Construction - UK - 2023

Report Price: £1495 | $1995 | €1800

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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,

"The construction sector regularly exaggerates GDP changes, and with recent substantial macroeconomic movements relating to Brexit, the pandemic and now inflation/higher interest rates, market movements have been significant as have supply chain and skill availability issues."

– Terry Leggett, Principal Analyst

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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.

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