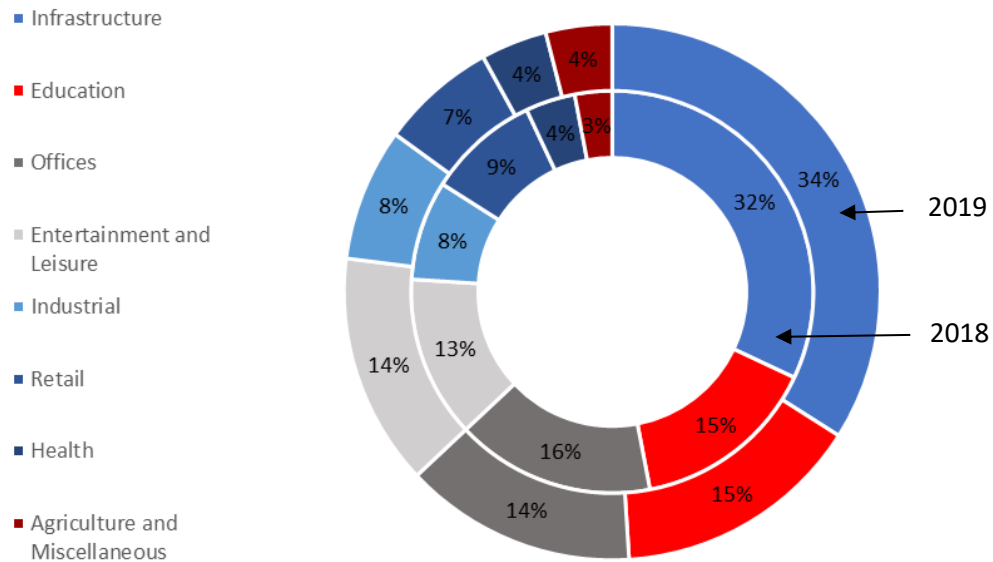
- The non-residential sector accounts for the largest share of new work, currently at 63%.
- Following a drop of 29% in Q2, quarterly new work output increased by 25% in Q3 to £15.9bn. This sector has experienced underlying growth since Q4 2016 and therefore offers the strongest potential for recovery post Covid-19.

5.3 RMI

- Q2 non-residential RMI was down 28% at £4.9bn. While we are still awaiting data for Q3 it is anticipated that this will show some good recovery as work missed in Q2 is caught up on and the overall forecast for non-residential RMI in 2020 is £22.2bn, a drop on previous year of 21%.
- RMI figures are not collated on a sub-sector basis; figures are only available for public, private and infrastructure sectors.
- Non-residential RMI work will continue to benefit from the need to maintain and improve buildings/structures in order to maintain current and future service levels or improve quality. Added to this will be increased focus on repurposing buildings in response to changing activity patterns and social distancing requirements which may boost RMI activity.
- Following the downturn in 2020, non-residential RMI is forecast to have annual growth rates of 3 to 4% through to 2024 when output is forecast at around £26bn. Output recovery will be determined by need for larger-scale improvements and extensions and whether the sentiment is positive or such programmes are delayed or cancelled.

5.4 Sector Analysis

Chart 19: Non-Residential New Construction Output by Sector, 2018 and 2019 - % by value

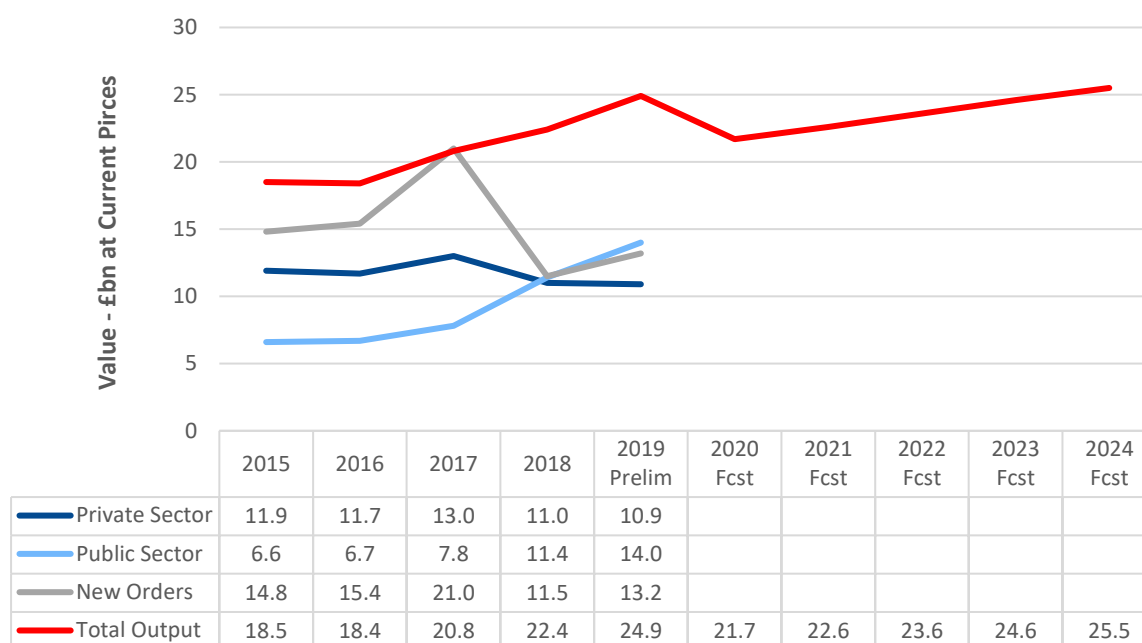


Source: ONS/AMA Research Ltd

- A comparative view between 2018 and 2019 provides context of where we started at the beginning of 2020. Fluctuating growth during the previous decade had brought most sectors back to pre-recession levels. In the main, the non-residential sector was positioned for growth.
- Infrastructure, the largest sub-sector, had increased value share to 34% in 2019, underpinned by good growth for railways, harbours and the gas, communications and air sector.
- Also gaining modest share between 2018 and 2019 was the entertainment & leisure sector, underpinned by 7% increase in output value 2018-19.
- While the education, industrial and agriculture sectors all saw output share remain static between 2018 and 2019, the offices and retail sectors experienced an output share decrease of 2%.
- The following sections detail how each non-residential sector has fared so far during 2020 with their outlook through to 2024.

5.4.1 Infrastructure

**Chart 20: Infrastructure Output (Private & Public Sectors) and New Orders
2015-2019 and Total Output Forecasts 2020-2024
- by value (£bn at current prices)**



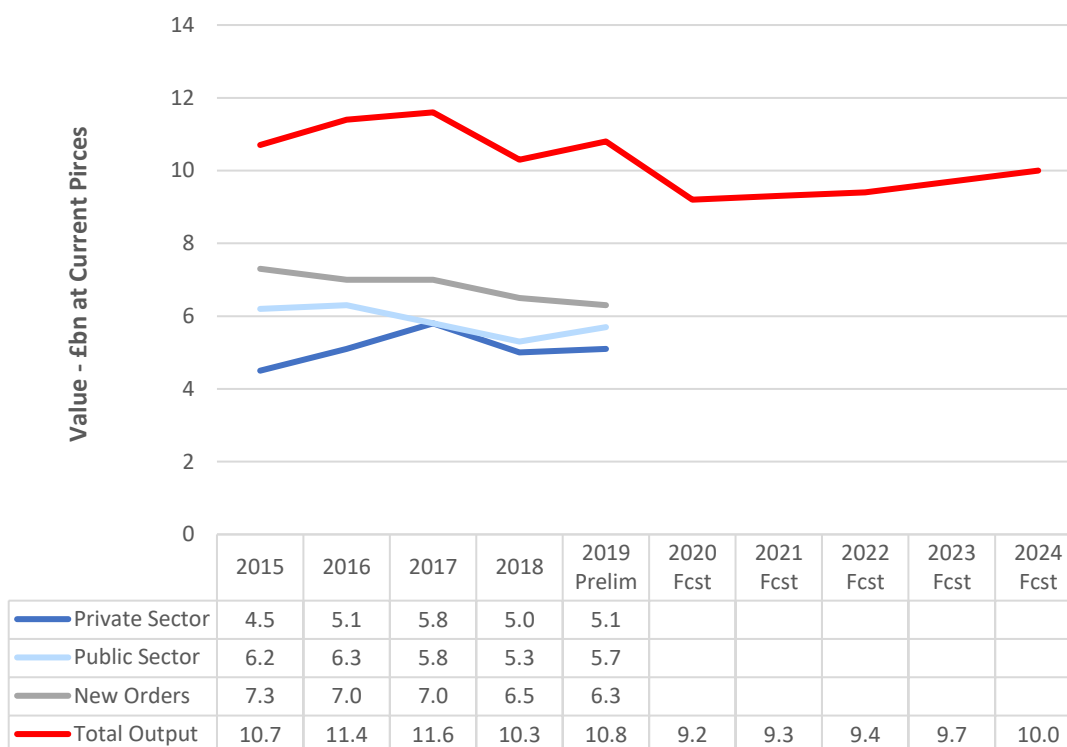
Source: ONS/AMA Research Ltd

- The short-term outlook for Infrastructure is for 13% decline in output in 2020 followed by annual growth rates of 4 to 5% to 2024 when output is forecast to reach £25.5bn.
- Typical volatility in infrastructure new orders is evident with H1 2020 showing 101% increase in Q1, at a value of £5.8bn, followed by 71% decline in Q2 to £1.7bn. Q2 value is the lowest for infrastructure new orders since Q2 2011.
- Infrastructure new orders increased by 15% in 2019 reaching £13.2bn and following 45% decline in 2018. Recent volatility in new orders values is partially due to the letting of some very high value transport and electricity contracts between 2017 and 2019.
- Growth for the infrastructure sector is underpinned by projects in the road, rail and electricity sub-sectors. Large scale regional and national projects dominate across all seven of its sub-sectors, often with staged completions. This tends to add volatility to the output curve on both a quarterly and annual basis.
- Project delays due to Covid-19 have made the prediction of such quarterly spikes and troughs even more difficult to pinpoint hence a certain degree of “smoothing” has been employed when framing the medium-term forecast.

- The railways sector took the largest share of infrastructure output in 2019 at 33% but this has reduced to 29% in H1 2020 due, in part, to good growth for the electricity sector. Both sectors will continue to provide impetus for growth into the medium-term due to the larger scale rail electrification and improvement programmes (as well as *HS2*), while increased renewable energy connections and the Grid connection for *Hinkley Point* will boost electricity output growth.
- The roads sector is also likely to provide impetus for output growth over the medium-term following the award of several large scale trunk road and motorway improvement schemes by Highways England during the late summer and early autumn of 2020.
- Transport and energy together result in around 60% of the UK's CO2 emissions. In order to deliver on plans of net zero by 2050, developments in infrastructure are a critical part of our future planning.
- Infrastructure accounted for 21% of non-residential new work output in 2019 achieving value of £24.9bn, having increased by 11% on the previous year. The sector includes both public and private output which accounted for 56% and 44% of infrastructure new work respectively in 2019.
- The multi-regional/national focus and large scale of many infrastructure projects means that infrastructure will continue to remain the largest non-residential sub-sector into the medium-term and beyond. Projects such as *Hinckley Point C* and the initial works on *HS2* are beginning to place a positive slant on quarterly output levels and this should continue into the short-medium term and beyond.
- The safe working distance initiatives instigated during the first Covid-19 lockdown in Spring 2020 should ensure that the majority of infrastructure projects will be able to continue with less disruption during the November 2020 lockdown.
- Potentially the largest negative influence on infrastructure output could be the access to adequate finance given the disruption to business confidence and investment due to Covid-19 with potential further disruption also possible due to the shape of the final Brexit trade deal.

5.4.2 Education

Chart 21: Education Output (Private & Public Sectors) and New Orders 2015-2019 and Total Output Forecasts 2020-2024 - by value (£bn at current prices)



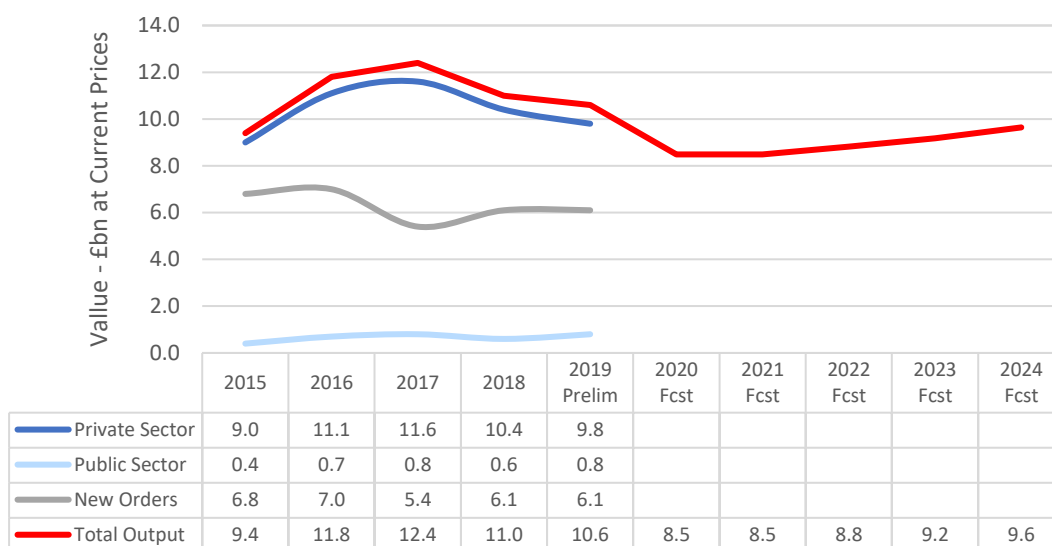
Source: ONS/AMA Research Ltd

- The Covid-19 pandemic has brought to the fore unique challenges for UK education that are likely to have a profound impact on the future direction of education capital spending into the medium-term and beyond.
- The education sector has faced considerable changes to normal operation levels in 2020. The need to adapt and improve teaching practices and facilities in order to achieve an acceptable level of service delivery will be the focus for organisations in the short-term.
- Education has been exempted from the November 2020 lockdown restrictions in England as infection rates in school and university pupils remain relatively low compared to other sectors of the UK population. While this underlines the commitment of the current Government to ensure standards and achievements remain as normal as is possible, it will continue to place pressures on budgets as funds are redirected away from improvements to existing and new build facilities into other aspects such as IT infrastructure to provide online learning facilities.
- The higher education sector is also facing a more uncertain future with the global pandemic particularly affecting the numbers of non-UK based students enrolling at UK universities and impacting university revenues.

- While there may be some investment in higher education research facilities, particularly for bio-sciences, as a direct result of the pandemic, other funding streams previously sourced through EU wide programmes and initiatives are now less certain.
- The outlook for education output is short term decline followed by steady, if modest, annual increases of around 2 to 3% to 2024 when output is forecast to be £10bn, below the 2019 level of £10.8bn and well below the 2017 peak of £11.6bn.
- Education new orders have been on a downward trend since the peak of £9.5bn in 2008 to around £6.5bn in 2019 - an overall decrease of 32%.
- Education RMI is likely to remain positive into the medium-term due to the necessary repairs and scheduled maintenance programmes that large and concentrated footfall creates.
- In addition, changes to the curriculum and the upgrading of facilities to embrace technological changes and equipment are also likely to underpin education RMI output to 2024 and beyond.
- The need to accommodate “bulge” years should also provide impetus for both new facilities as well as improvements and extensions to existing facilities as these bulge years move through the education system.
- Education accounted for 15% of non-residential new work output in 2019. The public sector share of this has been eroded from 58% in 2015 to 53% in 2019. Meanwhile, private sector organisations have taken increased risk responsibility for some larger-scale projects.
- Extant programmes focused on the improvement of primary, secondary and further education facilities - such as *Priority Schools Building Programme*, *FE Colleges* and *University Technical Colleges* – have been much delayed by the need to find a replacement for PFI funding schemes.
- The funding mechanism for public sector schools continues to be a focus for attention with calls to refine, or even replace, the “per pupil” funding systems that means that some establishments in rural areas are placed at a disadvantage.

5.4.3 Offices

Chart 22: Offices Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2020-2024 - by value (£bn at current prices)



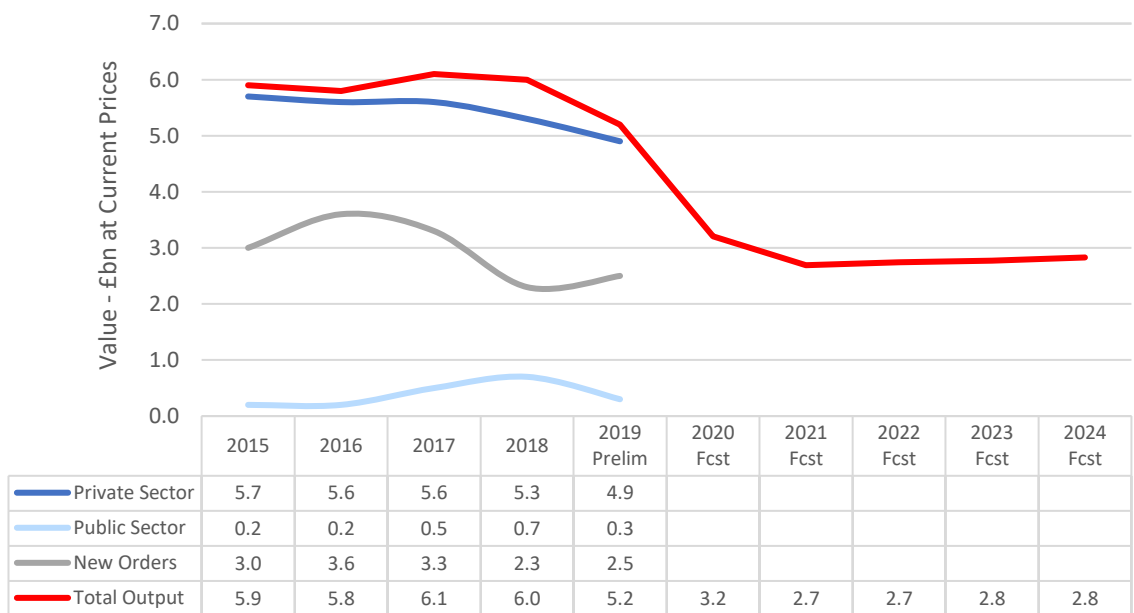
Source: ONS/AMA Research Ltd

- Overall in 2020 the office sector is forecast to decline by 20%. Weakened sentiment is driven by the reduced need for formal office space as a result of social distancing requirements and the increase in people working from home. This has led to an increased availability of leased space.
- £4.4bn worth of contracts have been awarded in this sector in 2020 to end of Q3, over 60% of which was awarded in H1. Signs of improvement are appearing though within the awards for H2 in terms of number of and value of projects. Q3 alone has seen 38% of contract awards for the year by number and by value.
- The contract awards in the 2020 pipeline will translated to output throughout 2021 (22%), 2022 (38%) and beyond.
- The largest, and least quantifiable, influence on the sector is the effect that the adoption of new working practices will have on demand for both new and refurbished office space. If working from home (WFH) continues to go well, there is potential to extend this as a normal working practice. With greater interest in WFH, and many companies fast tracking their digitalisation programmes, there may be a reduction in the office space required. This will be exacerbated in the short term by social distancing restrictions on office occupancy.
- There is an expectation among businesses to cut back on office space over the next few years, and there is an increased focus on health and wellbeing for employees. We anticipate an increase in the current trend towards mixed use development with existing retail units and some entertainment developments blending with office space.

- The main concern in terms of development is investment. Negative perceptions the UK government’s handling of the COVID-19 situation and continued uncertainty surrounding Brexit certainly mean investors are more hesitant.
- Apparent within the Offices sector, and other Private Commercial Sectors, is that ‘one size fits all’ no longer works. Working from home/remotely is now common practice and working hours and patterns are changing and both employers and employees will need to be more flexible in order to survive.
- Office RMI output will be influenced by the level of demand for refurbished office space. While there had appeared to be confirmation of the return to established “churn” within the office rental market over the last 3 to 4 years, events of 2020 have thrown a number of unknowns back into the mix. However, this area could benefit from changes to offices as a result of changing working practices and social distancing requirements.

5.4.4 Retail

Chart 23: Retail Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2020-2024 - by value (£bn at current prices)



Source: ONS/AMA Research Ltd

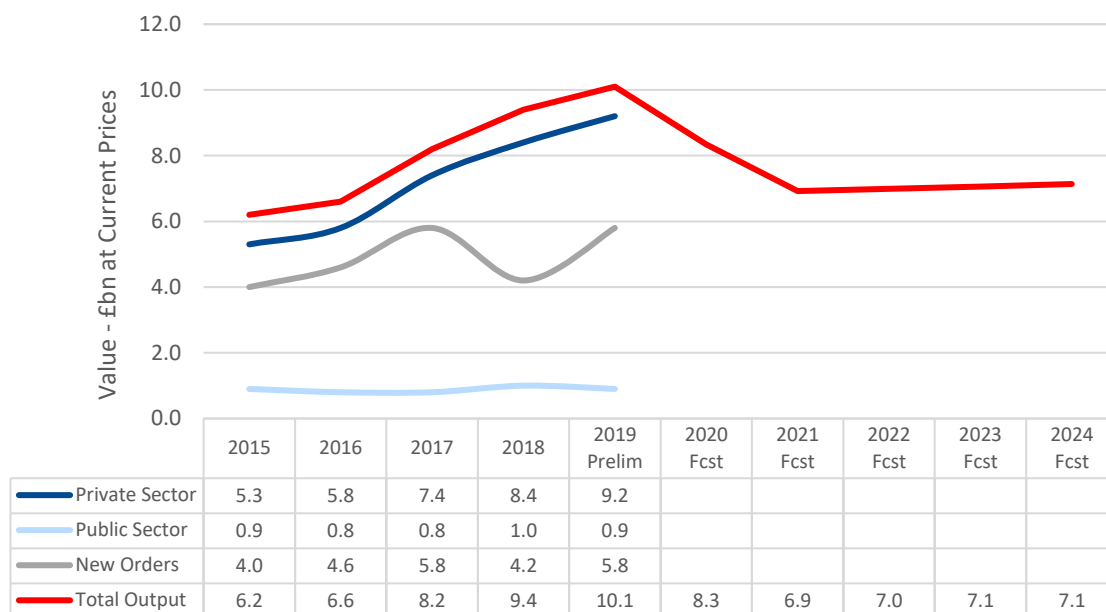
- Retail construction output forecasts for 2020 and beyond are working on the basis that 2020 effects were worse in Q2, encouraged by performance seen within Q3 but halted by lock down measures introduced in Q4.
- 2020 retail construction output is expected to decline by around -39% as construction within retail is put under heavy strain by reduced sales, hesitant cash flows from investors, and the negative effect bought upon by the temporary closures of bricks and mortar buildings.
- Increasing online sales and the move towards increased e-commerce activity, heightened by the lock down imposed in Q4, will be the mainstay of improved sales and company

revenues. For construction this will likely direct investment towards warehouse facilities to enhance distribution capabilities supporting the shift towards online purchasing and click and collect.

- Where online sales are eating into trade within bricks and mortar stores, especially with Q4 historically being a valuable time of year for retailers, commercial property owners and local councils are working towards applying 'meanwhile uses' of buildings, supported by the need for flexible premises by smaller businesses within other areas such as locally needed services i.e. health and wellness/fitness centres.
- New orders/contract awards within retail construction were down 31% for H1 2020 vs H1 2019.
- Retail construction new orders are expected to remain low through Q4 2020 with business sentiment starting to waver again as a result of a further lock down period.
- With around £1bn worth of contracts awarded within the retail sector in 2020 so far, September's £141m worth of awards was the starting to show promise of a build back to levels closer to January's £365m. However, with a new lockdown now in place as of November, the award values are likely to reduce again making the pipeline for future output weaker still.
- There is a positive outlook reflected in an increase in value of new orders expected to translate as output for 2021, although sentiment may still be hindered by forthcoming Brexit proceedings. There is potential for new orders to decrease still into 2021, making the outlook for 2022 and beyond even weaker.
- Retail continues to be supported by consumers wanting and needing to buy. Social distancing restrictions and consumer caution have driven retailers, including food retailers, to online purchasing channels. The November lockdown has pushed consumers to prepare early for Christmas this year with many retailers rolling out Christmas stocks sooner than normal. This will hopefully boost revenues for retailers and in turn encourage development plans, but as mentioned before, this is more likely to be channelled into the retail warehouse route.
- Despite this activity, the effects of reduced, and for some ceased, trading in the early months of 2020 and again in November 2020 will mean financial investment will be weak. Spending prioritisation may mean that new warehousing facilities, although much needed, might not be viable for some retailers. The shift is therefore likely to be a slow one, more attainable to the already larger retailers, especially those within the food retail channels, and those with funding available from the historic, albeit modest, rise in retail revenues over the last four years.
- The larger retail companies are somewhat better served to withstand the effects of COVID-19, although they are not immune, with the likes of M&S releasing losses for the first time in many years and John Lewis taking the decision to let go some of their partners.
- As support in the form of the of the furlough scheme or the Coronavirus Job Retention Scheme (CJRS) offered by the government is set to continue through the new period of lockdown, sentiments are a little stronger, but it does pose the question what will happen once this has come to an end?

5.4.5 Entertainment and Leisure

Chart 24: Entertainment & Leisure Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2015-2024 - by value (£bn at current prices)



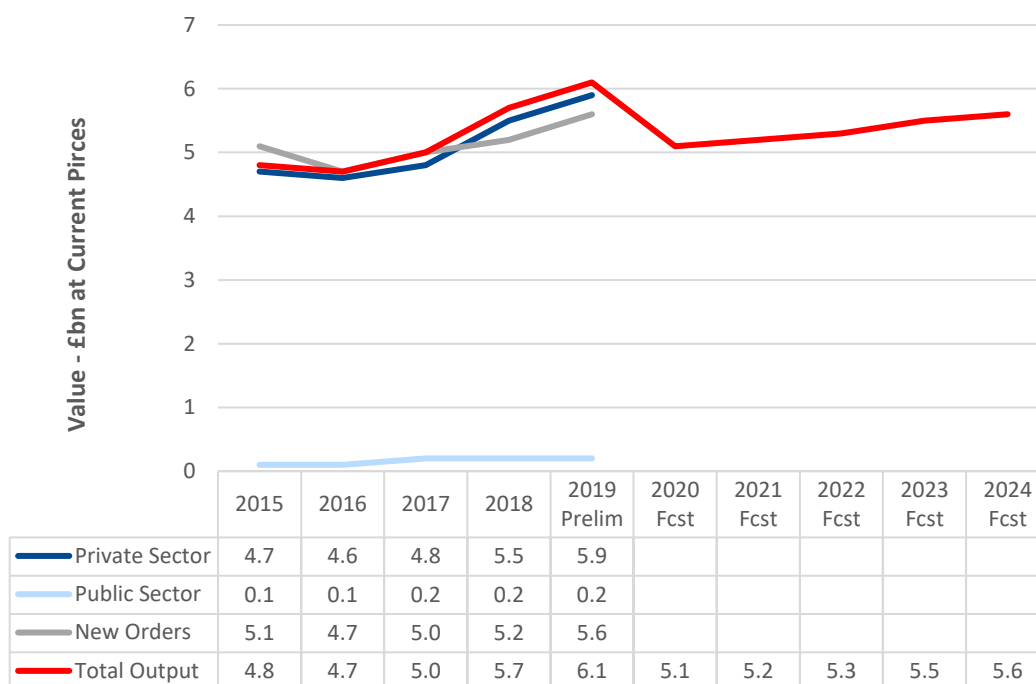
Source: ONS/AMA Research Ltd

- The significant standstill seen within the entertainment & leisure sector earlier this year made for a rather bleak outlook for the remainder of 2020. However, sentiment has improved as revised forecasts for 2020 show initial projections of a 29% decline in the sector have now improved to a forecasted 17% decline for the year.
- £2.5bn worth of contracts were awarded in 2020 for the entertainment & leisure construction sector; the largest was awarded in July and spans only one year into 2021. With a value of £180m it is a welcome boost to output for next year. The Art'otel in London Hoxton, funded by an Israeli investment firm, is a sign of things to come. It is designed as a mixed-use property bringing benefit to the local area. This particular development will consist of office space, hotel rooms, a gym, swimming pool, wellness facilities, art gallery, restaurant, bar, and a 24th floor auditorium and event space.
- Entertainment & leisure output forecasts have been made on the assumption that consumers had already started to socially distance themselves ahead of the initial government lockdown, therefore impacting both Q1 and Q2 with further exasperation in Q4 with the November lock down.
- As a result, the biggest growth, although modest, is seen in Q3 as activity resumed, encouraged by the 'Eat out to help out' scheme. Any growth, however, is likely to be offset by decline in Q4.

- New orders/contract awards within entertainment & leisure construction are down 38% for H1 2020 compared to H1 2019. A significant boost contracts awards in Q3 is providing positive sentiment towards a better-than-at-first projected hit for the entertainment and leisure construction sector.
- Orders are expected to remain low throughout Q4 2020 leading to continued low sentiment in across bar, restaurant and pub businesses. The Q4 restrictions imposed by the government are slightly lighter than those seen earlier on in the year, enabling some businesses to continue to sell their goods and services via online and click and collect facilities.
- Entertainment & leisure is supported by continued consumer desire and need to socialise and travel. Availability of disposable income and good consumer confidence are necessary pre-conditions. The sector is very fragile, one of the first areas that consumers tend to cut back on when confidence waivers.
- For construction within the entertainment & leisure sector there is a revised focus on improving, enhancing or adapting facilities. Key projects currently returning to productivity are predominantly in the London area. The focus, as in other sectors, is on completing work already started pre-COVID lockdown.
- 64% of the contracts awarded in 2020 in this sector are in hotel and catering, totalling £1.6bn. The largest subsector by number of projects (46%) is restaurants, pubs and bars with projects such as the £40m Waterloo Station development in London. By value the largest projects are in the hotels subsector with The Art'otel in London Hoxton, mentioned above, being the largest.
- In spite of weakened sentiment and a huge hit taken by this sector as a result of Covid-19, projects are still going ahead as investors shift their focus and priorities to the sector, taking advantage of lower share prices.
- As with other sectors, and in some cases more prominent within entertainment & leisure, businesses have been heavily supported by the governments CJRS (Furlough) scheme, with the majority of this funding being spent in this sector. The extra financial pressure for businesses when this support ends might see an increase in those having to consider alternatives such as redundancies or even administration processes, however this will be supported by the continuation of the scheme to March 2021.

5.4.6 Industrial

Chart 25: Industrial Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2015-2024 - by value (£bn at current prices)



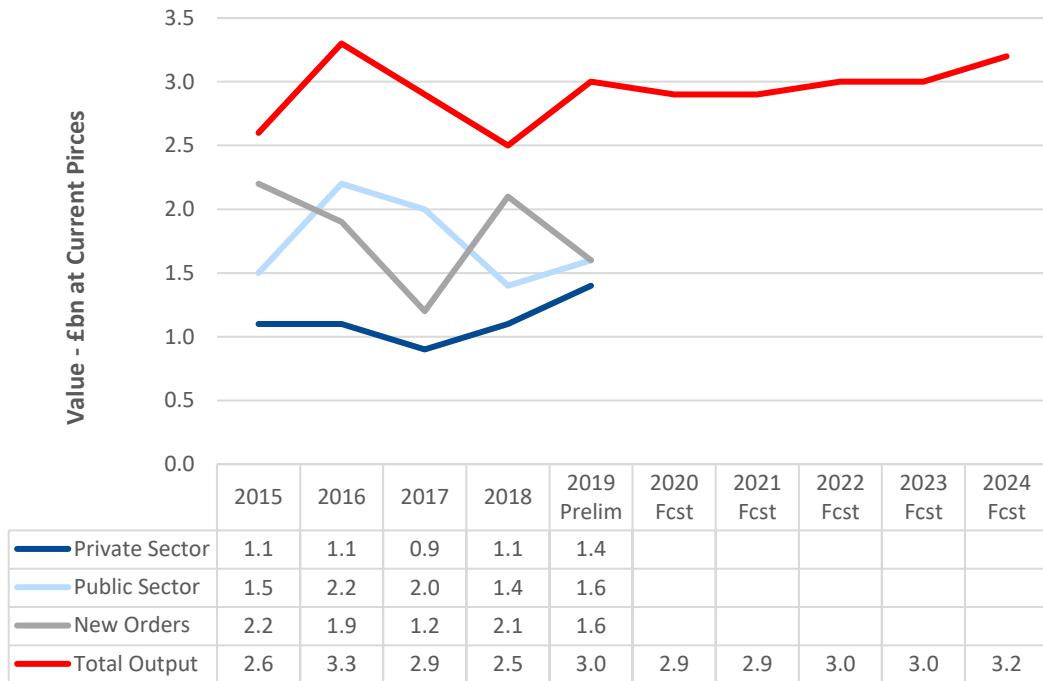
Source: ONS/AMA Research Ltd

- In the short-term industrial new work output is forecast to fall by around 16% in 2020 before stabilising at around £5.2bn in 2021 thereafter followed by annual growth rates of around 3% to reach £5.6bn in 2024.
- Industrial output increased by 8% in 2019 following 14% increase in 2018 and with output having shown overall increase of 17% since 2015.
- New orders decreased 73% between Q4 2019 and Q2 2020 when value of £505m marked a new low point for quarterly new orders values.
- New orders had also been on an upward trajectory recording 7% growth in 2019 and overall increase of 10% between 2015 and 2019.
- There are positives and negatives contained within the forecast as well as the inbuilt elasticity within the sector whereby the relatively short build times for some projects, such as warehousing, mean that output upturn could be more rapid than for some other non-residential construction sectors.
- The industrial sector has a relatively robust pipeline underpinned by the good growth levels in new orders between 2015 and 2019. While a significant number of construction projects were halted during the initial lockdown period the majority of projects had restarted by September 2020.

- Key to the success of the sector in recent years has been the development of logistics, storage and distribution hubs in the East and West Midlands, the South East and South West centred on region transport hubs.
- The prospects for warehousing, storage and distribution remain positive with impetus likely to remain centred on the changes to the retail sector in favour of online purchases and “click & collect” services which rely on increased warehousing space. However, any future reduction in consumer confidence will reduce non-essential spending with a potential negative impact for this sector.
- Given the imposition of a second lockdown period for England in November 2020, the incidence of online shopping is likely to increase again, potentially becoming “the norm” for an increasing number of consumers and adding further impetus for short to medium term output increases.
- In addition, large scale factory and research and development premises projects have helped growth in the sector, including the £40m Foresterhill Health Campus Bio-Therapeutics hub in Aberdeen and the £20m Very Light Railway Innovation Centre in Dudley.
- Looking ahead to the end of the UK’s transition period exiting the EU, supply of building materials will be a concern. The UK is set to apply its own quotas against imports of steel, including rebar, from the EU from 1st January 2021. While this measure is designed to protect UK producers it may lead to some shortage of constructional steel products in the short-term.
- The forecast shows steady but modest output growth for the industrial sector to 2024 when value will be approaching 2018 levels. However, the sector - as well as the wider construction market - remains vulnerable to further lockdown activities as well as more stringent safe working practices should the Covid-19 pandemic prove to be prolonged.

5.4.7 Health

Chart 26: Health Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2015-2024 - by value (£bn at current prices)



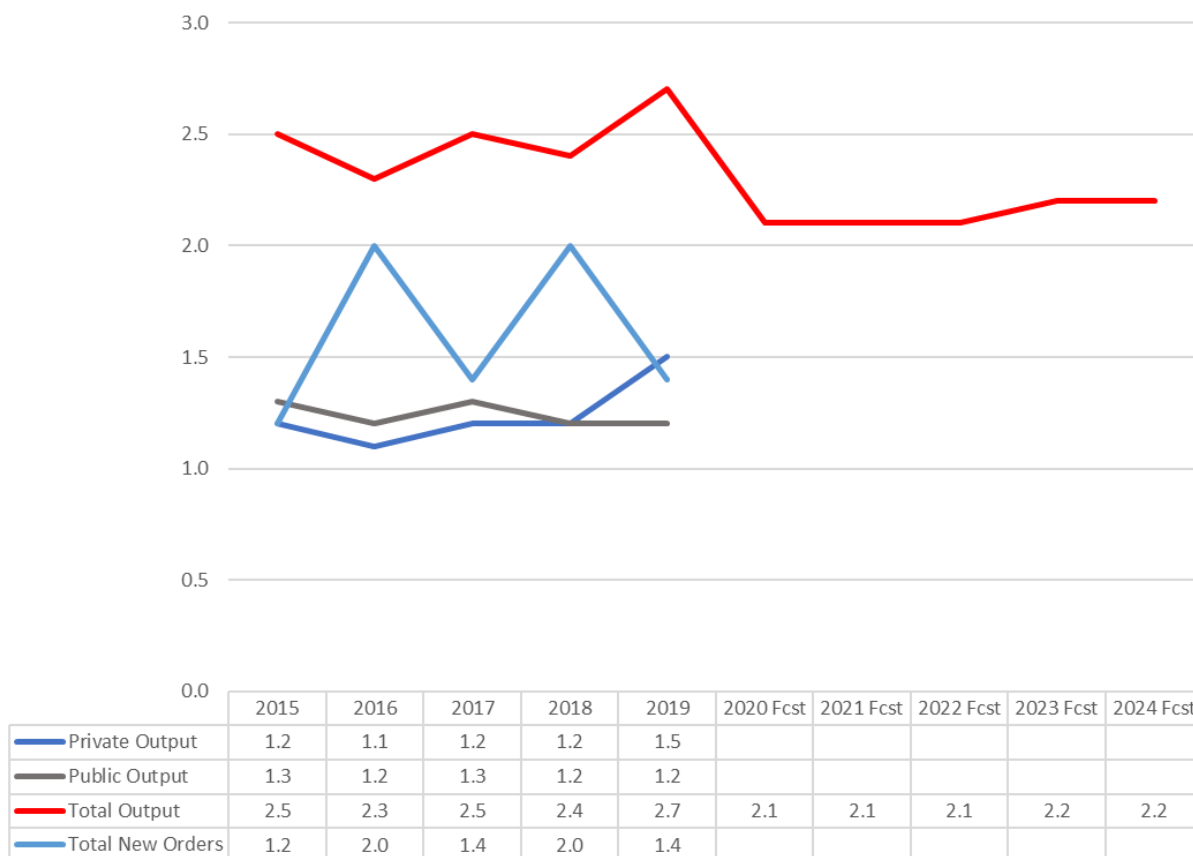
Source: ONS/AMA Research Ltd

- Health sector output is forecast to show decrease of around 5% in 2020.
- As frontline defence, Health is the sector most impacted by Covid-19 with hospitals and staff working beyond capacity. In terms of Health construction, this has meant a shift in priorities.
- During the first lockdown (March and April), Health was the most buoyant sector with emergency construction of Nightingale facilities. 26 hospitals, created mostly through converting existing premises, brought a boost to contractors and some specialists, such as vinyl flooring suppliers.
- Existing hospitals also had extensions to increase bed capacity, such as the Royal Liverpool Hospital where three specialist wards were completed. Maintaining functioning hospitals however requires minimising disruption from building work, so some projects have been put on hold.
- As the pandemic progressed and we came to recognise Long Covid, investment has come for some Covid convalescence under the Nightingale badge, including conversions of hotels for this purpose, such as the Holiday Inn at Heathrow.

- With the second wave of Covid-19 predicted to be greater than the first, and occurring in winter when facilities are typically over-stretched, hospitals are now deciding to halt elective surgery, with the exception of life-saving operations, as seen across the Manchester and Birmingham hospital trusts, among others.
- Approximately three quarters of planned activity continued throughout lockdown for this essential sector with special access to supplies enabling work to continue as required. Pauses in activity were brief with the projects that were halted at the start of the Covid-19 outbreak restarting at a faster rate than other sectors (apart from residential).
- A small future increase is anticipated over the next four years, mainly due to the decline in the pipeline of new work. The majority of future work will be RMI, largely extensions and improvements, not large scale new build projects
- The medium term forecast is for annual increases of 2 to 5% to 2024 when output is forecast at around £3.2bn. This is in a sector that is operating at historically low levels. The recent peak for health new orders was £2.5bn in 2013 and value subsequently declined by 36% to 2019. Factors that were evident in the sector prior to the global pandemic remain and are likely to continue to affect output levels in future years.
- A key factor is the lack of a reliable alternative system to replace PFI schemes. While private sector funding is needed within the health service, recent PFI scheme failures, have emphasised the levels of risk and therefore scrutiny required for private investment.
- The health sector is still recovering from the collapse of Carillion. While new contractors have now been appointed at for both the Midland Metropolitan Hospital project (Balfour Beatty) and The Royal Liverpool Hospital (Lang O'Rorke) both anticipate long delays, through to 2022 and significantly increased costs.
- Alongside infrastructure, health is the area due to benefit most from public sector spend. Government promises of building 40 new hospitals have materialised into a £3.7bn package, mostly targeted at six new hospitals by 2025, along with a £100m budget for extensions and RMI across a further 26 existing hospitals. In addition, four hospitals are already being built (Sandwell, Cumbria, Liverpool and Brighton) and four more await approval (London, Morpeth, Manchester and Nottingham). However, significantly more funding will be needed to complete the ambitious plans with a medium-sized hospital estimated to cost around £500m to build. This may be slow to materialise, especially at a time when there are so many emergency pressures on government funding.

5.4.8 Agriculture & Miscellaneous

Chart 27: Agriculture and Miscellaneous Output (Private & Public Sector) and New Orders 2015-2019 and Total Output Forecasts 2020-2024 - by value (£bn at current prices)



Source: ONS/AMA Research Ltd

- The agriculture and miscellaneous sector is wide-ranging, including both public and private sector agriculture/horticulture, along with public sector departments including MoD, police, fire and prisons plus local authority sectors such as museums, conference centres and libraries.
- Output is forecast to decrease by around 22% in 2020, stabilising at around £2.1bn. Growth is anticipated to be stagnant as we emerge from the pandemic with small growth of around 3% returning by 2023, bringing 2024 value to around £2.2bn.
- New orders for the sector have always been volatile with 2019 showing 30% decline on the previous year and with Q1 2020 data showing 46% decline to just £273m. The low level of new orders was already indicating that significant output growth into the medium-term was unlikely even prior to Covid-19.

- However, there are some large scale projects in the pipeline which should underpin the sector into the medium term such as the MoJ contract for a new prison in Northamptonshire as well as airside improvement works at a number of RAF bases.
- With Government spending overstretched, supporting the furlough scheme and other targeted Covid-19 relief, planned projects may be postponed or even axed, even though their requirement seems small in comparison to the emergency government outgoings.
- The diversity of the agriculture and horticultural sectors means that it is difficult to forecast the level of new construction output accurately. Many smaller construction projects are undertaken in-house due to the increased skills levels prevalent within the sector.
- The UK agriculture sector faces an uncertain future as it starts to operate outside the CAP. While the Government has made a commitment to support the same cash funds as CAP, the intention in the 25 Year Environment Plan (2018) is to move away from direct payment to farmers.
- With the potential for future farming incomes to be more restricted than at present it is unlikely that the sector will experience a sustained increase in construction output. It is more likely that the agriculture sector will see a downturn in construction output, however the extent of the downturn is difficult to forecast at present.