

Construction Market Review and Forecast: Monthly Summary

November 2015
Prepared by Glenigan



Glenigan

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Recovery continues to gain pace

The Glenigan index rises 6% as all three main sectors strengthen.

After six months of contraction, the construction industry has returned to growth with the Glenigan Index showing the underlying value of project starts in the three months to October 2015 is up 6% on the same stage a year earlier.

The level of project starts has risen in the three key sectors of housing, civil engineering and non-residential building. Regional hot spots are emerging in the Midlands and North West, but starts are contracting in London, Scotland and Wales.

Table 1: Underlying construction starts and planning approvals

	Planning Approvals (£m)	Planning Approvals (Change yoy)	Project Starts (£m)	Project Starts (Change yoy)
Private Housing	3,905	20%	2,544	3%
Social Housing	967	57%	1,627	19%
Industrial	1,481	39%	1,082	35%
Offices	921	56%	1,143	2%
Retail	431	-4%	726	26%
Hotel & Leisure	677	-16%	861	13%
Education	1,472	2%	1,470	-7%
Health	381	-48%	374	-47%
Community & Amenity	180	12%	384	37%
Infrastructure	275	-4%	649	-27%
Utilities	1,428	39%	886	58%

Note: Starts - 3 months to October 2015 and Planning Approvals - 3 months to September 2015, yoy – year-on-year.
Includes underlying projects with construction values between £250,000 and £100m. Excludes frameworks and masterplans.

Source: Glenigan

Key Points

- Glenigan's data shows that in sector terms, the fastest rise has come in the residential building sector, where starts surged by 9% in part due to an unexpected 19% increase in social housing. This was the strongest increase in starts in this sector since March 2014.
- Non-residential starts increased by 4% due to expansion in the private sector. Eight out of 11 sub-sectors tracked by Glenigan experienced growth. Outside of health and education, the only other sector to experienced a retreat in starts was infrastructure.
- The latest update from the Chartered Institute of Purchasing & Supply (CIPS) and Markit showed a strong rebound in construction output growth across all three main sectors and showed the fastest increase in output levels since February 2015.
- Volumes of new work rose at a "robust pace" in September according to CIPS/Markit, but this rise was the slowest for five months and much weaker than the post-crisis peaks recorded in 2013 and 2014. Construction companies are still "highly upbeat" about prospects for output growth over the next 12 months and more than half of the survey panel (52%) forecast an upturn in business activity but only 6% expect reduction.
- The Construction Products Association (CPA) state of trade survey for Q3 2015 showed a tenth consecutive rise in activity. Small-to-medium-sized (SME) companies, civil engineering contractors and product manufacturers reported a rise in activity but building contractors reported a decrease in new orders. On balance, 25% of SME contractors reported increased workloads in Q3 compared to three months earlier.
- Office of National Statistics (ONS) data for August 2015 showed that output in the construction industry fell by 4.3% compared to the previous month and was also down by 1.3% on the same period a year earlier. This was the first year-on-year fall since May 2013.
- In the three months to August 2015, output was down by 0.8% compared to the preceding quarter but was up by 1.7% on the same period a year earlier. In Q3 2015, output was 2.2% down on Q2 and 0.1% on the same stage a year ago. The latest total was 4.3% lower than the pre-recession peak.
- In response to the ONS Q3 figure, CPA economics director Dr Noble Francis said: "The fall in construction output in Q3, compared to a year ago, was the first annual fall since 2013 Q1. Skills shortages have been a key issue recently in the industry and are hindering growth. Overall, recovery is never a straight line and there are always a few bumps and scrapes along the way. Projects in the pipeline across most construction sectors suggest that activity in the industry will rise in 2016 and our forecasts anticipate 4.2% growth in total construction next year, driven by recovery in house building, commercial and infrastructure activity. Skills shortages, however, are proving to be a key issue constraining growth for the industry."
- Savills' commercial development activity report for October 2015 showed a strong rate in the expansion of commercial development activity in September with private projects growing for a thirty-seventh month in a row. The latest reading indicated a 'strong degree of optimism among commercial developers'.

Regions



London is the glaring weak spot as the English regions show continuing signs of strengthening work.

There has been a year-on-year rise in the underlying value of project starts in seven out of the UK's dozen regions.

The Midlands is a particular hot spot. In the West Midlands, starts rose 37% in the three months to October 2015 compared to the same period a year earlier, while in the East Midlands starts surged by 28%.

The North West also saw a strong 27% rise in starts, with more modest growth being recorded across the North East, Yorkshire and Humber and South East England.

Indications of future workloads are also positive. Glenigan has recorded rising values of work achieving planning approval in 11 out of 12 regions and nations of the UK. Only the capital saw approvals down compared to a year earlier during 2015 so far.

After the rapid rates of expansion recorded during 2013 and 2014 in the capital, there have been consistently weak levels of both project starts and planning approvals throughout 2015. Scotland has also experienced some weakness in terms of project starts, which are down by 7% both in the latest quarter and also the 12 months to October 2015.

This drop off was also evident amongst Scottish building contractors polled in the latest Scottish Construction Monitor Index (SCMI), which suggests prospects have weakened north of the border after peaking this summer.

In Q3 2015, confidence amongst firms questioned for the SCMI slid by 14 points to stand at plus 21. In the previous four quarters, respondents had been confident of rising workloads and this peaked in Q2 2015, when the index reached plus 35.

Glenigan's data shows that both Scotland and Wales last saw growth in starts in March this year, but there is also some evidence of weakness in English regions with no rise in starts in the South West since May 2014.

Table 2: Underlying construction starts and planning approvals

	Planning Approvals (£m)	Planning Approvals (Change yoy)	Project Starts (£m)	Project Starts (Change yoy)
East Midlands	1,186	50%	1,018	28%
East of England	1,344	53%	825	-5%
London	1,435	10%	2,198	-5%
North East	409	21%	440	6%
Northern Ireland	286	-22%	389	38%
North West	1,438	17%	1,275	27%
South East	1,524	9%	1,629	14%
South West	1,165	24%	916	-3%
Scotland	994	16%	828	-7%
West Midlands	1,237	30%	1,026	37%
Wales	359	-43%	279	-45%
Yorkshire & the Humber	742	-1%	921	3%

Note: Starts - 3 months to October 2015 and Planning Approvals - 3 months to September 2015, yoy - year-on-year. Includes underlying projects with construction values between £250,000 and £100m. Excludes frameworks and masterplans.

Source: Glenigan

For more detailed regional data and analysis, please consult our website.

Sectors



Private Housing

Private housing growth has slowed but there is evidence of stronger growth in the pipeline.

In the three months to October, private residential starts firmed by 3% on the same period a year earlier but in the 12 months to October 2015, Glenigan's data shows starts up by 6%.

The recent slowdown was evident in the CPA state of trade survey for Q3 2015, which showed that on balance, 12% of respondents reported a fall in orders in private housing.

More historic ONS data for private residential orders in the three months to August 2015 showed a 2% rise on the same period a year earlier, but compared to the preceding three month period to May 2015 there was a fall of 2.2%.

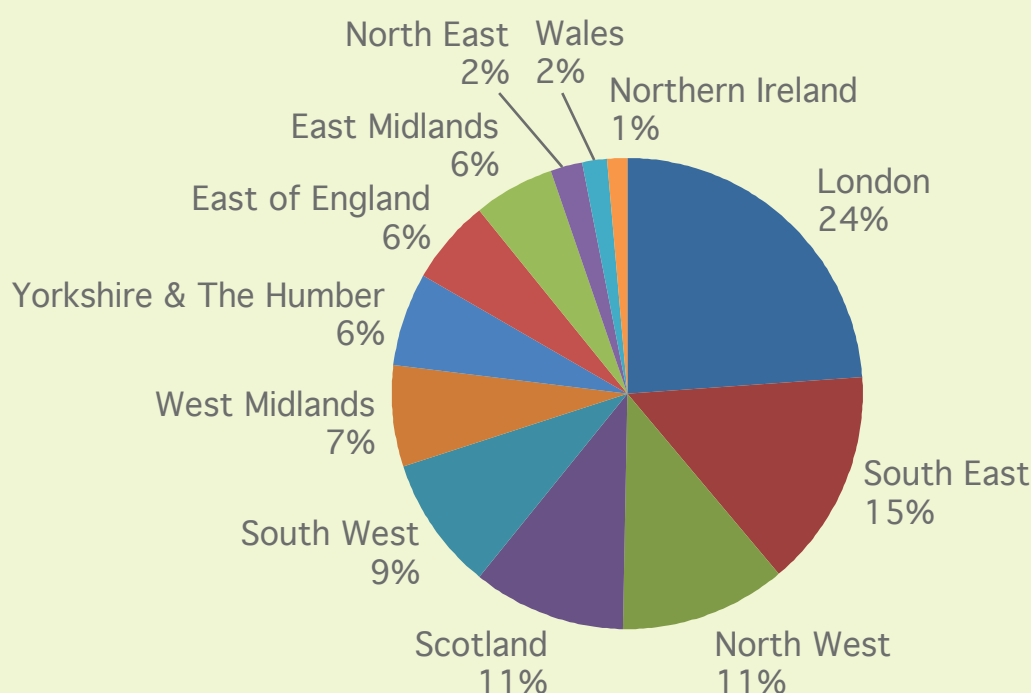
In the month of August 2015, private residential output firmed 0.2% on July 2015, but was down by 1.6% on the same month a year earlier.

However, other indicators of forward activity are more positive.

In the CIPS/Markit update for September 2015, residential activity was the strongest performing of the three broad sectors monitored. The rise in activity was the strongest for 12 months and was attributed to the start of development projects that had been delayed earlier in 2015.

Glenigan's data for work in the pipeline is also positive. In the three months to September 2015, the underlying value of private residential projects given planning permission leapt by 20% and £3.9 billion-worth of work was approved.

Chart 1: Value of Private Housing Detailed Planning Approvals by Region, 2015 ytd* (£m)



Source: Glenigan

NB: Includes all projects with a construction value over £250,000. * To September 2015

Sectors



Social Housing

There was an unexpected rebound in social housing activity in October, but the prospects for this sector remain poor.

Social housing activity surged in the three months to October 2015 according to Glenigan's data, which shows that the underlying value of project starts rose by 19% compared to the same period a year earlier.

In the 12 months to Q3 2015, starts are still down by 5% but work in the planning pipeline did increase. The value of social housing work given planning permission leapt by 57% in this period, but other indicators suggest this may be a brief anomaly.

Elsewhere, contraction in workload is increasingly evident.

The CPA Q3 state of trade survey reported that public housing orders fell according to 42% of building contractors, on balance.

ONS data for public housing output in the three months to August 2015 showed a 21.5% crash on the same period a year earlier, and compared to the preceding three-month period the fall was 9.8%.

In the month of August 2015, public housing output fared even worse, falling 28.5% compared to the same month a year ago and by 9.9% on July 2015.

With the government preparing to remove planning-based levies that boost levels in favour of a new Starter Homes initiative, this sector faces increasing uncertainty.

Health

The health sector suffered the biggest contraction in starts of any of the 11 sub-sectors monitored by Glenigan during October as austerity cuts bit deep into public sector spending.

Glenigan's data shows that health project starts crashed by 47% in the three months to October 2015 compared to the same period in 2014.

In the 12 months to October 2015, health starts are now down by 21%.

This fall comes as evidence of lower public sector spending on construction emerges.

More historic ONS data for other new public construction output excluding infrastructure showed a fall of 3.6% in the quarter to August 2015 compared to the same period a year earlier.

In comparison to the preceding three months to May 2015, the fall was less marked at 1.3%, but the indicators for a recovery are not good.

In the month of August 2015, there was a fall of 7.6% in public construction output excluding infrastructure compared to the same period a year earlier. The drop was 4.1% compared to August 2014.

For the health sector specifically, the auguries are particularly poor.

Glenigan's data shows that in Q3 2015, the underlying value of health projects given detailed planning approval slumped by 48% on the same period in 2014.

This was again by some distance the biggest fall of any of the 11 sub-sectors monitored by Glenigan.

To put this drop in context, the next biggest fall (in the hotel & leisure sector) was only 16% and health sector work in the pipeline has fallen below the equally embattled retail sector.

Sectors



Education

Both key government funded building sectors suffered from falls in activity during October but the education sector fared better than health.

In the three months to October 2015, Glenigan's data shows that the underlying value of education starts fell back by 7%. In the 12 months to October 2015, starts in this sector are now down by 4%.

Going forward however, there are better prospects for this sector than in health.

Glenigan's data for the planning pipeline shows a 2% rise in the underlying value of education projects given detailed planning permission in Q3 2015 compared to the same period in 2014.

The £1.5 billion-worth of education work approved was the third largest, and even then only marginally behind the industrial sector.

The total for education work approved in Q3 2015 was equal to the value of work started in the three months to October 2015, which suggests a period of stabilisation towards the end of the year.

There is evidence of major projects emerging earlier in the construction cycle from the higher education sector. This may offset any weakness in the areas of education construction that are directly funded by the government or state initiatives.

Offices

Increased activity in the wider commercial sector has yet to filter through to the office sub-sector.

In the three months to October 2015, Glenigan's data shows that the underlying value of office starts edged up just 2%. In the 12 months to October 2015, starts in this sector are up just 1%.

This slowdown was evident in the CPA state of trade survey for Q3 2015, which found that a balance of 20% reported a fall in orders in commercial orders.

More historic data from the ONS for private commercial work in the quarter to August 2015 showed a slight rise of 1.4% compared to the same period a year earlier, but against the preceding three-month period the rise was 3%.

In the month of August 2015, private commercial construction output was up by 1.1% on August 2014 but down by 1.8% on July 2015.

In contrast, in the wider commercial sector the September 2015 update from CIPS/Markit showed growth of commercial activity rose sharply with the fastest pace of growth for seven months.

Savills commercial development activity report showed that office activity continued to expand in September 2015, but at a weaker rate than in August. This was due to weaker public activity and there was a strong re-bounce in private sector office activity.

Overall commercial activity expanded at a faster rate in the South East and the rest of the UK with weaker growth in London.

Signs of greater workload in the construction cycle are also evident in Glenigan's data for the planning pipeline. These show a 56% rise in the underlying value of office projects given detailed planning permission in Q3 2015 compared to the same period in 2014.

Community & Amenity

There was a surprise bounce back in the underlying value of community & amenity project starts in October, but from a very low base and prospects remain grim for this sector. In the three months to October 2015, community & amenity project starts leapt by 37%.

Despite this sudden rise, in the 12 months to October 2015, the underlying value of community & amenity project starts are still down by 19%.

There has been a rise in the underlying value of detailed approvals for work in this sector, with a 12% improvement in the underlying value of approved projects in Q3 2015 against the same period a year earlier.

However, to put this rise in context the overall value of work approved in this period is less than half of the total value of project starts in the three months to October 2015.

There is some read-across from the level of public commercial activity in Savills research, which showed back-to-back decline during September 2015. Of the nine categories monitored, the only three to register decline were public office, public new build and public retail and leisure – all of which impact to some degree on the prospects for this sector.

Sectors



Industrial

The industrial sector continues to recover strongly and apace after a period of weakness caused by the May general election which dogged starts.

In the three months to October 2015, the underlying value of industrial project starts surged by 35% on a year earlier. In the 12 months to October 2015, industrial starts are now up by 8% on the preceding 12-month period.

The latest ONS data shows private industrial work in the quarter to August 2015 rose strongly compared to the commercial sector. Compared to the same period a year earlier, industrial output was up 5.3% and by 6.3% against the preceding three-month period to May 2015.

In the month of August 2015, the indicators give greater credence to the notion of a slowdown. Private industrial

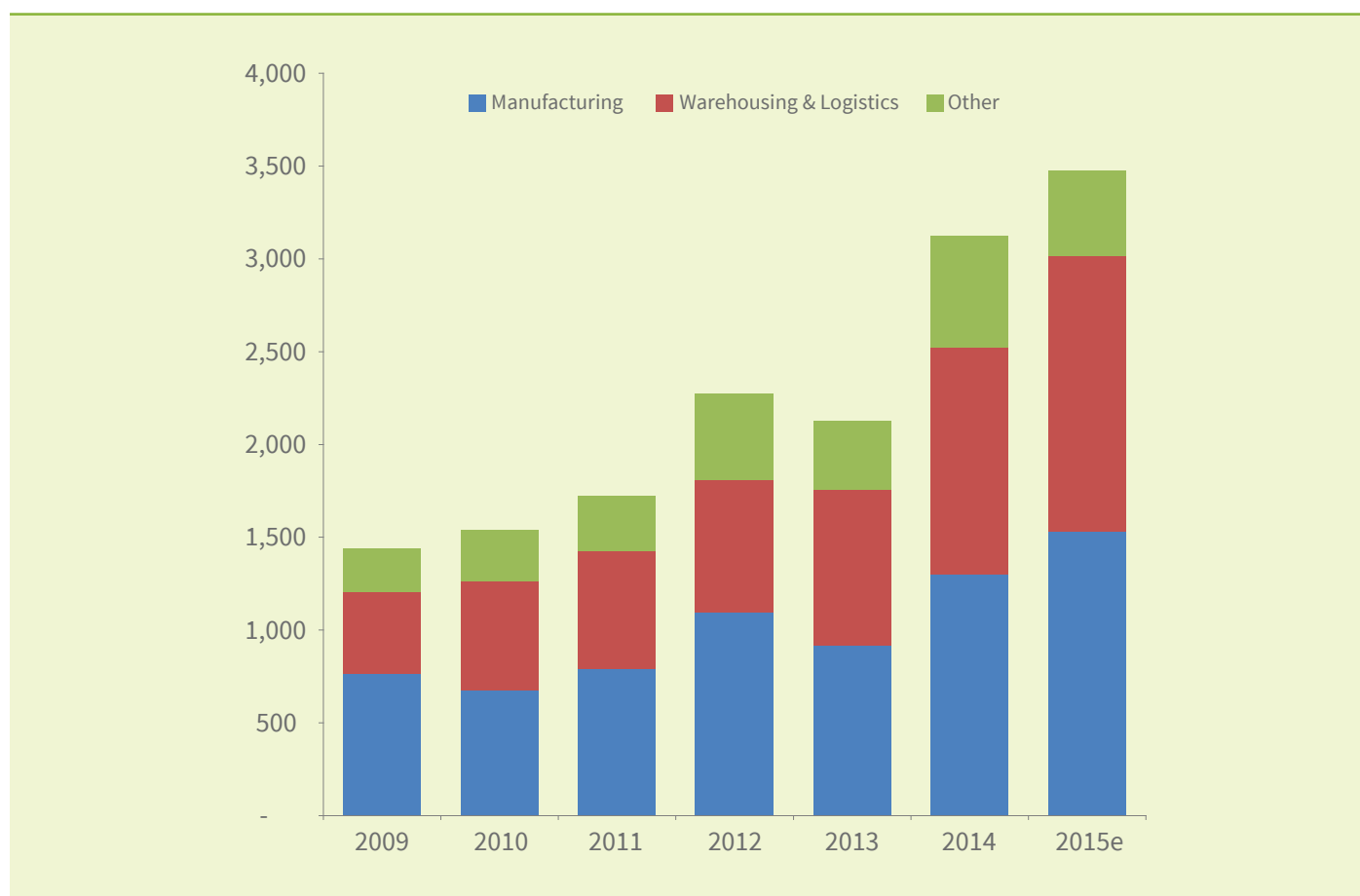
output was up by 4.8% on August 2014 but down by 4.1% on July 2015.

In Savills' latest commercial development activity, expansion in industrial/warehouse activity was the strongest of nine sectors covered during September 2015.

There is also strong growth in Glenigan's data for industrial work in the pipeline. The underlying value of industrial projects given detailed planning approval in Q3 2015 surged leapt by 39%.

The total value of approvals is the second largest of the 11 sub-sectors monitored by Glenigan and this total is also 37% larger than the total value of industrial project starts in the three months to October 2015.

Chart 2: Value of underlying Industrial starts by category



Source: Glenigan

e - expected

Sectors



Hotel & Leisure

Hotel & leisure work continued to strengthen in October but signs of activity earlier in the pipeline are more mixed. Glenigan's research shows that the underlying value of hotel & leisure project starts in the three months to October 2015 was up by 13% compared to the same period a year earlier.

In the 12 months to October 2015, project starts in this sector are now ahead by 12% on the preceding 12-month period.

In Savills' latest commercial development activity report, public retail & leisure development activity declined compared to the previous month but private sector activity rose.

Glenigan's data for projects in the planning pipeline contrasted with starts. The value of work approved in Q3 2015 was down by 16% on the same quarter in 2014.

The total value of those schemes given approval is 21% lower than the aggregate value of project starts in this sector in the three months to October 2015.

This suggests that a slowdown, but some big projects on the leisure side are moving into the system.

A proposed £3.2 billion theme park in Kent has secured the first £100 million tranche of funding towards a scheme scheduled to open in 2021, which illustrates how confidence amongst clients in this sector is strengthening.

Retail

There was an unexpected bounce-back in retail starts in October, but the prospects for this sector remain poor. The underlying value of project starts surged by 26% in the three months to October 2015 compared to the same period a year earlier.

This conflicting information is also apparent in Savills' latest commercial development activity report covering September 2015, when public sector retail & leisure development activity declined. But private sector activity rose at twice the rate recorded for August.

Glenigan's data for the underlying value of retail projects given detailed planning permission in Q3 2015 shows a 4% fall in comparison to the same period in 2014.

To put this in context, the total value of approved projects in Q3 2015 is 40% smaller than the aggregate value of retail starts in the three months to October 2015.

The major supermarkets are also likely to contribute less. In October, Tesco confirmed that 14 sites across southern England previously due to feature new supermarkets have now been sold for £250 million and will be developed for residential use.

Asda is also reigning in expansion plans and improving its core estate with 95 stores refurbished at an estimated cost of £600 million to combat discount rivals. This is unlikely to be the last such move by a major supermarket.

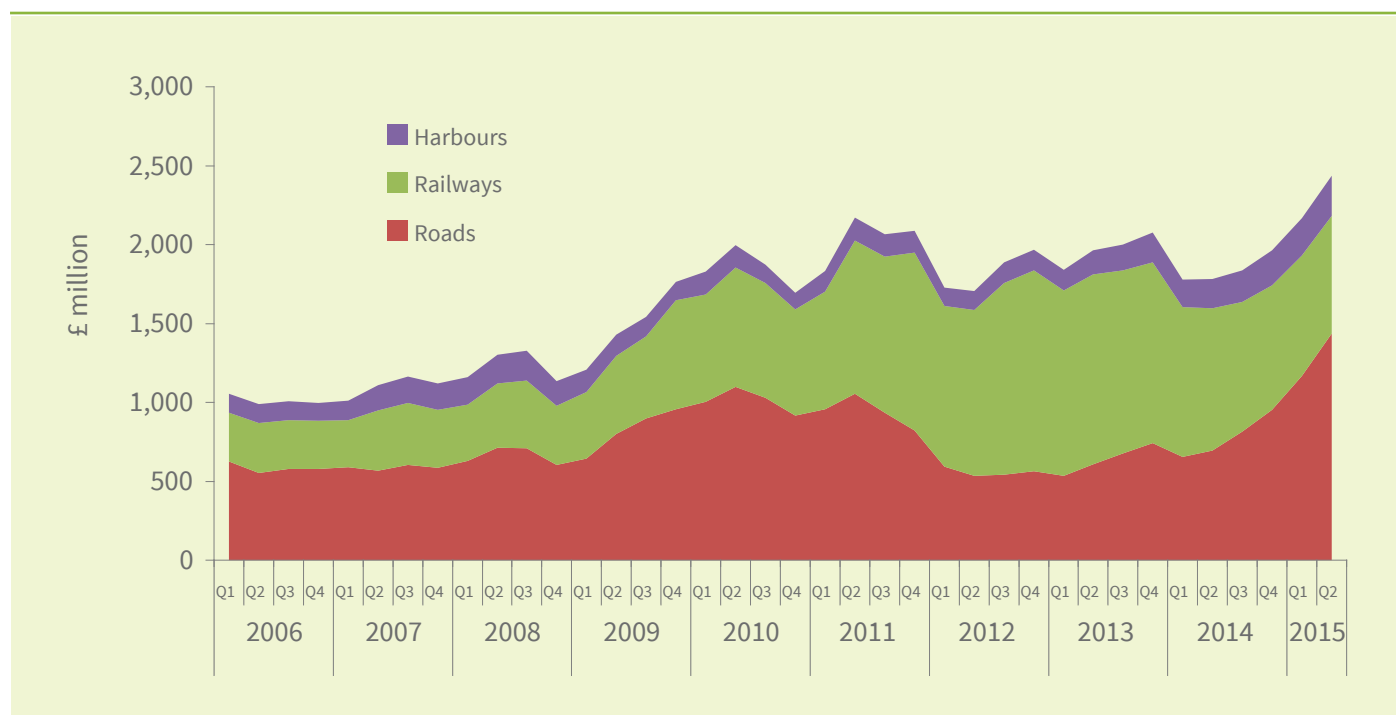
This all appears likely to push the value of starts in this sector down again on an annual basis.

In 2013, starts slipped back just under 1% only to rebound strongly in 2014 with an 8% rise. Even after the recent strong rise, at the current monthly level of starts the 2015 total seems set to comprise a decline.

Sectors



Chart 3: Infrastructure Construction Output



Source: ONS

Values are in current prices.

Civil Engineering

Infrastructure workloads suffered in October as public sector spending cuts bit with health and education also suffering.

Civil engineering project starts only rose in the three months to October 2015 compared to the same period in 2014 due to a strong performance from the utilities sub-sector.

Work in the utilities sub-sector ballooned by 57% in the quarter to October 2015 on a year earlier, whereas infrastructure starts crumbled by 27% over the same period.

There are contrasting messages in the more historic ONS data for output in this sector, which includes large scale £100 million plus projects not included in Glenigan's statistics. Infrastructure work rose by 37% in the three

months to August 2015 compared to the same period a year earlier according to the ONS. In comparison to the preceding three months, the growth was slower at 4.5%.

In the month of August 2015, infrastructure output rose 32% on the same month a year earlier, but in comparison to July 2015 there was a fall of 6.5%.

However, going forward there are indicators of stronger and more sustained activity in the civil engineering sector as a whole.

In the CIPS/Markit update for September 2015, civil engineering activity increased for a fifth consecutive month and at the fastest rate since February 2015.

In the CPA Q3 state of trade survey, 13% of civil engineering firms on balance reported an increase in enquiries.