Winter 2009/10 edition

construction industry **forecasts** 2009-2013

construction products association

Overview

The conditions for construction remain extremely challenging despite data for the fourth quarter of 2009 expected to show that the economy had begun its long road to recovery. Following on from 2009's sharpest fall in construction on record, the industry is expected to contract a further 3% in 2010 prior to a return to growth in 2011 with the result that the construction industry will have suffered a deeper and more prolonged recession than the economy as a whole.

Currently, industry concerns still primarily remain in private sector construction, which is suffering from sharp falls in the commercial and industrial sectors combined with a challenging private housing sector.

The commercial sector is estimated to have fallen 26% in 2009 alone, the sharpest fall on record and it is expected to fall a further 15% due to a lack of orders for new offices and retail properties. Likewise, due to a collapse in orders for new factories and warehouses, industrial construction work fell by an estimated 48% over the last two years and is expected to fall a further 2% during 2010.

Despite significant rises over the last six months, private housing remains at historically low levels. Even with double-digit growth over the forecast period, continuing the growth seen in the second half of last year, private housing starts are only anticipated to be 92,000 in 2010, half the figure seen in 2007. Even in 2013, starts are expected to be 25% lower than in 2007.

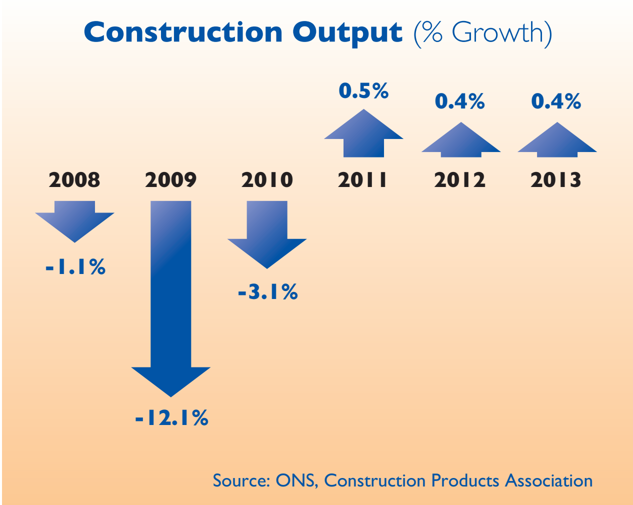
During the recession there are still some areas that are currently enjoying growth and expected to grow further over the next few years. The infrastructure sector is set to benefit from considerable growth between 2008 and 2013, growing more than 20%, buoyed by work on roads in the near term, work on the nuclear programme towards the end of the forecast period and work in the rail sub-sector throughout.

Yet with an Election due in the first half of 2010, attention must turn to public sector construction. One reason that the construction industry as a whole has not suffered even greater falls in output has been the increased spending on construction from government. Public spending in areas such as housing, education and transport infrastructure now accounts for 40% of construction work and this has helped to limit the effects of sharp falls in the private sector. Expenditure by the public sector on construction is expected to remain high in 2010.

However, in December 2009's Pre-budget Report, the Chancellor confirmed that, firstly, there would be no further fiscal stimulus for construction and, secondly, annual public sector net investment would fall by over 50% over the next four years post-election. With economic and construction recovery already expected to be slow and protracted, halving public construction spending could extend the industry's recession well beyond the anticipated three years.

Key Points include:

- Construction output to fall 3% in 2010 before returning to marginal growth between 2011 and 2013
- With trend growth each year after 2013, construction would still only return to 2007 levels in 2021
- No private sector construction recovery until 2011 but sharp fall in public sector construction work from 2011
- Private housing starts only 92,000 in 2010
- Infrastructure output set to rise 22% in the next four years



Public & Private Sector Construction Output

£ million		2008	2009	2010	2011	2012	2013
Change on previous year		Actual	Estimate	Forecast	Forecast	Projection	Projection
Public Sector inc. PFI		37,695	38,437	38,279	36,350	33,418	30,568
		8.6%	2.0%	-0.4%	-5.0%	-8.1%	-8.5%
Private Sector		72,006	57,994	55,176	57,550	60,856	64,131
		-5.6%	-19.5%	-4.9%	4.3%	5.7%	5.4%
Total Construction		109,701	96,431	93,456	93,900	94,275	94,699
		-1.1%	-12.1%	-3.1%	0.5%	0.4%	0.4%

Source: ONS, Construction Products Association

Economy

The UK remained in recession during the third quarter of 2009, after the vast majority of countries had already started to grow once again. Official figures published at the end of January 2009 are anticipated to state that economic recovery began in the fourth quarter of 2009, in part due to spending brought forward by the Government, through fiscal stimulus, but also by consumers taking advantage of lower VAT and the car scrappage scheme in addition to exporters benefitting from a favourable exchange rate. However, economic recovery is expected to be to be slow and protracted. Growth of only 0.7% for the economy is anticipated in 2010 with 2% growth in 2011 prior to a return to trend growth only in 2012.

In response to the third quarter economic activity and figures highlighting decreasing lending to businesses (net lending to businesses is currently negative), the Bank of England increased its quantitative easing programme by a further £25 billion, which now totals £200 billion. The Bank also continued to keep base rates at 0.5% so homeowners, paying less due to a fall in mortgage rates, have a higher disposable income. After spending the majority of 2009 in negative territory, RPI inflation is now positive and expected to rise further with VAT now back at 17.5% and economic recovery underway. This may also cause CPI inflation, already close to the Bank's target of 2.0%, to rise beyond 3% temporarily.

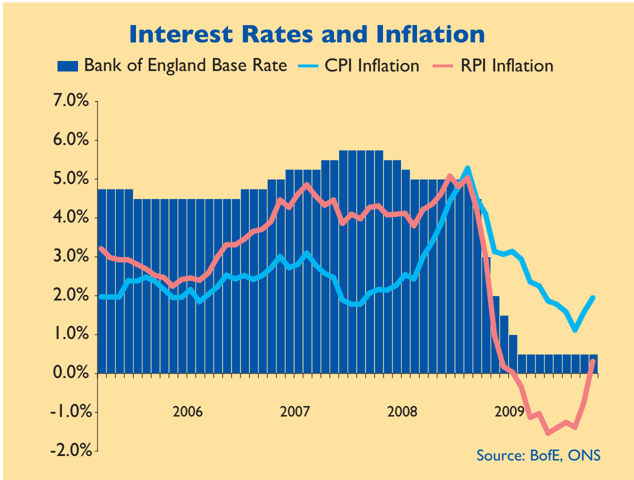
In the third quarter of 2009, rises in unemployment slowed considerably, increasing by only 21,000 to 2.49 million. Due to the unprecedented assistance by Governments and the Bank of England, through fiscal and monetary stimuli respectively, in addition to the extensive use of short-term working, concerns one year ago of unemployment breaking the 3 million barrier have now fallen away. However, unemployment is still expected to reach 2.8 million as small and medium size companies struggle to gain necessary finance from the financial system despite the quantitative easing programme.

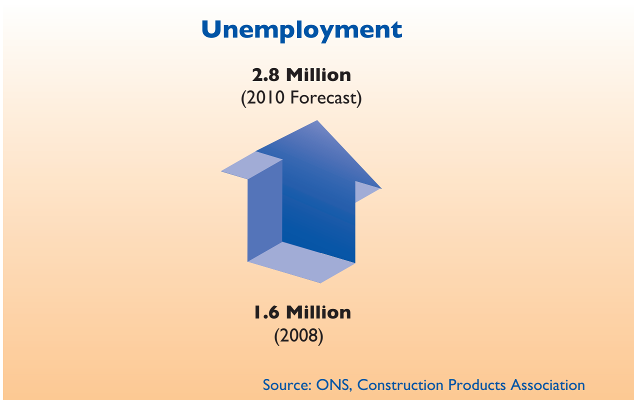
December 2009 saw the Chancellor publish the Pre-budget Report, which highlighted the extent of the fiscal stimulus, so far, with public sector net investment rising to 3.5% of GDP in the current financial year compared to pre-recession Government estimates of 2.9%. The report also highlighted that public borrowing would reach an unprecedented £178 billion in 2009/10 and a further £175 billion in the next financial year, which is unsustainable. The report also stated that only 'frontline' spending on education, health and police as isolated from spending cuts but this does not include construction spending in those areas. Public sector net investment, which covers total public spending on construction, was highlighted as falling from 3.5% of GDP in 2009/10 to 1.3% of GDP in just four years. However, a different party elected to government during 2009 could review these figures.

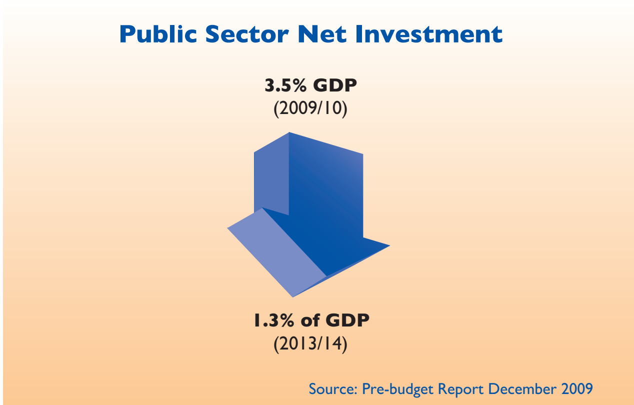
UK Economic Indicators

	2008	2009	2010	2011	2012
	Actual	Estimate	Forecast	Forecast	Projection
GDP	0.7%	-4.6%	0.7%	1.9%	2.7%
Fixed Investment	-4.3%	-14.0%	-3.4%	1.9%	4.3%
Consumer Expenditure	1.6%	-3.2%	-0.5%	1.2%	2.5%
Real Household Disposable Income	2.1%	1.0%	0.5%	2.4%	2.8%
Government Consumption	2.5%	2.1%	0.7%	-1.5%	-2.0%
CPI Inflation	3.6%	2.0%	2.5%	2.0%	1.6%
RPI Inflation	4.0%	-0.7%	1.8%	2.0%	2.4%
Bank Base Rates					
- June	5.0%	0.5%	1.0%	2.0%	2.0%
- December	2.0%	0.5%	1.5%	2.0%	2.0%

Source: ONS, Construction Products Association







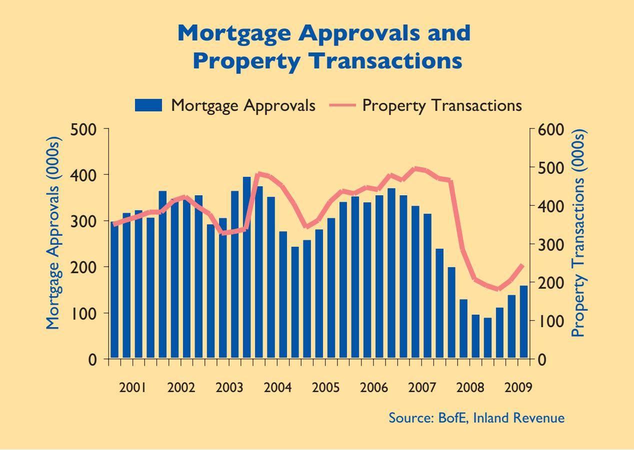
Private Housing

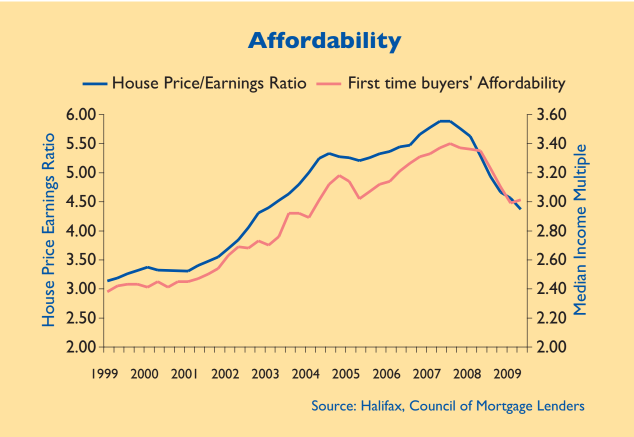
Conditions in private housing remain difficult although the situation has stabilised considerably compared to the volatility experienced one year ago. Private housing starts reached a nadir in the six months following autumn 2008's financial crisis. There was suddenly a lack of lending by financial institutions to both house builders, who required finance to build, and home owners, who needed finance to provide the demand. As a consequence, house builders concentrated on destocking rather than new build.

However, the last 6-9 months has seen sites restarted as low stocks have led house builders to build even to meet the relatively low level of demand. Furthermore, the economy and banking system have stabilised and the unprecedented low base interest rates have helped lower the cost of borrowing from consumers. As a consequence, both mortgage approvals and property transactions have increased over the past year, by 77% and 29% respectively. However, these increases are from historically low levels. Mortgage approvals and property transactions are still less than half the level seen two years earlier. Furthermore, even though property transactions have increased significantly over the past year, the majority of these additional transactions have been higher up the housing market chain, from those that already own a house. First time buyers and second time movers, requiring a significant deposit to move get onto the housing ladder or start to move up it, still have historically low levels of transactions despite the low base rates.

Yet the long term demand remains. The Barker Review stated that 240,000 homes per year would be needed (private and public) for England alone. House building in both 2009 and 2010 together are anticipated to provide less than this figure. Furthermore, the 240,000 figure was based upon projections of the numbers of new households created each year. The latest household projections suggest that 260,000 households will be created in England each year. This pent-up demand, with constrained supply, is the key reason that housing has not become more affordable. Even after the sharpest recession on record, affordability is still at 2006's relatively poor levels. Nationwide reported that house prices rose 6% during 2009 following 2008's sharp falls. This, combined with deposit requirements that are significantly higher than three years ago, is constraining demand for first and second time buyers, who are more biased towards new build housing.

If the recovery in the private housing market is to continue, more of the pent-up demand has to be met, which means a considerable increase in affordability. This must either occur through further increases in mortgage affordability (increases in lending, low mortgage rates and low deposits) or house prices will have to decrease. At this point it is difficult to determine which will occur. Organisations that forecast house prices appear to be split on whether house prices will increase or decrease during 2010 with forecasts varying between growth of 5% and falls of 10%.





Private housing starts in Great Britain fell by 50% in the first half of 2009 compared to a year ago. The third quarter of 2009 saw a turnaround in starts, which rose 24% compared to a year earlier and as a whole 80,000 starts are estimated for 2009. The Association forecasts that private housing starts will continue to rise with annual double-digit growth from a historically low level. Even with 15% growth this year, the anticipated 92,000 private starts in Great Britain is historically low and in 2013, even after four consecutive years of double-digit growth, starts are anticipated to be 25% lower than pre-recession levels. Completions and output both lag starts and are expected to grow significantly in the second half of 2010. Between peak private housing output just four years ago and its low point in 2010, the sector is expected to have lost almost half its value.

Private Housing Starts and Completions Great Britain

	2008	2009	2010	2011	2012	2013
	Actual	Estimate	Forecast	Forecast	Projection	Projection
Starts (000s)	108	80	92	108	125	137
	-41%	-26%	15%	18%	15%	10%
Completions (000s)	141	113	105	109	118	128
	-23%	-20%	-7%	4%	9%	8%
Output (£m)	14,870	10,706	9,850	10,638	11,063	11,506
	-19%	-28%	-8%	8%	4%	4%
RM&I Output (£m)	15,507	13,801	13,525	14,066	14,770	15,508
	3%	-11%	-2%	4%	5%	5%

Source: CLG, ONS, Construction Products Association

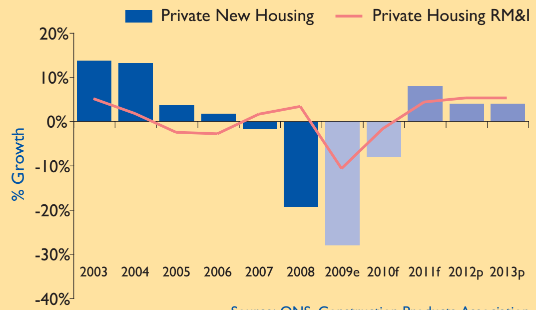
Private Housing RM&I

The private housing repair, maintenance and improvement (rm&i) sector has two key determinants; the private housing market and householder's available finance. A considerable proportion of rm&i spending tends to occur within the first 12 months of owning a new property. As a consequence, private housing rm&i output has undeniably been adversely affected by the fall in property transactions. However, this is partially offset by homeowners who realise that they are unlikely to be able to move in the foreseeable future and have deciding to invest in their current property. As a consequence, the private housing rm&i sector has been less affected than the new build sector.

Private housing rm&i is also determined by the finance that homeowners have available and are willing to invest in their houses. The economic recession has meant that homeowners have become more risk averse and, as a result, are not withdrawing as much housing equity and are saving more than just two years ago. Housing equity, which provided £35 billion of finance in the first three quarters of 2007, has fallen to the extent that it is now negative and homeowners paid back £22 billion into housing. In addition, savings ratios have increased from 2008Q1, when the UK spent more than it saved, to 2009Q3 when the UK saved 8.6% of its income. Yet the reduction in interest rates (see Economy) to historic lows has meant that homeowners have more finance available as they have lower mortgage payments, allowing them to save and also spend on improvements. Another potential small boost to the sector was announced in the Pre-budget Report, where the Chancellor stated that grants of up to £400 per household would be given to promote the use of energy-efficient boilers in 125,000 households.

Output in the sector is estimated to have fallen 11% in the sector during 2009 with a further fall of 2% anticipated in 2010 due to poor economic growth, the return of VAT back to 17.5% and increasing unemployment. All three are expected to lead to falls in consumer confidence and spending. Recovery in the sector is anticipated from 2011 with growth of between 4% and 5% annually.

Private Housing and Private Housing RM&I Construction Output



Source: ONS, Construction Products Association

Public Housing

The public housing sector is currently subject to two currently conflicting forces. On the one hand, 50% of public housing has been provided by the private sector through section 106 agreements and as a result, public sector housing has been affected by the private sector downturn. Partly in response to this, over the last 15 months, the Government has made a stream of announcements stating that a total of £2.7 billion would be introduced into housing through the fiscal stimulus.

Although only £1 billion of this has so far been allocated, public housing has avoided the sharp downturn that has affected the private housing sector to date. However, the Pre-budget Report stated that capital funding for housing through the Department for Communities and Local Government in 2010/11 would be £6.7 billion compared to £7.4 billion in 2009/10. In addition, the Chancellor stated that housing would not be one of the few areas to be isolated from sharp funding cuts. As a consequence, public funded housing is expected to fall at the same time that the privately delivered element rises due to the improving private housing market.

As a consequence, public housing starts are estimated to have remained at 25,000 in 2009, a similar figure to 2008. With no growth going forward due to anticipated spending cuts from government offset by growth in public housing from the private sector, public housing starts are expected to remain at 25,000 between 2010 and 2013.

Public Housing Starts and Completions Great Britain

	2008	2009	2010	2011	2012	2013
	Actual	Estimate	Forecast	Forecast	Projection	Projection
Starts (000s)	25	25	25	25	25	25
	13%	-2%	0%	0%	0%	0%
Completions (000s)	31	32	30	29	27	24
	15%	2%	-4%	-5%	-8%	-8%
Output (£m)	3,490	3,267	3,084	2,934	2,810	2,708
	-8%	-6%	-6%	-5%	-4%	-4%
RM&I Output (£m)	8,170	7,843	8,157	7,749	6,974	5,928
	2%	-4%	4%	-5%	-10%	-15%

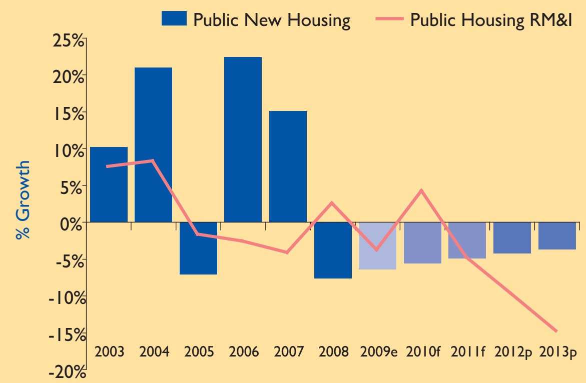
Source: CLG, ONS, Construction Products Association

Public Housing RM&I

The main driver of work in the public housing repair, maintenance and improvement sector in recent years has been the 'Decent Homes for All' programme in England, expected to finish in 2010. Similar programmes are in operation in Wales and Scotland. However, with the majority of work over in England and Government transferring £350 million from its budget to Building Britain's Future, the outlook does not appear promising for the sector especially in an environment where Government is looking to curtail expenditure in relatively low profile areas.

Sector output is estimated to have fallen 4% in 2009. Output is expected to rise in 2010 due to an increase in work to finish as much as possible with the 'Decent Homes for All' deadline looming, in addition to work on the schemes in Scotland and Wales. Furthermore, there may be a boost from local authorities attempting to use their finance while it is available before the anticipated spending cuts constraint their spending in all but the most essential maintenance areas. From 2011, output is expected to fall once again as cuts in central government expenditure and the end of the 'Decent Homes for All' reduce work. Output is expected to fall 5% in 2011 before falls of 10% in 2012 and 15% in 2013.

Public Housing and Public Housing RM&I Construction Output



Source: ONS, Construction Products Association

Public Non-housing

Despite the construction industry experiencing its sharpest fall on record during 2009, it would have been considerably worse if public spending not been maintained in areas such as education and also boosted by work on the Olympics. Output in the public non-housing sector has risen by an estimated 44% in the last two years alone and with finance brought forward from 2010/11 to 2009/10 as part of the Government's fiscal stimulus combined with further work on the Olympics and education programmes, output is expected to rise further in 2010.

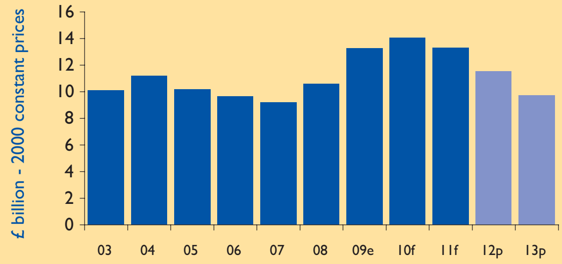
However, medium term, prospects for the sector are relatively bleak. With public borrowing reaching historic highs at unsustainable levels, Government will be looking to reduce its expenditure and although it stated in the Pre-budget Report that 'frontline' education and health spending would be relatively isolated from the anticipated sharp spending cuts, this covers only current spending such as employment costs, not capital expenditure on construction. The anticipated sharp cuts to capital spending are expected to occur after this year but output in the sector should still be maintained at relatively high levels in 2011 as work on contracts signed pre-election and Olympics work continues.

Output in the public non-housing is estimated to have grown 25% in 2009 following a 15% rise in 2008. Workloads are still expected to rise in 2010, by 6%, prior to falls in output. Output is expected to be maintained at historically high level in 2011 despite a 5% fall in output buoyed by work based upon contracts signed in 2009 and 2010. However, from 2011, the sector can expect to endure double-digit falls in output as the effects of central government spending cuts feed through into construction work and work on the Olympics facilities finishes.

Education work accounts for over half of public non-housing output and is the key driver of work in the sector. The publicly funded education sector is estimated to have grown 24% in 2009 and has increased threefold over the last 13 years. Building Schools for the Future (BSF), valued at between £52 and £55 billion over 15 years and the Primary Capital Programme (PCP) have both contributed to this considerable growth in recent years. Secure funding for waves 3 and 4 should ensure that work continues throughout 2010 especially with 5 major programmes of BSF work each valued at £1 billion underway. However, in December 2009, the Pre-budget Report stated that DCSF's capital budget for 2010/11 will fall to £6.7 billion from £7.4 billion in 2009/10 and BIS stated that capital grants to higher education would fall from £0.9 billion to £0.4 billion highlighting the start of the anticipated spending cuts. As a consequence, education output is expected to fall 3% in 2011 before double-digit falls in output during 2012 and 2013.

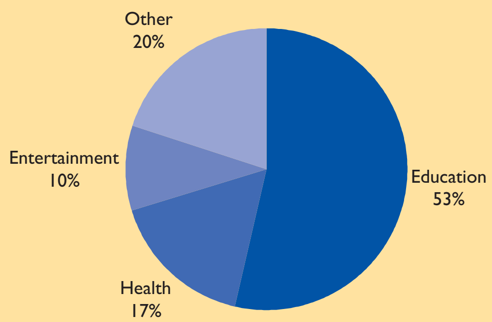
The **health** sub-sector has benefitted from significant investment over the last few years. Output rose 27% in 2008 and is estimated to have risen a further 21% in 2009 due to fitting out on large hospitals in addition to work continuing on an array of smaller hospitals and

Public Non-housing Output by Sub-sector



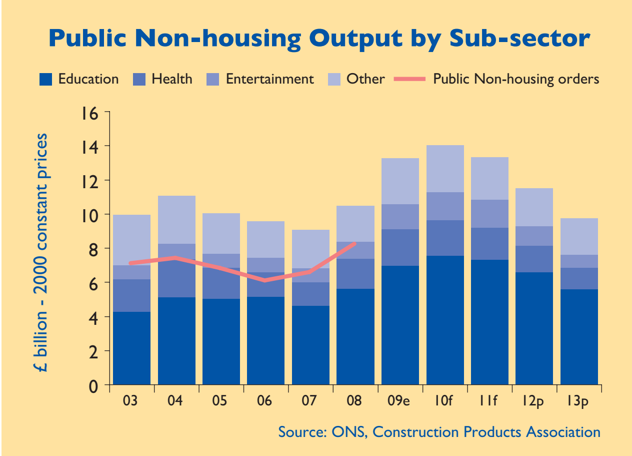
Source: ONS, Construction Products Association

Public Non-housing Sub-sectors (%)



Source: ONS

GP clinics, which is expected to continue in the first half of 2010. However, data on new contracts highlight only a few, small projects signed in the last six months and NHS capital funding for 2010/11 falls to £4.6 billion from £5.3 billion in 2009/10, with the anticipation of greater cuts in funding in future years. As a consequence, the Association anticipates that output in the publicly driven health sector is expected to fall 2% in 2010 followed by double-digit falls between 2011 and 2013.

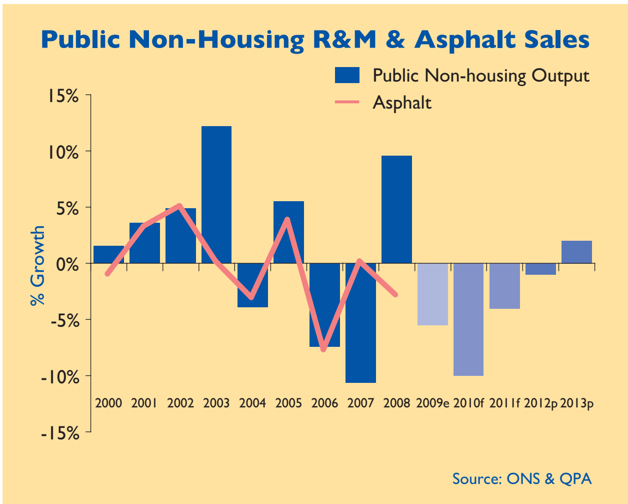


Public non-housing **entertainment** is primarily determined by Olympics work, and as a consequence, has risen considerably in recent years, from £0.8 billion in 2007 to an estimated £1.4 billion in 2009. Work on all five major facilities and stadia appear to be on time with two ahead of schedule. New orders fell significantly during 2009 but from historically high levels after the major contracts had been awarded and workloads are expected to grow a further 15% in 2010. In 2011, workloads are expected to be maintained at the previous year's level due to fitting out work before output falls away sharply as work on the Olympics finishes although legacy work should partially offset these output falls.

Other public work includes publicly funded prisons work in Scotland, work on defence facilities such as the £1 billion 25 year MOD St Athan project and the 10 year MOD programme to renew living accommodation. Output is estimated to have risen 29% in 2009 with further 2% growth in 2010 due to high levels of orders in 2008 and early 2009. However, with the major prisons work expected to be PFI financed and the defence sector anticipated to endure some of the sharpest falls in funding, post election, 10% falls in output are expected in 2011 and 2012.

Public Non-housing R&M

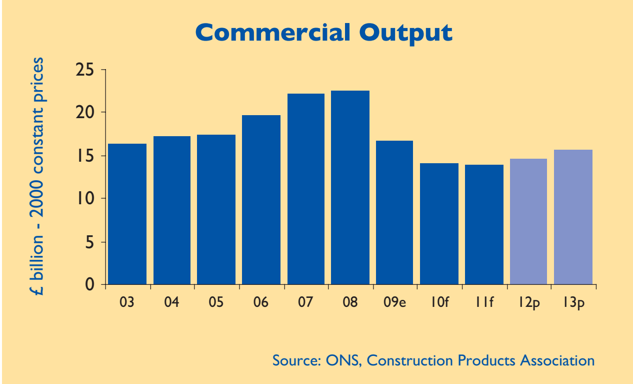
Public non-housing repair and maintenance (r&m) is determined by central government and local authority spending on basic repairs and maintenance for education and health facilities in addition to repairs for transport infrastructure. Both education and health spending has tended to focus mainly on new build and renewal rather than basic maintenance. In addition, local authorities with constrained finances are anticipated to delay all but the most essential maintenance. £2 billion of public non-housing r&m is accounted for by maintenance of roads and the Department for Transport have stated that funding for maintenance of roads will fall 10% in 2010/11.



As a consequence, the sector is expected to endure falls over the majority of the forecast period. Output is anticipated to have fallen 5.5% in 2009 with a further 10% fall forecast in 2010 prior to a 4% fall in 2011 and 1% fall in output during 2012 as output continues before a marginal increase as repairs and maintenance cannot be delayed indefinitely.

Commercial

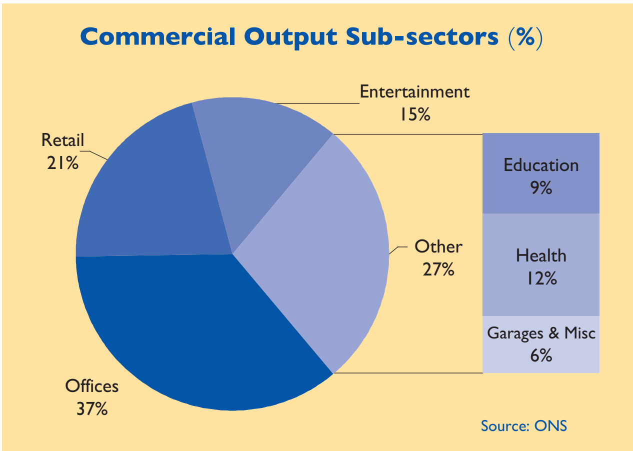
One of the hardest hit construction sectors during the recession has been the commercial sector. It is also the largest construction sector, valued at £23 billion prior to the downturn. However, commercial sector output has been falling for 18 months and the fall in new orders during the first three quarters of 2009 provide little prospect of an upturn in the near term. While the private housing sector was falling away sharply, output in the commercial sector was resilient. Due to its long lead times, the relatively high value fitting out of commercial properties even when housing and economic activity had started to decline. However, this also means that even though housing and economic activity are currently starting to recover, the commercial sector will still endure falls in output.



The sector is estimated to have lost £6 billion of work in 2009 alone, a 26% fall. Commercial new orders in the first three quarter of 2009 fell 48% providing little respite for the sector. The Association forecasts that commercial output will fall another 15%, or £2.5 billion of work, in 2010 and a further 1% In 2011 with no growth in output until 2012, when output is anticipated to rise 4% and a further 8% in 2013. However, output even in 2013 is still anticipated to be 31% lower than in 2008.

The commercial sector is primarily determined by the demand for new office space, retail space and PFI work on hospitals and schools. **Offices** construction is the main driver of work in the sector, accounting for 36% of commercial construction and it has also suffered the largest fall in output, contracting an estimated 39% in 2009. Despite work continuing on high profile projects such as Shard and Heron Tower, the number of major projects has fallen sharply.

Although rents and take-up of central London office space have begun to rise, there is a considerable excess supply of office space, especially after a 51% increase in insolvencies, that needs to be used up prior to any significant increase in office new build. Offices new orders fell 64% during the first three quarters of 2009 and output in the sector at the end of 2010 is anticipated to be 56% lower than it was just three years earlier. From 2011, double-digit growth for three consecutive years is expected to occur but from a low point. Even after this growth, offices new build output is still expected to be one third lower than in 2007.

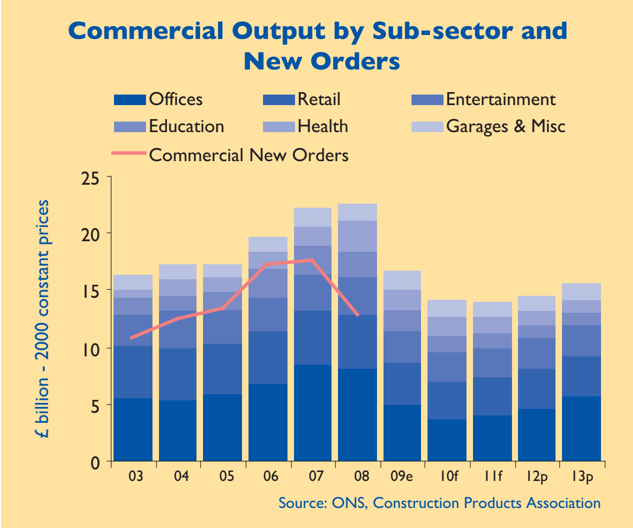


Retail construction accounts for 21% of commercial output and follows a similar trend to offices construction. The demand for new retail construction is dependent upon economic activity through its effects on consumer spending. Although economic activity has begun to increase, consumer spending is also influenced by unemployment. This negatively affects consumer confidence and unemployment is not expected to peak until the second quarter of 2010.

Retail output fell by an estimated 23% in 2009 and looking forward, new orders point towards further decreases. In the first three quarters of 2009, orders fell 37% compared to a year earlier. The Association forecasts that output will fall another 10% in 2010 and zero growth is anticipated in 2011 as the increase in demand for retail space is expected to only lead to the utilisation of existing spare retail space. Output growth of 3% is expected in 2012 followed by 5% growth in 2013.

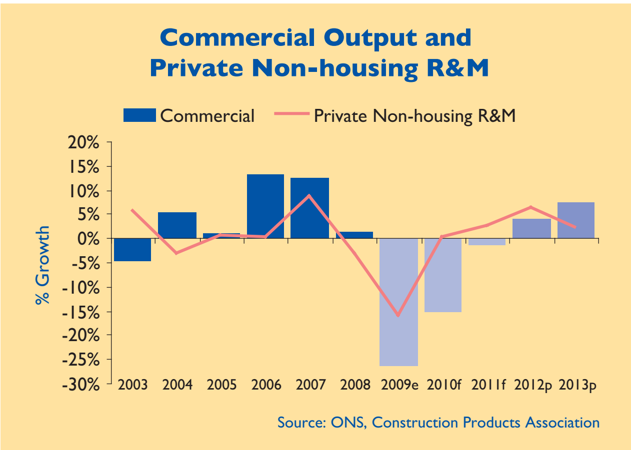
21% of commercial output is accounted for by **privately financed education** and health construction work. One quarter of education construction work is PFI but whereas publicly driven education work has increased significantly during the recession (see Public Non-housing), privately financed education work has fallen sharply. PFI education output fell by an estimated 19% in 2009 as problems in the financial sector have increased the cost and difficulties in obtaining finance making some PFI schemes unviable. New orders during the first three quarters of 2009 fell 15% compared to a year earlier and, as a consequence, output in 2010 is expected to fall 10% with a further fall 16% fall in output during 2011 as a lack of cheap, available finance continues to hinder the sector.

The **privately financed health** sector was worth £2.7 billion in 2008 compared to £0.7 billion just six years earlier. Yet, it is has also been negatively affected by the same problems as the PFI education sector. Exacerbating this, PFI health projects have mainly been used to deliver major hospitals yet the last couple of years have seen these projects diminish and focus move towards small hospital projects and GP clinics, the majority of which have been delivered through public finance. As a consequence, PFI health output fell by an estimated 28% during 2009 and with orders falling 46% during the first three quarters of 2009, output is expected to fall significantly throughout the forecast period.



Private Non-housing R&M

Private non-housing repair and maintenance covers basic maintenance to industrial and commercial properties in addition to repairs for infrastructure. The sharp downturn in economic activity led many companies to cut costs where possible, especially given the uncertainty in the economy during 2009, and all but the most essential repairs and maintenance was delayed. As a result, output in the sector is estimated to have fallen 16% during 2009 but further falls are deemed unlikely. However, given the slow economic growth anticipated in 2010, private non-housing r&m output is not expected to rise. With economic recovery underway and moving towards trend in 2011, high street retailers will be looking towards improving the image of their shops once again and attracting customers. This combined with finally undertaking the r&m currently being delayed should ensure growth in 2011 at a time when commercial new build is still expected to be falling.



Infrastructure

While the majority of construction sectors have endured falls in output due to the recession or are anticipated to suffer falls post-election, the infrastructure sector has bucked the trend, enjoying significant growth over the past few years and anticipated to enjoy further growth over the next few years. With growth of 10% estimated in 2009 and new orders rising 46% during the first three quarters of 2009, output growth of 7% in 2010 is forecast with further growth of 4% in 2011 and 2012.

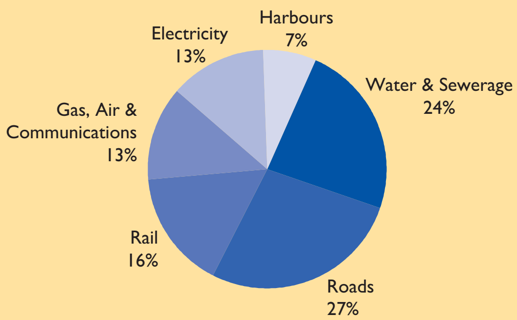
Infrastructure work covers a variety of different sub-sectors. **Rail**, accounts for 16% of infrastructure and work is expected to grow by 125% over the next four years with secure funding of £34.6 billion up to 2014 for Network Rail. This is despite the postponement of Victoria station refurbishment, valued at £695 million, until 2018. The Chancellor did, however, confirm that Crossrail would continue and announced a £1.1bn extension of the electrification programme to cover the Great Western Main Line and a line between Liverpool and Manchester providing further growth.

With work on the M1 and M25, new orders in the **roads** sub-sector rose 46% in the first three quarters of 2009 and, as a result, the roads sub-sector is anticipated to enjoy growth of 20% in 2010 after 23% growth during 2009. However, post-election, roads is expected to be an area that will suffer from sharp cuts in funding. Although work on major projects should prevent sharp falls initially, with output falling 4% in 2011, falls of 20% and 25% are expected in 2012 and 2013 respectively.

In **water & sewerage**, which accounts for almost one quarter of infrastructure, expenditure by water companies is determined in conjunction with the regulator, OFWAT. The final determinations for the 2010-15 period (AMP 5) were published in November 2009 allowing for £22 billion of capital expenditure over the five years. Many water companies already placed orders in 2009 in advance of AMP5 being agreed and, as a result, new orders jumped up 263% in the first three quarters of 2009 although this work will be spread out over a number of years. Even still, workloads are expected to rise by only 1% in 2010 before growth of 5%, 3% and 5% in 2011, 2012 and 2013 respectively.

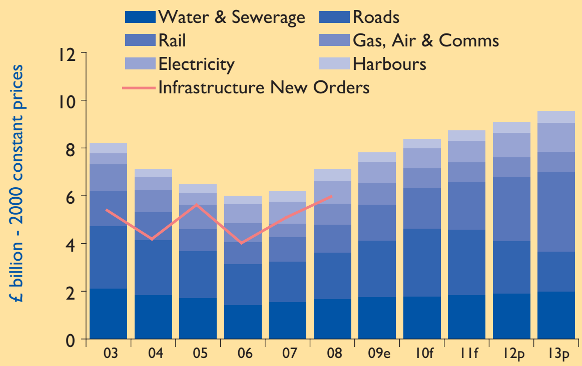
In the **electricity** sub-sector, output is boosted near term by 22 wind farm projects but focus appears to be on the longer term nuclear programme. In November, the Government announced the 10 sites for nuclear projects and total investment in the programme is estimated at £40 billion with the intention that power plants start coming on line from 2017. However, near term, October 2009 saw one coal-fired power station project put on hold, at Kingsnorth in Kent, and another cancelled in North Ayrshire, Scotland. As a consequence, output in the electricity sub-sector is set to fall 4% in 2010 before growth in 2011 of 8% and then double-digit growth as work on the nuclear programme gets underway.

Infrastructure Output by Sub-sector



Source: ONS

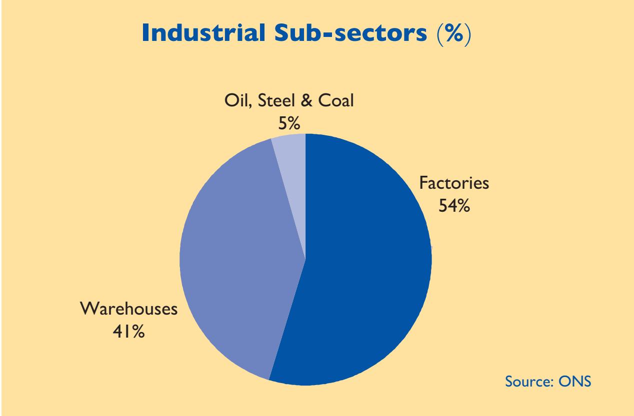
Infrastructure Output by Sub-sector



Source: ONS, Construction Products Association

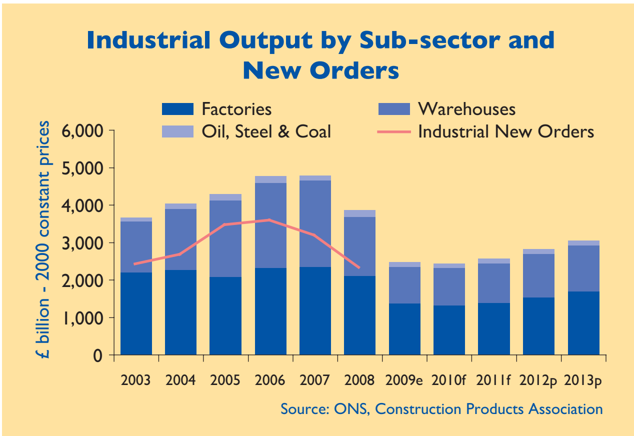
Industrial

Out of all the construction sectors, the industrial sector is expected to endure the harshest percentage falls in output with only a few low value projects in the pipeline. The industrial sector is primarily determined by activity in the factories and warehouses sub-sectors, which account for 96% of sector output. As a consequence, the sector is influenced by economic activity, global trade and consumer spending, all of which have fallen sharply in the last two years. Industrial output in 2008 fell 19% and is estimated to have fallen 36% during 2009 as a result of a 40% fall in new orders during the first three quarters of 2009. Output is expected to fall a further 2% in 2010, which means that peak to trough, output will have fallen 49% prior to any significant growth in the sector during 2011.



Factories new build, which accounts for 55% of sector output, has suffered considerably over the past two years. Despite the more favourable exchange rate for exporters, the decline in domestic spending and global trade has led to a fall in the demand for new factories. Output fell 11% in 2008 and an estimated 35% during 2009. New orders during the first three quarters of 2009 fell 40% and this is expected to feed through by early 2010 with output in 2010 expected to fall 4% overall. Growth of 6% in 2011 is anticipated prior to rises of 10% in 2012 and 2013 with the economy in recovery and other trading nations also recovering, the favourable exchange rate and increased global trade leading to a recovery for the sub-sector.

The **warehouses** sub-sector has suffered even greater falls than the factories sub-sector. Output in 2009 is estimated to be 57% lower than it was just two years earlier. After five consecutive years of growth previously, the economic recession hit the sector extremely hard and while economic recovery is expected to be slow and protracted, it is still anticipated to be enough to boost a sub-sector that is worth less than half its value in 2007. Growth in the sector is expected to be low, at 2%, as increased demand for warehouse space is met by utilising the excess supply of warehouse space available. Following this, 6% growth is expected in 2011 and 10% growth in 2012 as increased economic recovery and lower unemployment, leading to increased consumer confidence and consumer spending, lead the sector towards slow recovery.



The **oil, steel & coal** sub-sector is relatively small, accounting for only £180 million of output in 2008. It is determined by the demand for oil, steel and coal. Steel has been hit particularly badly and although steel production has started to rise in the last six months, this has not offset the large falls in output seen one year earlier. The same is true, albeit to a lesser extent, for oil and coal, whose demand has fallen due to the global recession. However, following economic recovery and the utilisation of the current excess capacity, the demand for facilities will be expected to rise. As a result, after falling an estimated 27% in 2009, output in the sub-sector is estimated to fall 8% in 2010 prior to growth of between 4% and 5% each year between 2011 and 2013.

Summary

2009 was estimated to be the sharpest annual fall in construction on record and despite expectations of a return to economic growth in 2010, construction output is still anticipated to fall 3%. Recovery in the construction industry will clearly be driven by the private sector, given the financial constraints likely to be encountered by the public sector. Yet the low growth rates for construction overall, between 0.4% and 0.5% per year between 2011 and 2013 illustrate the challenging situation that the industry is likely to be in with considerable falls in public sector construction. If government spending is cut even sharper than anticipated then this could prolong the three year long construction recession for years to come.

Construction Industry Forecasts - Winter 2009/10
£ million 2005 constant prices

% annual change	2008 Actual	2009 Estimate	2010 Forecast	2011 Forecast	2012 Projection	2013 Projection
Housing						
Private	14,870	10,706	9,850	10,638	11,063	11,506
	-19.2%	-28.0%	-8.0%	8.0%	4.0%	4.0%
Public	3,490	3,267	3,084	2,934	2,810	2,708
	-7.6%	-6.4%	-5.6%	-4.9%	-4.2%	-3.6%
Total	18,359	13,973	12,934	13,571	13,873	14,214
	-17.3%	-23.9%	-7.4%	4.9%	2.2%	2.5%
Other New Work						
Public Non-Housing	10,603	13,249	14,037	13,328	11,531	9,729
	15.2%	24.9%	5.9%	-5.0%	-13.5%	-15.6%
Infrastructure	7,125	7,813	8,373	8,723	9,085	9,540
	15.1%	9.7%	7.2%	4.2%	4.1%	5.0%
Industrial	3,861	2,476	2,431	2,574	2,826	3,055
	-19.3%	-35.9%	-1.8%	5.9%	9.8%	8.1%
Commercial	22,529	16,645	14,134	13,975	14,572	15,668
	1.6%	-26.1%	-15.1%	-1.1%	4.3%	7.5%
Total other new work	44,118	40,183	38,975	38,600	38,014	37,992
	4.2%	-8.9%	-3.0%	-1.0%	-1.5%	-0.1%
Total new work	62,477	54,156	51,909	52,172	51,887	52,206
	-3.2%	-13.3%	-4.1%	0.5%	-0.5%	0.6%
Repair and Maintenance						
Private Housing RM&I	15,507	13,801	13,525	14,066	14,770	15,508
	3.0%	-11.0%	-2.0%	4.0%	5.0%	5.0%
Public Housing RM&I	8,170	7,843	8,157	7,749	6,974	5,928
	2.3%	-4.0%	4.0%	-5.0%	-10.0%	-15.0%
Private Other R&M	15,440	12,970	12,970	13,294	14,092	14,373
	-3.3%	-16.0%	0.0%	2.5%	6.0%	2.0%
Public Other R&M	8,106	7,660	6,894	6,619	6,552	6,684
	9.6%	-5.5%	-10.0%	-4.0%	-1.0%	2.0%
Total R&M	47,224	42,275	41,547	41,728	42,388	42,493
	1.8%	-10.5%	-1.7%	0.4%	1.6%	0.2%
TOTAL ALL WORK						
	109,701	96,431	93,456	93,900	94,275	94,699
	-1.1%	-12.1%	-3.1%	0.5%	0.4%	0.4%

Source: ONS, Construction Products Association

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