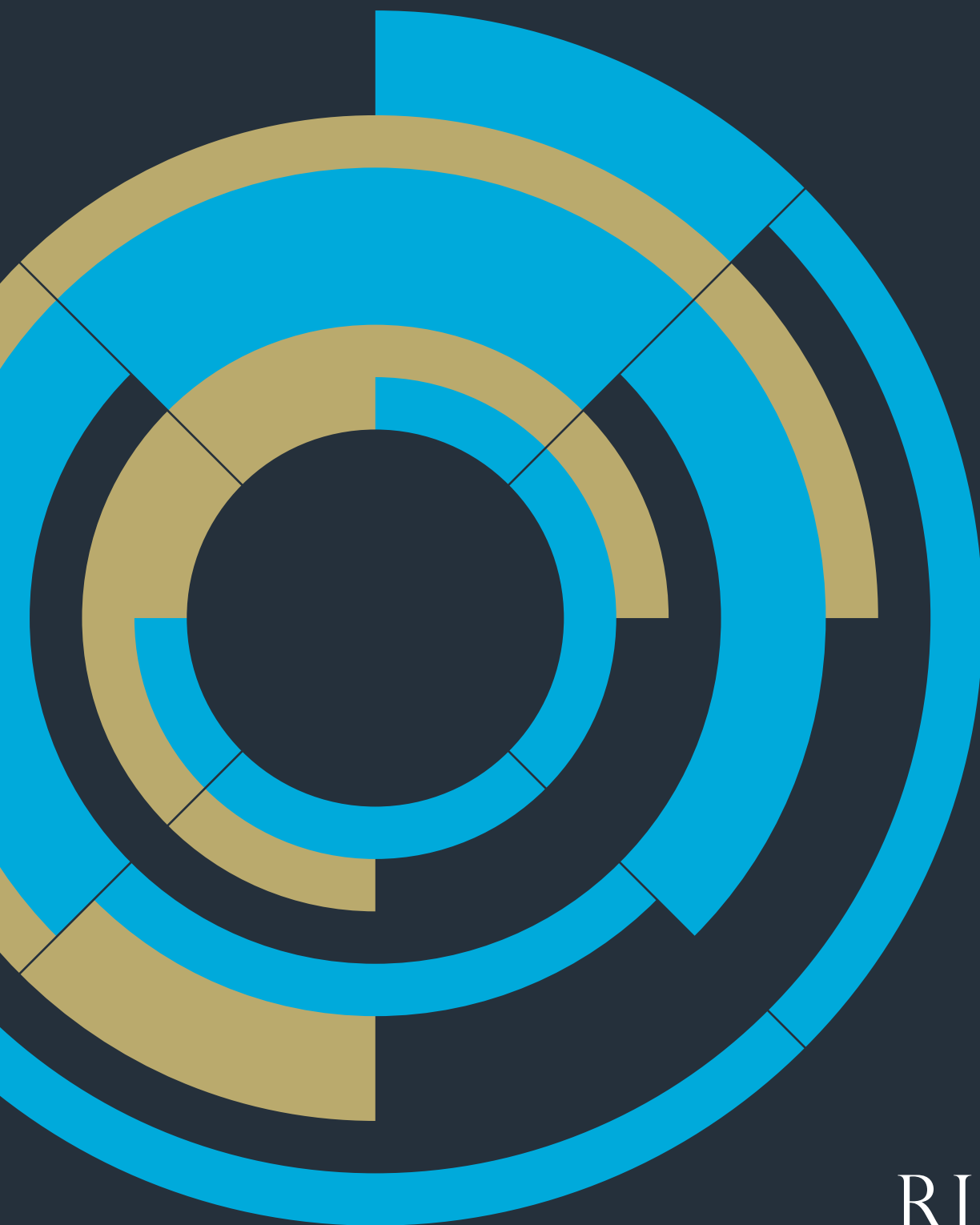


# RIBA Quarterly Economics Report

The Architectural Market  
Autumn | 2022



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# Introduction

To help practices place their work within a wider economic context, this economics report brings together information from a range of primary sources.

The period leading up to this report showed a resilient profession rapidly responding to post-pandemic demand. There has been strong workload growth, particularly in the residential sector, and the commercial sector has proved more resilient than many expected.

Having navigated the pandemic, however, the architects' profession faces new challenges. The coming twelve to twenty-four months will be difficult; the UK economy is likely to enter recession, and inflation will be a challenge for both practices and clients.

A faltering UK economy will place pressure on the profession, as rising costs and contracting businesses deter client investment in buildings. However, forecasts for the construction sector suggest that workloads will dip, but not as deeply as the wider economy.

At heart, the energy crisis about our energy use and the profession is uniquely placed to make the UK's buildings sustainable and less wasteful of energy.

Architectural workload  
is now

**4%**

above pre-pandemic levels.

# The UK Economy

## UK Gross Domestic Product

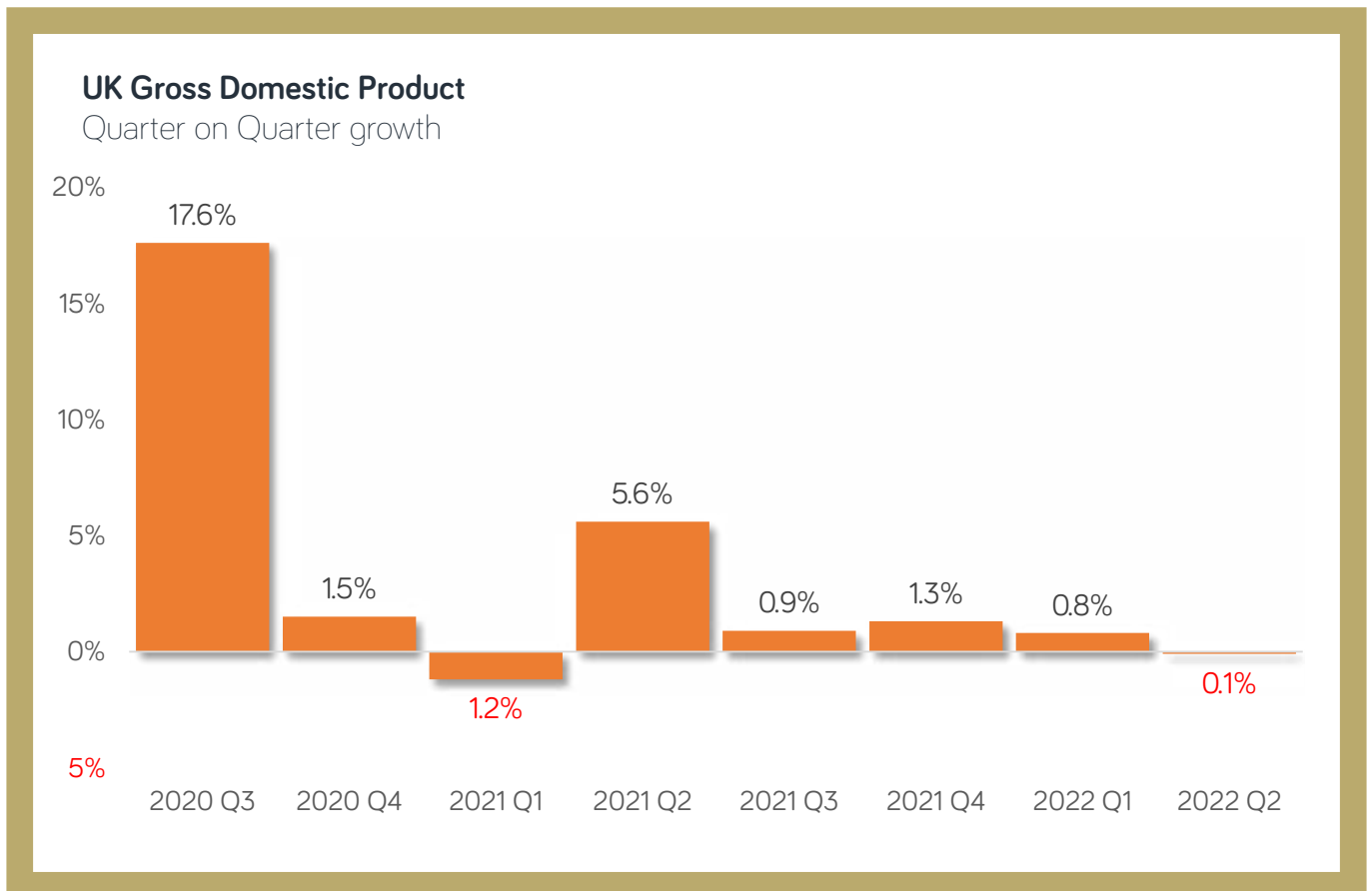
Having recovered the output lost during the pandemic, the UK is now on course for a period of weak or negative growth and high inflation.

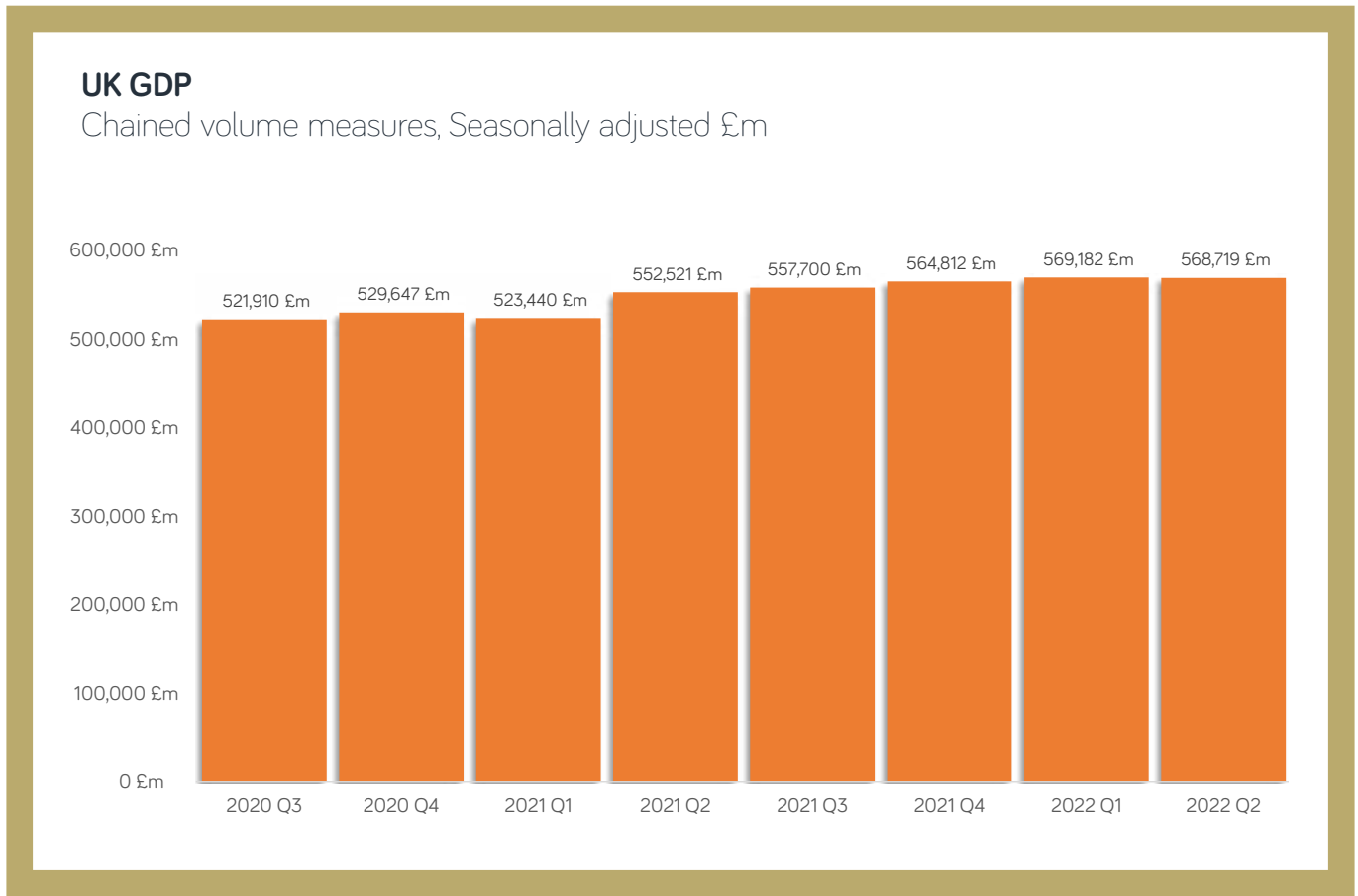
After the sharp fall in output during the first half of 2020, the economy staged a rapid recovery in the second half of 2020 and early 2021. Recent growth has naturally moderated; during the 12 months to June 2022, the economy grew by 1.9%. However, growth has now stalled. Supply-side issues remain, and inflation is rising. A growing consensus is that the UK will enter a recession.

Looking at the quarterly data, there has been weak growth in the three quarters from Q3 2021 to Q1 2022 and a contraction in output during Q2 2022.

For recent monthly activity, early estimated data for June 2022 suggests a contracting economy. GDP fell by 0.6% in June 2022, after a growth of 0.4% in May. All the main sectors of the economy (services, production and construction) contracted in June 2022. The service sector fell by 0.5% and the production sector by 0.9%. The construction sector fell by 1.4%.

Quarterly UK GDP Growth: Source ONS





UK Quarterly GDP Value, Source ONS

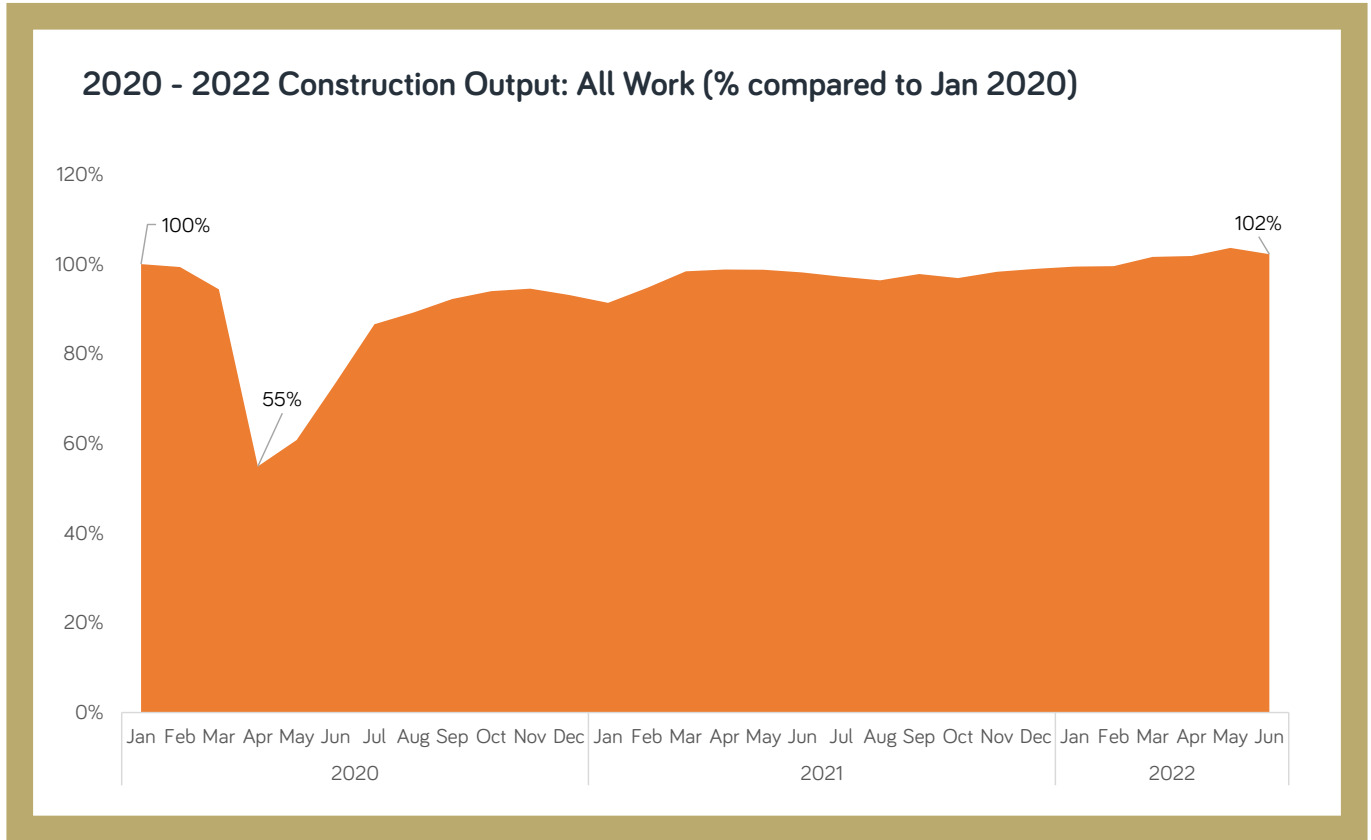
Current projections from the Bank of England (BoE) suggest that UK GDP growth is slowing. The BoE forecast the UK to enter recession later this year. Output is projected to fall in each quarter from 2022 Q4 to 2023 Q4. Growth after that is forecast to be weak.

The UK faces very high inflationary pressures. CPI inflation is currently 8.8% (in the 12 months to July 22). The BoE expect CPI inflation to rise further and to peak at just over 13% in Q4 2022, reduce to 9.5% within a year, and then fall sharply back to the 2% target by the second half of 2024. The BoE is likely to respond to inflationary pressures with further interest rate rises. These inflation projections may be revised downwards following the UK government’s energy price cap policy.

**The Bank of England's central forecast is for growth from 2022 to 2025 is:**

- 2.3%** in the year to Q3 2022
- 1.5%** in the year to Q3 2023
- 0.6%** in the year to Q3 2024
- 0.8%** in the year to Q3 2025

# Construction Output



Percentage Change in Construction Output, source ONS

The value of construction output in June 2022 was 2.9% (£414 million) above the February 2020 pre-coronavirus pandemic level. Compared to the 12 months to June 2021, construction output in the 12 months to June 2022 rose by over 5%.

However, monthly data suggests a sector that is weakening. Construction output decreased by 1.4% in June 2022, the first decrease since October 2021, following seven consecutive months of growth. The volume of work in private new housing fell by 6.1% and private commercial new work by 4.5%.

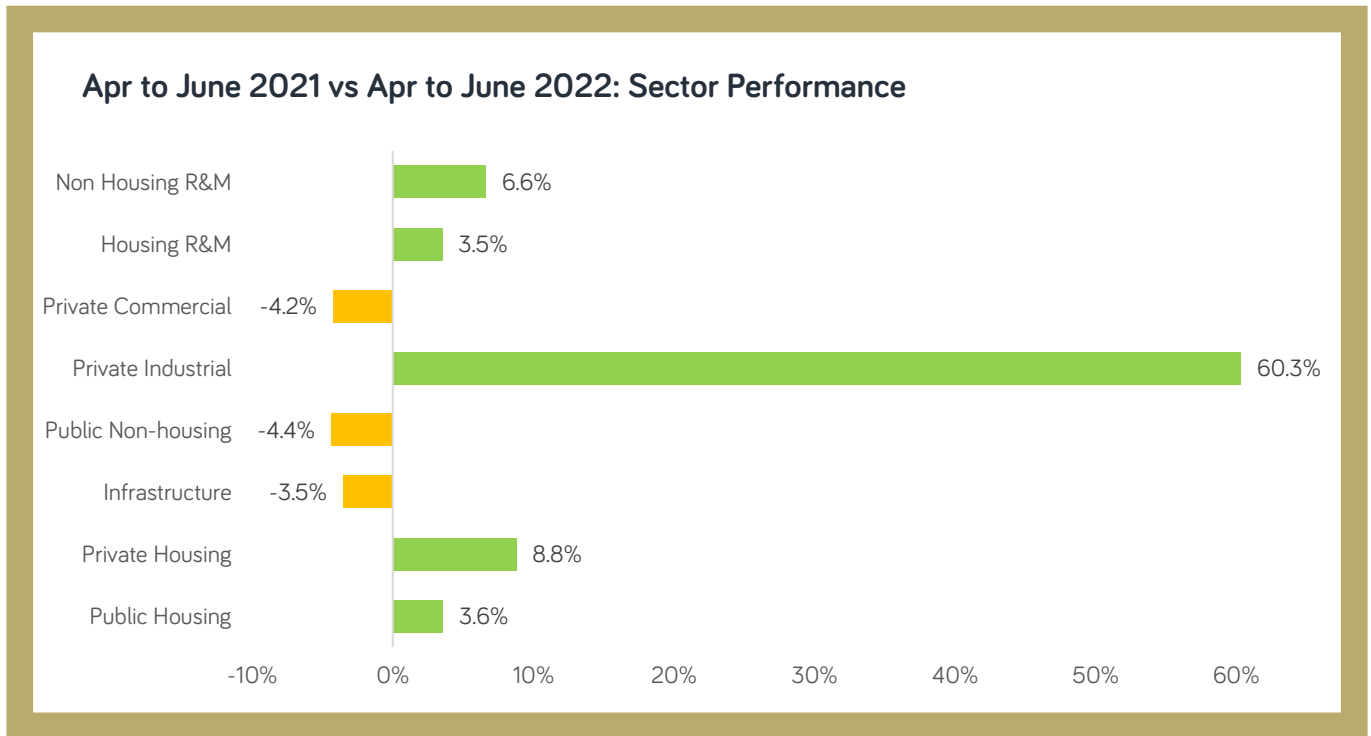
Construction new orders decreased by 10.4% (£1,355 million) in Q2 2022 compared with Q1 2022; this is the largest quarterly fall in construction new orders since Quarter 4 2020.

The construction sector has seen sharp increases in the cost of construction products and materials. The annual rate of construction output price growth was 9.6% in the 12 months to June 2022, the highest rate of annual price growth since ONS began monitoring in 2014.

Total construction output in June 2022

# 2.9%

higher than in Feb 2020



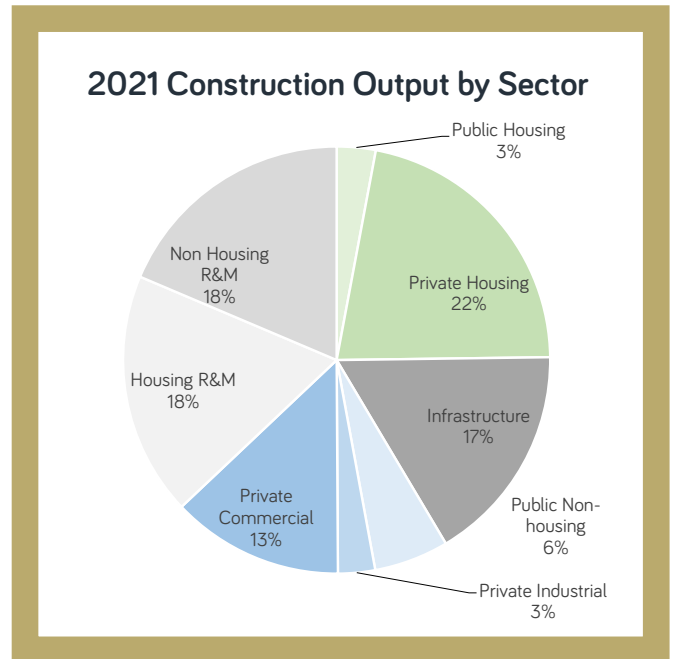
Construction Output by Sector, source ONS

Comparing April to June 2021 with the same period in 2022, there is a noticeable difference between sectoral performance, with the Private Commercial sector performing least well, and Private Industrial performing the best. Different sectors are of different sizes, of course; see the graph to the right.

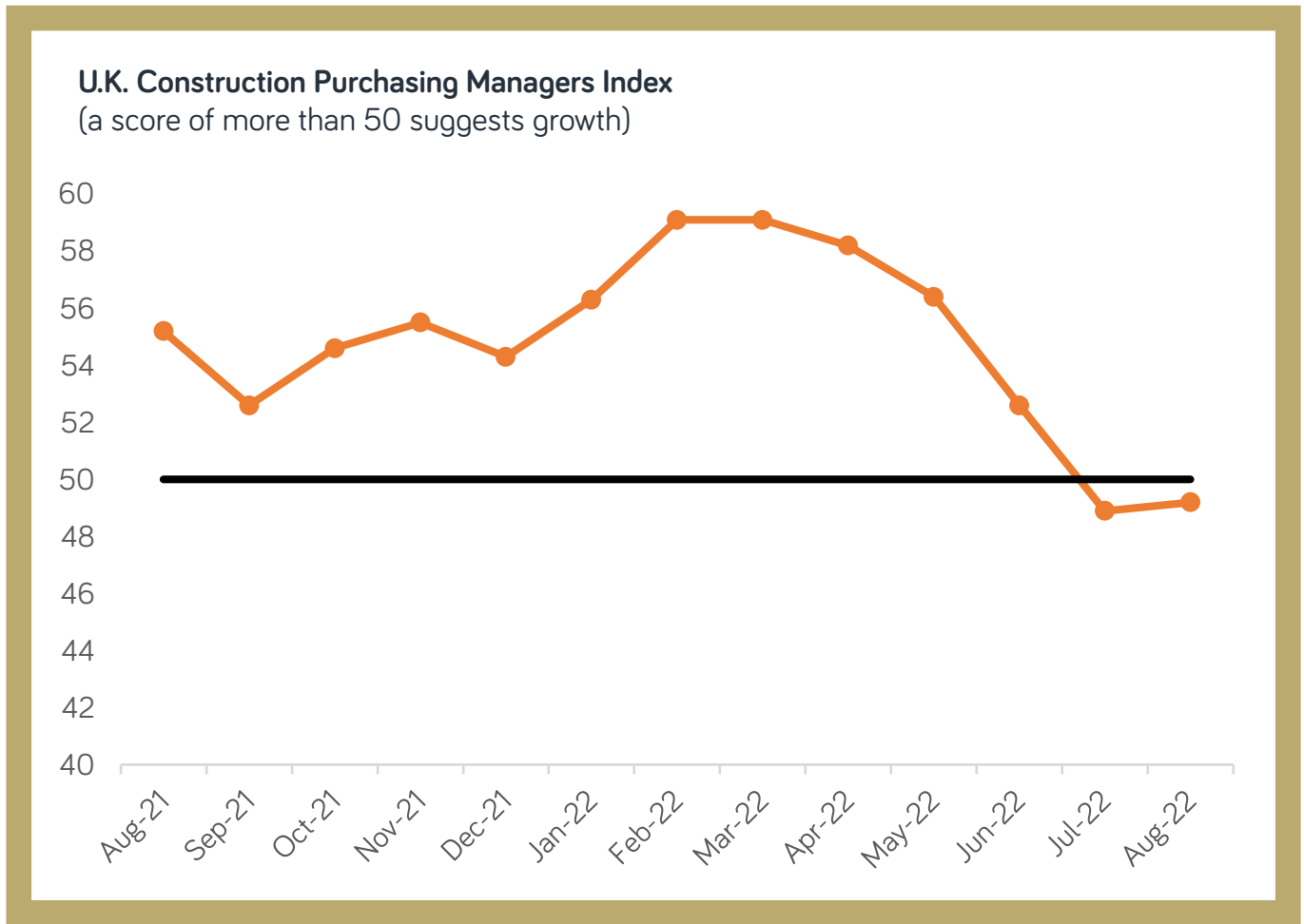
The Private Industrial sector looks set to continue to grow, not least as online shopping displaces traditional retail and the demand for warehouses and distribution centres increases. Such centres are becoming increasingly sophisticated spaces.

Housing is the largest sector, and the most important for architectural work (including private and public, new, and repair and maintenance). It has seen strong growth and this looks set to continue in the immediate future, with unmet demand, increased house prices and still low interest rates. However, significant downside risks are growing: recession, raised interest rates, and the affordability/cost of living crisis.

Private Commercial output decreased in the period and remains lower than pre-pandemic. A post-pandemic rebound in demand for entertainment and travel has boosted the leisure and entertainment sub-sector, and fit-outs are boosting office activity. Nevertheless, downside risks remain, with reduced consumer spending a threat to entertainment and travel, and the need for new office space still unclear.



Construction Output, Sector Contribution, source ONS



Construction Output, Sector Contribution, source IHS Markit

### Confidence in the Construction Industry

A construction sector with increasing activity provides more architects' commissions, whilst falling activity suggests architects' workloads may face downward pressure

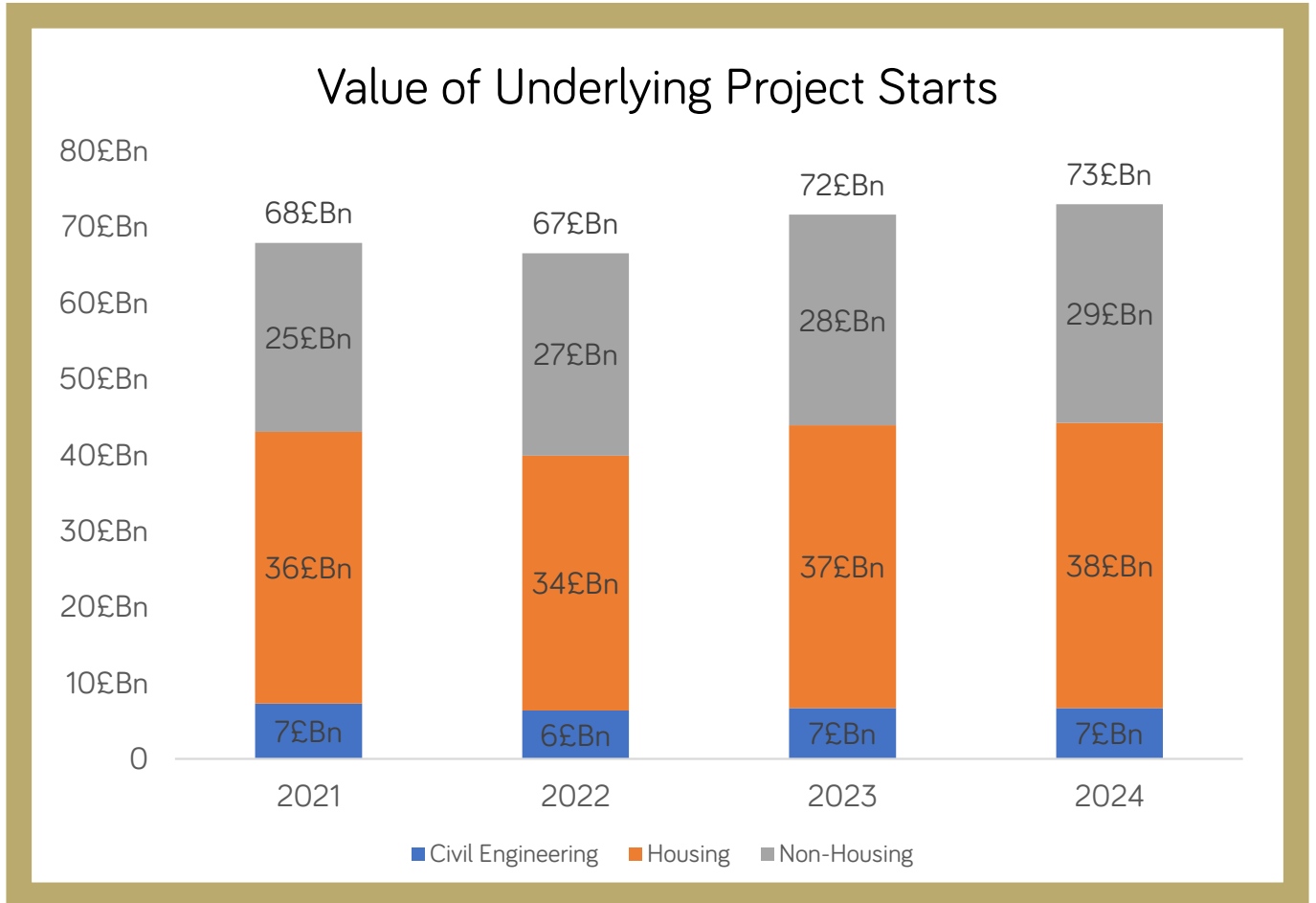
IHS Markit monitors activity in the UK construction sector through their monthly Purchase Manager's Index (PMI). A PMI score of over 50 indicates growth since the previous month, and a score below 50 indicates comparative contraction.

The August 2022 PMI Index showed weakened levels of activity in the industry, with a balance score of 49.2, the second month of a sub-50 figure. Construction sector activity is weakening as concerns about economic prospects increase, supply chain challenges remain, and inflationary pressures gather pace.

The civil engineering sector has shown the steepest decline in activity, with commercial activity also falling. Housing projects, however, increased for the first time in three months, though only slightly.



**Project Starts: Future Projections**



Construction Project Starts: source Glenigan

Glenigan provided the above projection for the future value of project starts, based on their database of current and planned construction projects.

There are currently high levels of uncertainty, so projections about the sector may be subject to significant revisions. Recent RIBA Future Trends findings suggest current construction forecasts may be on the optimistic side. With that caveat, the outlook for construction over the coming years remains broadly positive.

Glenigan expects a 2% contraction in starts in 2022, followed by a sharp rise of 8% in 2023, followed by a modest 2% increase in 2023.

Among the key markets for architects, private housing is expected to fall 5% in 2022, and then recover by 13% in 2023, followed by a 1% growth in 2024. Offices are set for strong growth in the forecast period, as is the education sector. In contrast, after growth in 2022, starts in the health sector are expected to reduce each subsequent year, to 2024.

After a fall in 2022, Glenigan anticipates the value of new starts to rise by 8% in

# 2023

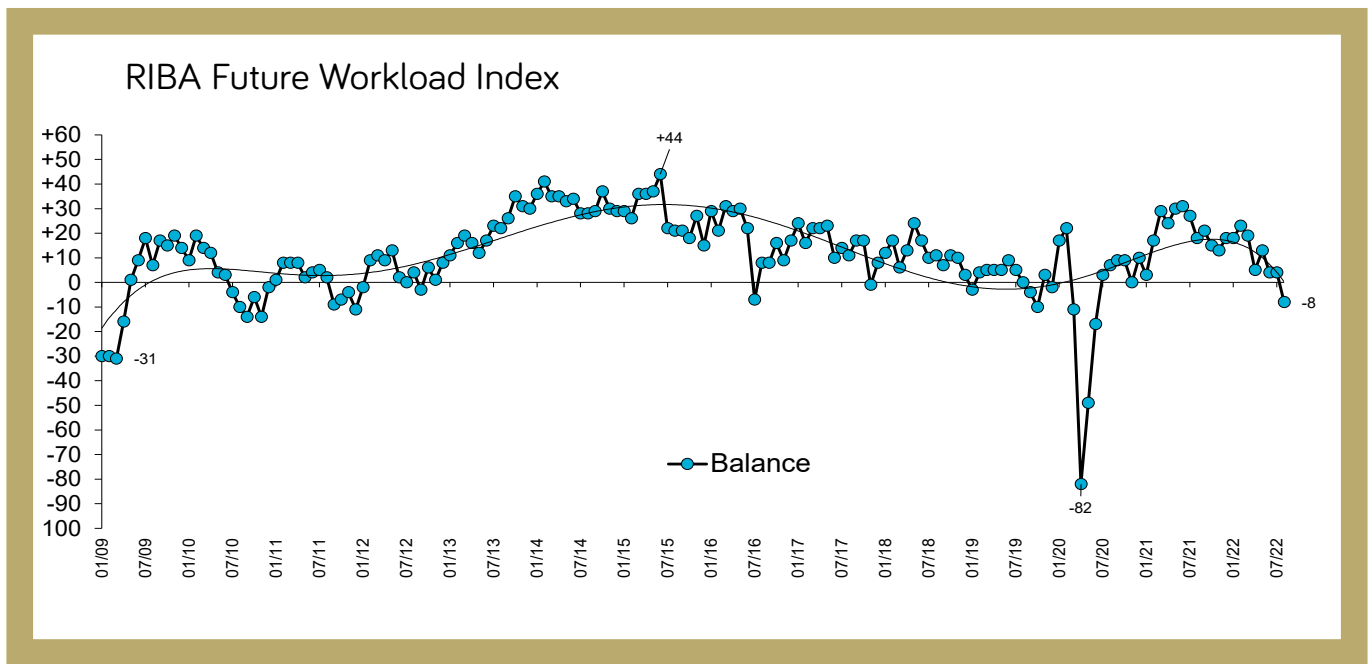
# Architectural Workload

## RIBA Future Workload Index\*

The third quarter of 2022 has seen the post-pandemic recovery in confidence about future workloads dissipate. The RIBA Workload Index started 2022 with a balance figure of +18 but now stands at -8. In the last 12 months, the Index has fallen by 29 points.

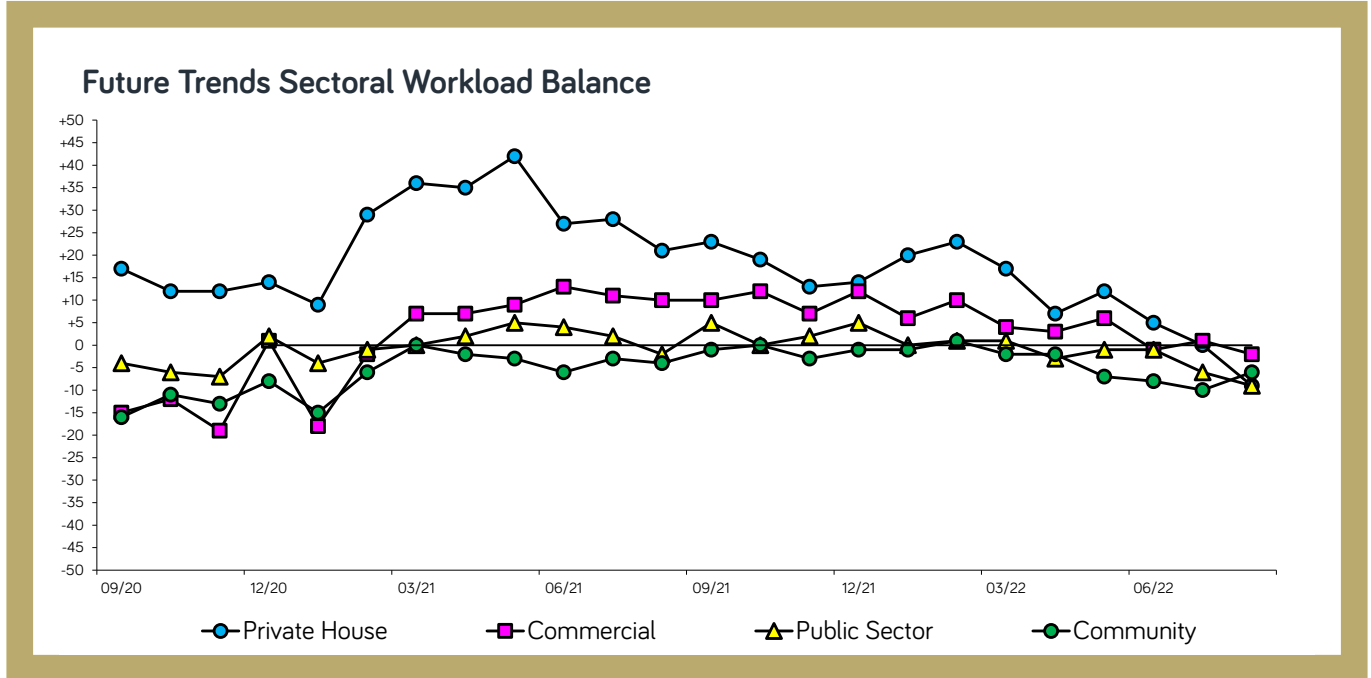
All regions are becoming more pessimistic about future work, with most regions now in negative territory. Small practices are pessimistic about future work, anticipating a contraction in the coming quarter, whilst medium and large practices expect workloads to continue to grow.

RIBA Future Workload Index, source RIBA



\*The RIBA Future Workload Index figure is the difference between those expecting more work and those expecting less.

## Architectural Workload Index by Sector



RIBA Workload Index by Sector, source RIBA

In 2022, all four sectors monitored through RIBA Future Trends saw an overall weakening. Q3 2022 has seen three of the four monitored sectors fall into negative territory, suggesting upcoming contraction.

The **Private Housing Sector** has been the stand-out sector since the first lockdown. The ‘race for space’ fuelled extensive work for architects in the domestic sector, as clients adapted their residences for home working. In May 2021 the Private Housing Index reached an unprecedented high of +42.

Since then, confidence in the sector has slowly been weakening. Increased project costs and rising interest rates are exerting downward pressure. The UK population is facing falling real wages, so decreased disposable income. There will be less money with which to commission domestic work. However, the wealthiest 10%, for example, hold around half of all UK wealth, so remain in a position to draw upon architects’ services.

The **Commercial Sector** has faced an ongoing decline in the retail sub-sector, questions about the need for future office space, and a hiatus in public entertainment. Nevertheless, the sector has remained broadly positive throughout the last year, with an average balance score of +5. The repurposing and adaptation of existing office and retail space has been a notable area of activity. However, with two negative balance scores in the last three months, confidence in the sector is showing early signs of softening. If we face a deep and prolonged recession, the entertainment and retail sub-sectors are likely to be particularly adversely affected.

Workload predictions for the **Public Sector** remain subdued. In the previous year, the public sector had an average balance figure of -1, with a low of -9 in August 2022, and a high of +5 in December 2021. The government’s ‘build, build, build’ announcements have not translated into architectural confidence for increased work.

The **Community Sector** includes work for not-for-profit organisations; work with churches, charities and trusts, for example. With ongoing financial pressure within the sector, confidence has remained low, with an average Workload Index figure of -3 over the last 12 months.