Spring 2013 edition - £150

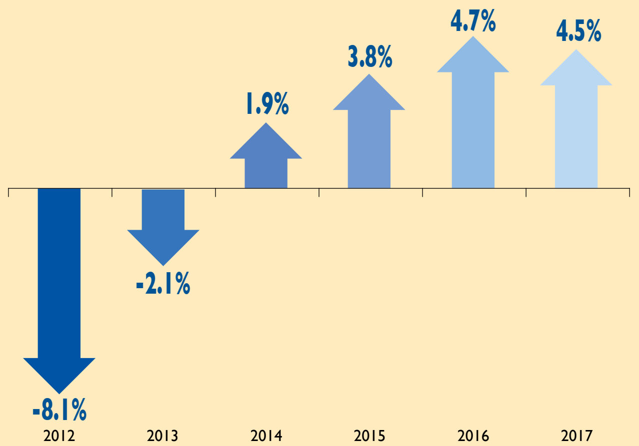
construction industry **forecasts** 2013-2017

construction products association

Key Points Include:

- Construction output to fall 2.1% in 2013
- Private housing to rise 19% in two years
- Public education and health construction both set to fall 15% this year
- Private commercial, the largest sector, to fall 7% this year
- Rail infrastructure to grow 14% in 2013
- Energy infrastructure to grow 15% per year from 2015

Construction Output (% Growth)



Source: ONS, Construction Products Association

Public & Private Sector Construction Output

£ million	2012	2013	2014	2015	2016	2017
Change on previous year	Actual	Estimate	Forecast	Forecast	Projection	Projection
Public Sector inc. PFI	30,594	29,064	29,153	29,837	30,596	31,302
	-11.6%	-5.0%	0.3%	2.3%	2.5%	2.3%
Private Sector	67,517	67,025	68,752	71,791	75,834	79,932
	-6.5%	-0.7%	2.6%	4.4%	5.6%	5.4%
Total Construction	98,111	96,089	97,905	101,628	106,430	111,234
	-8.1%	-2.1%	1.9%	3.8%	4.7%	4.5%

Source: ONS, Construction Products Association

Overview

2013 is set to be a challenging year for construction and the industry is expected to endure a further year of decline, with output estimated to fall by 2.1% according to the Association's central forecast, following on from the 8.1% fall last year. The anticipated fall in industry output this year is due to the impacts of public sector spending cuts and uncertainty in private sector investment. The poor weather in the first quarter has exacerbated this fall although, as a consequence, the second quarter will be boosted by a partial catch-up in work. New orders rose during the third and fourth quarters of 2012 and this should feed through over the course of the next 18 months. Growth of 1.9% is anticipated in total construction output in 2014 with further growth of 3.8% during 2015.

Austerity continues to hinder the industry and public sector construction in 2013 is anticipated to be 18%, or £7 billion, lower than it was in 2010. Public sector housing starts fell 19.0% in 2012 and a further fall of 4.0% is expected in 2013. Publicly-funded education and health are both expected to fall 15.0% during this year having fallen 24.9% and 19.2% respectively in 2012.

Commercial, the largest construction sector, is also set to contract, by 6.6% in 2013 and by 0.8% in 2014, driven by falls in the offices and retail sub-sectors. Offices construction has suffered from a fall in business investment and a surfeit of existing floor space even in London, which had until 12 months ago been relatively buoyant. Retail construction continues to decline due to a retraction in expansion plans from supermarket chains, which had previously provided the sub-sector with growth, combined with a long-term trend towards internet shopping.

There are still key market opportunities in sectors such as private housing, infrastructure and factories, which are expected to grow in 2013 and drive overall growth in construction from 2014 as public sector cuts ease. Private housing is set to rise each year, boosted initially by previously announced policies such FirstBuy and the Funding for Lending Scheme. In the medium-term, Help to Buy, which the Chancellor announced in Budget 2013, should boost property transactions and, in turn, house building. Infrastructure is also expected to be a key driver of recovery in the industry. Sector output fell 12.4% last year, with roads construction particularly affected falling 43.6%. However, 2013 should see a return to growth in the roads sub-sector with projects focusing on repairs and renewal announced in the Autumn Statement feeding through into activity. Rail construction continues to be boosted by station refurbishments around the country and Crossrail, Europe's largest construction project. Energy infrastructure is set to grow due to decommissioning and wind projects. Yet double-digit growth in the sub-sector, due to the new nuclear programme, continues to be delayed with little clear sign of private investment near-term at Hinkley Point C.

The key risks to the forecasts are primarily on the downside. An upturn in infrastructure is dependent upon the speed at which previous government announcements in roads and energy feed through into activity on the ground. A recovery in private housing will depend upon the extent to which policies to enable higher property transactions boost house building rather than prices. The fortunes of private housing repair, maintenance and improvement will be dependent upon take-up of Green Deal in the private sector and Energy Company Obligation, which are both in very early stages.

Economy

UK GDP expanded 0.2% in 2012. The primary driver of growth was services which grew 1.2%, however, weak export performance alongside falling North Sea oil and gas production impeded growth. GDP contracted 0.3% in the final quarter, following a particularly strong third quarter (+0.9%) that was boosted by factors such as the London 2012 Olympics. Overall, GDP remains 2.9% lower than pre-2008 levels. In 2013, weak sentiment, a credit downgrade and an extension to austerity will act as significant drags on growth, which is forecast at 0.5%. Looking ahead, output growth is set to accelerate. Growth of 1.5% in 2014 and 2.0% in 2015 is forecast.

The Eurozone remains a key risk to the UK economy. Conditions have worsened recently following a banking crisis in Cyprus and the IMF downgrading its forecast for the Eurozone in 2013 to -0.2%. However, financial market sentiment remains intact as marked by Spain, Ireland and Italy successfully auctioning debt to private markets. Green shoots are emerging on the wider international front that should support domestic growth. Data from the US indicate that a recovery is gathering pace and should carry forward. In addition, international markets have reacted well to announcements by Japan of large monetary and fiscal stimuli to end the long period of stagnation. In accordance, the IMF have forecast growth for the US and Japan of 1.7% and 1.2% respectively.

The UK labour market continues to show modest signs of improvement despite concerns last year that unemployment would rise significantly in the first half of 2013. Unemployment in the three months to January was 7.8%, beating expectations, but rose to 7.9% in February. The 'productivity puzzle' persists and the trend of declining output per worker continues having fallen in every quarter of 2012 by more than 1.0% on a yearly basis. This appears to be due to a shift toward part-time and self-employment.

Construction output contracted on a yearly basis by 8.0% in 2012 and was 16% below the 2008 Q1 peak in the final quarter of last year. Manufacturing output declined 1.5% year-on-year, and, compared to pre-recession, output in 2012 Q4 had fallen 10.0%.

Consumer confidence remains suppressed according to GfK, the headline index came in at -26 for the first three months of the year, a slight improvement on Decembers figure of -29 but significantly worse than the -22 reported in November. Weak economic activity and high inflation have had an adverse impact on confidence. As these dissipate, confidence is expected to improve.

The Bank of England continues to pursue expansionary policies of low interest rates, quantitative easing and the Funding for Lending Scheme (FLS). The Association does not expect an increase in interest rates to occur near-term despite the likelihood that CPI inflation will remain above the 2.0% target until at least 2016. However, despite recent a weakening of the economy, the MPC has not voted to expand the asset purchase facility beyond £375 billion. The FLS is expected to have had modest effects on credit availability since its introduction in August 2012.

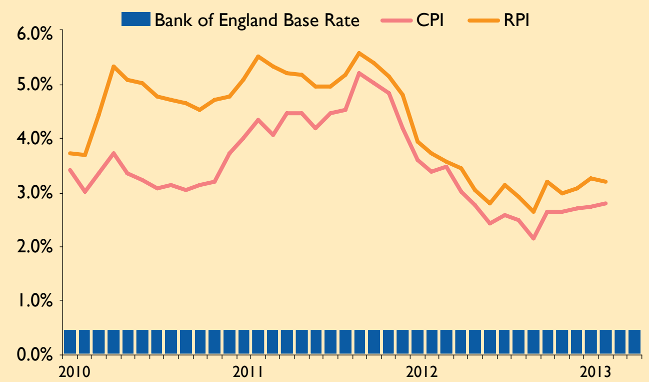
A further extension to austerity until 2017/18 was announced in the Budget following a downgrade to growth over the forecast horizon. Of the headline policies, a change to the rate of corporate tax means that it will fall a further 1.0% by 2014 to 20%, which should support private sector activity.

Economic Indicators

	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
GDP	0.2%	0.5%	1.5%	2.0%	2.5%	2.8%
Fixed Investment	1.4%	2.0%	5.5%	7.0%	7.5%	7.5%
Consumer Expenditure	1.0%	0.5%	1.5%	2.0%	2.5%	3.0%
Real Household Disposable Income	1.6%	0.4%	0.6%	1.0%	1.6%	2.4%
Government Consumption	2.6%	0.0%	-0.5%	-0.5%	-1.0%	-2.0%
CPI Inflation	2.8%	2.8%	2.5%	2.2%	2.0%	2.0%
RPI Inflation	3.2%	3.0%	2.8%	2.9%	3.1%	3.5%
Bank Base Rates - June	0.5%	0.5%	0.5%	0.5%	0.5%	1.0%
- December	0.5%	0.5%	0.5%	0.5%	1.0%	1.5%

Source: ONS, Construction Products Association

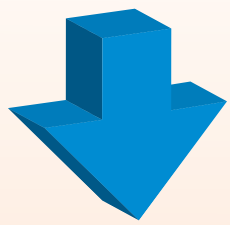
Interest Rates and Inflation



Source: Bank of England, ONS

Unemployment

2.56 Million (February 2013)



Fall to 2.5 Million (2013 forecast)

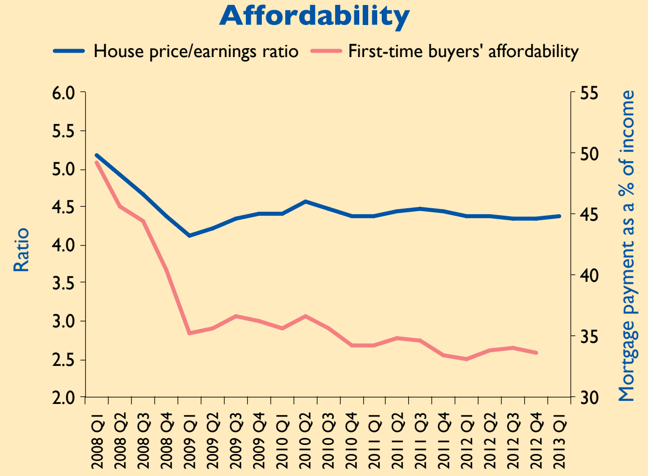
Source: ONS, Constrution Producs Association

Private Housing Starts and Completions in Great Britain

	2012	2013	2014	2015	2016	2017
	Estimate	Estimate	Forecast	Forecast	Projection	Projection
Starts (000s)	94,455	102,012	112,213	125,678	136,989	147,948
	-7%	8%	10%	12%	9%	8%
Completions (000s)	103,345	107,479	117,152	128,867	139,176	148,919
	3%	4%	9%	10%	8%	7%
Output (£m)	13,396	13,664	14,347	15,351	16,887	18,237
	-4%	2%	5%	7%	10%	8%
RM&I Output (£m)	10,067	10,168	10,422	10,839	11,272	11,836
	-6%	1%	3%	4%	4%	5%

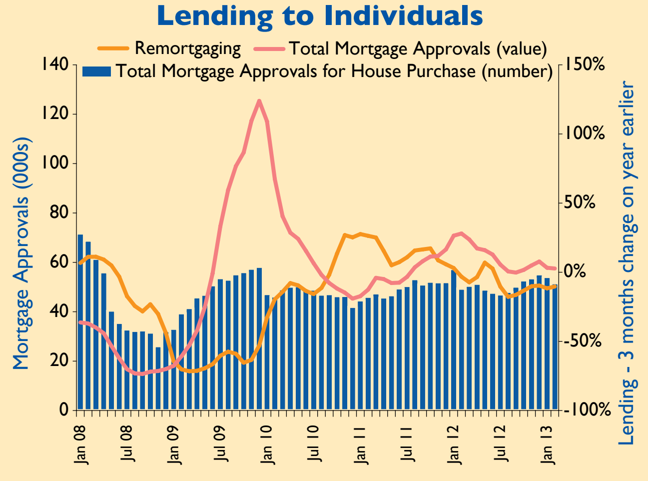
Source: DCLG, ONS, Construction Products Association

Affordability



Source: Nationwide

Lending to Individuals



Source: Bank of England

Private Housing

Private housing starts fell during 2012 in Great Britain, despite positive announcements over the past two years from the major builders and government policies to boost building. Yet, the signs in early 2013 are promising. The effects of previous policies, in tandem with policies announced in Budget 2013, should boost house building in each year of the forecast period.

The Department for Communities and Local Government (DCLG) reported in April that the number of new households created in England between 2011 and 2021 is estimated to be 221,000 per year. Total housing starts in England were 99,010 in 2012, 55% lower than required and, 8% lower than the previous year.

With 82% of total housing starts provided by the private sector, government policies aimed at raising the level of house building have focused on enabling potential house purchasers who struggle with deposit requirements; on the basis that a rise in effective demand will raise property transactions and incentivise rises in house building.

It is likely to take time for these policies to impact significantly upon house building. For instance, FirstBuy has been in place since 2011, accounting for over 10,000 home sales so far.

The Bank of England estimates that the Funding for Lending Scheme (FLS) has reduced the interest rates by over 1% for mortgages requiring a 10% deposit. Despite a 5.5% rise in property transactions during 2012 private housing starts fell, however, the Association anticipates that the impact of this rise in demand will be on private housing starts this year.

A further boost to the private housing market aiming to account for 25,000 additional home sales per year was announced by the Chancellor in March's Budget 2013 with Help to Buy, a two-part policy.

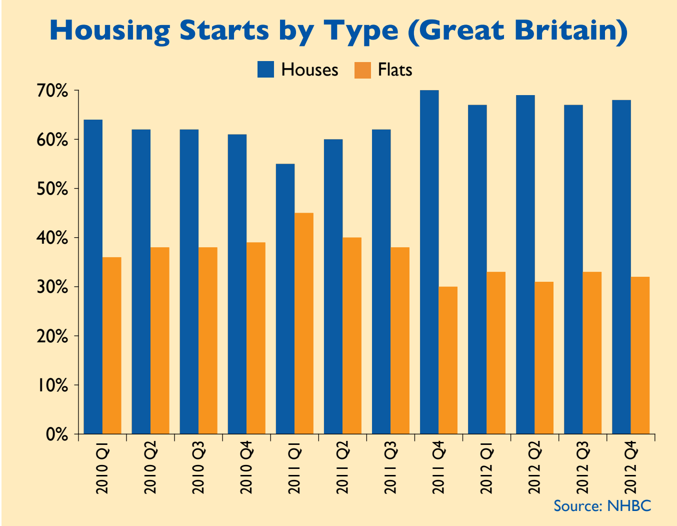
Firstly, government is providing financing to mortgage lenders for mortgages with a loan to value ratio of 85%-90% on properties valued up to £600,000. Under the previous mortgage guarantee, NewBuy, house builders contributed upto 3.5% of the value of the fund.

The second part of Help to Buy is an extension of FirstBuy, whereby government will provide an equity loan valued at 5%-20% for a property costing less than £600,000. The loan is interest free for five years and only repayable when the property is sold. Under FirstBuy the private house builder funded 10% of the equity loan and government funded 10%, in Help to Buy, government will fund the entire equity loan, which will be available to everyone, not just first-time buyers.

Many commentators have expressed concern regarding the long-term impacts of further incentivising increases in demand on the basis that it may feed through solely into house prices rather than increased house building. At this point it is difficult to discern whether the impact of Help to Buy will primarily be on prices or on house building. However, there are two key reasons to believe that Help to Buy is likely to provide a boost to house building.

Firstly, government providing the full equity loan means that major house builders will have further finance to purchase new and develop existing land. Secondly, small and medium size house builders struggled to benefit from FirstBuy as they did not have the finance available to provide the 10% equity loan necessary, but they will be able to take advantage of Help to Buy. Given that SME house builders have been the worst affected since the financial crisis, this is expected to boost housing starts. The impact of Help to Buy on house building is likely to be after 12-18 months as it is likely to initially raise housing transactions and prices.

Overall, the Association anticipates that private housing starts will rise 8% in 2013, driven by previous policy announcements, offsetting the fall in 2012. In 2014 and 2015, growth of 10% and 12% respectively are forecast, assuming that Help to Buy has a positive impact upon house building as well as prices. However, it should be noted that private housing is still at historic lows so even the 10% growth in 2014 only accounts for an additional 10,000 homes.



Private Housing RM&I

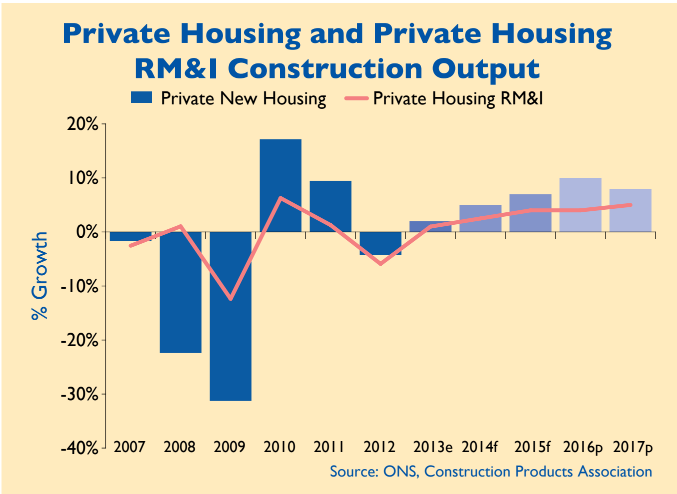
Private housing repair, maintenance and improvement (rm&i) fell by 5.9% during 2012. Spending in the sector was adversely affected by risk-averse households who, rather than spending last year, increased savings and paid back equity into their homes. The savings ratio rose from 6.6% in 2011 to 7.3% in 2012 Q4, and housing equity withdrawal remained consistently negative at £9 billion per quarter.

Uncertainty remains over the impact of the Green Deal and Energy Company Obligation (ECO). To the end of March, 9,268 Green Deal assessments were recorded across private and public sectors but it is still too early to determine how successful it will be in the private sector given the Association's previous concerns regarding householder awareness and interest rates of 6.0%-8.0%.

ECO has a target for energy companies to provide £1.3 billion of energy saving improvements for vulnerable customers each year yet only £69 million of ECO contracts were let by the end of March and, given that CERT finished at the end of December, this will act as a considerable negative impact upon the sector.

On the positive side, sector spending is directly linked to property transactions, which the Ernst & Young Item Club forecast in April will rise 7.5% this year due to FirstBuy, the Funding for Lending Scheme and Help to Buy.

Overall, the Association forecasts a rise of 1.0% in private housing rm&i in 2013 with further growth of 2.5% in 2014 driven by a recovery in the housing market. However, risks to the sector remain on the downside due to uncertainty regarding Green Deal and ECO.



Public Housing Starts and Completions in Great Britain						
	2012	2013	2014	2015	2016	2017
	Estimate	Estimate	Forecast	Forecast	Projection	Projection
Starts (000s)	22,712	21,736	21,795	22,192	22,595	23,088
	-19%	-4%	0%	2%	2%	2%
Completions (000s)	31,523	28,371	27,236	27,236	27,508	28,058
	-8%	-10%	-4%	0%	1%	2%
Output (£m)	3,620	3,403	3,335	3,435	3,572	3,715
	-18%	-6%	-2%	3%	4%	4%
RM&I Output (£m)	5,968	5,968	6,087	6,190	6,252	6,252
	1%	0%	2%	2%	1%	0%

Source: DCLG, ONS, Construction Products Association

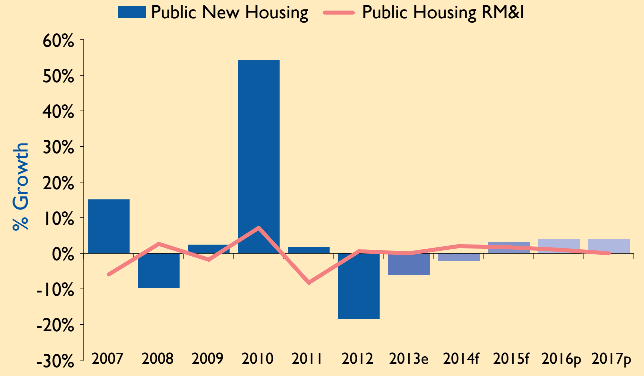
Public Housing

Public housing starts fell 19.0% during 2012 with the impact of expected falls in capital expenditure for The Department for Communities and Local Government (DCLG) exacerbated in England by the switch between the National Affordable Housing Programme and the Affordable Housing Programme causing a hiatus in the first half of 2012 when social social housing starts fell 39.0% compared with a year earlier. Following this, English housing starts rose 2.0% in the second half of the year compared with a year earlier.

Although social house building during 2013 is unlikely to fall at the same rate as in the first half of 2012, decreases in capital investment are likely to cause a further fall in public housing starts. In addition, social housing provision will not be helped by the DCLG decision in August 2012 to make it easier for private house builders to challenge Section 106 agreements. The Section 106 agreements were agreed between private house builders and local authorities prior to the financial crisis to ensure that house builders provide affordable housing alongside private developments that received planning permission. However, house builders state that this is now a binding constraint upon private house building. The ability to challenge Section 106 agreements may have a positive impact upon private housing, but might also have a negative impact upon public housing.

In Scotland, the Affordable Housing Supply Programme aims to deliver 30,000 homes in three years, two-thirds of which are social homes and will ensure that the nation does not suffer similar falls in social housing to England. Overall, public housing starts in Great Britain during 2013 are expected to fall a further 4.0% and remain flat during 2014.

Public Housing and Public Housing RM&I Construction Output



Source: ONS, Construction Products Association

Public Housing RM&I

Public housing rm&i is expected to show modest improvements going forward despite significant cuts to DCLG budgets. Although public housing output declined in the previous six quarters, the sector has started to recover having grown in the final two quarters of last year. Public housing rm&i work, unlike house building, cannot be cancelled as basic repairs and maintenance must take place. Therefore, recently the sector has begun to show an increase in activity.

Despite a contraction of 8.3% in 2011, sector output grew slightly in 2012 (0.6%). Following a flat 2013, output growth of 2.0% is expected for 2014 with modest growth per annum thereafter, weakening towards the end of the forecast horizon. Larger growth rates, which had been predicted in previous forecasts, have been revised down in accordance with HM Treasury's announcement that the period of austerity would be extended.

The Association has been monitoring the Green Deal since its launch in January. DECC reported that over 9,000 assessments had taken place in the first three months of the year. Data on the proportion of public assessments are yet to be released but are likely to be published in 2013.

The sector continues to receive a boost from the Decent Homes Programme, which was extended from 2010/11 to 2014/15 to deal with a backlog created in the first phase; this initiative should lead to the upgrading of 128,000 homes. However, beyond mandatory maintenance on English homes there are no on-going projects near-term.

Public non-housing

Reductions in public sector capital investment, outlined in the Comprehensive Spending Review (CSR) in 2010 have shaped activity in the public non-housing sector. Output fell by 7.3% in 2011 followed by a 21.2% decline in 2012. In 2012, new work orders for the sector were down 14.0% from 2011 and the outlook remains downbeat over the next 12-18 months. Since no significant change in government policy is anticipated in the short-term, a return to growth is only expected in 2015.

Education output fell by 2.5% in 2011 and by 24.9% in 2012, driven by cuts to the Department for Education's (DfE)'s capital budget announced in the CSR. Output is forecast to contract by 15.0% in 2013 and by 1.0% in 2014. A return to growth is expected from 2015 with output set to expand by 2.0% in 2016 and by 2.0% in 2017.

Schools in England will benefit from £1.3 billion additional capital investment for new Free Schools and academies announced in Autumn Statement 2012, this funding is expected to be available from 2013/14.

42 schools have been identified as the beneficiaries of £400 million capital funding from the DfE for the Priority Schools Building Programme and procurement is currently under way the with first schools set to open in 2014. However, this additional investment is likely to fall considerably short of the estimated requirement. The DfE has estimated that 256,000 new school places will be required by 2014/15 and 400,000 by 2018/19.

In Scotland, the £1.25 billion Schools for the Future Programme is expected to deliver 67 schools between 2010 and 2018.

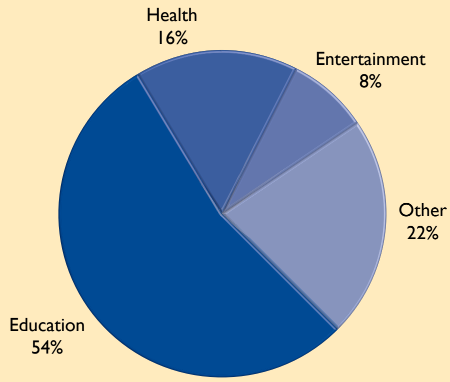
In Wales, the 21st Century Schools Capital Funding Programme is set to provide around £1.4 billion of capital investment over a seven-year period with funding available from 2014/15. New work orders recorded a 17.2% decline in 2012 indicating that further reductions in education output are likely in the medium-term.

A double-digit decline in **health** construction was recorded in both 2011 and 2012, and the sub-sector output totalled £1.5 billion last year. Procure 21+, worth between £650 million and £750 million, is the key driver of sub-sector output and will provide a pipeline of work until its completion in 2016.

There are currently 120 active Procure 21+ schemes in England with 9 schemes registered in the last three months and 15 new projects recorded in the last six-month period.

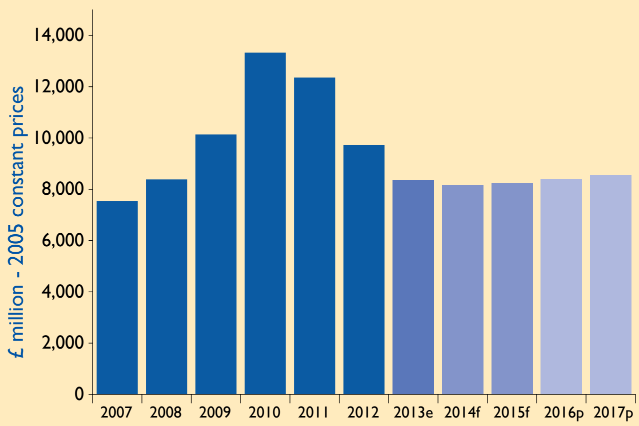
The performance of new work orders in 2012 indicates that prospects for health construction remain pessimistic near-term. Output is forecast to decline further in the next two years with sub-sector growth only expected in 2015. The health sub-sector is forecast to grow by 2.0% in 2016 and 2017, and by the end of the forecast period the volume of work is set to reach £1.3 billion.

Public Non-housing Output by Sub-sector 2012 (%)

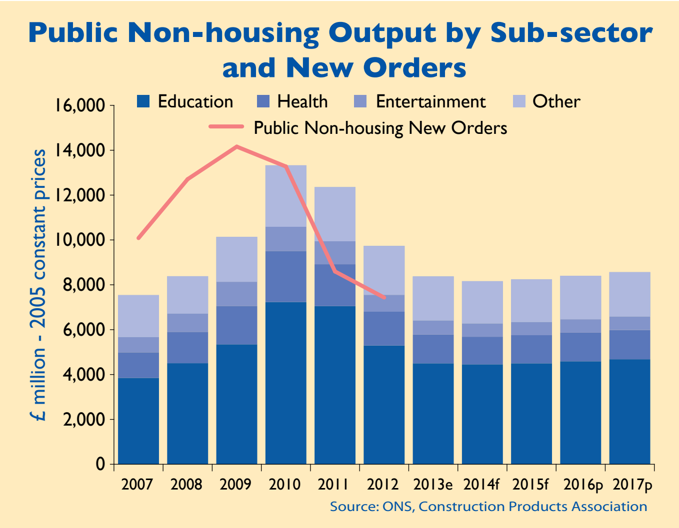


Source: ONS

Public Non-housing Output



Source: ONS, Construction Products Association



The public non-housing **other** sub-sector includes construction work on prisons, defence estates, public sector office facilities and law courts. In 2012, output in the sub-sector totalled £2.2 billion, a 9.8% reduction compared to 2011.

Framework contracts worth around £1 billion over six years were signed by the Ministry of Justice (MOJ) in 2012 are set to deliver refurbishment and maintenance work for prison estates in England and Wales as well as court estates within the UK.

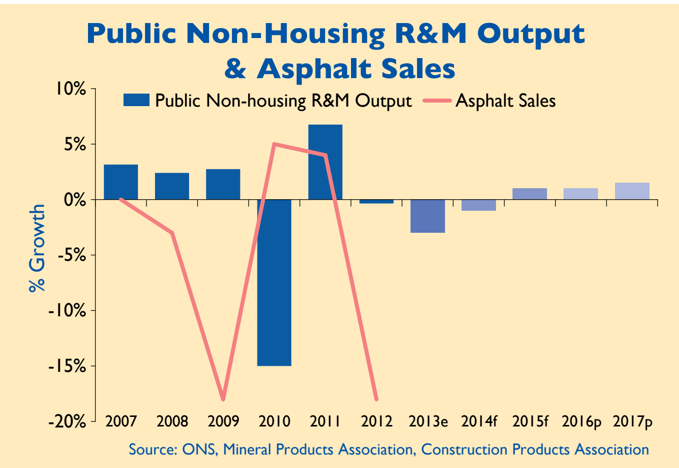
The Defence Infrastructure Organisation framework, worth around £400 million annually, is currently open for tendering and is expected to be awarded by the end of 2013. In addition, the Ministry of Defence (MOD) is planning to invest £1 billion on new accommodation for troops returning from Germany with the investment funded through MOD's departmental capital budget.

Construction work in the sub-sector is set to decline year-on-year until 2015 when marginal growth is anticipated. By the end of the forecast period sub-sector output is expected to total £2.0 billion.

Since the facilities for the Olympics and Paralympics in London were completed, output in the **entertainment** sub-sector has contracted sharply with output falling by 26.5% in 2012 alone. Furthermore, with little activity expected once the majority of work on the facilities for the Commonwealth Games in Glasgow in 2014 reaches completion in early 2013, the outlook for the sub-sector remains subdued.

Entertainment output is set to fall by 16.0% in 2013 followed by a further 6.0% contraction in 2014 before contraction slows to 1.0% in 2015. Moderate growth is forecast for 2016 and 2017 with output rising by 1.0% year-on-year.

Public Non-housing R&M



Basic repair and maintenance work on schools, hospitals and public sector infrastructure is covered in the public non-housing repair and maintenance (r&m) sector.

Extensive capital investment on new schools and roads between 2008 and 2010 reduced the importance of public non-housing r&m and the sector output expanded by only 2.4% and 2.7% in 2008 and 2009, respectively, before declining by 15.0% in 2010.

The cancellation of the Building Schools for the Future programme in 2010 and the delay in delivering work through the Priority Schools Building Programme, has created a backlog of maintenance work. Furthermore, the change of focus away from new build to r&m implies that sector output will benefit over the forecast period. However, pressure on local authorities' capital budgets is set to continue.

Output in the public non-housing r&m sector increased by 6.8% in 2011, but in 2012, was broadly flat. Near-term, the outlook for the sector remains pessimistic. In 2013, output is forecast to decline by 3.0% followed by a further 1.0% reduction in 2014. As capital expenditure increases in 2014/15, a recovery in output is expected and growth of 1.5% is forecast for 2015. By the end of the forecast period, sector output is forecast to total £7.2 billion, 10.0% lower than the peak in 2009.

Commercial

Protracted domestic economy uncertainty, sluggish growth in the global economy and downside risk factors emerging from the Eurozone have led to supressed business investment and consumer spending, which has had an impact on commercial activity.

The sector declined 9.8% in 2012 and Q4 output was 37.0% below peak. Despite a 13.6% rise in orders in Q4, output is expected to contract 6.6% in 2013 before flattening out in 2014 (-0.8%) and growing at rates of 2.0%-5.0% per year thereafter.

The **office** sub-sector continues to weaken. Output in 2012 contracted 8.7% year-on-year and a further 4.0% decline is expected for 2013. The Association expects no growth for 2014 but 6.0% growth is expected in 2015, and 7.0% thereafter for the remainder of the forecast horizon.

The London market continues to outperform the rest of the country with the pipeline dominated by a few large projects. In London, Google are set to build a £300 million HQ at Kings Cross, beginning in December, and Goldman Sachs are planning a 1.2 m^2 ft headquarters at Holborn Viaduct. Elsewhere, in Birmingham and Warrington two projects worth £200 million each are set to start in 2013 and 2015, respectively.

The **retail** sub-sector contracted by 15.5% in 2012 after a number of major firms including Sainsbury's and John Lewis retracted or postponed plans to expand. Some firms have reduced the scale of plans; Tesco have refocused spending on smaller stores, refurbishment and online retailing.

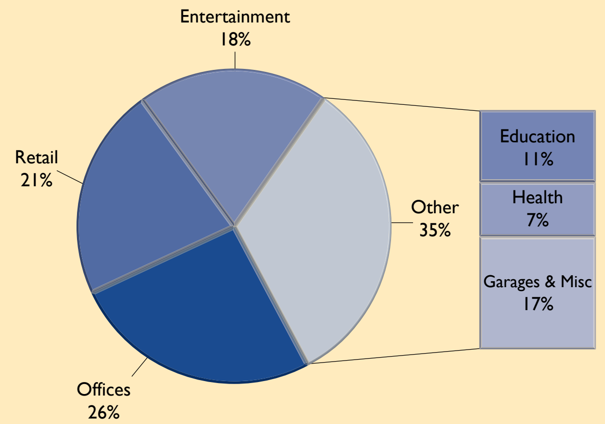
Morrisons have planned a 1.25m ft^2 expansion by 2015, which should double the number of London stores from 30 to 60. The Edge Lane Retail Park in Merseyside, valued at £200 million, should start in June and be complete by January 2016. Orders remain at historical lows having fallen by more than 75.0% since 2006.

The sub-sector is expected to contract by 10.0% in 2013 before returning to growth thereafter as GDP returns to trend and consumer confidence improves. In 2014 and 2015 the sub-sector is expected to grow 1.5% and 4.0%, respectively, and then 5.0% per year throughout the remainder of the forecast period.

The pace of output decline in the **entertainment** sub-sector increased towards the end of 2012 following seven consecutive quarters of contraction. Output is 16.0% below its average since 2000 Olympics-related work that provided a boost in recent times has diminished. Only the £290 million Olympic stadium transformation works remains until April 2014.

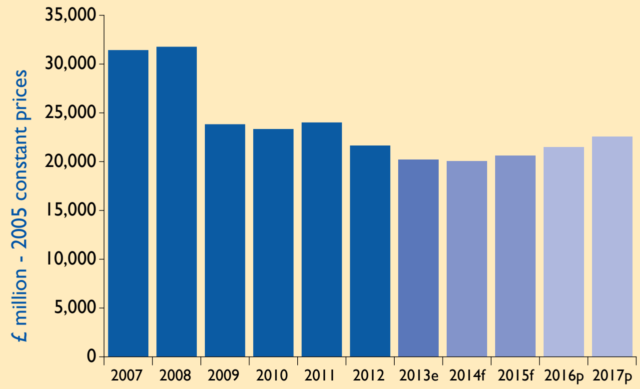
The project pipeline is weak and significant growth is unlikely to return until market sentiment shows improvement. Output declined by 14.0% in 2012 and is forecast to decline by 5.0% this year. In 2014, output is expected to decline 1.0% but rise by1.0% in 2015.

Commercial Output by Sub-sector 2012 (%)

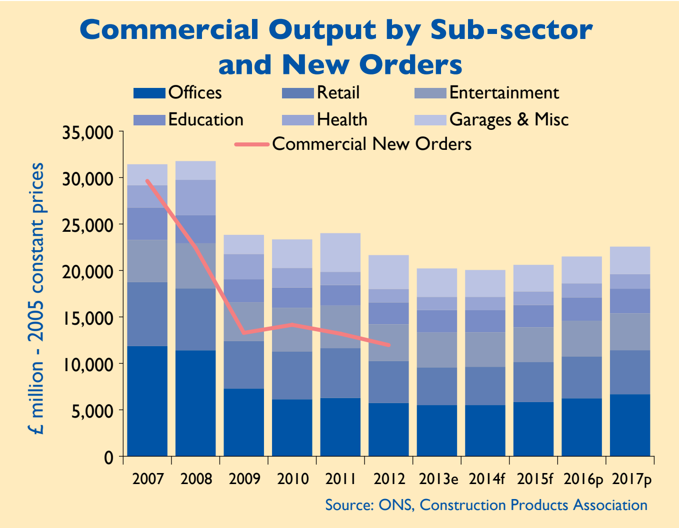


Source: ONS

Commercial Output



Source: ONS, Construction Products Association

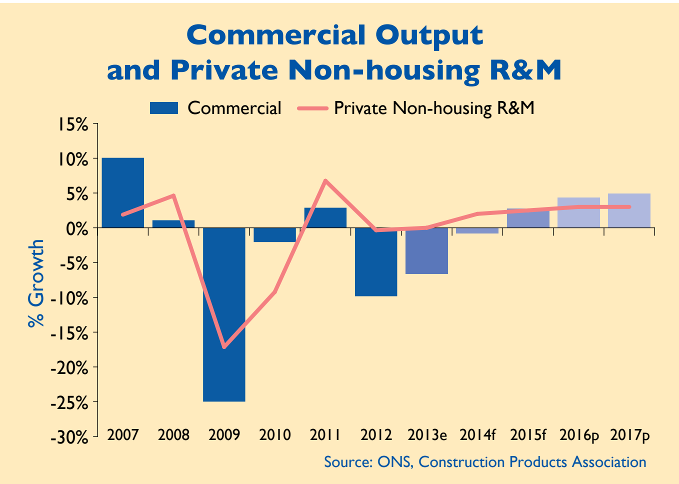


The remaining Building Schools for the Future (BSF) funding will provide work for **PFI Education** throughout 2013 and PF2 funding should support growth through the Priority Schools Building Programme, where £1.75 billion of work will be tendered in the spring. The department for education announced that 13 University Technical Colleges (UTCs) are set to open by September 2014, in addition to a £200 million college campus in Glasgow and a £150 million campus expansion at Swansea University.

Following growth of 7.1% in 2012, minor fluctuations in output are expected throughout the forecast period. The Association forecasts growth of 2.0% in 2013, a 1.5% contraction in 2014, 1.5% growth in 2015 and growth upwards of 4.0% thereafter.

In the fourth quarter of last year orders in **privately-financed health** recovered compared to the 49.0% fall in the third quarter. Despite this, orders remain more than 90.0% below peak in 2006 the Q2, and output in Q4 was 64.5% below peak in 2008 Q2. Work on the £425 million Royal Liverpool Hospital has been postponed until 2014, with the target completion date now set for 2017/18. Accordingly, the Association has forecast sub-sector decline (-1.5%) in 2013. Looking further ahead, in 2014 and 2015 growth of 1.0% per annum is expected, and 4.0% thereafter.

Private Non-housing R&M



Private non-housing repair and maintenance (r&m) covers basic repairs and maintenance of commercial, industrial and private infrastructure, such as energy and water company work, with r&m on commercial offices and retail dominating in the sector. Construction work in private non-housing r&m was worth £11.7 billion in 2012.

Output in the sector is typically driven by business investment and consumer spending, both of which remain relatively weak. Business investment rose only 1.4% in 2012, hindered by concerns regarding UK economic growth and Eurozone uncertainty. Consumption rose only 1.0% in 2012 as consumers were hindered by the fastest fall in real household disposable income in over 30 years in 2011.

The majority of minor works on major offices and retail space are determined by facilities management contracts, therefore workloads in the sector are not highly volatile. Despite the sharp slowdown in the commercial sector last year, output in the sector only fell by 0.4% compared to a year earlier.

Overall, the Association's forecast for the sector has been revised down for the next 12 months due to a further revision downwards in line with 2013 prospects for the commercial sector and the wider economy . Output in private non-housing r&m is expected to remain flat, before stronger economic prospects and a recovery in the commercial sector over the next few years lead to growth of between 2.0%-3.0% per year between 2014 and 2017.

Infrastructure

Infrastructure output contracted by 12.4% in 2012 but a 28% rise in new orders suggests the outlook is upbeat medium-term. Output in the sector is forecast to rise by 6.6% in 2013 and by 7.6% in 2014 driven by rail and roads work.

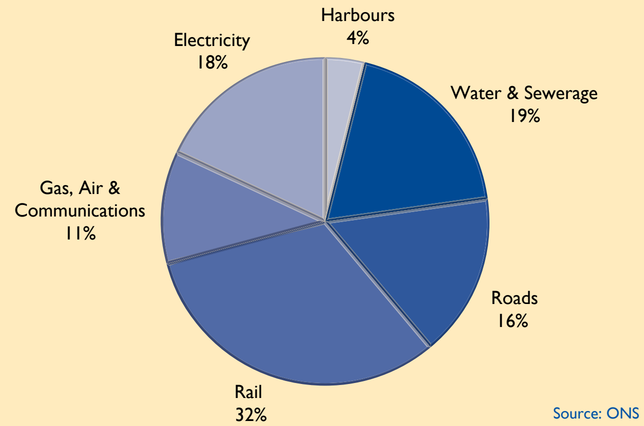
Prospects for **rail** remain positive. Crossrail work is set to peak between 2013 and 2015, the Thameslink programme is expected to complete in 2018, and work on the £700 million London Bridge redevelopment should begin in May. As a consequence, output is set to rise by 14.0% in 2013, by 9.5% in 2014 and 4.5% in 2015. In Control Period 5 (CP5), 2014-19, Network Rail is expected to have £37.5 billion for investment compared to £34.9 billion during CP4. However, given a fall in public subsidy from £4.5 billion in 2009 to less than £3 billion in 2019, it is difficult to see how this will be achieved without considerable rises in rail fares.

After a double-digit fall in the Highways Agency's capital budget, funding on **roads** will rise from 2013/14 due to commitments made in Autumn Statements 2011 and 2012. £415 million of contracts for the M8, M73 and M74 motorway improvements schemes are currently being procured and activity should start on the ground in late 2013. Work is on track on the Forth Replacement Crossing to be delivered in 2016, and tendering on the £600 million Mersey Gateway toll bridge is under way with construction expected to start late 2013. New work orders for roads were 84.4% higher in 2012 than in 2011. As a result, output is set to rise by 8.0% and 10.0% in 2013 and 2014 with further growth expected in later years.

Investment in **water & sewerage** is determined by the Asset Management Plan (AMP). Investment under AMP5 will fall on an annual basis until 2014/15 in England and Wales. Investment will also be hindered by expected savings of between £600 million and £1.1 billion. However, construction of the Lee Tunnel will continue to provide work for the sub-sector until its expected completion in late 2013. The transfer of private sewers from local authorities to the water companies may provide additional work once the condition of the network is assessed. Construction of the Thames Tideway Tunnel is expected to begin in 2015, with main works expected in 2016 and completion scheduled for 2023. In the medium-term this could boost output considerably. Overall, water & sewerage output is forecast to fall in 2013 before growth of 2.0% in 2014. Thereafter, boosted by the Thames Tideway Tunnel, growth of 5% and 8% is expected in 2015 and 2016.

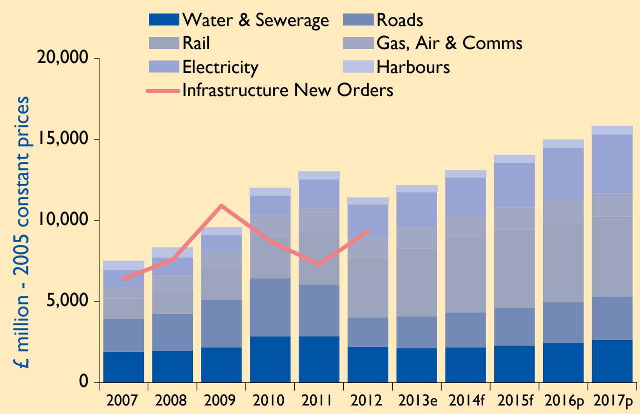
Decommissioning remains the key driver of work in the **electricity** sub-sector with an annual budget of £3 billion allocated until 2014/15. Construction of the Round 3 offshore wind programme will start from 2014 and capacity is expected to rise from less than 3 GW in the third quarter of 2012 to 18 GW by 2020. EDF's investment at Hinkley Point C is still on hold pending an agreement with HM Treasury on the future price of electricity. Work at Wylfa and Sizewell in subsequent years is also likely to be delayed by uncertainty and lack of development finance. By 2030, 20 gas power stations are expected to be built, but Centrica has stated that all plans for new gas fired power stations are on hold until 2017. Near-term, activity in the sub-sector will benefit from around 18 GW of smaller renewables capacity. Overall, output is forecast to rise by 7.0% in 2013 and 10.0% in 2014 before growth accelerates to 15.0% in 2015 and double-digit growth is anticipated until the end of the forecast period.

Infrastructure Output by Sub-sector 2012 (%)

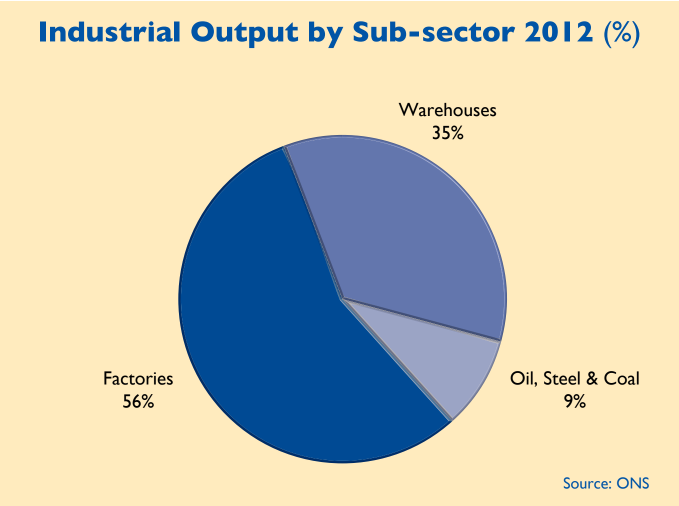


Source: ONS

Infrastructure Output by Sub-sector and New Orders



Source: ONS, Construction Products Association



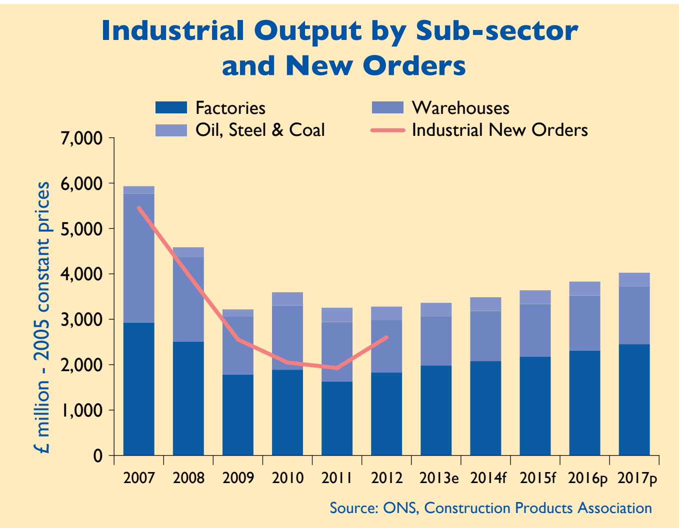
Industrial

Low business confidence, weak consumer sentiment and sluggish industrial production weakened the industrial sector following the financial crisis. By the final quarter of last year total sector output had fallen by a half compared to 2006. However, positive orders and output growth in the last three quarters of 2012 and minor growth for last year overall, suggest that the sector has passed its nadir. Accordingly, growth of 2.5% is expected in 2013 and, thereafter, upwards of 3.0% until the end of the forecast period.

The **factories** sub-sector is likely to be the primary driver of industrial sector output in 2013 following strong orders growth throughout 2012. Final quarter orders doubled year-on-year. Demand in the sub-sector is derived from manufacturing output which is expected to improve through 2013 according to the CBI. The project pipeline is expected to strengthen over the coming year. A few major projects are planned for the near-term, GlaxoSmithKline plan £700 million of investment and Tata Motors plan expansions worth £370 million. The Association has forecast strong growth of 8.0% in 2013 due to a large increase in orders, and then moderate growth of 5.0%-6.0% per year thereafter.

The **warehouses** continues to weaken following a decline in output that began before the financial crisis. Following a spike in demand in 2005 and 2006 as firms switched from multiple small units to individual large units, demand has been weak and output in decline. The deterioration of overall economic activity after 2008 exacerbated this decline and the sub-sector has yet to begin a recovery.

Falling output in the six consecutive quarters to 2012 Q4 and orders declining by 41.8% in the final quarter of 2012 suggest that 2013 will not be a year of strong recovery. 2012 output declined by 12.4% compared to a year earlier, and output is expected to contract (-6.0%) again in 2013. In the medium-term, growth of 2.5%-5.0% per annum is forecast for 2014-2017.



The **oil, steel and coal** sub-sector accounts for just 10% of total sub-sector output, thus, a small change in value can make the sector appear volatile. Following a contraction of 3.9% in 2012, output is forecast to grow 1.8% in 2013, and is expected to be broadly flat over the medium-term.

Growth last year doubled in each of the final two quarters, suggesting a positive outlook for 2013, before flattening over the forecast period with workloads supported by essential repair and maintenance work. Early closures to coal mines in South Yorkshire and Warwickshire came sooner than expected and will offset some near-term momentum.

The Association's central forecast anticipates a fall of 2.1% in construction output during 2013, broadly similar to the 2.2% fall predicted in the winter forecasts. The 2.1% fall in 2013 represents an expected loss in construction activity of £2 billion and the key sectors contributing to the loss in activity during 2013 are expected to be commercial and public non-housing, both forecast to contribute £1.4 billion each. The key upward boosts to output are anticipated to come from infrastructure and private housing, expected to provide £760 million and £270 million respectively.

Summary

Looking ahead, construction output is expected to rise by 1.9% in 2014 and 3.8% in 2015 respectively, a total of £5.5 billion extra activity. This rise is anticipated to be driven primarily by infrastructure, with growth of £1.9 billion in 2014 and 2015, and private housing, with growth of £1.6 billion across the two years. Yet, the risks to the forecasts primarily reside around these two growth sectors. Infrastructure growth is dependent upon government's policies, announced in the Autumn Statement on roads construction, feeding through into activity on the ground in a timely manner. With roads, this is likely to occur given the focus on renewal and maintenance. However, there remains considerable uncertainty regarding energy investment, in nuclear and gas replacement capacity.

The fortunes of private housing will be dictated by the extent to which Help to Buy feeds through into higher demand and then, in turn, the extent to which this feeds through into new house building rather than higher prices. Previous policies such as FirstBuy, in 2011, and NewBuy, in 2012, were anticipated to boost house building. However, despite rises in house prices and property transactions, housing starts fell in 2012.

The Association's downside scenario assumes that government policies to boost infrastructure and housing do not feed through this year and that a subdued economic recovery means that offices and retail construction do not recover next year. In this scenario, total construction output would fall 3.0% in 2013 with recovery delayed until the second half of 2014. Therefore, over the next three years construction output would be £6 billion lower than in the central scenario.

In the Association's upside scenario, if the Green Deal were to take off and, from 2014, provide a retrofit to the 1.4 million homes per year that the Energy Minister initially hoped when the Green Deal was announced, would provide £7.2 billion for the industry, in a sector that focuses on SME firms and is labour intensive.

Overall, in the Association's central forecast, the near-term is anticipated to be extremely challenging. In the medium-term, the prospects are brighter for the industry with recovery anticipated and growth in the key sectors of private housing and infrastructure.

Construction Industry Forecasts - Spring 2013
£ million 2005 constant prices

	2012	2013	2014	2015	2016	2017
% annual change	Actual	Estimate	Forecast	Forecast	Projection	Projection
Housing						
Private	13,396	13,664	14,347	15,351	16,887	18,237
	-4.3%	2.0%	5.0%	7.0%	10.0%	8.0%
Public	3,620	3,403	3,335	3,435	3,572	3,715
	-18.4%	-6.0%	-2.0%	3.0%	4.0%	4.0%
Total Housing	17,016	17,067	17,682	18,786	20,459	21,953
	-7.7%	0.3%	3.6%	6.2%	8.9%	7.3%
Other New Work						
Public Non-Housing	9,734	8,375	8,163	8,245	8,404	8,566
	-21.2%	-14.0%	-2.5%	1.0%	1.9%	1.9%
Infrastructure	11,409	12,165	13,087	14,028	14,974	15,817
	-12.4%	6.6%	7.6%	7.2%	6.7%	5.6%
Industrial	3,279	3,362	3,485	3,638	3,830	4,026
	0.8%	2.5%	3.7%	4.4%	5.3%	5.1%
Commercial	21,656	20,220	20,053	20,607	21,507	22,568
	-9.8%	-6.6%	-0.8%	2.8%	4.4%	4.9%
Total Other New Work	46,078	44,123	44,788	46,518	48,714	50,977
	-12.5%	-4.2%	1.5%	3.9%	4.7%	4.6%
Total New Work	63,094	61,190	62,470	65,304	69,173	72,929
	-11.2%	-3.0%	2.1%	4.5%	5.9%	5.4%
Repair and Maintenance						
Private Housing RM&I	10,067	10,168	10,422	10,839	11,272	11,836
	-5.9%	1.0%	2.5%	4.0%	4.0%	5.0%
Public Housing RM&I	5,968	5,968	6,087	6,190	6,252	6,252
	0.6%	0.0%	2.0%	1.7%	1.0%	0.0%
Private Other R&M	11,695	11,695	11,929	12,227	12,594	12,972
	-0.4%	0.0%	2.0%	2.5%	3.0%	3.0%
Public Other R&M	7,287	7,068	6,997	7,067	7,138	7,245
	-0.4%	-3.0%	-1.0%	1.0%	1.0%	1.5%
Total R&M	35,017	34,899	35,436	36,324	37,257	38,305
	-1.9%	-0.3%	1.5%	2.5%	2.6%	2.8%
TOTAL ALL WORK						
	98,111	96,089	97,905	101,628	106,430	111,234
	-8.1%	-2.1%	1.9%	3.8%	4.7%	4.5%

Source: ONS, Construction Products Association

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