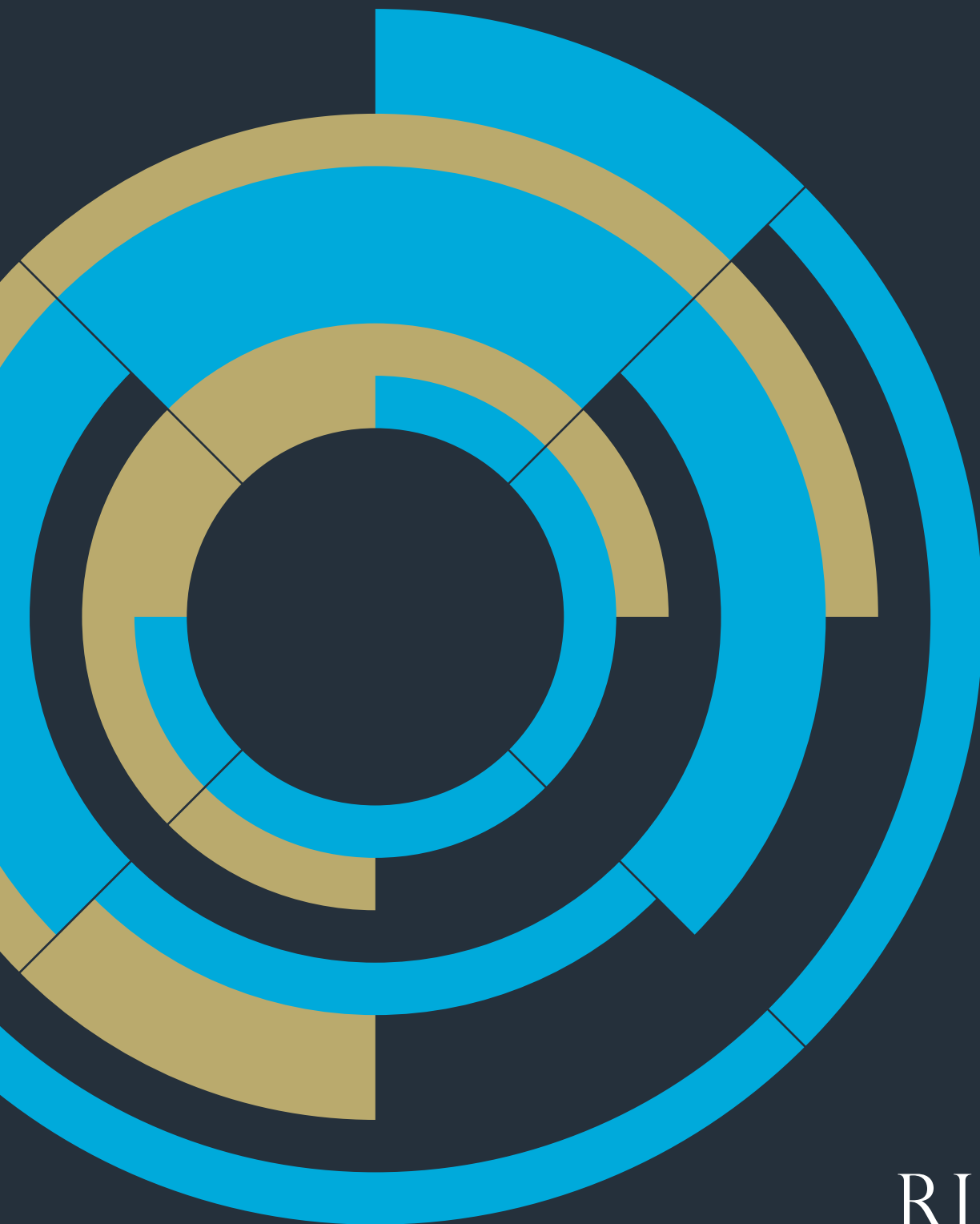


RIBA Quarterly Economics Report

The Architectural Market
Winter | 2022



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Introduction

This economic report brings together information from a range of primary sources. It aims to help practices place their work within the wider economic context.

The months leading up to this report have seen rising inflation, and political and economic uncertainty. A broad consensus has emerged that the UK is heading for (or has entered) a long but shallow recession. The data and forecasts given in this report support this.

Typically the architects' market, along with the construction industry, do better than the wider economy in times of growth, and worse in times of contraction.

There will be difficult times ahead for some practices, but also opportunities for adaptation, innovation and growth.

The RIBA is here to offer help and advice where it can. The RIBA [Business Resilience Roadmap](#) and regular [Professional Features](#) provide helpful information on navigating potentially difficult times.

RIBA Future Trends Index now
stands at

-21

The UK Economy

UK Gross Domestic Product

The likelihood of the UK entering an extended period of recession in late 2022 or early 2023 has increased since our last report.

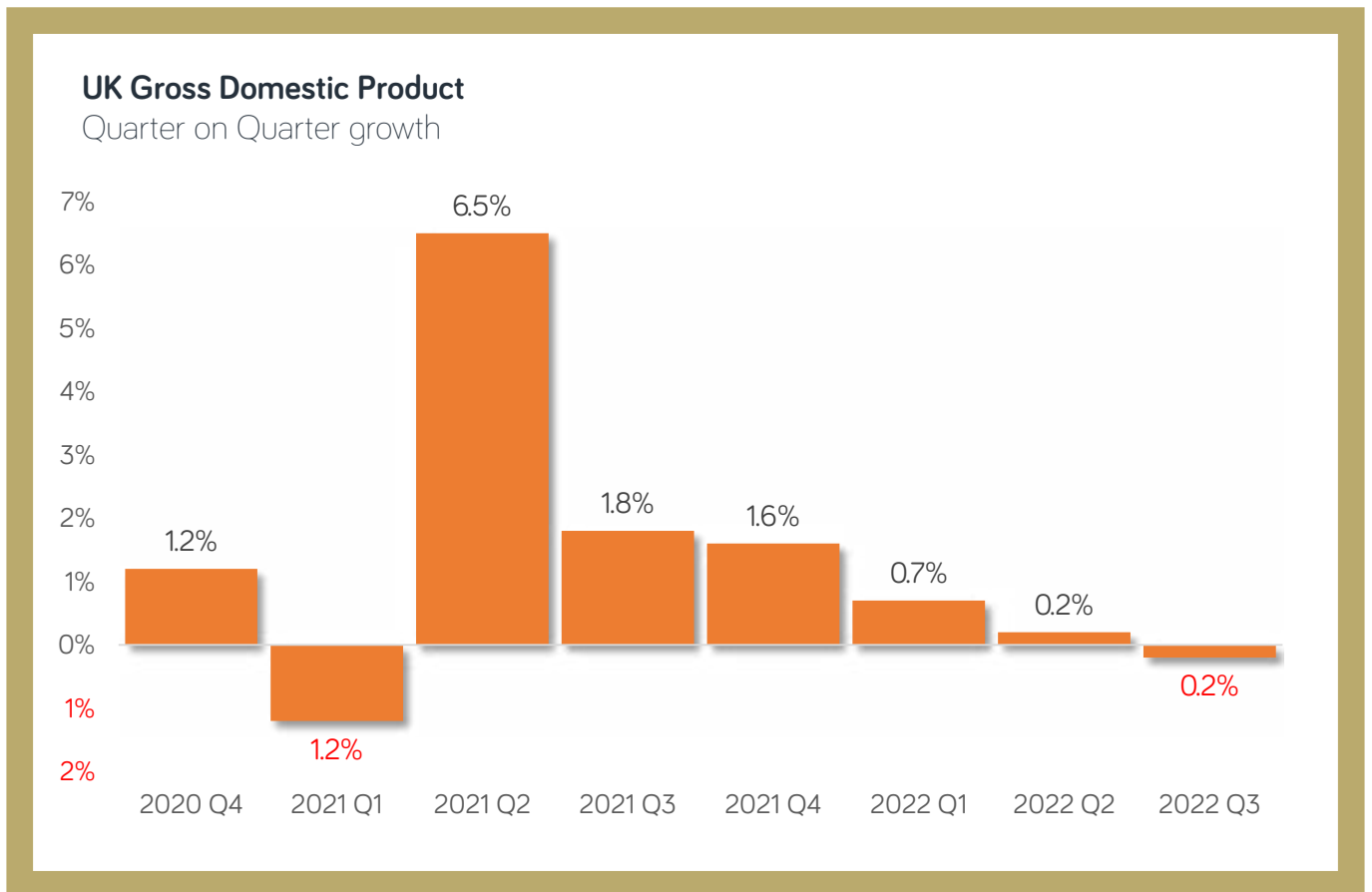
Inflation is very high. Consumer Inflation stood at 9.6% in October. This high inflation is partly due to what's happening abroad, most notably the war in Ukraine. But home-made factors play a part too, including the effects of our leaving the EU.

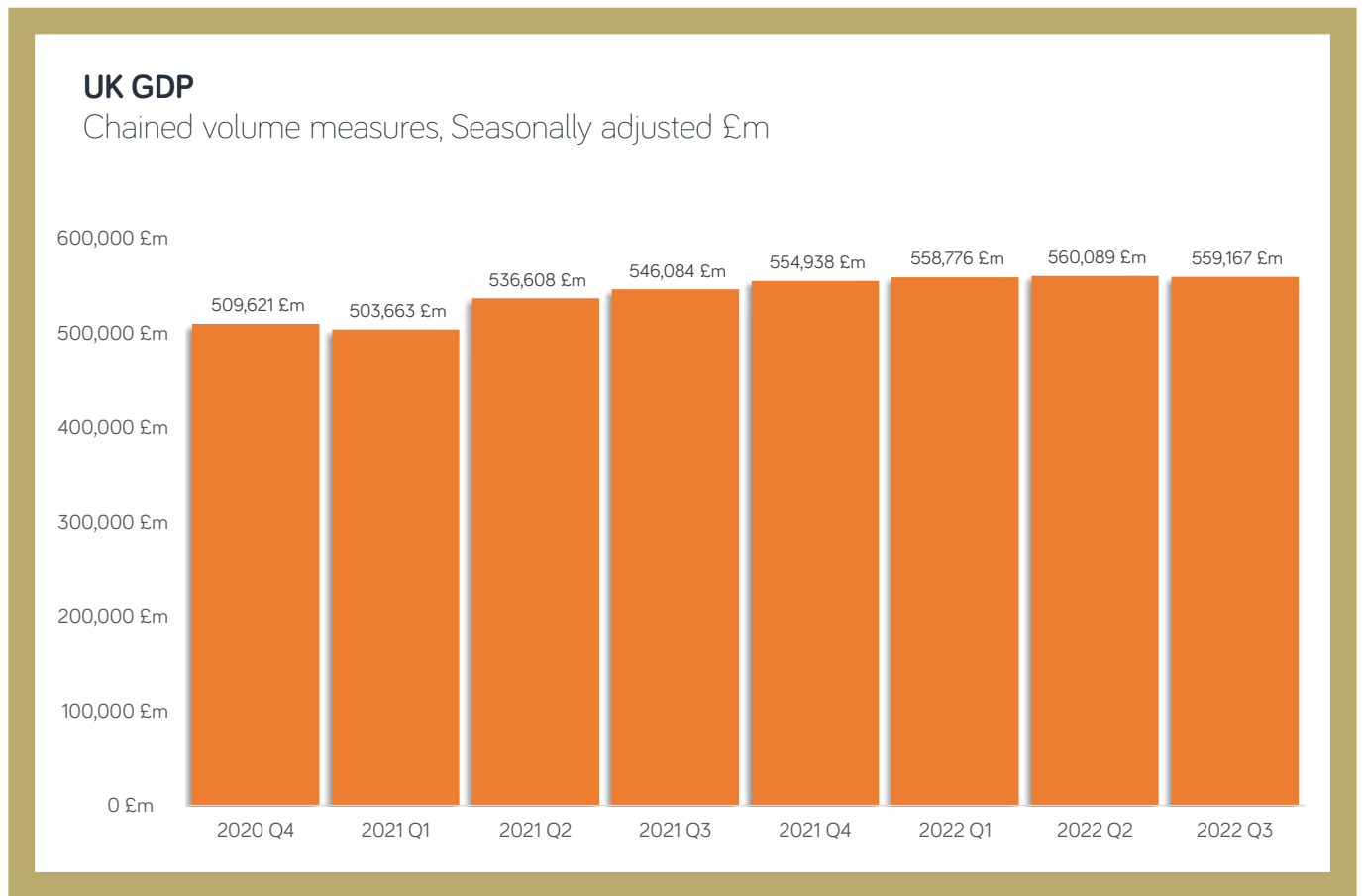
Now acting together, the UK Government and the Bank of England aim to reduce inflation. The Bank of England is doing this by reducing money supply (by increasing interest rates) while the UK Government is reducing its spending and

increasing taxation. Together these measures should reduce inflation. At the same time, by reducing the amount of money in the UK economy, a recession is likely. Looking at the quarter-on-quarter data, UK GDP growth has already been weakening for over a year. Early ONS estimates suggest a contraction in Q3 2022.

The coming two years are likely to be tough. But recovery will come.

Quarterly UK GDP Growth: Source ONS





UK Quarterly GDP Value, Source ONS

The Bank of England (BoE) forecast a recession that will have started by early 2023. It is forecast to be long-lasting but shallow, with the BoE suggesting the recession will last two years with the nadir being hit this time next year. It is a much milder recession than the financial crisis.

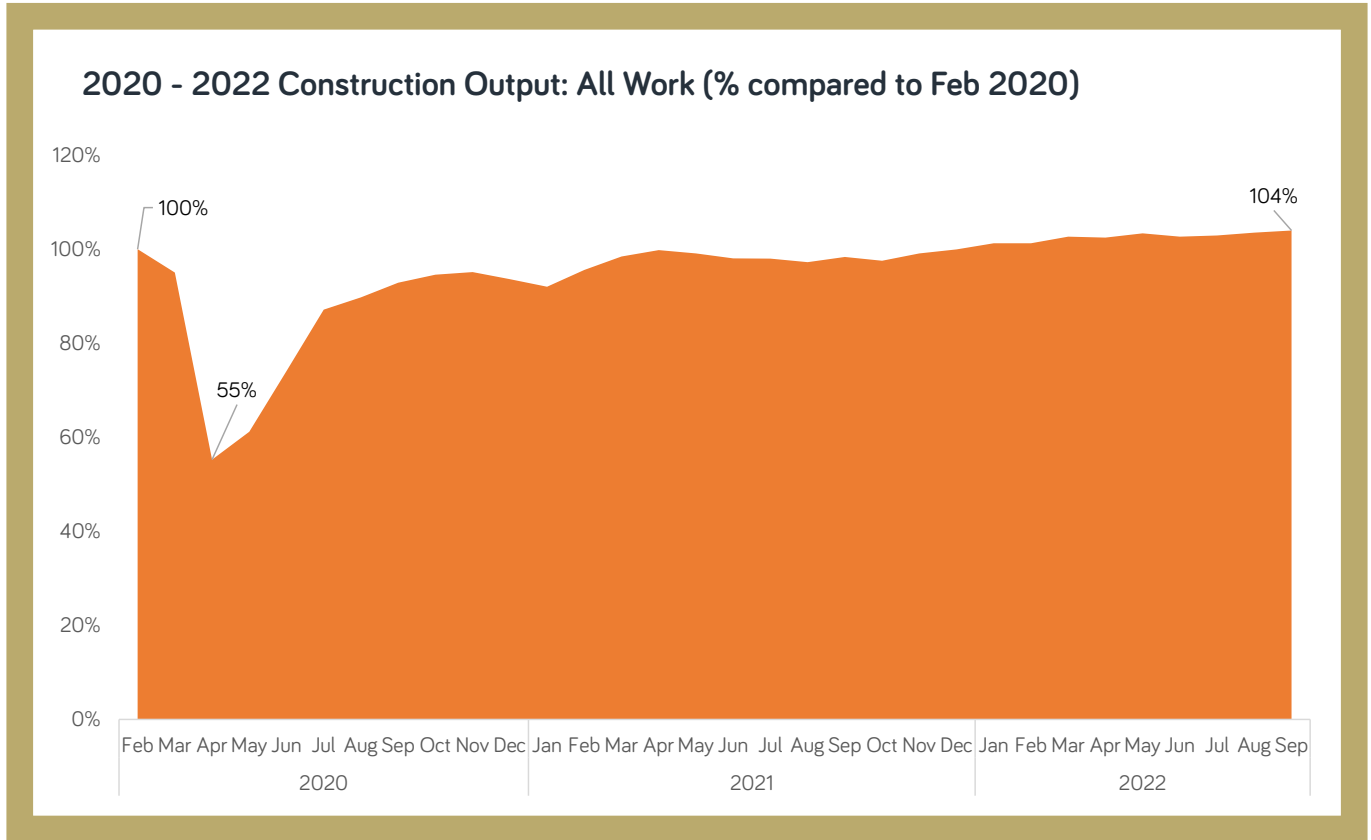
The BoE expect CPI inflation to peak at the end of this year, diminish quite rapidly through 2023, and then fall below the target 2 per cent rate in early 2024. Further interest rate rises will come if inflation persists.

Of course, all economic models and forecasts are uncertain just now. The UK's inflation and GDP will be affected by unpredictable world events, such as the course of the war in Ukraine, and how successfully China emerges from its prolonged lockdown.

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

- 0.2%** in the year to Q4 2022
- 2.0%** in the year to Q4 2023
- 0.1%** in the year to Q4 2024
- 0.7%** in the year to Q4 2025

Construction Output



Percentage Change in Construction Output, source ONS

For now, construction output is strong. September 2022 posted the highest level of construction output (£15,125 million) since records began in January 2010.

The value of construction output in September 2022 was 4.0 per cent (£575 million) above the February 2020 pre-coronavirus pandemic level. Monthly construction output increased by 0.4 per cent in September 2022.

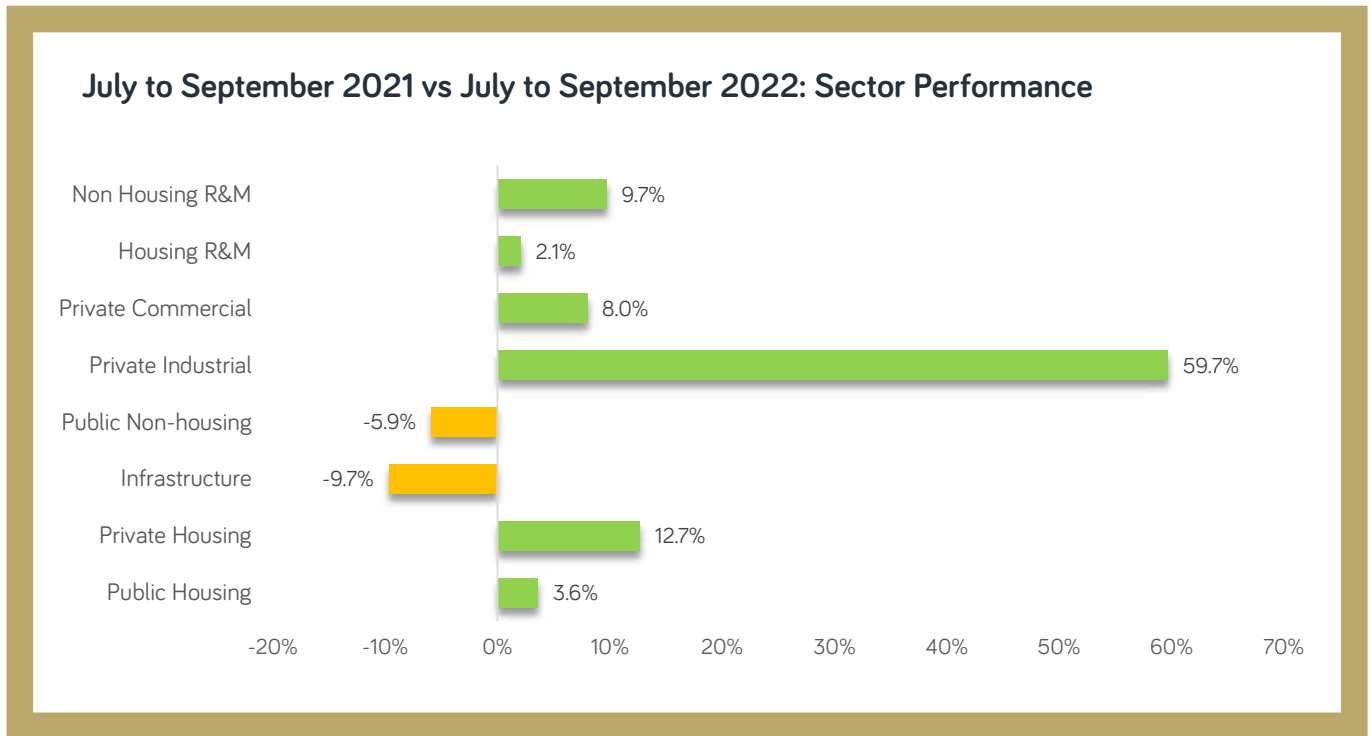
Construction new orders increased 6.4 per cent (£774 million) in Quarter 3 2022 compared with Quarter 2 (Apr to June) 2022.

The construction sector has seen sharp increases in the cost of construction products and materials. These cost challenges remain but are easing. The annual rate of construction output price inflation was 10.1 per cent in September 2022, but this is below the peak of 11.5 per cent in May 2022.

Total construction output in September 2022

4.0%

higher than in Feb 2020



Construction Output by Sector, source ONS

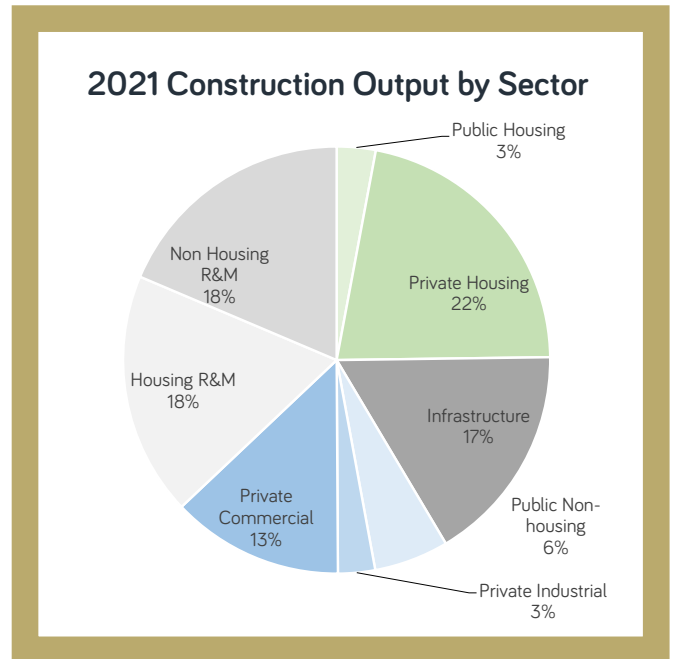
Comparing July to September 2021 with the same period in 2022, there is a noticeable difference between sectoral performance, with the Infrastructure sector performing least well, and Private Industrial performing the best.

The Housing sector is likely to come under pressure, as interest rates increase, house prices fall, consumer spending power diminishes, and the Government rows back on its new-build targets. The lockdown fuelled race-for-space that saw high spending on small-scale domestic work seems to have run its course.

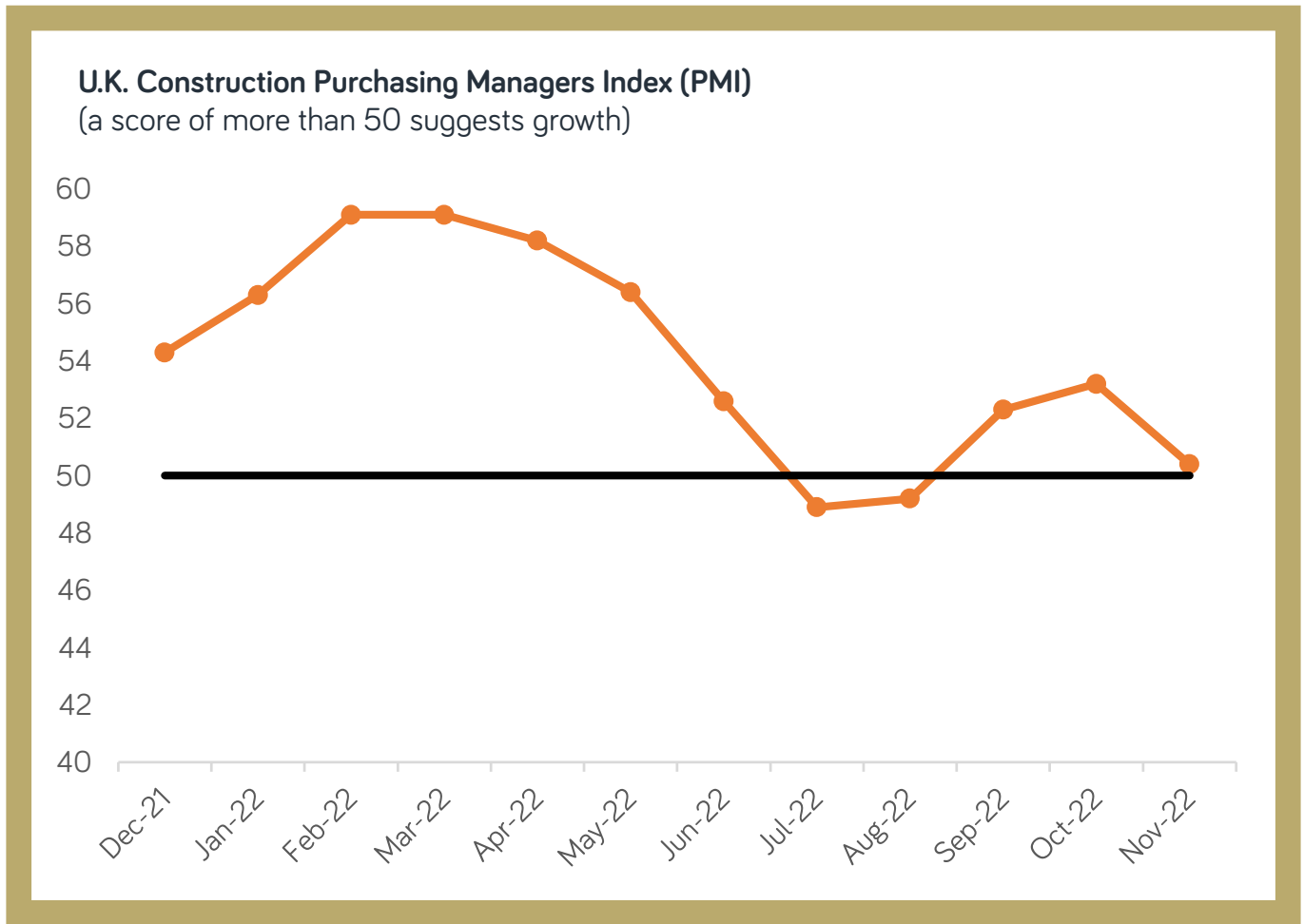
The consumer-facing Retail and Entertainment sectors may also suffer from people’s increasingly diminished disposable income.

As in our previous report, the Private Industrial sector, though a relatively small sector for architects, looks set to continue to grow. As traditional retail continues to decline, the warehouses and distribution centres that support online retail to grow. These large, sophisticated, and flexible spaces increasingly lend themselves to design-led solutions to optimise throughput, space utilisation, and worker well-being.

Other sectors of potential growth include the Higher Education sector, as student numbers continue to grow, and Hospitals, as the capacity crisis is addressed, whether by private or public hospital build.



Construction Output, Sector Contribution, source ONS



Construction PMI, source IHS Markit

Confidence in the Construction Industry

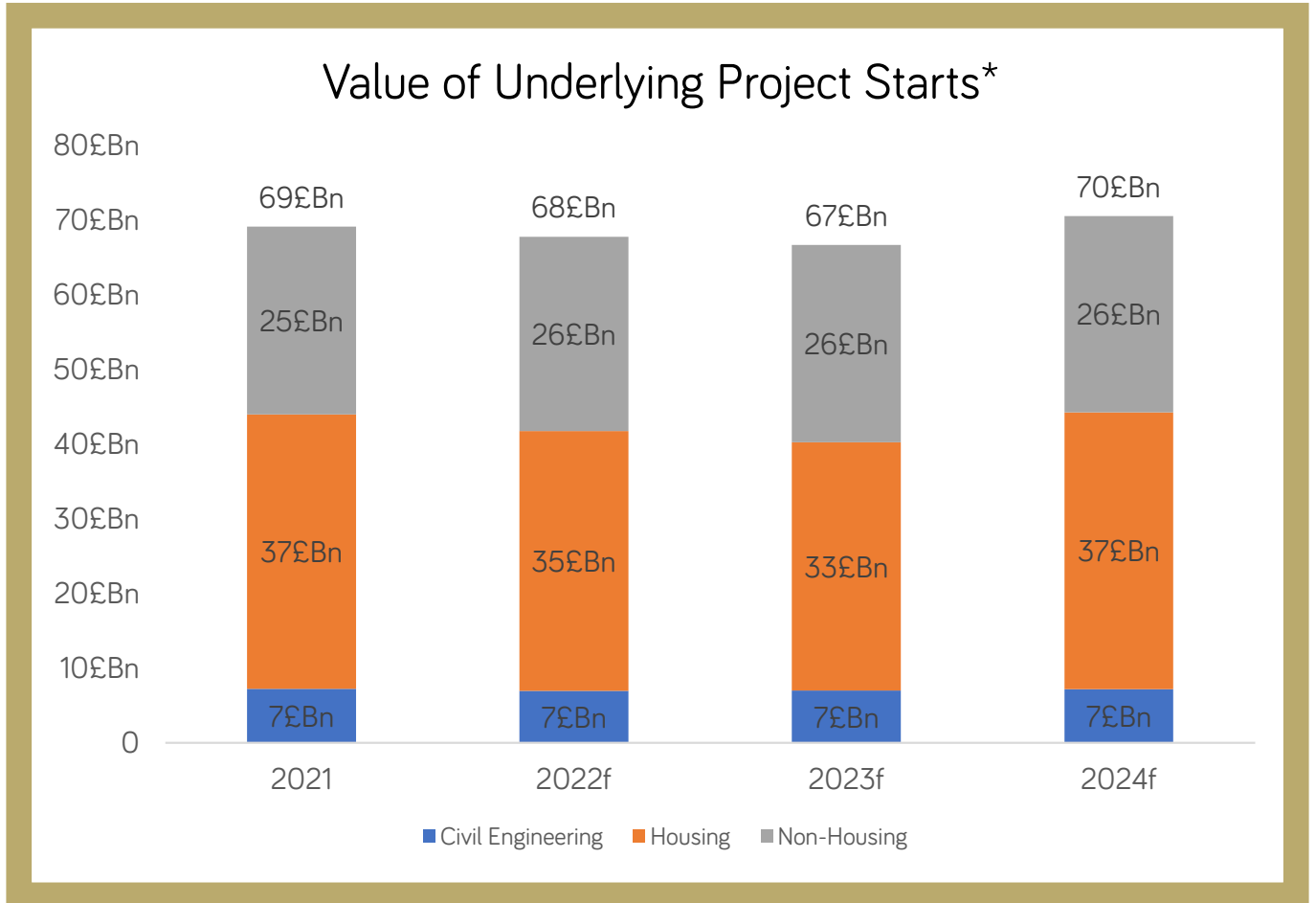
A construction sector with increasing activity provides more architects' commissions, whilst falling activity suggests architects' workloads may face downward pressure

IHS-Markit monitors activity in the UK construction sector through its 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 November 2022 PMI Index was above the 500 no-change mark for the third month running, with a balance score of 50.4. However, the index was down from 53.2 in October, and was the weakest figure since August. Only the commercial sector showed an overall rise in business activity.

IHS-Markit notes that "UK construction companies signalled a renewed slowdown in business activity growth during November, reflecting subdued demand and reduced risk appetite among clients".

Project Starts: Future Projections



Construction Project Starts*: source Glenigan
 *(projects under £100M)

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

High levels of uncertainty remain, so projections about the sector may be subject to significant revisions. Glenigan has downgraded its forecast for 2023 to 2024.

Glenigan expects the 2 per cent contraction in starts in 2022, to be followed by a further 2 per cent fall in 2023, with 2024 seeing a return to year-on-year growth of 6 per cent.

The picture is mixed for key architects' sectors. Private Housing is expected to have fallen by 4 per cent in 2022, fall again (by 5 per cent) in 2023 and then recover strongly with 15 per cent growth in 2024. New Office starts are expected to be on the up in 2023 (by 5 per cent) but fall back by 3 per cent in 2024. The Education sector may grow over the next two years, with Glenigan forecasting a 13 per cent rise in starts in 2023, followed by a further 5 per cent increase in 2024.

Value of starts in 2023:

-2%

Glenigan

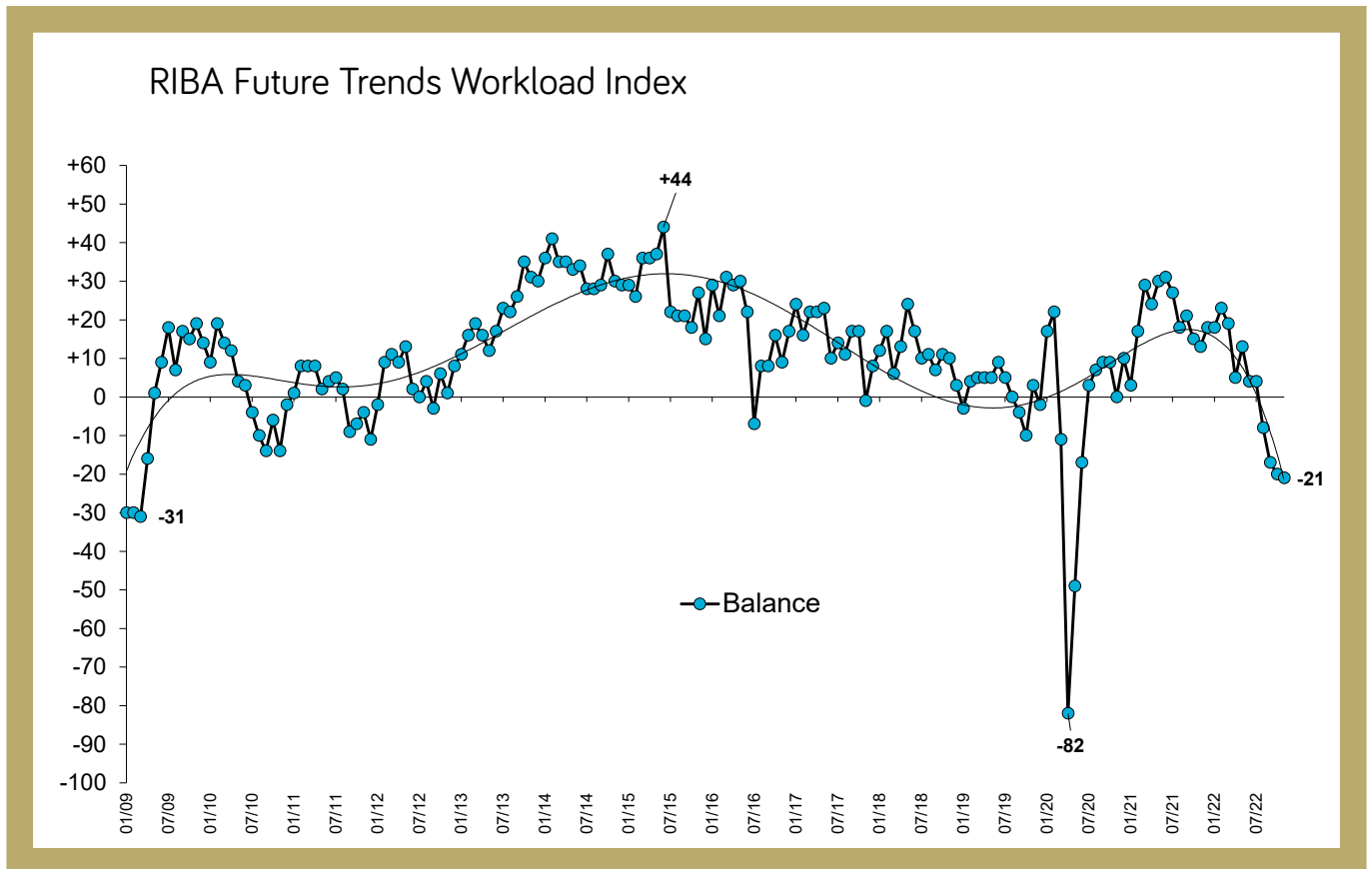
Architectural Workload

RIBA Future Workload Index*

The fourth quarter of 2022 has seen further deterioration of architects' confidence about future workload. The RIBA Workload Index started 2022 with a balance figure of +18 but now stands at -21. Excluding the first lockdown, this is the lowest balance score since 2009. In the last 12 months, the Index has fallen by 39 balance points.

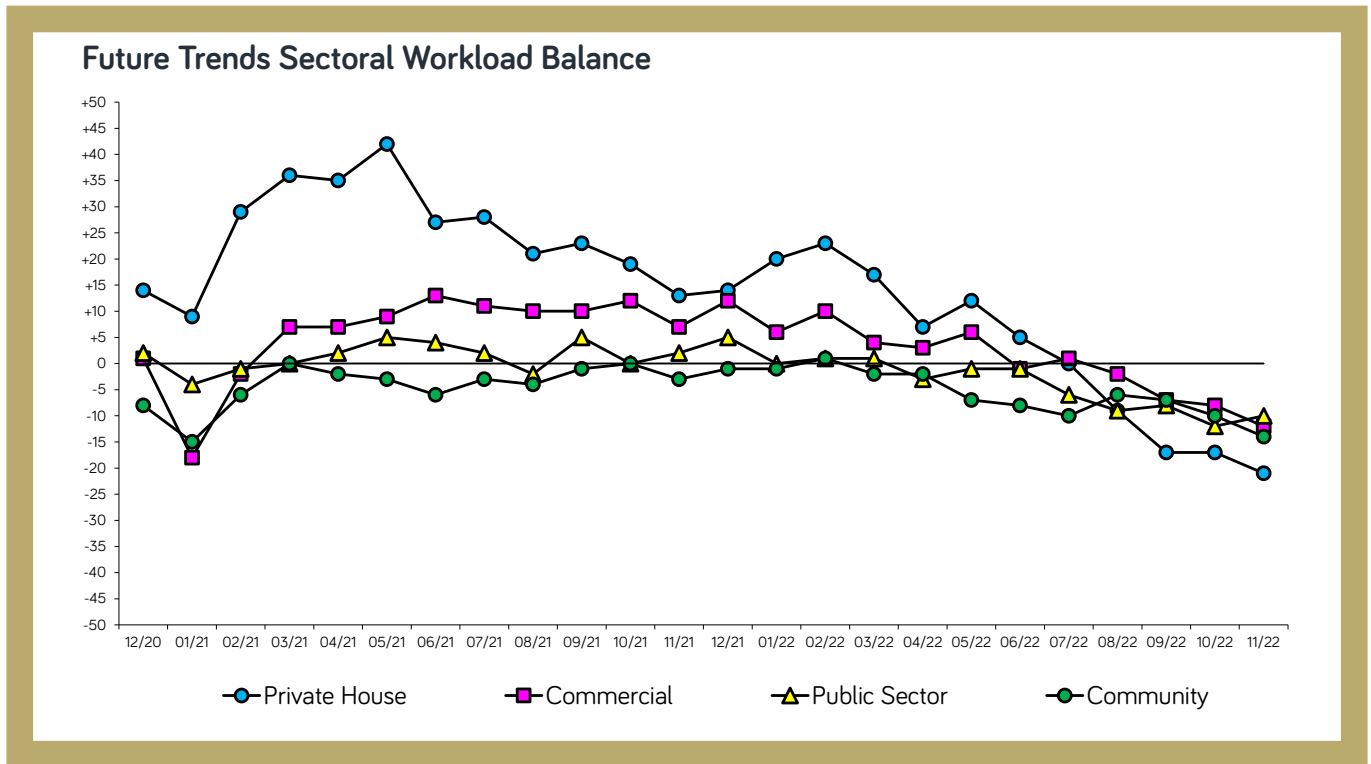
All regions are becoming more pessimistic about future work, and all are now in negative territory. Small practices are more pessimistic about future workload than medium and large practices, although confidence is deteriorating across the board.

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 work sectors monitored through RIBA Future Trends saw an overall weakening. Q4 2022 has seen all of the four monitored sectors fall into negative territory, suggesting an upcoming contraction in all broad categories of work.

The **Private Housing Sector** has seen the most dramatic fall. The sector hit an all-time high with a workload Index score of +42 in May 2021 but now stands at -21. This reflects pressures on the sector, particularly for small-scale domestic work as consumers cut back inessential spending in the face of the cost of living crisis, increased mortgage rates, and rising project costs.

Workload predictions for the **Public Sector** remain subdued. Starting the year with a balance score of zero and deteriorating to -10 towards the end of the year, there is little sign that announced government spending on capital projects is translating into architects' expectations for increased work.

The **Commercial Sector**, which includes retail, offices and entertainment sub-sectors, currently stands at a balance figure of -12, declining 18 points since the start of 2022. The consumer-facing entertainment and retail sectors are likely to come under renewed pressure as we move through the recession, with discretionary spending reduced for most people. The future of our offices remains somewhat uncertain, as businesses continue to adopt hybrid working models, lessening demand. However, demand for high-quality, energy-efficient offices that are attractive to workers may drive office refurbishment activity.

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 and currently stands at -14.