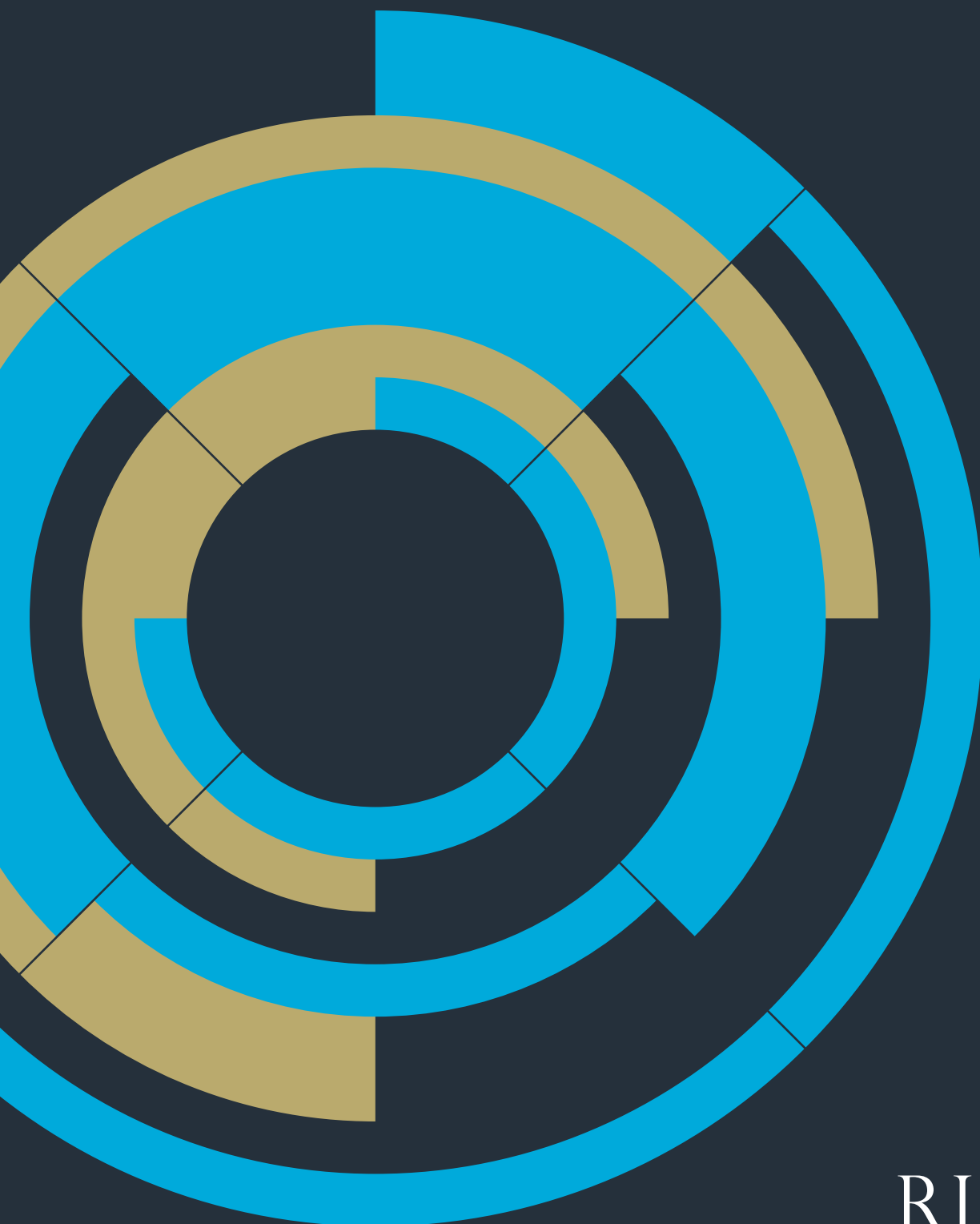


RIBA Quarterly Economics Report

The Architectural Market

Winter | 2023



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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 a broader economic context.

The UK economy is weak with high but falling inflation. Interest rates have risen and are likely to stay high, at least in the short term. UK GDP growth has stalled and is forecast to be weak until 2025, at the earliest.

Forecasts for the construction industry suggest that we have been through a significant contraction this year, but that there will be a return to modest growth in the New Year.

The Housing Sector has been performing poorly, as raised interest rates and reduced mortgage affordability have eroded the market. This continues to adversely affect architects, especially those in smaller practices.

Nevertheless, as the RIBA Benchmarking 2023 report shows, the profession remains resilient.

RIBA is always here to offer help and advice where it can. RIBA [Business and Career Resilience Hub](#) and regular [Professional Features](#) provide helpful information on navigating challenging times.

RIBA Future Trends Workload
Index now stands at

-6

The UK Economy

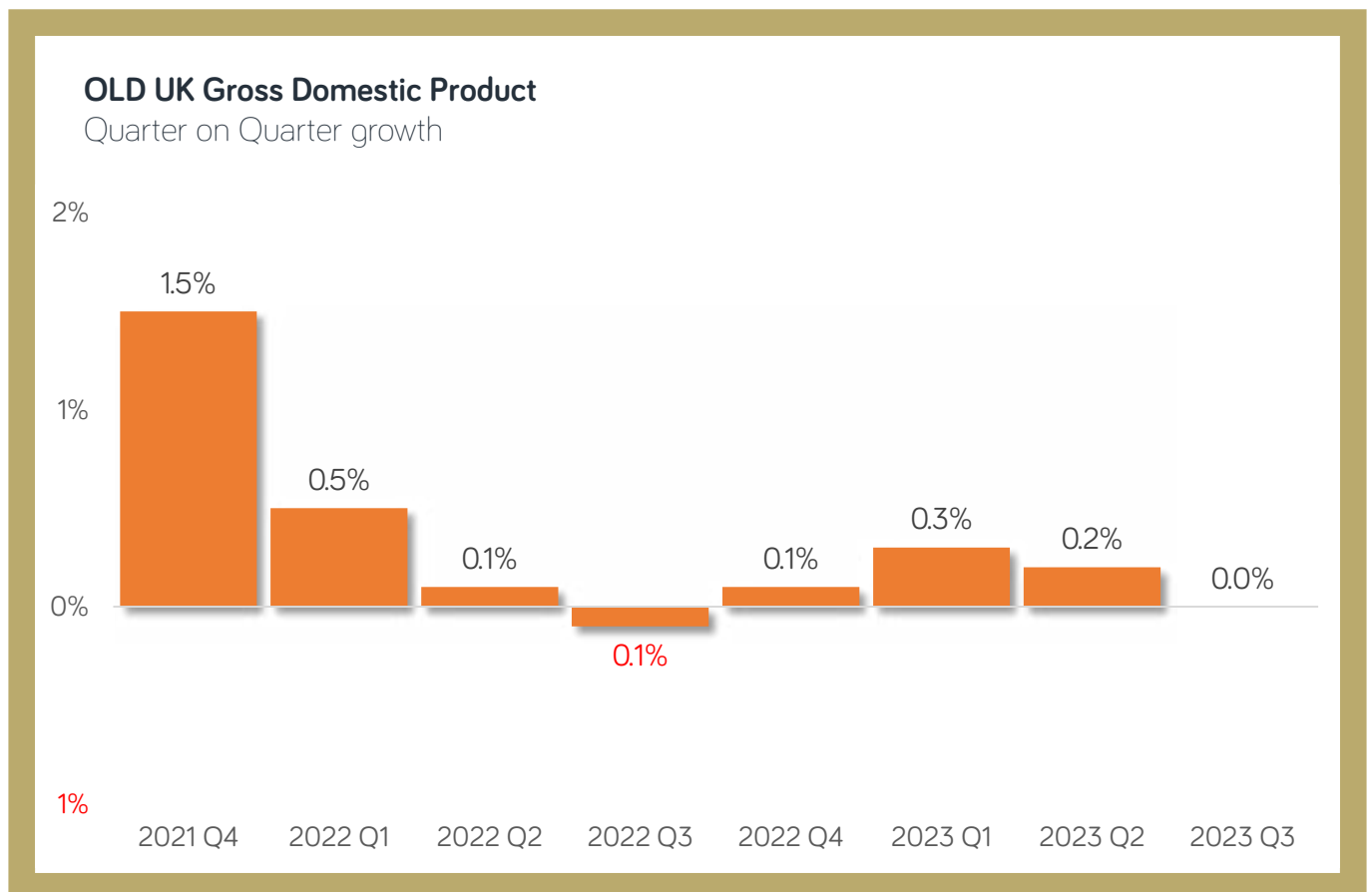
UK Gross Domestic Product

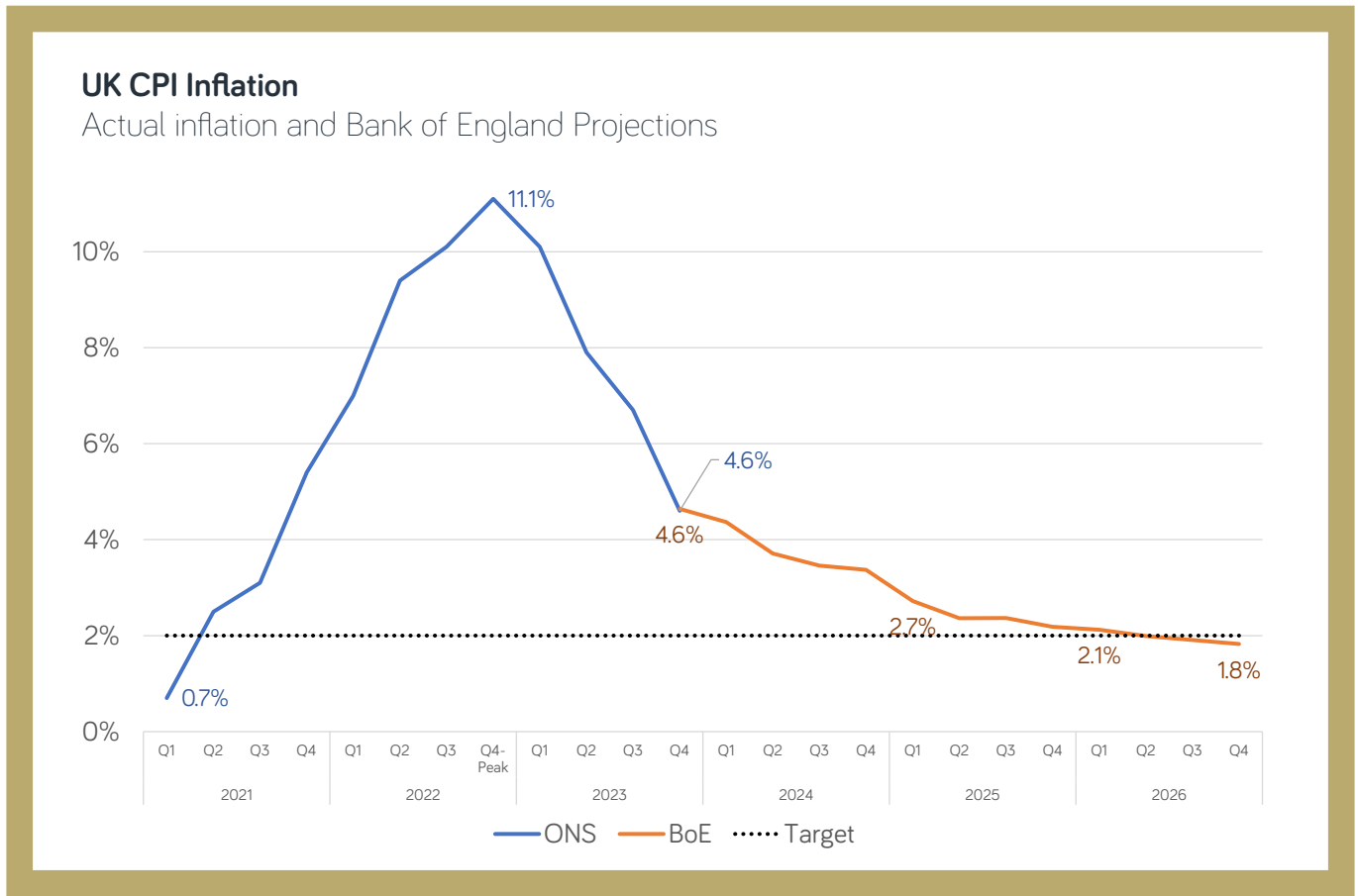
The UK economy is stagnant. Gross Domestic Product has stalled, with no growth in output in Q3 2023, when compared to Q2. The most recent monthly estimate of GDP suggests the economy contracted by 0.3% in October.

In the last six quarters (to Q3 2023) UK GDP has, on average, grown by just 0.1% per quarter, and overall by just over 0.5%. By historical (or international) standards, this is a low level of growth. Raised interest rates are dampening dampen economic activity.

This sluggish growth is expected to continue, with pessimistic outlooks given by both the Bank of England (see below) and the International Monetary Fund. A recession remains a possibility, but low growth, rather than persistent contraction, remains more likely.

On the upside, the latest (November) PMI survey on UK business activity suggests a stabilisation of private sector output, with the PMI Composite Index, at 50.1, above the 50 'no change' level for the first time since July.





UK Quarterly CPI: Source ONS and Bank of England

The rate of Consumer Price Inflation (CPI) is falling faster than expected. In the 12 months to October, CPI rose by 4.6%, down from 6.7% in September. It is well below its recent peak of 11.1% in October 2022 (which ONS suggest was the highest annual inflation rate since 1981).

Nevertheless, CPI remains significantly above the Bank of England's (BoE) 2% target. The BoE does not expect inflation to return to the 2% target until the first half of 2026.

Although inflation is falling, we are unlikely to see mediate further increases in interest rates, however. The Bank of England have stated:

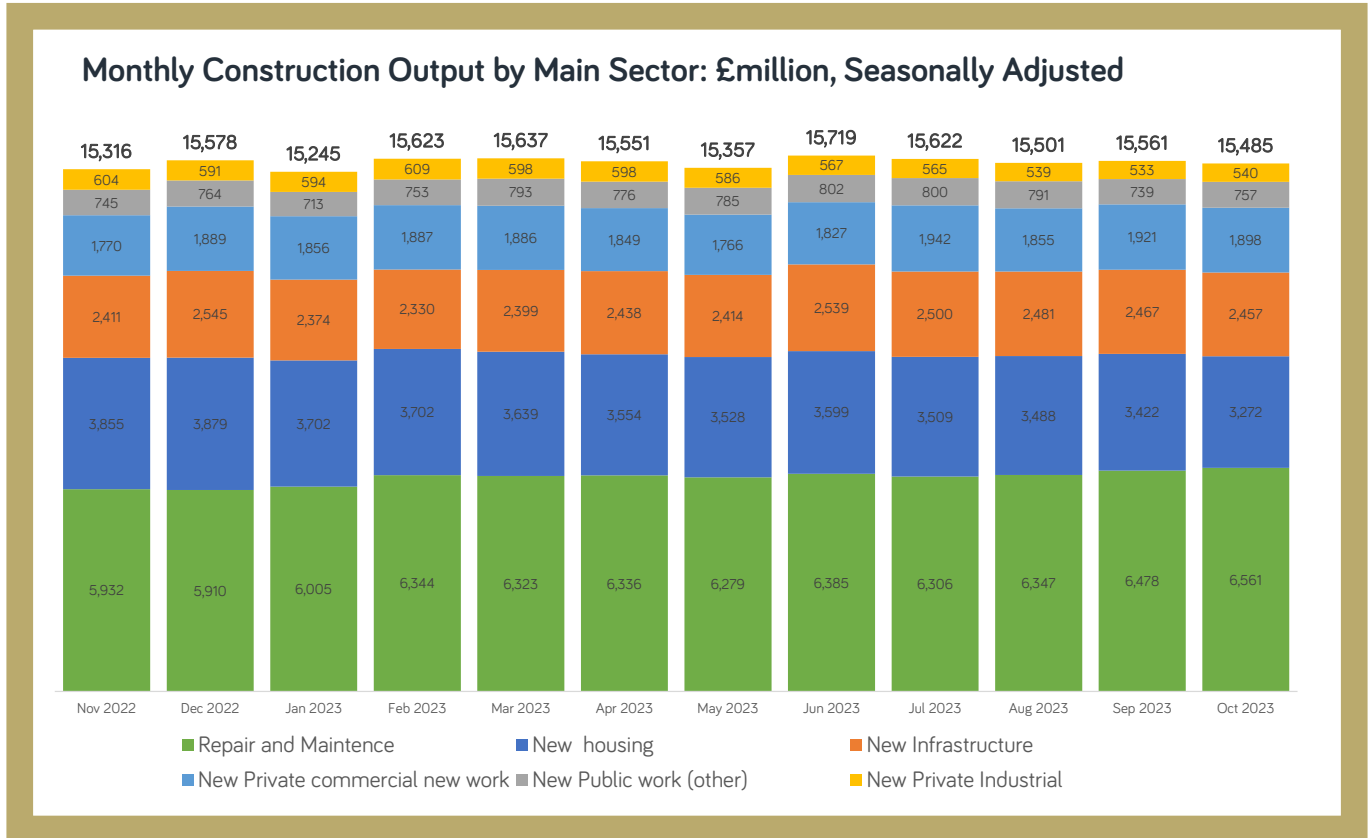
"We need to get inflation all the way back to 2%, and we are likely to need to keep interest rates higher for a while longer to do that."

Looking at their last full forecast (in November), BoE noted that while the economy has avoided a recession, growth forecasts are extremely weak, with no growth anticipated in 2024, less than 1% growth in 2025, and just over 1% growth in 2026.

The Bank of England's central forecast for UK GDP growth from 2023 to 2026 is:

- 0.6%** in the year to Q4 2023
- 0.0%** in the year to Q4 2024
- 0.4%** in the year to Q4 2025
- 1.1%** in the year to Q4 2026

Construction Output



Monthly Construction Output, source ONS

In their latest release of Construction Industry Output data (December 2023), the Office of National Statistics (ONS) describe a contracting sector.

ONS estimate that Construction Output decreased by 0.3% in the three months to October 2023, and monthly construction output fell by 0.5% in October (although October’s figure may have been affected by that month’s storms).

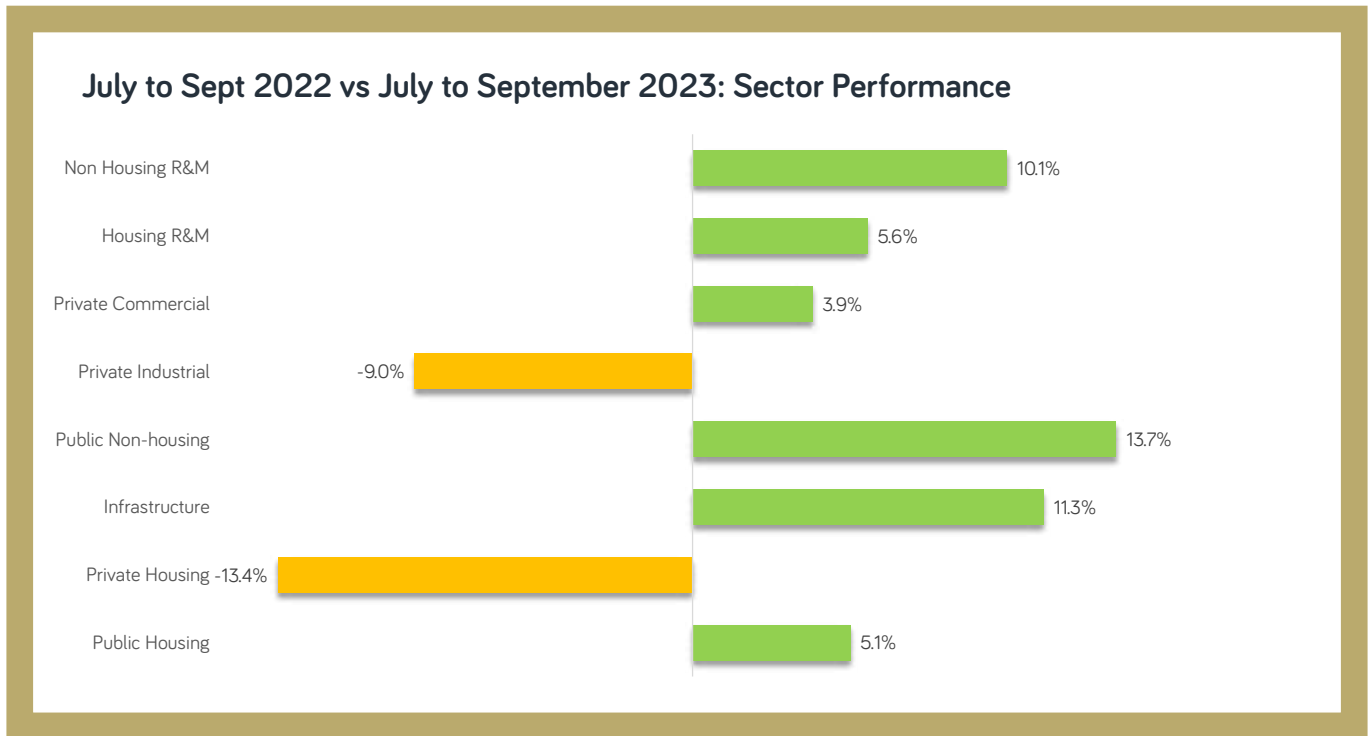
These decreases are due to falls in New Work. Work in Repair, Maintenance, and Improvement has grown. The poorest performing sectors in October were private new housing and new private commercial, which decreased by 5.2% and 1.2%, respectively; both sectors are important to the architects’ profession.

The ONS has also reported on construction material costs. The Construction Material Price Indices suggest that, overall, the price of construction materials has fallen by 2.1% in the year to October. This contrasts with the very rapid material cost increases of 2021 and the first half of 2022, which made project costs unstable and unpredictable.

Construction output in the 3 months to October 2023

0.3%

lower than the months to July 2023



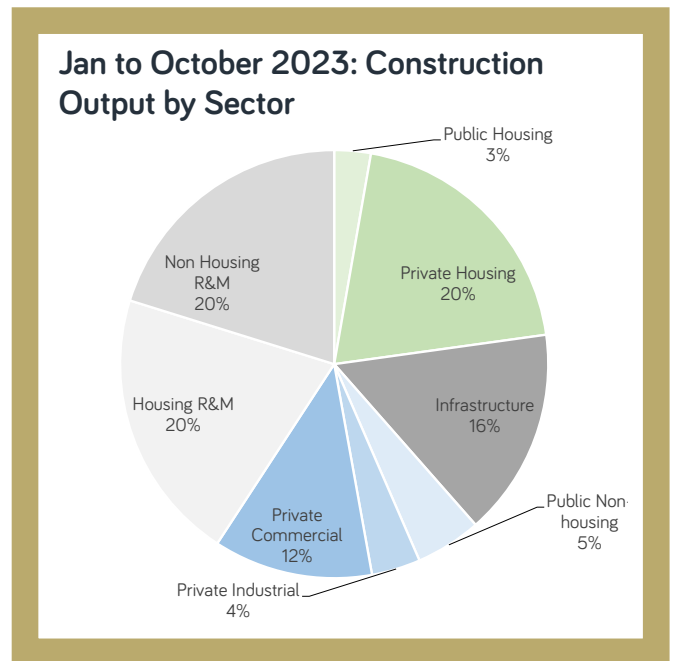
Construction Output by Sector, source ONS

Looking more closely at the data by sector, comparing July to October 2022 with the same period in 2023, public non-housing has been the best-performing sector, with growth of 13.7%. This sector includes schools, universities and hospitals. The Repair and Maintenance (R&M) sectors have also seen growth, with non-housing R&M growing by 10.1%, and housing R&M by 5.6%.

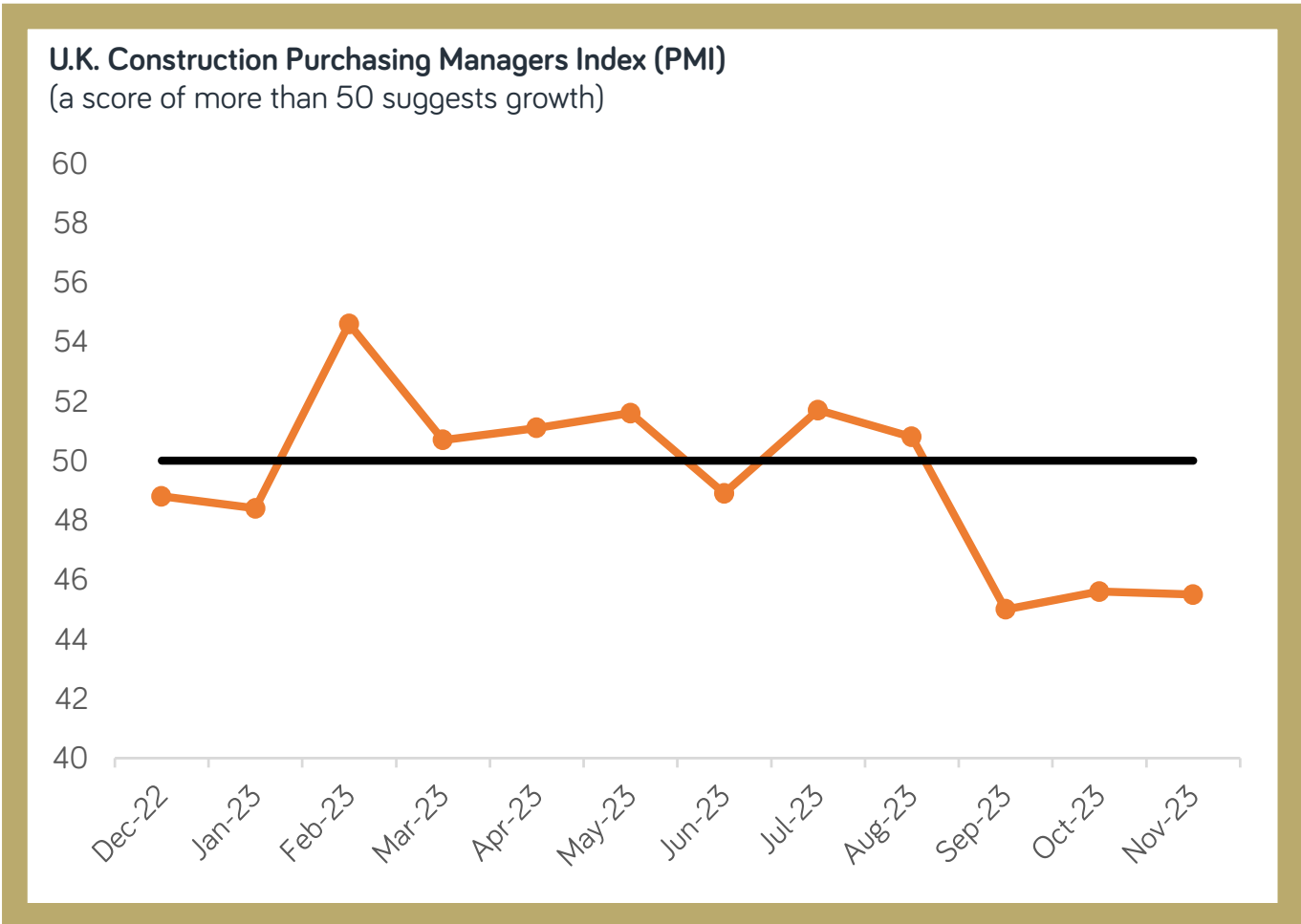
Private Housing now accounts for over a third of RIBA Chartered Practice revenue, and a majority of revenue for practices with 10 or fewer staff. Again, this sector has seen the sharpest decline, with output falling by 13.4% when comparing July to September 2022 to July to September 2023, and by 2.4% when compared to Q2 2023.

Looking at the overall mix of the construction sector from January to July 2023, private housing makes up around a fifth of the total value, as do both housing and non-housing R&M. The percentage share of private housing has fallen from 22% in 2022 to 20% for Jan to October 2023.

Infrastructure (16%) and Private Commercial (12%) are the other two large sectors.



Construction Output, Sector Contribution, source ONS



Construction PMI, source S&P Global / CIPS

Confidence in the Construction Industry

S&P Global / CIPS 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 2023 PMI Index was below the 50.0 no-change level for the third successive month, with a balance score of 45.5 in November, down marginally from October’s 45.6. The PMI score for housing stood at 39.2, and was the weakest-performing sector; the fall in residential building continues, as increased borrowing costs and lowered demand weigh on the sector.

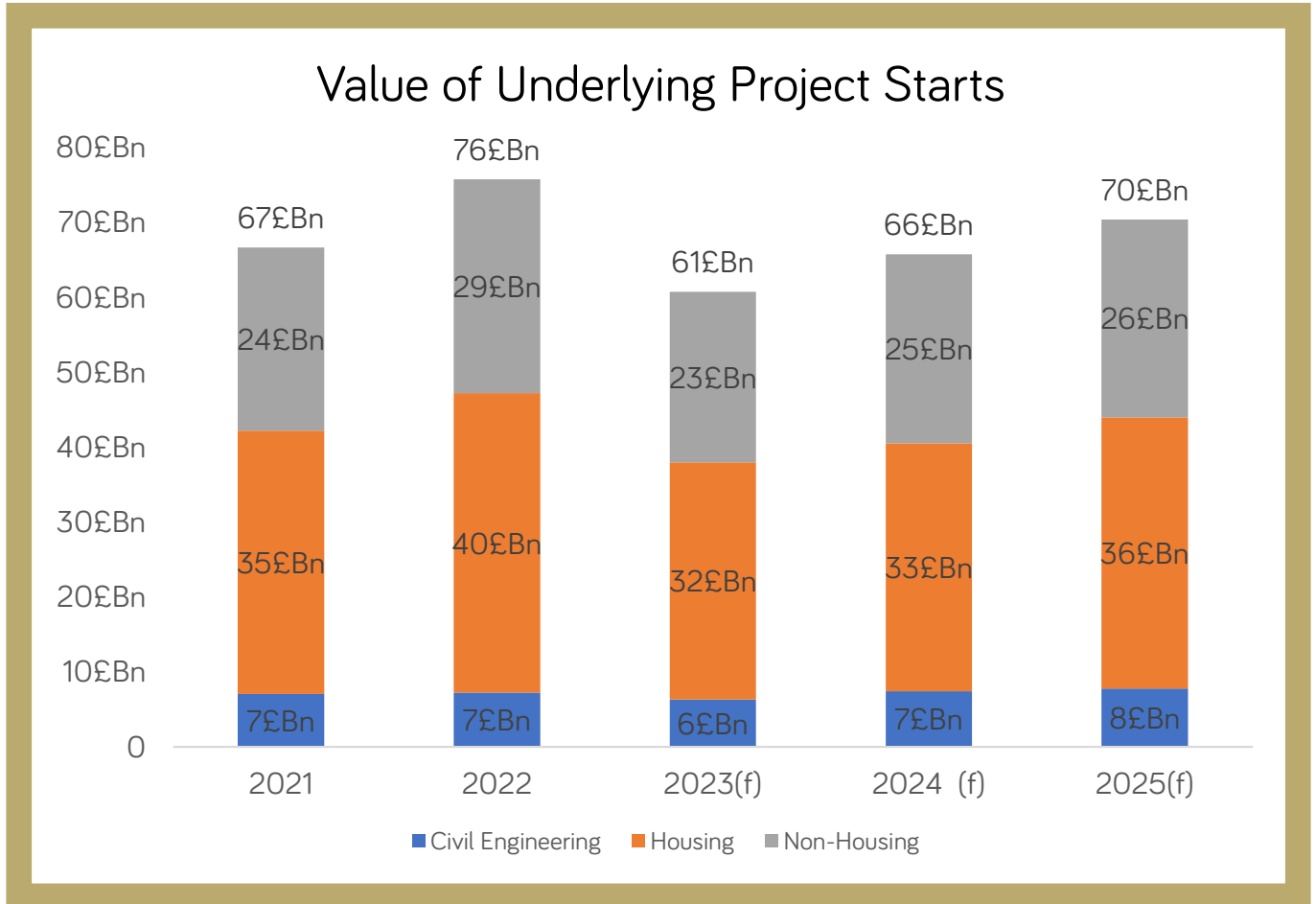
The Commercial sector, although negative, is showing greater resilience, with a PMI score of 48.1, although activity in this sector has now decreased for three successive months.

In line with the ONS material cost data, the PMI survey reports a rapid decline in the cost of construction input costs.

‘A slump in house building has cast a long shadow over the UK construction sector and there were signs of weakness spreading to civil engineering and commercial work during November.

Residential construction activity has now decreased in each of the past 12 months and the latest reduction was still among the fastest seen since the global financial crisis in 2009’

Construction Output: Future Projections



Construction Output: source Glenigan

Glenigan’s Construction Industry Forecast 2024-2025 provides a detailed view of the performance of the construction industry based on the value of project starts (under £100 million). Their forecasts give an earlier indication of construction activity than output-based measures.

Glenigan describes our having had a very difficult 2023, particularly for the Housing Sector, with an expected 20% decline in the overall value of projects starting in 2023 (when compared to 2022), and a 23% decline in the value of private housing projects.

2024 is expected to see the market improve, however, as private housing starts gradually recover (by 4% in 2024), The Commercial sector is also set to recover as increased consumer spending lifts the hotel & leisure sector (6% growth), the office sector (6%), and retail (9%), which has seen significant falls over the last few years.

Value of Underlying Project-Starts in 2024

+8%

Glenigan

Architectural Workload

RIBA Future Workload Index*

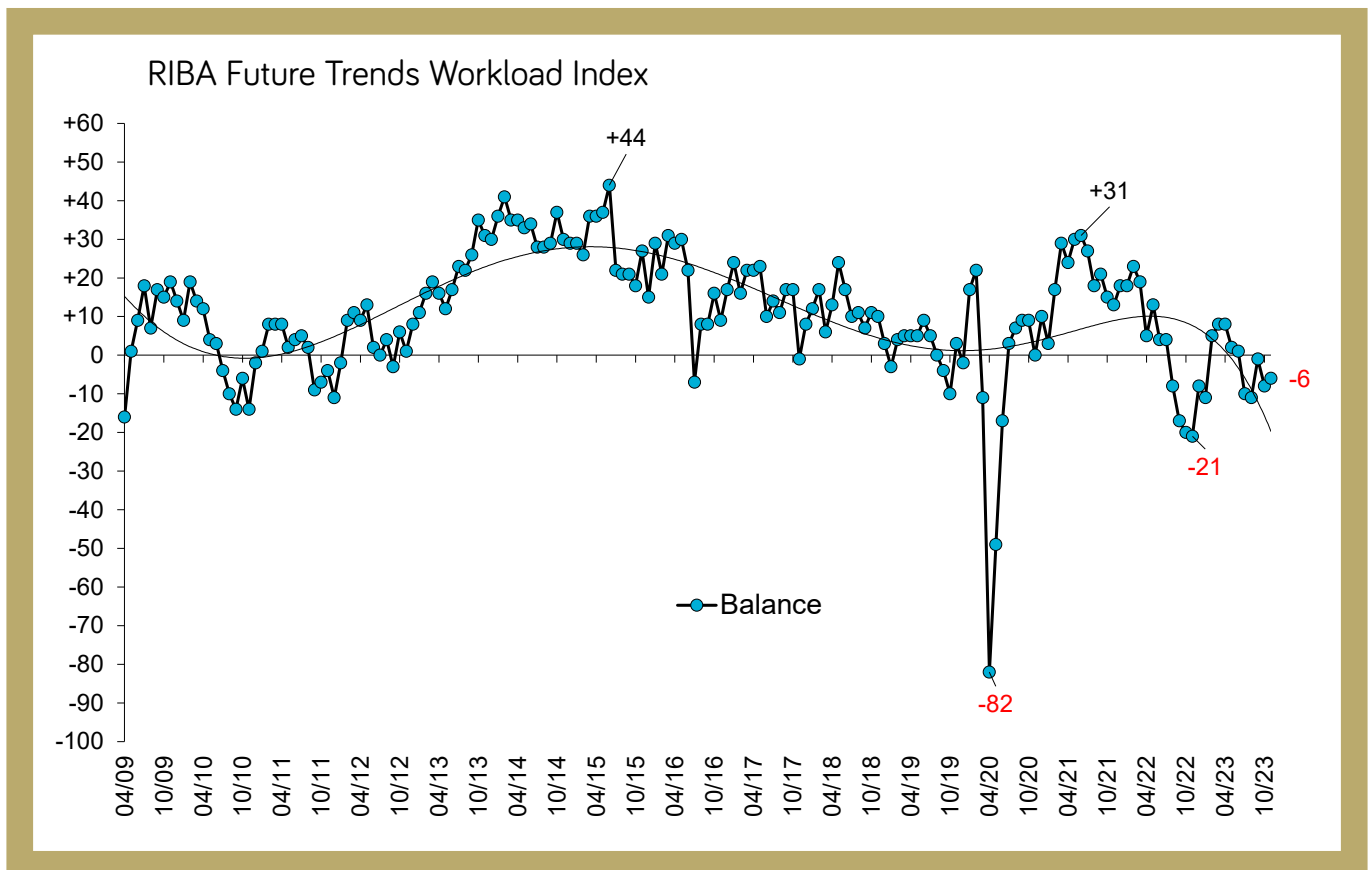
The fourth quarter of 2023 has seen architects remain pessimistic about coming workloads, with October and November both returning negative RIBA Future Trends Workload Index figures. The Index now stands at -6, with a negative figure indicating an overall expectation of workload contraction in the coming three months.

This expectation of reduced workloads has been most pronounced for the housing sector, and for smaller practices, for whom housing commissions are especially important. Medium and Large practices have remained optimistic about near-term workload prospects, however.

Practices have continued to highlight a range of ongoing challenges to the profession which are suppressing workloads and reducing practice profitability. These include increased project costs, protracted planning delays, fee competition, and the difficulties clients face in securing financing.

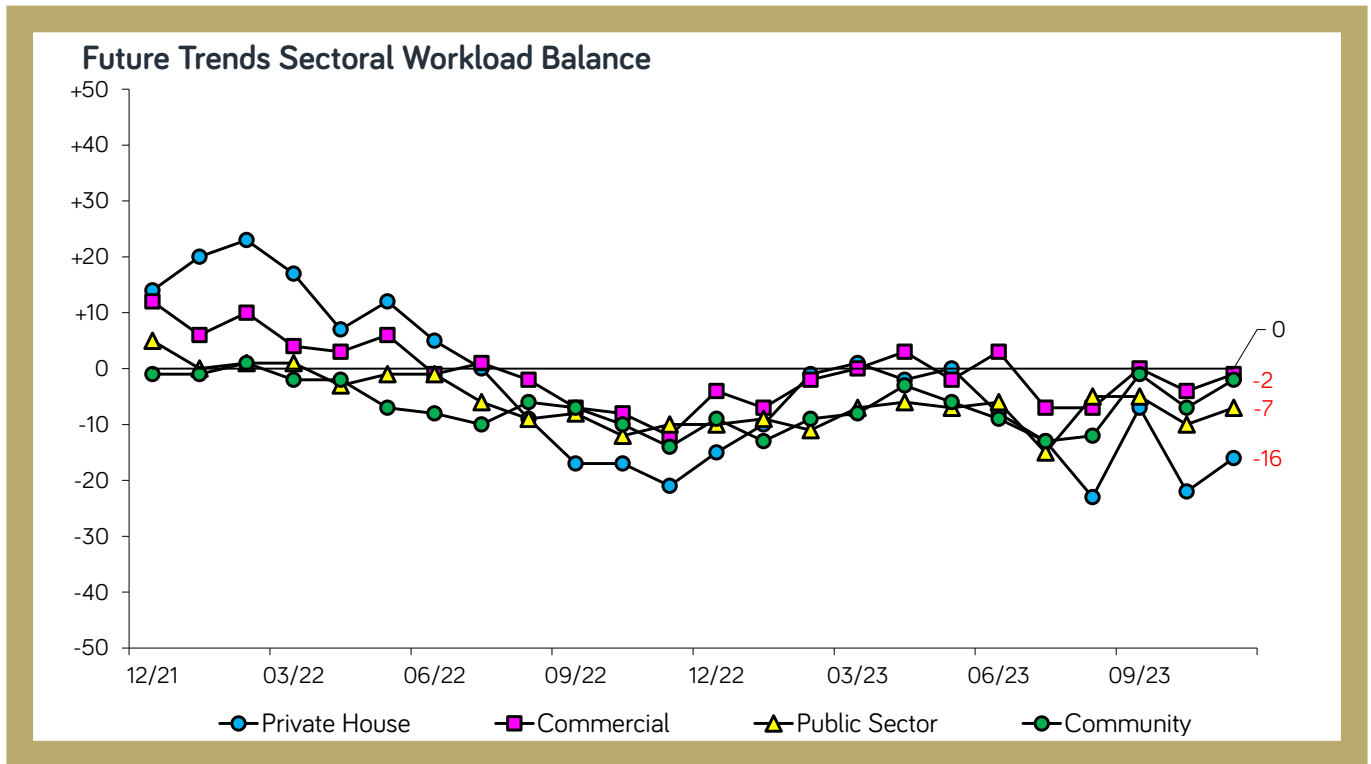
Practices and the wider industry are also adjusting to new regulation, such as the Building Safety Act and the 18m height threshold for second staircases.

The 2023 Future Trends reports can be seen [here](#).



*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

Looking in more detail at the four work sectors monitored through RIBA Future Trends, all remain negative, but all have slightly improved compared to last quarter.

The **Private Housing Sector** continues to be the worst-performing sector this quarter, with a Workload Index figure of -16 in November, and a negative balance score every month this quarter so far. November's Index figure shows a slight improvement when compared to October's, however. If the forecast modest 2024 recovery in the Housing Sector happens, we may begin to see an improvement in outlook, as new commissions increase.

Architects' assessment for future work in the **Commercial Sector** remains negative, having posted balance scores of -1 in November and -4 in October. It is, however, the sector with the least pessimistic outlook.

Workload predictions for the **Public Sector** remain weak at -7, with the sector Index having been negative for 20 months. The urgent need to upgrade our public estate remains. If there should be a new Government, there may be a review of the number, type and means of procuring public sector buildings.

The **Community Sector** includes work for not-for-profit organisations; work with churches, charities and trusts, for example. The workload index figure for this sector remains low and currently stands at -2.