This report looks at the following areas:

- How the different construction sectors have fared during a succession of major macroeconomic events, including Brexit and the pandemic and now high inflation/interest rates.
- How structural changes within the highly varied different end-use markets are impacting demand.
- Why the challenge of meeting net zero targets requires substantial retrofit and improvement activity as well as changing new construction techniques and materials.
- How the housing RMI reacted post-pandemic but is now challenged by surging inflation as well as the implications of mortgage availability/affordability.
- Why the industry structure is so unusual in the construction sector with significant SME activity.

In total, the construction market continues to exaggerate wider GDP changes, but with so many customer sectors there remain highly varied market drivers for the individual sectors. Housebuilding remains a substantial element of both new construction and RMI activity, and it is facing particularly difficult conditions in 2023, despite the sizeable and sustained housing shortage in the UK. In the commercial sector, shifts in working practices are changing the demand for offices and the ecommerce boom has resulted in overcapacity in the retail sector. Both these developments have given rise to buoyant fit-out demand as use and ownership changes drive the market.

Public sector activity remains constrained by government fiscal policy following its exceptional expenditure on the pandemic and energy subsidies.

In the short term, the industry continues to face supply chain issues and skills shortages, the combined result of some of the most disruptive macroeconomic events in the last five years, including Brexit and the pandemic. Further difficulties are arising in major sectors from the high interest rates and inflation,
which threatens to derail aspects of the housing RMI sector. The situation is compounded by mortgage rate increases, and there is continued speculation of a house price correction while housing transaction levels are declining, with strong implications for RMI activity.

One of the biggest long-term challenges to the construction sector is its role in helping meet the government’s net zero targets set for 2050. Given construction rates, some 85% of the building stock that will exist in 2050 has already been built, giving rise to a substantial potential retrofit and replacement market.
Table of Contents

OVERVIEW
• Key issues covered in this Report
• Products covered in this Report

EXECUTIVE SUMMARY
• A difficult 2023, before recovery
  Figure 1: Category outlook, 2023-27
• The market
• Market size and forecast
  Figure 2: Market size for construction, 2017-27 (£ billion)
• New construction segmentation and drivers
  Figure 3: Market for new construction, 2017-27 (£ billion)
  Figure 4: Segmentation of new construction activity, 2022 (£ billion)
• RMI segmentation and drivers
  Figure 5: Segmentation of RMI construction activity, 2022 (£ billion)
  Figure 6: Segmentation of the RMI construction activity, 2022 (£ billion)
• Companies and brands
  Figure 7: Number of companies active in construction, 2016-21
  Figure 8: Revenue structure in construction, by size of company, 2022
• Main trade composition
  Figure 9: Composition of main trades contractors, 2021 (number of companies)
  Figure 10: Segmentation of major specialist construction trades, 2021 (number of companies)

ISSUES AND INSIGHTS
• Housing impacted by current economic conditions
  Figure 11: UK house price index, 2006-22 (annual % change)
  Figure 12: Average UK house prices, 2006-22 (£s)
  Figure 13: UK housing transactions, 2006-23
• Net zero buildings – a target lacking a system

MARKET SIZE AND PERFORMANCE
• Strong growth
  Figure 14: Market size for construction, 2017-22 (£ billion)
  Figure 15: Market size for construction at 2017 prices, 2017-22 (£ billion)

What’s included
Executive Summary
Full Report PDF
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Powerpoint Presentation
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The above prices are correct at the time of publication, but are subject to change due to currency fluctuations.
• New construction
  Figure 16: The new construction market, 2017–22 (£ million and indexed against 2017)
• RMI
  Figure 17: The RMI construction market, 2017–22 (£ million and indexed against 2017)

MARKET FORECAST
• A difficult 2023, before recovery
  Figure 18: Category outlook, 2023–27
• Continued contradiction of GDP
  Figure 19: Market forecast for construction, 2022–27 (£ billion)
  Figure 20: Market forecast for new construction, 2022–27 (£ billion)
  Figure 21: Market forecast for RMI construction activity, 2025–27 (£ billion)
• Learnings from the last income squeeze

MARKET SEGMENTATION
• A diverse market
  Figure 22: Segmentation of new construction activity, 2022 (£ billion)
  Figure 23: Segmentation of the RMI construction activity, 2022 (£ billion)

SEGMENTATION: NEW HOUSING
• The context
  Figure 24: Housing completions in England, by sector, 1962–2022 (number)
• Recent activity
  Figure 25: The new housebuilding market, 2017–22 (£ million and indexed against 2017)
• Segmentation
  Figure 26: Segmentation of the new housebuilding market, 2017–22 (£ million)
• Outlook
  Figure 27: Forecast for new housebuilding market, 2022–27 (£ million)

SEGMENTATION: NEW PRIVATE COMMERCIAL
• A sensitive sector
  Figure 28: Long-term development of commercial construction, 1970–2022 (£ million)
• Recent activity
Figure 29: The new commercial construction market, 2017-22 (€ million and indexed against 2017)

- Segmentation
  Figure 30: Segmentation of the commercial construction market, 2017-22 (€ million)
- Outlook
  Figure 31: Forecast for commercial construction market, 2022-27 (€ million)

SEGMENTATION – NEW PRIVATE INDUSTRIAL

- A changing sector
  Figure 32: Long-term development of industrial construction, 1970-2022 (€ million)
- Recent activity
  Figure 33: The new industrial construction market, 2017-22 (€ million and indexed against 2017)
- Segmentation
  Figure 34: Segmentation of the industrial construction market, 2017-22 (€ million)
- Outlook
  Figure 35: Forecast for industrial construction market, 2022-27 (€ million)

SEGMENTATION – PUBLIC NON-RESIDENTIAL

- Government policy determines trends
  Figure 36: Long-term development of public non-residential construction, 1970-2022 (€ million)
- Recent activity
  Figure 37: The new public non-residential construction market, 2017-22 (€ million and indexed against 2017)
- Segmentation
  Figure 38: Segmentation of the public non-residential construction market, 2017-22 (€ million)
  Figure 39: Department of Health and Social Care spending, 2015-25
- Outlook
  Figure 40: Forecast for public non-residential construction market, 2022-27 (€ million)

SEGMENTATION – RMI HOUSING

- Context
- Public housing
  Figure 41: RMI expenditure on public housing, 2017-22 (€ million)
Figure 42: Forecast RMI expenditure on public housing, 2022-27 (£ million)

- **Private housing**
  - Figure 43: RMI expenditure on private housing, 2017-22 (£ million)
  - Figure 44: Forecast RMI expenditure on private housing, 2022-27 (£ million)

**SEGMENTATION – RMI PRIVATE NON-RESIDENTIAL**

- **Context**
- **Recent activity**
  - Figure 45: RMI expenditure on private non-residential buildings, 2017-22 (£ million)
  - Figure 46: Forecast RMI expenditure on public non-residential construction, 2022-27 (£ million)

**SEGMENTATION – RMI PUBLIC NON-RESIDENTIAL**

- **Context**
- **Recent activity**
  - Figure 47: RMI expenditure on public non-residential buildings, 2017-22 (£ million)
  - Figure 48: Forecast RMI expenditure on public non-residential construction, 2022-27 (£ million)

**MARKET DRIVERS**

- **The economy**
- **Inflation** will continue to eat into consumer spending power over the course of 2023
- **Further interest rates increases** will hit mortgage-holders
- **High inflation** and rising interest rates will compound the impact of the slowing recovery
- **Consumer spending power** will be curbed
- **Low unemployment** is helping underpin
- **Consumers’ financial wellbeing** has fallen from the highs of 2021...
  - Figure 49: Household financial wellbeing index, 2016-23
- **...and most people are feeling the effects of price rises**

**INDUSTRY STRUCTURE**

- **A substantial industry**
  - Figure 50: Number of companies active in construction, 2016-21
- **The industry composition**

---

**What’s included**

- Executive Summary
- Full Report PDF
- Infographic Overview
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Figure 51: Composition of main trades contractors, 2021 (number of companies)

Figure 52: Segmentation of major specialist construction trades, 2021 (number of companies)

- Analysis by turnover
- Total construction
  - Figure 53: Revenue structure in construction, by size of company, 2022
  - New construction turnover
  - Public housebuilding
    - Figure 54: Revenue segmentation in new public housebuilding, by size of company, 2022
  - Private housebuilding
    - Figure 55: Revenue segmentation in new private housebuilding, by size of company, 2022
  - Private commercial construction
    - Figure 56: Revenue segmentation in new commercial construction, by size of company, 2022
  - Private industrial construction
    - Figure 57: Revenue segmentation in new industrial construction, by size of company, 2022
  - Public non-residential construction
    - Figure 58: Revenue segmentation in new public non-residential construction, by size of company, 2022
  - Repair, maintenance and improvement turnover
  - Public housing
    - Figure 59: Revenue segmentation in public housing repair, maintenance and improvement activity, by size of company, 2022
  - Private housing
    - Figure 60: Revenue segmentation in private housing repair, maintenance and improvement activity, by size of company, 2022
  - Private non-residential
    - Figure 61: Revenue segmentation in private non-residential repair, maintenance and improvement activity, by size of company, 2022
  - Public non-residential
    - Figure 62: Revenue segmentation in public non-residential repair, maintenance and improvement activity, by size of company, 2022
COMPANY PROFILES

- Barratt Developments
  - Activity
  - Performance
    Figure 63: Financial performance of Barratt Developments, 2018–22 (£ million)
    Figure 64: House completions by Barratt Developments, 2020–22 (Number)
    Figure 65: House completions by Barratt Developments, by unit type, 2021–22 (%)
    Figure 66: House completions by Barratt Developments, 2021 and 2022 (%)

- Strategy
- Galliford Try
- Activity
- Performance
  Figure 67: Financial performance of Galliford Try, 2018-22 (£ million)
  Figure 68: Segmentation of forward orders for Galliford Try business division, 2021 and 2022 (£ million)

- Strategy
- Kier Group
- Activity
- Performance
  Figure 69: Financial performance of Kier Group, 2018–22 (£ million)

- Strategy
- Morgan Sindall Group
- Activity
- Performance
  Figure 70: Financial performance of Morgan Sindall Group, 2018–22 (£ million)
  Figure 71: Revenue segmentation of Morgan Sindall Group, 2022 (£ million)

- Strategy
- Persimmon
- Activity
- Performance
  Figure 72: Financial performance of Persimmon, 2018–22 (£ million)

- Strategy
- Taylor Wimpey
- Activity
• Performance
  Figure 73: Financial performance of Taylor Wimpey, 2018-22 (£ million)
• Strategy

APPENDIX – DATA SOURCES, ABBREVIATIONS AND SUPPORTING INFORMATION
APPENDIX – FORECAST METHODOLOGY
• Market forecast and prediction intervals
  Figure 74: Forecast market for construction, 2022-27 (£ billion)
• Market drivers and assumptions

FURTHER SOURCES AND CONTACTS
• Trade associations
• Trade magazines

What’s included
Executive Summary
Full Report PDF
Infographic Overview
Powerpoint Presentation
Interactive Databook
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