RIBA Quarterly Economics Report

The Architectural Market

Autumn | 2024

RIBA

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Contents

Introduction

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

The UK economy continues to recover, but challenges remain.

Following the mild recession of last year, 2024 has seen relatively strong growth in the first two quarters, but recent data suggest that growth is stalling somewhat. Inflation has returned to around the 2% target rate and is expected to remain at around that level until at least 2027. Interest rates look to be on a downward trajectory, but how deep and how quickly cuts come remains uncertain.

The outlook for the construction sector is improving. While output growth in early 2024 has been sluggish at best, recovery is anticipated to gather pace towards the end of this year and into 2025 and 2026. Monthly surveys, including RIBA Future Trends and the Purchase Managers' Index, show growing optimism.

RIBA is always here to offer help and advice where it can. RIBA Business and Career Resilience Hub, the RIBA Practice in a Box, and regular Professional Features provide helpful information for practice resilience and success.

RIBA Future Trends Workload Index now stands at

+2

The UK Economy

UK Gross Domestic Product

The UK shows ongoing signs of recovery. Following the 2023 recession, the Office for National Statistics (ONS) estimates that the UK Gross Domestic Product (GDP) increased by 0.7% in quarter 1 (January to March) and by 0.6% in quarter 2 (April to June). However, in June and July the economy recorded no growth.

Comparing the three months to July with the three months to April, the overall economy grew by 0.5%, with growth in the service (0.6%) and construction (1.2%) sectors.

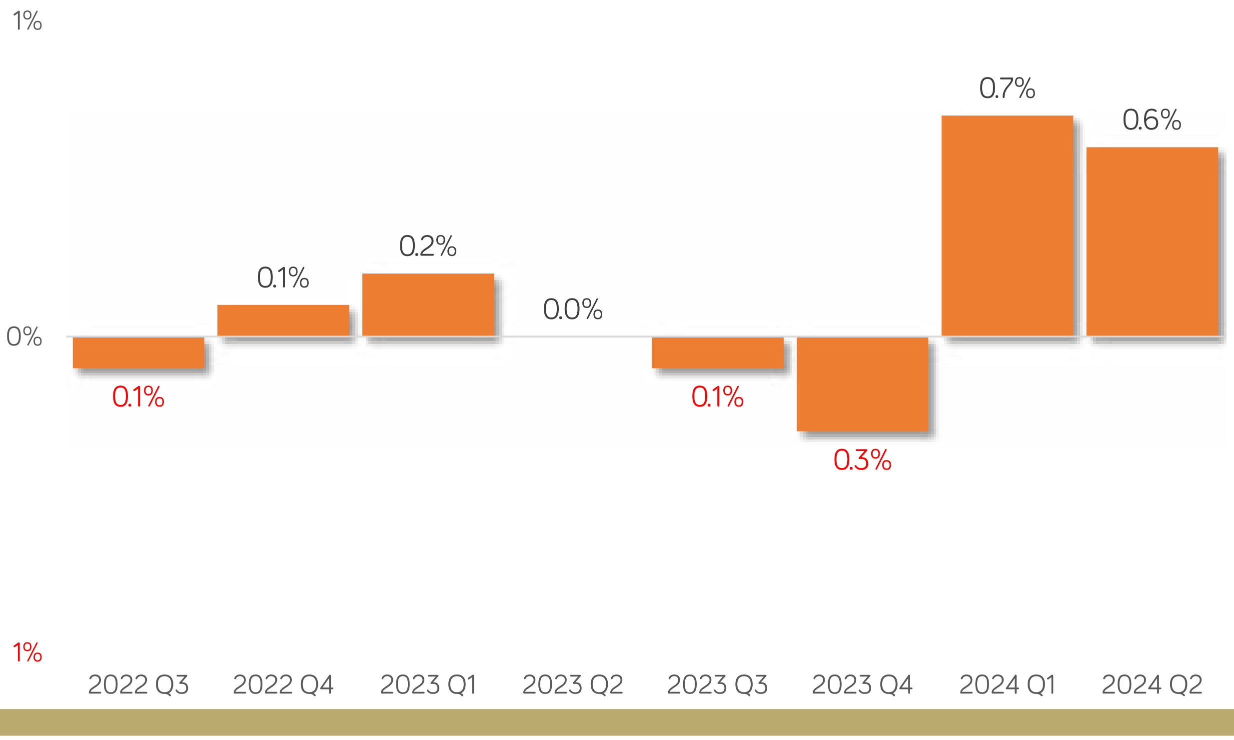
The monthly data suggests the UK economy did not grow in July 2024. While services output grew by 0.1%, construction output decreased by 0.4% (following growth of 0.5% in June).

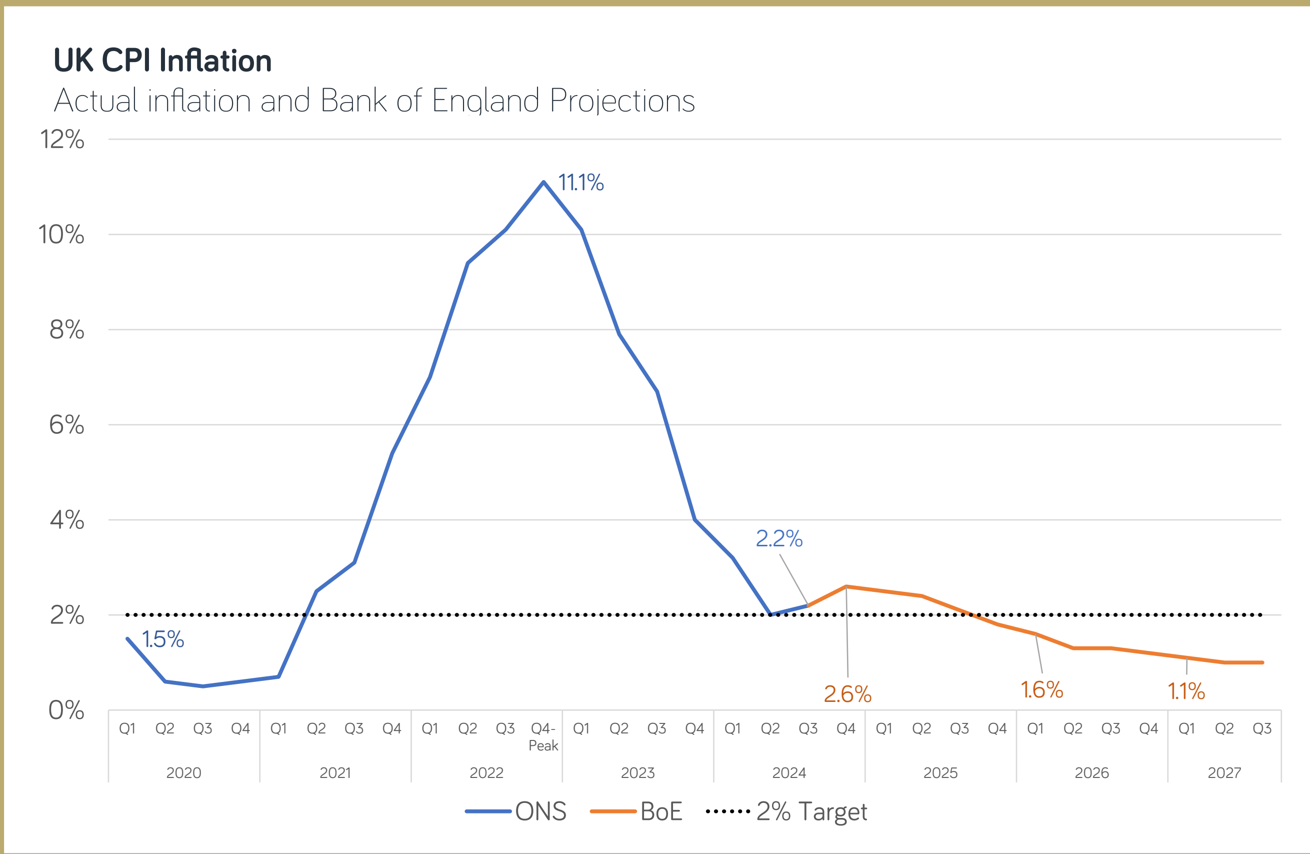
The Organisation for Economic Co-operation and Development (OECD) anticipates worldwide growth of 3.2% in both 2024 and 2025.

The UK economy is forecast to grow by 1.1% this year and 1.2% in 2025 (compared with 0.7% and 1.3% in the Euro area).

The OECD describe growth in the UK as 'relatively robust'.

UK Gross Domestic Product
Quarter on Quarter growth





UK Quarterly CPI: Source ONS and Bank of England (BoE)

Consumer Price Inflation (CPI) has risen slightly above the 2% target level and is expected to creep up during the rest of 2024 before falling back in 2025. It remains broadly stable compared to the recent peak when inflation reached 11%, the highest in over 40 years.

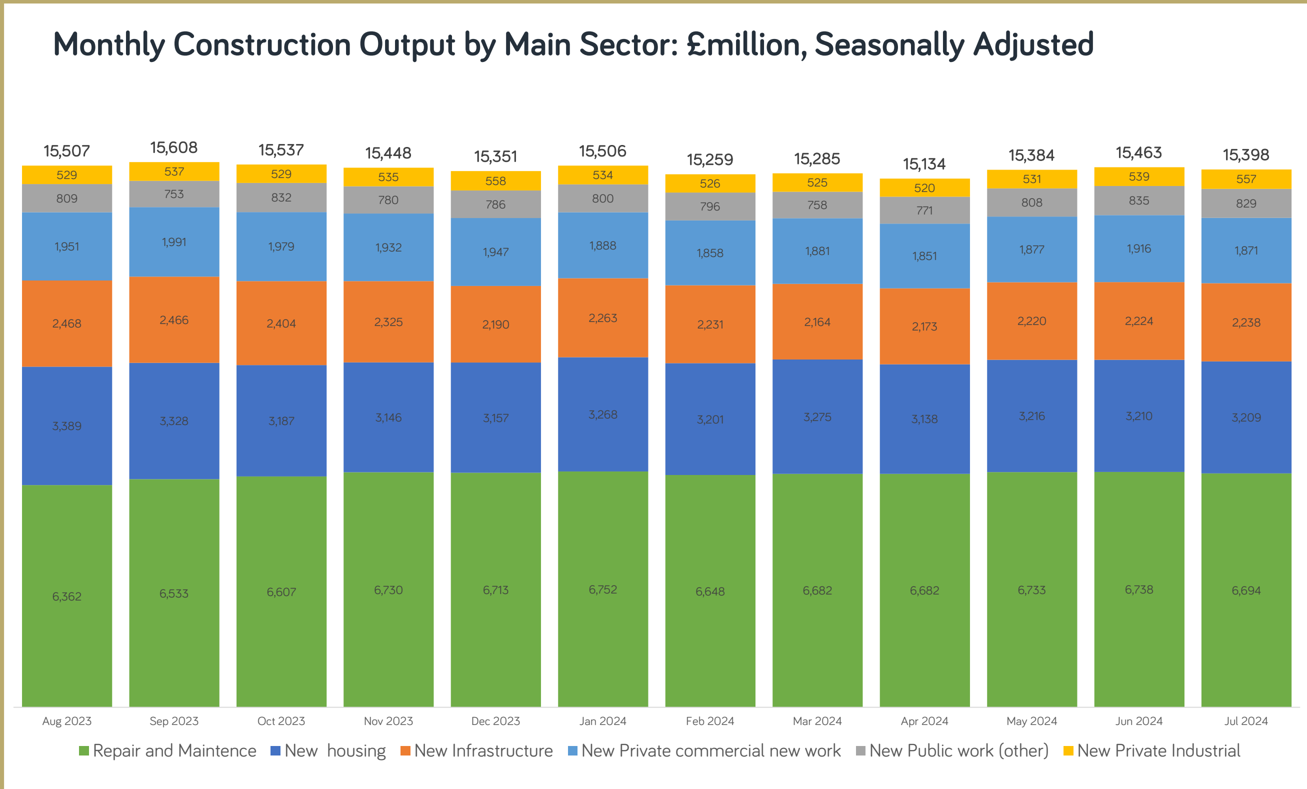
CPI rose by 2.2% in the 12 months to August 2024, unchanged from July. Looking at the monthly data, CPI rose by 0.3% in August.

Owner occupiers' housing costs, separately measured by the ONS and which include changes in mortgage interest payments, rose by 7.1% in the 12 months to August 2024. This high annual rate continues to exert downward pressure on domestic clients' ability to invest in domestic improvement projects. Lower interest rates will ease this pressure, although the effect will not be immediate, with most mortgages being on a fixed rate.

The 'base rate' for interest paid on borrowing has remained at 5%, having fallen in August for the first time since 2021. Lower rates reduce downward pressure on inflation but provide economic stimulus and ease the path toward client investment in buildings.

In previous 'Monetary Policy Reports', the Bank of England (BoE) has stressed the need for a cautious approach to rate cuts, to ensure inflation remains controlled. However, the governor of the BoE has recently suggested the Bank may become "a bit more activist" in cutting interest rates, should news about inflation remain good.

Construction Output



Monthly Construction Output, source ONS

In their latest release of Construction Industry Output data (September 2024), the ONS describe construction output as increasing in some sectors but falling in others. 2024 growth, so far at least, remains sluggish and inconsistent.

The ONS estimate that construction output grew by 1.2% in the three months to July 2024; this came from increases in new work (1.6%) and repair and maintenance (0.8%).

Monthly construction output fell by 0.4% in July, following an increase of 0.5% in June.

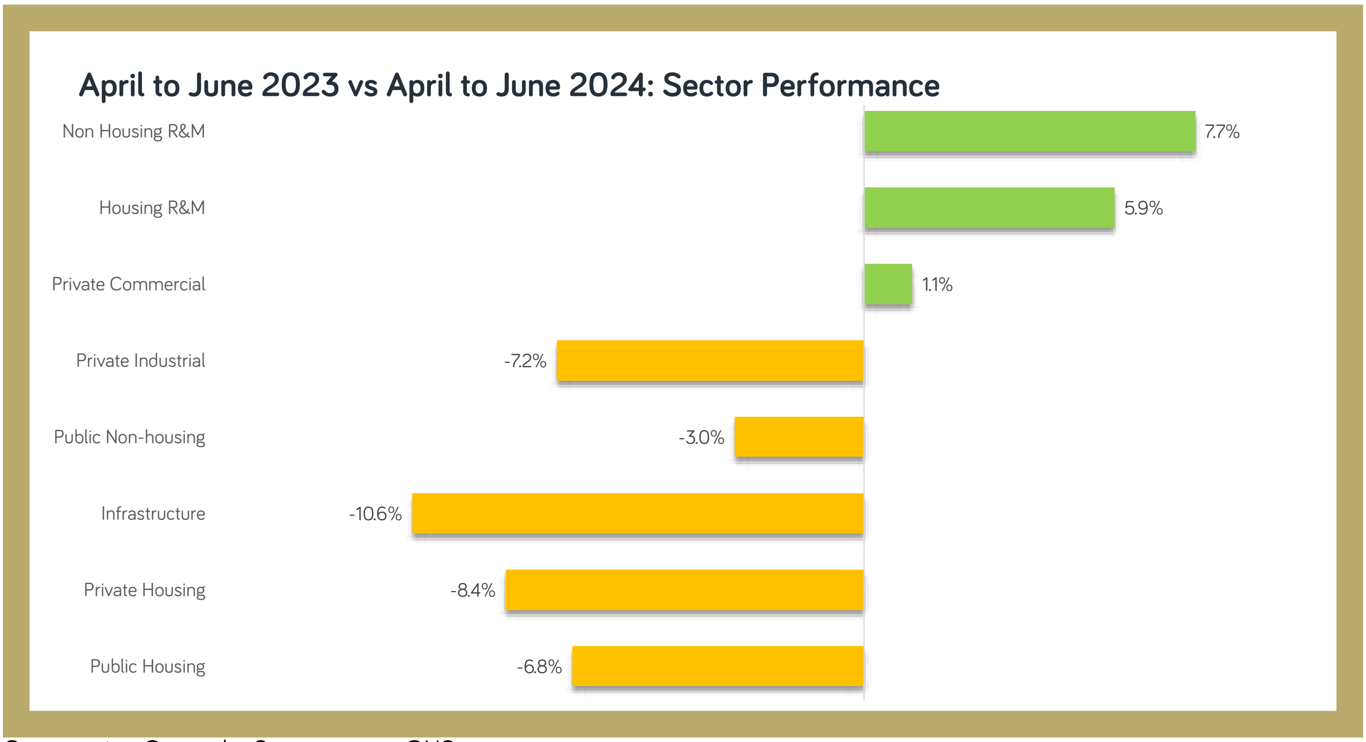
Five of the nine construction sectors monitored fell in July. The main contributors to the decrease were private commercial new work (falling by 2.4%) and private housing repair and maintenance (falling by 1.7%).

ONS data on New Construction Orders is positive overall. April to June 2024 showed a 16.5% increase in the value of new orders compared with January to March and a 28% increase compared with April to June 2023.

Construction output is estimated to have grown by

1.2%

in the three months to July 2024



Construction Output by Sector, source ONS

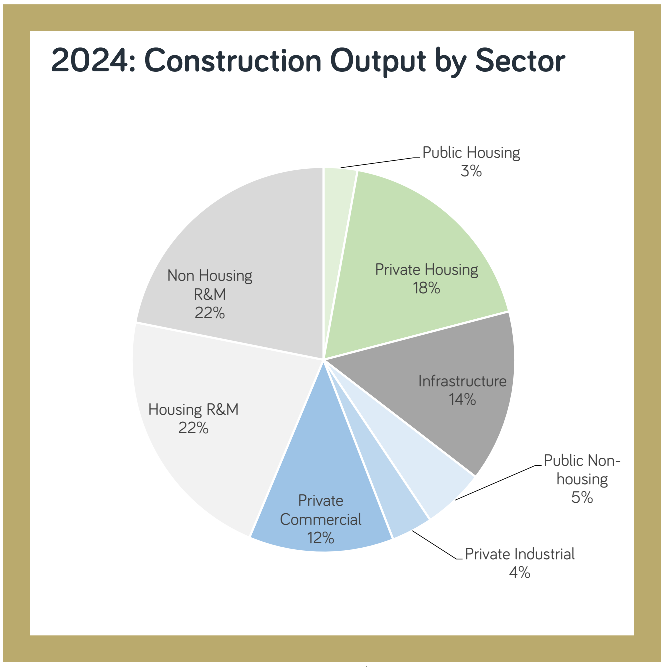
Looking more closely at the quarterly output data by sector, comparing April to June 2023 with the same period in 2024, repair and maintenance (R&M) has been the best-performing sector, with housing R&M growing by 5.9% and non-housing R&M by 7.7%.

Within new work, the best-performing sector has been private commercial (which includes offices, retail and entertainment), growing by 1.1%. In contrast, the housing sector has contracted, with output declines for both private (-8.4%) and public housing (-6.8%).

Taking a longer-term view by looking at the makeup of the construction sector since 2019, R&M has increased its overall share. Housing R&M has grown from 18% of all construction output in 2019 to 22% in 2024 (YTD). Non-housing R&M has also increased, from 17% in 2019 to 22% in 2024.

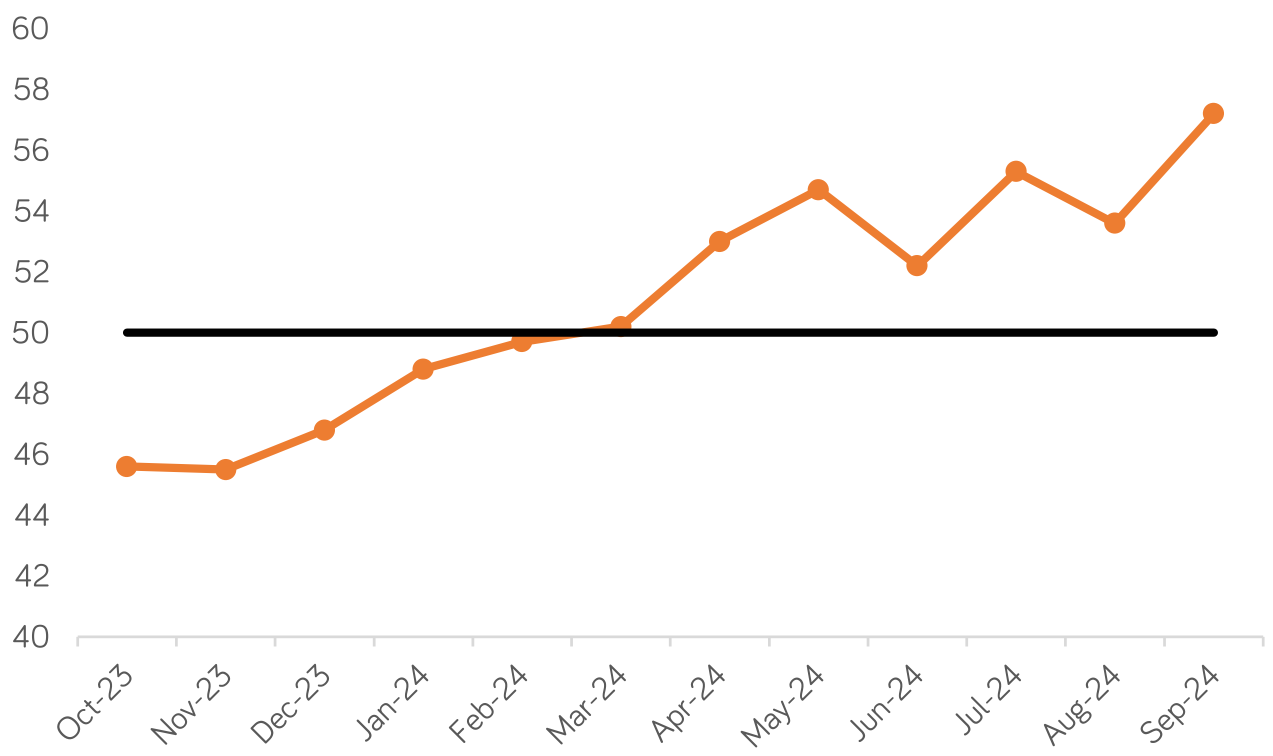
There have been falls in the percentage share of the private housing sector (22% to 18%) and of private commercial (17% to 12%).

The total value of construction output has increased by 5.1% when comparing 2019 to 2023.



Construction Output, Sector Contribution, source ONS

UK Construction Purchasing Managers Index (PMI)
(a score of more than 50 suggests growth)



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 compared with the previous month, and a score below 50 indicates comparative contraction.

The September 2024 PMI Index rose sharply to 57.2, with business activity growth at its fastest for nearly two and half years.

With a more stable economic backdrop and an increased willingness among clients to invest, S&P Global reports increased growth in all three sectors (Commercial, Housing and Civil Engineering).

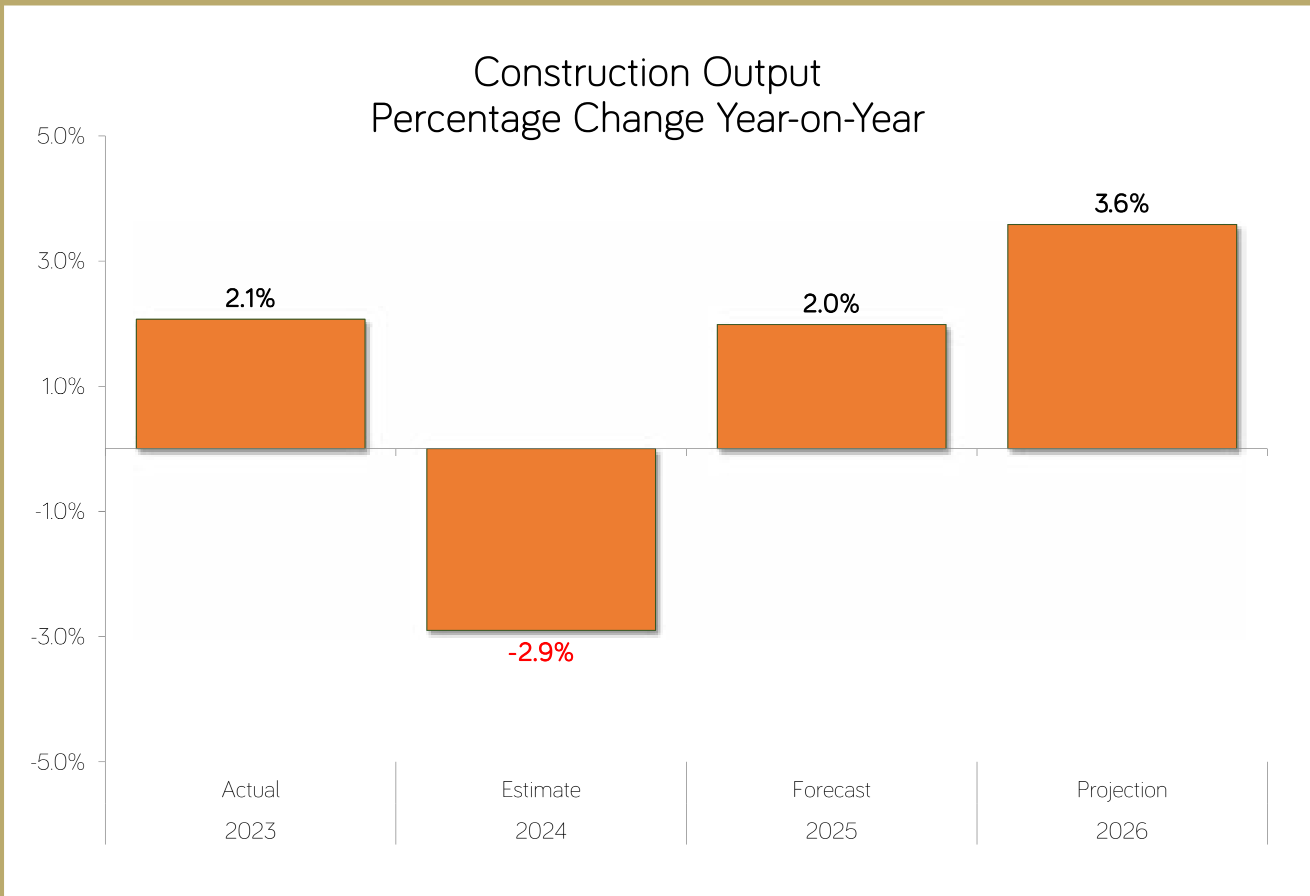
The main emerging challenge is increasing cost pressure.

S&P Global give a firmly upbeat summary of market conditions:

"UK construction companies indicated a decisive improvement in output growth momentum during September, driven by faster upturns across all three major categories of activity.

"A combination of lower interest rates, domestic economic stability and strong pipelines of infrastructure work have helped to boost order books in recent months."

Construction Output: Future Projections



Construction Starts: source Glenigan

The Construction Products Association's (CPA) Construction Industry Forecast 2024-2026 provides a detailed view of the anticipated performance of the construction industry based on the value of construction output.

During the current year, the CPA forecast that construction output will contract by 2.9% as the industry awaits further interest rate cuts and the return of consumer confidence. As the Building Safety Act is implemented and responsibilities clarified, the CPA notes that some larger, high-rise projects may face delays.

The CPA forecast that growth will resume next year, with 2.0% growth in 2025 and a further 3.6% in 2026.

Housing is forecast to see the highest percentage growth in 2025 and 2026, although this follows two years of decline. Public non-housing is projected to see moderate growth in 2025, and then relatively strong growth in 2026. Repair and maintenance is also set to grow in both years.

Value of Construction Output 2025

+2.0%

CPA

Architectural Workload

RIBA Future Trends Workload Index*

In September, the RIBA Future Trends Workload Index stood at +3.

RIBA Future Trends data shows the profession expects workloads to grow in the near term. The RIBA Workload Index has been positive for six months.

Overall, the outlook from the regions is improving. London is upbeat about future workloads with a +8 Workload Index.

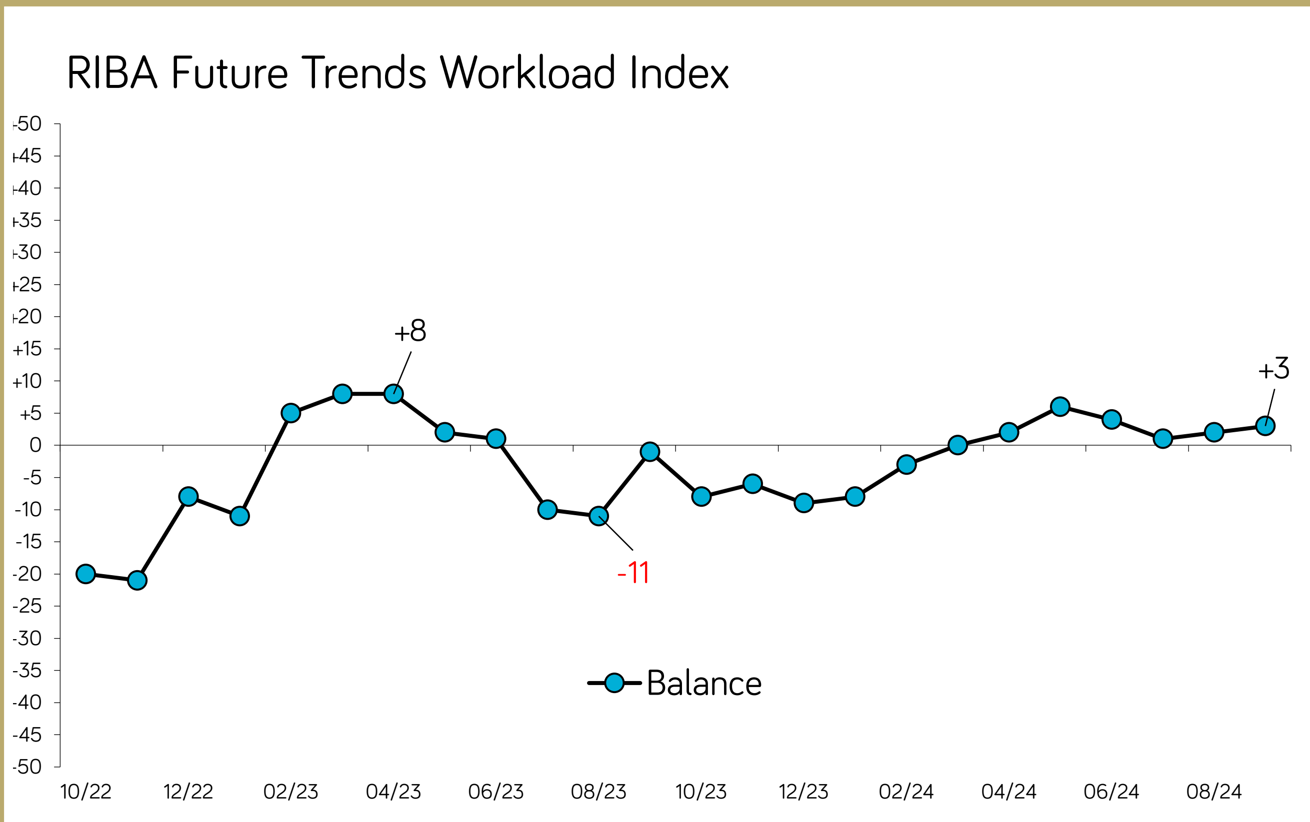
However, the outlook of small and larger practices continues to diverge. Small practices are pessimistic about future work, while medium and large practices are increasingly optimistic.

Staffing intentions remain positive.

The RIBA Future Trends Permanent Staffing Index returned a +6 balance figure in September, indicating that practices intend to recruit permanent staff over the next three months.

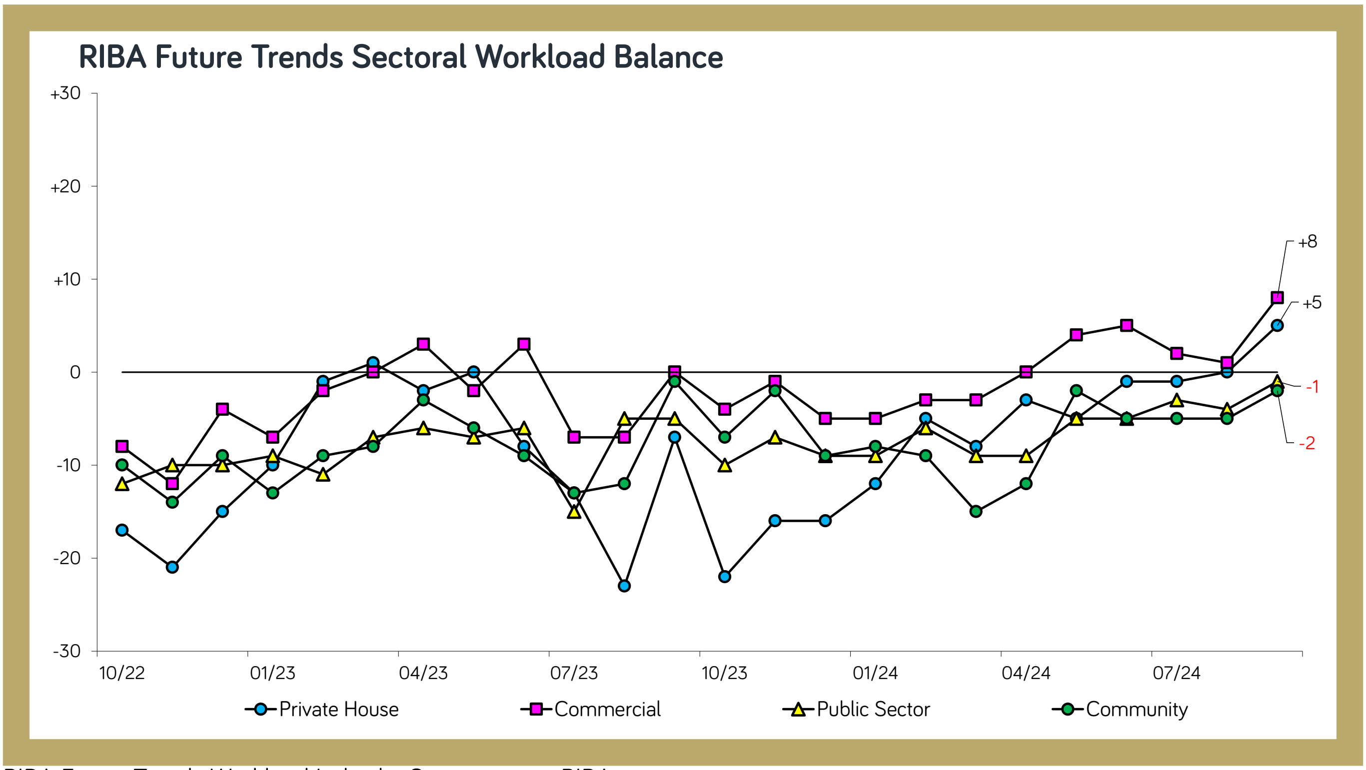
Overall, all practice sizes are optimistic about future permanent staffing levels. Medium and large practices expect to increase their cohort of permanent architectural staff, with a +43 RIBA Staffing Index. Small practices have returned a +1 Staffing Index figure.

The 2024 RIBA Future Trends reports are here.



*The RIBA Future Trends Workload Index figure is the difference between those expecting more work and those expecting less. A positive score indicates that, on balance, practices expect workloads to increase.

Architectural Workload Index* by Sector



RIBA Future Trends Workload Index by Sector, source RIBA

Looking at the four work sectors monitored through RIBA Future Trends, the Private Housing and the Commercial sectors are positive and have recorded their highest Workload Index score since the first half of 2022. The Public and Community sectors remain pessimistic about future work, but their outlook is improving.

Architects' assessment of future work in the Commercial sector remains positive. At +8, the sector's Workload Index figure is the highest it has been since spring 2022.

Private Housing work is crucial to most architects' practices. The outlook for private housing became positive in September. With a Workload Index of +5, the latest data sees the sector's highest balance figure since summer 2022 and the first positive balance since spring 2023.

The Community sector includes work for not-for-profit organisations such as work with churches, charities and trusts; its Workload Index figure remains low, currently standing at -2, although the outlook for the sector is on a gradually upward trend.

The outlook for the Public sector is also negative but improving, with a -1 Index figure. We anticipate more clarity once the new government's spending and delivery plans are announced and implemented.