All systems glow

1997 At last, life is looking up in construction. Lottery projects and increased demand for new factories and offices should translate into fuller order books. Tender prices will rise and margins will slowly return. By the end of the year, skills shortages could bite as the industry hots up. Jacquie Cannon of construction forecaster CFR begins our special eight-page preview with an upbeat round-up of the 1997 economy.

On other pages:
Page 31: tender price forecasts from five top QS firms
Pages 32-33: key dates for your diary
Page 34: pick the best-performing companies of 1997
Page 35: Alistair McAlpine previews a year in politics

THE INDUSTRY CAN LOOK FORWARD to a period of sound and sustained growth. After a meagre growth in construction output of 0.3% for 1996, total workload is expected to rise to £51.16bn during 1997, a growth of 2.7%. In 1998, growth will be even steeper, rising to £52.93bn, an increase of 3.4% – only 4% down on the boom years in the late 1980s. The growth is expected to be shared evenly between new work and repair and maintenance in 1997, but the former will do better in 1998.

The private building sector leads the recovery in new work, and in repair and maintenance. This is not surprising given the government's policy of withdrawal from investment in public assets.

Public housebuilding
The effect of the government squeeze on public expenditure has been severe in social housing. The November budget cut the Housing Corporation's

ECONOMIC FORECAST AT A GLANCE

- total construction output to rise 2.7% in 1997
- new building output to rise 2.7%
- repair and maintenance spending to rise 2.6%
- public spending on new building and repair and maintenance to fall 2.2%
- infrastructure work to rise 1%
- private housing starts to rise 10.3%

approved development programme funding to £651m, a 28% cut from that budgeted last year. Whereas some housing associations have been successful in attracting private capital to part-fund their programmes, overall private financing to HAs is growing at a rate of only 2-3%, which in no way makes up for the large falls in public funding.

Private housebuilding

Developments in the economy at large and in the housing market since the summer have confirmed the latter finally turned the corner towards the middle of 1996. The forecast of 160 000 starts in 1997, up 15 000 on 1996, is tied to a more positive economic background, with most macro elements developing more robustly than expected in the summer.

In addition, a number of one-off factors are likely to continue to boost consumer spending in 1997, including building society payouts and the small cut in income tax announced in the budget. With interest rates, however, it seems likely that any changes will be upwards.

The macro environment is not so positive for 1998 and a phasing out of MIRAS is likely, regardless of which party is in power. These factors may dampen growth in the housing market during 1998, leading to a forecast increase in starts of only 5000 over 1997.

Infrastructure

Infrastructure output has held up much better in real terms than expected six months ago, and 1996 should see a real increase compared with 1995 because of more buoyant cable investment, greatly increased spending on water projects in England and an expectation of a slowdown in construction inflation in 1997 and 1998.

Roads output is still the largest area of infrastructure investment, although a growing proportion of expenditure now stems from privately funded design, build, finance and operate schemes. It is estimated that privately funded roads may replace only up to 80% of public sector cuts. In real terms, roads output could fall 10%. The chancellor has not yet announced a further tranche of DBFO projects. With many longer-term schemes abandoned, there could soon be a dearth of new, large road projects.

Water investment, specifically by the 10 water and sewerage companies in England and Wales, grew significantly in 1996, with some firms reporting increases of 30%. This market is forecast to continue to grow in 1997 and 1998, but at a slower rate than in the past year.

The forecast for rail output is much more positive, especially as large projects such as Railtrack's £1.5bn West Coast Main Line and London and Continental's £3bn Channel Tunnel Rail Link have yet to start. Other schemes expected to start during this review period are the Docklands Light Railway extension to Lewisham and Thameslink 2000.

Public non-residential building

Pressure remains to reduce the public expenditure and borrowing requirements absolutely and as proportions of gross domestic product. The aim is that general government expenditure, excluding privatisation proceeds and spending of National Lottery proceeds, should fall below 40% of money GDP by 1997-98.

There are now two measures of public sector investment – direct public sector capital expenditure and publicly sponsored capital expenditure, which includes estimates of spending under the private finance initiative. In the 1995 budget, the chancellor estimated that £1.9bn would be invested under the PFI by March 1997. Delays in starting schemes, particularly in the health sector, have cut this estimate to £1.1bn.

NHS capital spending has been severely cut this year in anticipation of PFI projects, which so far have failed to materialise. Although 24 major schemes with a total capital value of £1.8bn have reached preferred-bidder status, the viability of many of these is questionable, hence output is expected to decline in both 1996 and 1997 before the impact of large PFI projects boosts activity in 1998.

The PFI has been targeted at the education sector only since the end of 1995. The Treasury estimates that investment worth more than £1bn could be generated during the next three years. Private funding and the PFI should result in a slight increase in investment in the sub-sector as a whole in 1997 and 1998.

Changes to the rules governing local authorities and PFI deals and a pick-up in the pace of the PFI, together with a significant impact from lottery funds, should see output increase by about 3% in 1998, after a drop of 3% in 1997.

Industrial construction

Large orders have been absent in the first 10 months of 1996, producing a total of £1.86bn, some £200m below the same period in 1995. Growth forecasts for industrial construction are therefore largely conditioned by the decision of major foreign manufacturing companies to establish production facilities in the UK. Several such schemes are under discussion with central and local authorities, including a plant for Rover/BMW and factories for Philips, Hyundai and LG. The construction element of these investments is estimated at well over £1bn, which will lead to increasing growth in output to 1998.

> A number of one-off factors are likely to continue to boost consumer spending in 1997, including the small cut in income tax announced in the budget
>
> JACQUIE CANNON, DIRECTOR, CFR

Commercial

Property agents are talking about a stronger market for offices in London and the South-east. However, firming up of rents and capital values has been moderate to date, with strong tenant demand in the City of London in particular. But, whereas demand for state-of-the-art offices is likely to be sustained, if not increase, the amount of substandard offices will remain a problem for investors that hold them in their portfolios.

Worries about skills shortages and cost inflation could hasten decisions to build. This view now concerns only potential large projects but, if it becomes widespread, could trigger a rush of orders by speculators or investors attempting to avoid the danger of delayed completions or higher costs. To a minor extent, such decisions could also be influenced by expectations of hardening interest rates in 1997.

Retail construction output is expected to grow in both 1996 and 1997 as large contracts see peaks of activity. A great deal of refurbishment work is expected in existing shopping centres.

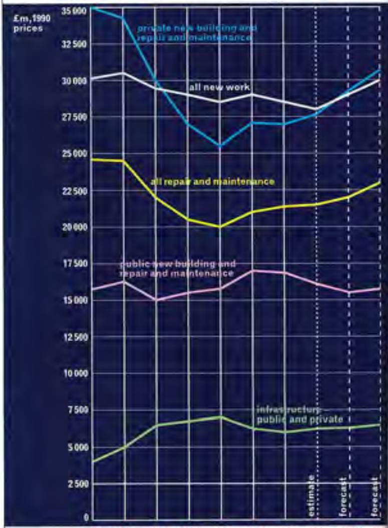
Leisure construction is the third-largest sub-sector after commercial and retail and recently became the one with the brightest prospects. The fast growth in orders, which could lead to a total of at least £1.4bn for 1996, nearly 50% up at current prices, is likely to be sustained as the millennium nears. In addition to the well-known larger projects, property agents are referring to a spate of smaller ones, which will keep the sub-sector bubbling for several years.

Repair and maintenance

The picture for R&M work resembles that for new work, with a general downward trend for the public sector (except public housing) in 1998 that is more than offset by strong growth in all private sectors. This includes a double-digit rate of increase for private non-residential work, under the impetus of a more favourable environment in the commercial sector and the transfer of work from public to private maintenance organisations in the rail sector.

Jacquie Cannon is director of construction forecaster CFR. An annual subscription to CFR Forecast costs £180. Call 0171-379 5339.

CONSTRUCTION OUTPUT 1989-1998



	1989	1990	1991	1992	1993	1994	1995	1996	1997	199[illegible]
Public new building and R&M (£m)	15 767	16 220	14 912	15 553	15 874	16 822	16 701	15 935	15 590	[illegible]
Private new building and R&M (£m)	34 990	34 123	30 163	27 094	25 618	27 063	26 964	27 715	29 325	[illegible]
Infrastructure – public and private (£m)	4 024	4 965	6 486	6 875	7 062	6 240	6 026	6 205	6 265	[illegible]
All new work (£m)	30 177	30 763	29 642	29 052	28 581	29 238	28 378	28 160	28 930	[illegible]
All R&M (£m)	24 604	24 545	21 919	20 470	19 973	20 887	21 313	21 695	22 250	[illegible]
Total output (£m)	**54 781**	**55 308**	**51 561**	**49 522**	**48 554**	**50 125**	**49 691**	**49 855**	**51 180**	[illegible]
% increase		**1**	**-6.8**	**-4**	**-2**	**3.2**	**-0.9**	**0.3**	**2.7**	[illegible]

> Worries about skills shortages and cost inflation could hasten decisions to build as investors attempt to avoid delayed completions

Spring is in the air

1997 Quantity surveyors expect tender prices to rise this year – anything from 3% to 10%. Andy Cook asked five top QS firms for their predictions on which sectors and regions will benefit most.

NICK DAVIS, senior partner, Davis Langdon & Everest
Tender prices up 6-7%

Davis Langdon & Everest predicts that tender costs will increase 6-7% in the coming year, with busy commercial, hotel and high-class residential sectors at the top end of the pricing band.

Senior partner Nick Davis says: "The figure reflects that the world is getting a bit busier. There has been an increase in commercial and lottery work, especially in London and the South-east."

Although keen to point out that there will not be any tender cost "hotspots" in the coming year, Davis predicts that commercial tenders in the South-east and hotel building and upmarket residential accommodation all over the country will be at the top of the tender cost band.

Davis says consultants are starting to see the benefits of tender prices rising at twice the rate of inflation, but the effects have not yet transferred down to contractors and subcontractors.

In particular, developers are desperate to keep the squeeze on contractors. Davis explains that, in the commercial market, developers are being more responsible than they were in the 1980s. "Most developers do not want to flood the market and are very concerned not to repeat the mistakes of the 1980s. They want to keep prices down."

PETER GOODFELLOW, director, AYH
Tender prices up 3-6%

AYH predicts that tender cost inflation will range from 3 to 6% in the coming year. Director Peter Goodfellow says that London will be the highest, with a tender cost inflation of 6%, and Wales and the Midlands the lowest, with 3%.

"The lottery will account for £500m of construction spend this year," says Goodfellow. But this increase will be tempered by budget cuts that will reduce spending on social housing and roads.

Another influence in keeping inflation under control is the PFI, he claims. "The PFI is not coming through as quickly as expected, but it may help push up tender prices to 6% in 1998."

Changes to payment rules brought in by the Housing Grants and Regeneration Act could restrict contractors' cash flows, according to Goodfellow. He argues that subcontractors will gain from being paid regularly and on time, but it is unlikely that they will pass these savings on in their tender prices.

PAUL MOORE, head of cost research, EC Harris
Tender prices up 5-10%

Tender costs will rise 10% if all the major schemes that have been promised go through this year, says Paul Moore, head of cost research at EC Harris. But they could be as low as 5-6% if some schemes are cancelled or delayed, he adds.

Moore says the hottest spot for tender price inflation is London and the South-east, where, by the end of 1997, contractors will be working on Heathrow Terminal 5 (worth £1.5bn), the Channel Tunnel Rail Link (£3bn) and, if all goes well, the Millennium Dome (£500m).

Moore says these projects will be augmented by PFI schemes: "There seems to be a political will to push through PFI hospitals." Improving confidence in the economy will see increasing work in housing and commercial developments, he adds.

There is a shortage of bricklayers and carpenters at the moment, but, by the end of the year, shortages could be showing in trades that feature later in build programmes. Electricians and plumbers could be in short supply next year.

> The world is getting a bit busier. There has been an increase in commercial and lottery work, especially in London
>
> **NICK DAVIS, DL&E**

ROGER WORT, director, Faithful and Gould
Tender prices up 6-7%

Infrastructure specialist Faithful and Gould expects tender costs to rise 6-7% over the next 12 months, according to director Roger Wort.

He explains that the figure is above the general rate of inflation because of the National Lottery and the "feelgood factor". He adds that projects backed by the Millennium Commission will now start in earnest and that increasing consumer confidence will lead to more investment in retail, leisure and housing.

Increasing confidence is also seeing projects that were put on hold coming off the drawing board, says Wort. "We are expecting one or two deferred water projects to commence later this year." Rail spending should also rise, he adds.

Increasing workloads will mean further skills shortages, especially in the M&E trades, he says. Although skilled subcontractors are in short supply, there is still overcapacity among main contractors. "Contractors are still undercutting each other and we do not expect that to stop."

ROGER FIDGEN, senior partner, Gardiner & Theobald
Tender prices up 4.5-5%

Gardiner & Theobald predicts that tender prices will rise by 4.5-5% in the next 12 months. Senior partner Roger Fidgen says the rate reflects the feeling that the PFI will continue to develop slowly this year and that lottery-backed projects will struggle to gain matching funding from the private sector.

There are signs that certain sectors are being stretched, says Fidgen. Lead times for services and cladding subcontracts are becoming longer, which means price rises for these packages could follow.

Gardiner & Theobald is also beginning to notice a shortage of contractors bidding for small local contracts valued between £500 000 and £1m. But this is not the case for larger projects.

Materials prices are unlikely to cause concern in the next year, says Fidgen, because bricks from UK manufacturers are still plentiful and steel is available at good prices on the international market.

What are you looking forward to in the year ahead?

"More fun than I had this year. I'm looking forward to real construction projects getting off the ground, such as White City, the Treasury and the Royal Opera House."
Peter Rogers, director, Stanhope

"I'm just looking forward to it. It's going to be good. There's the excitement of a new government and an improving market."
Paul Hodgkinson, chairman and chief executive, Simons Group

"Job security, lottery-funded projects commencing and fairer payment conditions actually working."
Steven Syddall, conservation contractor

"I want housing to move up the political agenda."
Marek Sikorski, head of development, Chiltern Hundreds Housing Association

That'll be the day

1997 The Arbitration Act, the Construction Confederation, a general election, National Construction Week – the year promises a host of events and acronyms to look forward to.

January

No more squabbling as the Building Employers Confederation, the Civil Engineering Contractors Association and the Major Contractors Group merge into one, giant, harmonious construction body, provisionally known as the Construction Confederation

Engineers take note: 1997 is officially the Year of Engineering Success

Disabled Access Bill introduced. Cue for new buildings designed for everyone

Could the Norfolk and Norwich Hospital become the first private finance initiative hospital project to finally be signed?

18 January-15 March
Five Nations Rugby Union Championship

31 January
The Arbitration Act comes into force, promising cheaper, easier dispute resolution – supposedly

February

A new era in private ownership begins for the Building Research Establishment

Find out which 100 projects have made it through to the last round of Millennium Commission funding

6 February

Retrospective of the work of Royal National Theatre architect Denys Lasdun, doyen of the modernist movement, opens at the Royal Academy of Arts, London W1

18-20 February
Construct IT: stock up at the construction industry computing extravaganza, Business Design Centre, London N1

March

Earliest opportunity for the Housing Regeneration and Construction Bill to reach the House. Meanwhile, the Construction Industry Board decides what to do next with all those reports at its annual conference

London Aquarium opens in the former County Hall

Annual results season begins. Was 1996 really as good as everyone's been saying?

13-16 March
The property world descends on Cannes for the annual MIPIM property exhibition

13 March
Cheltenham Gold Cup steeplechase

April

Expect an election this month or next – if there hasn't been one already

North Greenwich, Canary Wharf and Canada Water Jubilee Line stations structurally complete

5 April
Grand National steeplechase, Aintree racecourse, Liverpool

9 April
Building Awards – take tux to the dry cleaner

24 April
A chance to recruit bright new talent early on Take Our Daughters To Work Day

May

The Ruskin Library at Lancaster University opens to the public

Dust down those tenders for the Channel Tunnel Rail Link

June

All stations on the new Jubilee Line Extension complete and ready for fitting out

Frank Gehry's spectacular new European Guggenheim Museum opens in Bilbao, Spain

RIBA Gold Medal presented following announcement in March

No 1 City Square, Leeds, completed for Norwich Union – an office block with a tented roof designed by Abbey Hanson Rowe with Shepherd Design & Build

Networking season starts

17-20 June

Hats on for Royal Ascot

19-23 June

2nd Cornhill Test Match at Lord's. England v Australia. Will the newly bought Higgs & Hill retain its box?

23 June-6 July

Wimbledon. Get in with BDP and Try, which will be showing off their newly completed Number One Court

25 June

David Deas inaugurated as president of the Chartered Institute of Building

July

David Rock takes over as president of the RIBA

2-6 July

Henley Royal Regatta

29 July-2 August

Glorious Goodwood

August

Football season kicks off

September

1 September

First conference at Foster and Partners' Scottish Exhibition Centre, Glasgow. A good way to see inside the armadillo

13-14 September

National Open Doors weekend, when architectural landmarks around the country are open to the public. London does its own thing a week later on 20-21 September

October

Party conference season

The first-ever National Construction Week – seven fun-packed days of media attention

The new St George's Hall and anteroom complete at Windsor Castle

4 October

Building Industry Half-Marathon, Windsor Great Park. Book Monday off

November

Is there more money for construction in the new government's first budget?

Alan Cockshaw takes over as president of the Institution of Civil Engineers

22-28 November

Interbuild, NEC, Birmingham. Is it really that time again already?

December

Get out the gladrags. It's party time!

"I'm very optimistic about 1997. It's coming back to supply and demand. I can see levels of activity rising and fee levels going up at last. There will be hiccups. People are specifying things that can't be delivered. And certain sectors are overheating. We'll have to watch that."
David Tuffin,
senior partner,
Tuffin Ferraby & Taylor

"Last year was good for us. We always look forward to the next one with optimism. In 1997, I'm hoping that the decadent feelgood factor will be replaced by imagination, optimism and vision on all fronts. I hope there'll be good weather to photograph some of our buildings to complete the new brochure; the phone stops ringing just as we're putting our coats on to go home (at midnight); and our office dog at least learns the basics of our CAD system."
Andrew Ogorzalek,
partner,
PCKO Architects

Place your bets

1997 Once again, Building has asked five analysts to predict which construction company will be the City darling of 1997. If you think you can do better, bet £100 000 in our Fantasy Footsie competition: you could win a case of champagne.

HOWARD PROCTOR, SGST

Contractor: Alfred McAlpine (127p)
McAlpine is suffering from a lack of confidence among the investment community. It has a mixed record – and that's putting it politely. There isn't a great deal of faith in the firm at present. But its housing business should show an improvement for 1996 and into 1997. Its contracting is sorted out, although that's been said before with McAlpine. Its current showing in the City reflects an overly pessimistic view of the future.

Materials producer: Ibstock (63p)
Ibstock is in a very cyclical business. It's had a difficult first period, following recent acquisitions of Tarmac Brick and Redland Brick. But the housing market is on an upward trend that will lead to falling stock and rising prices for building materials. Ibstock is in a good position in the market and the consolidation in the industry should help its profitability.

KATE DAVIES, Williams de Broë

Contractor: Taylor Woodrow (154.5p)
Taylor Woodrow's contracting profits for 1996 should show a reasonable recovery to about £3m profit after showing an £8.9m loss for 1995. Projections of about £6-7m are possible for 1997. The housing division should enjoy a better year in 1997, with operations covering the UK, USA, Canada and Australia.

The property division should also see some healthy profits in 1997 as values strengthen and residential development profits increase. Income from planned disposals is likely to be reinvested in property development and housing.

Materials producer: BPB (353p)
Despite a difficult trading environment in Europe, BPB produced creditable first half-year results, helped by lower costs and stable selling prices. These two factors, along with continued growth in developed markets (especially the USA) and an increasing market share in undeveloped areas such as Eastern Europe and South America, are likely to be features of 1997's trading. The firm is tightly managed and enjoys a healthy balance sheet and strong cash flow.

MARK HAKE, UBS

Housebuilder: Redrow (138.5p)
Redrow will be one of the best performing housebuilders during 1997. Its geographical spread of operations provides a significant exposure to the strongly recovering South-east market, while the long, low-cost landbank gives it greater flexibility in land acquisition and margin protection. A revised product range should also ensure that the group can meet consumer requirements.

Materials producer: Hepworth (262p)
Our positive view of the UK housebuilding market means we have a similarly favourable attitude towards building materials firms that supply it. Hepworth, with its extensive range of lightside products, will be a prime beneficiary of any recovery in housing activity.

LESLIE KENT, Mees Pierson

Contractor: Tarmac (90.5p)
1997 will see the integration of Wimpey's contracting and aggregates business into Tarmac. The firm will become a major force in UK and international contracting where the outlook is improving. It is the largest producer of aggregates in the UK and it's also strong in the USA, where the recovery will continue throughout 1997.

Housebuilder: Wainhomes (100.5p)
Wainhomes has a strong land position in regions that have hitherto suffered in the housing recession, but there is strong evidence that other parts of the UK outside the M25 are beginning to recover.

JOHN MESSENGER, NatWest Securities

Contractor: Kier (170p*)
Kier has recently floated. The group's main activity is contracting, with a growing private housebuilding business. It is implicitly cautious in its accounting, and the business is well exposed to a modest upturn in construction activity with a spread of contracting names across the UK. The group should deliver steady profit and dividend growth, with our analysis suggesting a 12-month share price target of 220-230p. (* price on the first day of trading, 12 December 1996.)

Materials producer: Heywood Williams (224.5p)
Heywood Williams does not represent a quality player in the sector, but its shares have underperformed badly since September. The group is 46% reliant on the USA for profitability, but our forecasts already assume a decline in US profits in 1997 and 1998. In 1997, the group should benefit from improving demand in repair and maintenance in the UK, on the back of rising housing transactions and house price inflation. We expect shares to reac 290-300p over the next 12 months.

TOP TIPPERS FOR 1996

The professionals
Last year's top-tipping analyst was Jeremy Withers Green, formerly of Williams de Broë, now with Cazenove. Withers Green backed contractor Morgan Sindall, whose share price soared during 1996 from 78p to 191.5p – a staggering climb of 145%. The share price rise of his chosen materials producer, Norcros, was a little more modest, increasing 12% from 77p to 86.5p. Withers Green receives a magnum of champagne. Scott Fulton of Merrill Lynch was the runner-up, and he receives a bottle of Scotch. He tipped Mowlem at 61p (now 108p, a rise of 77%), and PTS Group at 124p (now 132p, a rise of 6.5%).

The amateurs
Building's readers were very shrewd in the way they spent their money. Out of more than 100 entrants, only one finished the year with less cash than he started with – an Oxford reader who lost £2287 by splitting his £100 000 equally between shares in Cussins and Galliford.

The runner-up was John Bebbington of Surrey, who made £79 366.99 by investing £50 000 in Morgan Sindall and £50 000 in SIG. Congratulations to the winner, Alan Rowe from Cambridge, wh receives a case of champagne. Mr Rowe made £89 745.19 by also cleverly investin the maximum of £50 000 in shares in his then employer Morgan Sindall. Mr Rowe a sales engineer with specialist ductwo company Fire Protection, invested his other £50 000 in Mowlem, Bardon and Galliford.

A 'no win' situation

1997 Whoever wins the general election will have little scope for changing fiscal policy, and prudent builders should prepare for another long recession in the not-too-distant future, says Alistair McAlpine.

THE POLITICAL SITUATION IN Britain is so volatile at the moment that it is much harder to predict when the general election will take place than to predict who will win it.

Politically, there are striking parallels with the tail end of 1978. Then, in the autumn, the prime minister, James (now Lord) Callaghan, teased the Tory opposition: would he call an election before Christmas, or would he wait until the following year?

This autumn, John Major behaved in a similar manner. Although threatened elections seldom happen, the government is in a minority, so an early election would seem inevitable. The truth is very different; both Harold Wilson and Callaghan ran minority governments without too much trouble. Despite the fact that Major boxes himself and his government in further every time he lets a month go by, my bet is that he will wait until May, hoping that, by then, the polls will take a turn for the better.

With the opinion polls showing the Labour Party 22% ahead in Basildon – usually regarded as a signpost to election victory – it seems a safe bet that Labour will win, and win comfortably. That is where I would put my money. Elections, however, are uncertain things. In some marginal Tory seats where Eurosceptics are the members, the Conservatives may win. The effect of the Referendum Party is hard to judge, but you can be sure it will have an effect. The result may be close, which could be perfect for the nation: a new government of either party held back from extreme swings of policy.

There is now not a razor blade's width between the politics of either party. Should Labour win well, the moderates will be in control and the government will behave like a left-wing Tory government. Should Labour lose, they will sack Blair and move to the extreme left.

Should the Tories win or lose, the new intake, who will be largely right-wing Eurosceptics, will dominate the party. In opposition, they would combine with the large number of Eurosceptics already in Labour, but currently silent, to make a Labour government's life difficult. Europe apart, should Blair win and behave like a Tory, it will be some years before you see a Conservative government again.

Fiscally, whoever wins has little scope for change, because these days the market is king and the market will punish nations that let their economies get out of control. Interest rates will go up, but not by more than another 2%. In or out of the ERM, we will still be subject to many of its restraints. The only difference not being in the single currency would make is that the apparently unstoppable march towards a federal Europe will, as far as Britain is concerned, be stopped.

It is no longer possible to have sky-high inflation, rampant interest rates and out-of-control government spending; the market will see to that. The closer we get to Europe, however, the greater our costs and the resulting unemployment. This will affect building costs, and anyone contemplating long-term contracts ought to tread with care.

Whatever Labour or the Tories say, there will be increases in personal tax. These will not affect the economy; whatever happens, the property market will continue its hesitant rise.

There will, I am afraid, be no boom in construction other than the one caused by the slight increase in work and a lot fewer contractors to do it. The number of lottery-generated buildings will begin to fall once the infrastructure projects have been largely completed, because the money will be spent on running rather than building things. The private finance initiative will continue because all governments need their cash to spend on voters, not things. For the same reason, privatisation will, in some respects, continue whoever wins the election.

In 1974, the crash destroyed the value of property and the secondary banks. In the early 1980s, the recession was brought about by a rationalisation of industrial practices. In 1990, however, we suffered the first true recession for 60 years. There are two lessons to be learned from that: do not put your trust in property or the banks to see you through the hard times.

I do not wish to be unduly depressing, but a combination of the markets and governments has created an economy without booms or busts, and the result will be another long, slow recession in the not-too-distant future. What should prudent builders do? First, keep reserves in cash that amount to the shortfall that occurs as turnover falls away; second, and most important, trade to make a profit. Never be seduced by the apparent profits of ever-rising turnover, because what goes up will, sooner or later, come down.

BETTER LUCK THIS YEAR...

Following the continued popularity of the Fantasy Footsie competition, Building again invites readers to gamble on the stock market. Imagine you have £100 000 to spend on shares of the 10 companies tipped by our five analysts. You can place the money in multiples of £10 000 on any or all of the companies listed on the entry form – the maximum you can put on any one share is £50 000. The winner will be the entry with the highest capital sum at the end of 1997.

Calculations will be based on the difference between the share prices quoted on page 34, opposite (from close of trading on 11 December), and the share prices at close of business on the final day of trading in 1997. Put an asterisk next to the share you think will be the highest climber; this will determine the winner in the event of a tie. A case of champagne is up for grabs. Only one entry per person.

Entries should be sent to: Fantasy Footsie, Building, 40 Marsh Wall, London E14 9TP. The closing date for entries is 31 January 1997.

Fantasy Footsie entry form

Name ....

Address ....

....

1 Alfred McAlpine ...... £..............
2 BPB .... £..............
3 Ibstock .... £..............
4 Kier .... £..............
5 Hepworth .... £..............
6 Heywood Williams ... £..............
7 Redrow .... £..............
8 Tarmac .... £..............
9 Taylor Woodrow ...... £..............
10 Wainhomes .... £..............