

The winter 2006/07 forecasts provide a comprehensive appraisal of the construction industry's prospects for the three years to 2009, together with anticipated sector trends during 2010 and 2011. This synopsis provides an overview of sector growth and highlights the key drivers behind the industry's forecast performance over the next three years. A more detailed analysis is contained in the full report, which includes alternative scenarios and projections out to 2011. Copies of the report are available from the Association.

Overview

Strong growth in commercial and industrial new work secured an overall rise in construction output last year. However declines in all four repair & maintenance sectors and the patchy delivery of key Government programmes limited overall industry growth to 0.9%.

Public sector output is forecast to improve over the next three years. However increased calls upon public finances are already restricting the funds available for repair & maintenance work and traditionally funded NHS projects. In addition the 2007 Comprehensive Spending Review is expected to be tight, with any additional funds targeted at priority areas such as education. Accordingly, the pace of growth will be more modest than that seen earlier in the decade, averaging 2.5% per annum during 2008 and 2009, before losing momentum during the subsequent two years.

Whilst house price inflation and property transactions have picked up over the last 12 months, to date the uplift in housing related construction has been limited. Although house builders reported a strengthening in new house sales during the second half of 2006, private new housing output rose only 2% during the year, with private housing starts 5% higher at 200,000 dwellings. Underlying consumer confidence has been fragile, prompting a 4% drop in private housing RM&I output last year.

Housing market conditions are expected to stabilise over the coming year, as higher interest rates and weaker household income growth dampen consumer confidence. Private new housing starts are forecast to ease back during 2007 and 2008, while private housing RM&I output is expected to remain subdued.

In contrast a strong rise in office construction activity and an increase in PFI health and education projects are forecast to

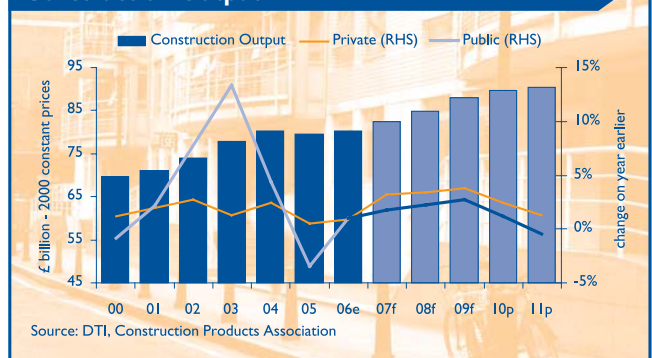
Key points include:

- Overall construction growth set to outpace that of UK economy over next three years
- Strong demand for office space boosting commercial sector activity
- Energy and water industries to drive anticipated recovery in infrastructure investment
- Modest pick-up in Government investment programmes
- Consumer caution expected to temper housing related activity

provide firm commercial sector growth over the next three years. In addition, from 2008 the industry should begin to benefit from additional activity related to the 2012 Olympic Games.

After 3 years of declining output, a sustained recovery in infrastructure activity is expected over the forecast period. Growth will be primarily driven by greater investment by the water and energy utilities. A modest pick up in road and rail investment is also anticipated from 2008.

Construction Output



Overall construction industry growth is forecast to strengthen to 2.7% this year, supported by a sustained rise in new work output and a modest recovery in repair and maintenance activity. A further strengthening in industry growth to 3.0% and 3.5% is forecast for 2008 and 2009 respectively. Whilst a modest pick up in public sector investment will contribute to the rise, higher private sector activity, in particular a strong commercial sector, will be the main engine for growth. Overall industry growth is projected to slow subsequently during 2010 and 2011 as public sector investment plateaus and private sector growth slows.

Public & Private Sector Construction Output

Public & Private Sector Construction Output		2005	2006	2007	2008	2009	2010	2011
£ million		Actual	Estimate	Forecast	Forecast	Forecast	Projections	Projections
Change on previous year		Actual	Estimate	Forecast	Forecast	Forecast	Projections	Projections
Public Sector inc. PFI		26,674	26,926	27,400	28,019	28,788	29,123	29,001
		-3.4%	0.9%	1.8%	2.3%	2.7%	1.2%	-0.4%
Private Sector		52,885	53,380	55,087	56,941	59,124	60,575	61,371
		0.5%	0.9%	3.2%	3.4%	3.8%	2.5%	1.3%

New Housing

The UK housing market enjoyed a sustained recovery during 2006, with rising property transactions and a marked pick up in house price inflation. However, housing market conditions are expected to stabilise this year, as higher interest rates and weaker real household income growth dampen consumer confidence and housing related construction. New housing starts are forecast to ease back during 2007 and 2008, before recovering modestly in 2009 in response to improved market conditions.

The Government has substantially increased capital investment in social housing in recent years, accompanied by a commitment to increase new provision and raise the condition of the existing social housing stock. Output recovered sharply in 2006 and sector growth is forecast to continue over the next three years, albeit at a more modest pace. Nevertheless the Government will struggle to meet its target of delivering 75,000 new social homes over the three years to 2007/08.

Non-Residential New Work

Public non-housing output has fallen back over the last two years, in sharp contrast to the double digit annual growth seen between 2002 and 2004. A marked fall in NHS health projects has contributed to the decline. NHS trusts' budgets remain under pressure, with a further substantial fall in health output forecast for the current year. The flow of traditionally funded health schemes is expected to remain subdued during 2008 and 2009. Whilst improving educational facilities remains a key government objective, traditionally funded construction activity is expected to be relatively stable over the forecast period, as an increasing proportion of school projects is delivered through PFI. Overall, public non-housing activity fell an estimated 4% during 2006, with a further decline anticipated for 2007. Output is forecast to stabilise next year, with weak growth anticipated for 2009.

Trading conditions for UK manufacturers remain difficult, with companies facing higher input costs and increased price pressure from foreign competition in low production cost countries. With manufacturers generally reporting adequate capacity, factory construction output is expected to weaken over the forecast period. Demand for warehouse premises currently remains high, particularly for large, strategic warehouses, as firms seek to consolidate their supply chains to exploit economies of scale. Consequently, warehouse construction activity is forecast to increase during the current year. Looking further ahead, in the absence of a marked turnaround in UK manufacturing prospects, sector activity is expected to stabilise next year, before slipping back in 2009.

The commercial sector enjoyed robust growth during 2006 as a strengthening in office construction activity was accompanied by a rise in PFI health and education projects. While the contribution from PFI schemes to sector growth is set to moderate over the next three years, office construction projects are forecast to remain a key driver. Despite weak consumer spending growth, investor interest in retail premises has remained firm and renewed growth in retail construction activity is forecast for 2007. However, the pace of growth is expected to slow in 2008 and 2009 as current schemes are completed. Entertainment related output is forecast to strengthen sharply in 2008 and 2009 as Olympic projects gather momentum.

Infrastructure

The infrastructure sector suffered a fourth consecutive year of decline in 2006. However, this year is expected to mark a turning point in the sector's fortunes with a sustained recovery in overall sector output forecast for the three years to 2009. Railway output is forecast to bounce back, with work on the East London Line extension, increased expenditure on the London Underground and Network Rail's enhancement programme expected to offset the impact of completion of the CTRL. The Highway Agency's investment programme for the strategic road network is expected to initially stabilise road related output during the current year and to support a subsequent recovery in output during 2008 and 2009. A sustained recovery is also forecast in water and sewerage output, with firm growth anticipated as companies accelerate their new investment programmes agreed at the last OFWAT regulatory review.

Repair & Maintenance

Public housing RM&I activity continued to fall back last year, despite additional funds being directed at improving the condition of existing social housing. Sector output is forecast to recover during 2007 and 2008, but growth remains dependent upon effective delivery of Government programmes. Whilst consumer confidence is expected to remain subdued near term, the pick-up in property transactions during the course of 2006 is forecast to generate a small rise in private housing RM&I activity during the current year. Non-residential R&M output was squeezed during 2006 as companies and the public sector alike deferred routine maintenance work in response to tightening budgets. Whilst private sector activity is forecast to recover in 2007 and 2008, public sector R&M output will remain under pressure.

Construction Industry Forecasts – Winter 2006/07

Construction Output	2005	2006	2007	2008	2009
£million 2000 constant prices	Actual	Estimate	Forecast	Forecast	Forecast
percentage changes year on year					
New Housing	13,072	13,755	13,984	14,300	14,784
	2.4%	5.2%	1.7%	2.3%	3.4%
Non-Residential New Work	23,812	25,138	26,197	27,597	28,664
	-2%	6%	4%	5%	4%
Infrastructure	5,327	5,221	5,642	5,865	6,298
	-9.0%	-2.0%	8.1%	4.0%	7.4%
Total RM&I	37,339	36,192	36,663	37,197	38,167
	-0.3%	-3.1%	1.3%	1.5%	2.6%
Total All Work	79,550	80,306	82,486	84,959	87,912
	-0.9%	1.0%	2.7%	3.0%	3.5%

Full copies of the Construction Industry Forecasts are available from the Association at a cost of £200. For further information on the content and availability please contact:

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