

# Construction Growth Expected to Slow Despite Buoyant Infrastructure and Warehouses Activity

3 years ago



Construction output is forecast to rise by 2.5% in 2022 and 1.6% in 2023. According to the latest [Construction Products Association \(CPA\)](#) construction forecasts as strong growth in warehouses and infrastructure offsets, a slowdown in private housing and a fall in private housing repair, maintenance and improvement (rm&i) from historic high levels.

The industrial sector, which covers activity on warehouses and factories, is forecast to be the fastest growing sector in the next two years. Output is forecast to rise by 15.0% in 2022 and 9.8% in 2023, as activity continues to be boosted by the strength of online retailing as well as manufacturers' need for increased stocks given the persistence of supply chain issues over the last two years.

Infrastructure, the second largest construction sector, will also be a key driver of growth with output expected to rise by 8.5% this year and 3.8% in 2023. Long-term pipelines of work in regulated sectors such as roads, rail, water and electricity will drive growth.

This is boosted further by major projects such as HS2, Thames Tideway Tunnel, and Hinkley Point C despite ongoing delays and cost overruns. However, medium-term, local infrastructure is likely to suffer from councils being financially constrained. Central government projects will also be affected as there will be no further finance beyond November 2021's Spending Review. This is despite an ambitious infrastructure pipeline and strong cost inflation.

Private housing remains cautiously optimistic as annual house price growth continues at double-digit rates

and major house builders continue to stress the strength of the market. However, with the UK economy expected to contract in 2022 Q4, there remains uncertainty regarding how long housing can remain buoyant.

The CPA anticipates that UK annual house price inflation will slow to 6.0% later this year and 2.5% in 2023 – as lower housing demand is partially offset by a lower supply of homes on to the market unless unemployment rises significantly and increases the number of forced sellers onto the market, suppressing house prices. Near-term concerns for major house builders focus on mortgage availability after the end of Help to Buy in March 2023.

Other key issues for houses include planning and rising costs of materials, labour and meeting the new Building Regulations. Private housing output is forecast to rise by 1.0% in 2022 and remain flat in 2023. However, if house price inflation continues to surprise on the optimistic side and demand is enabled by high mortgage availability, risks may be skewed towards the positive.

Private housing rm&i – the third largest construction sector – has been a key driver of activity over the last two years due to the ‘race for space.’ Output is currently 20% higher than pre-pandemic but firms report that smaller, discretionary spending on improvements activity is already falling away, albeit, from a historically high level.

Private housing rm&i is the sector most exposed to changes in consumer confidence and real incomes. It is also the sector that is most exposed to materials and products cost inflation, as small contractors are less able to plan and purchase in advance for projects. Overall, output is expected to fall by 3.0% this year and a further 4.0% next year.

However, given that activity in the sector reached historic highs in early 2022, the sector has the potential for falling even harder than forecast. This is dependent on the extent to which falling consumer confidence translates into households’ reduced investment in their own homes and the risks are to the downside.

CPA Economics Director Noble Francis said: “Construction activity currently on site is robust, higher than pre-pandemic. It is likely to remain strong near-term due to projects already signed up to, especially in the buoyant infrastructure and warehouses sub-sectors. However, construction is not immune to the effects of the wider economy.

“Over the next 12 months, the rapidly rising cost of living, the slowdown in economic growth and falls in consumer confidence and spending will undoubtedly impact on private construction investment going forward. In addition, rising labour and materials prices are likely to mean that the industry sees the value of output previously expected but not the volume.

This is particularly the case for public sector construction in the longer-term, in which government departments and local authorities are likely to find themselves hamstrung by frozen budgets and rising construction costs.”

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