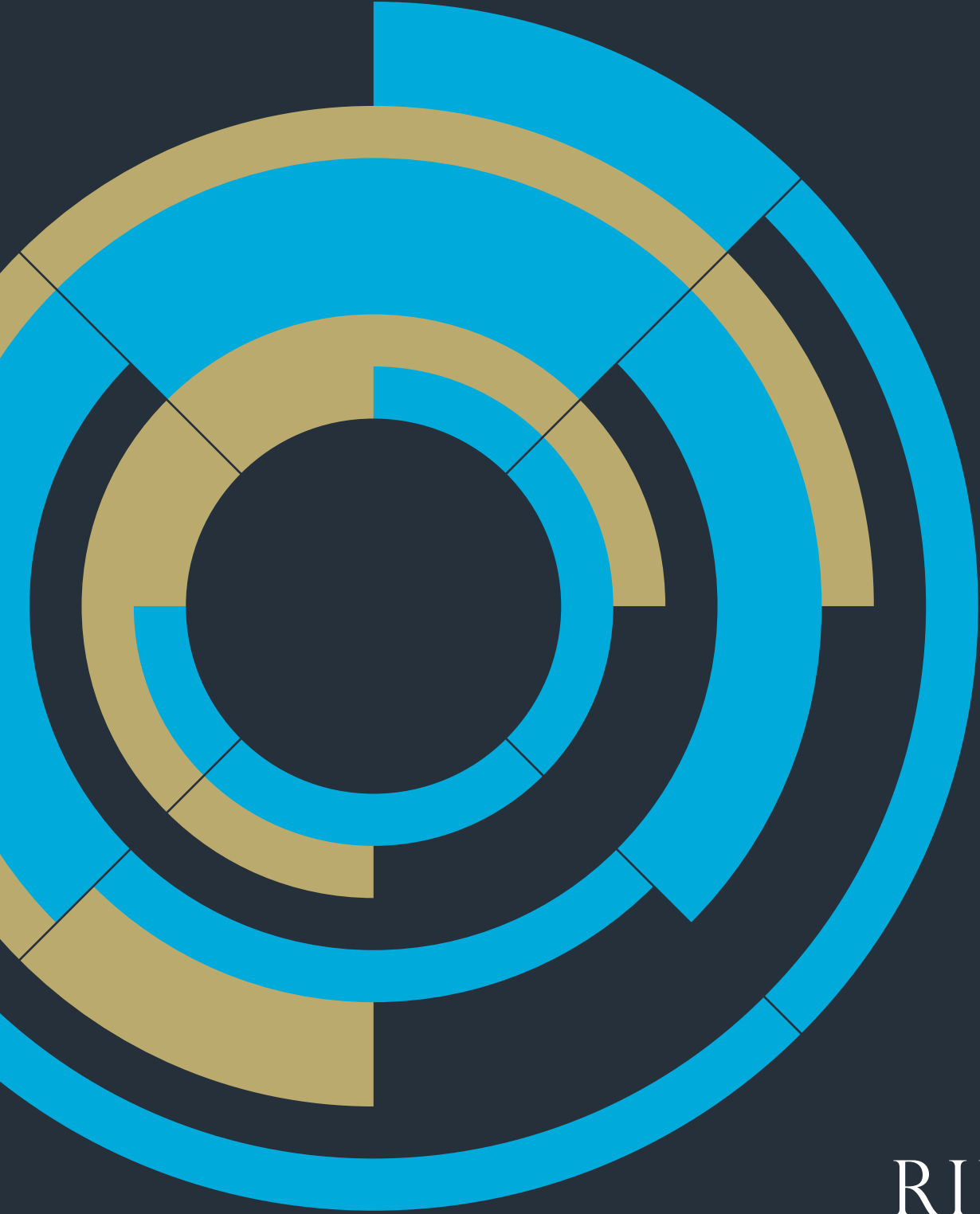


RIBA Quarterly Economics Report

The Architectural Market
Spring | 2024



Contents

Introduction	3
<hr/>	
The UK Economy	4
<hr/>	
Construction Output	6
<hr/>	
Architectural Workload	10
<hr/>	

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 a recession recorded at the end of 2023. GDP growth is set to return throughout 2024, but remain subdued. Interest rates have stabilised, with the Official Bank Rate held at 5.25% since August 2023. Inflation is falling, increasing the likelihood of interest rate reduction, and reducing the downward pressure on the economy.

Assessments of the construction industry suggest that there has been a significant contraction in 2023. 2024 may see a better performance, if not overall growth.

Throughout 2023, the housing sector performed very poorly as rising interest rates dampened the market. There are early signs the sector is improving.

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 on navigating challenging times.

RIBA Future Trends Workload
Index now stands at

-3

The UK Economy

UK Gross Domestic Product

With the economy shrinking in two successive quarters in the second half of 2023, the UK fell into recession. The recession has been mild, but the effects on the economy are real, and it underscores how the UK economy continues to under-perform by historical standards. It has grown by an average of less than 0.1% per quarter in the last two years.

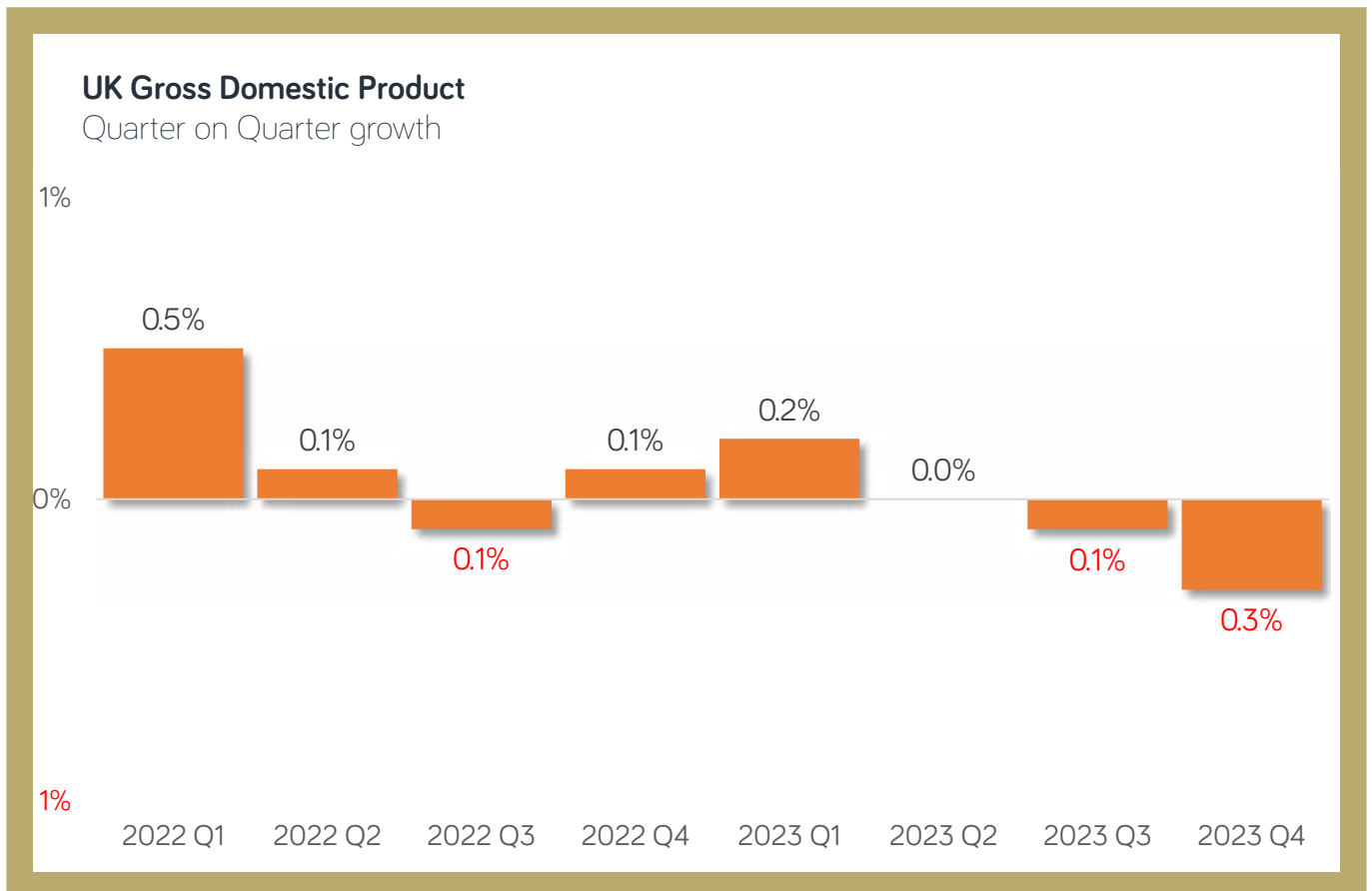
However, current economic data suggests a more positive 2024. The most recent monthly estimate of GDP is that the economy grew by 0.2% in January.

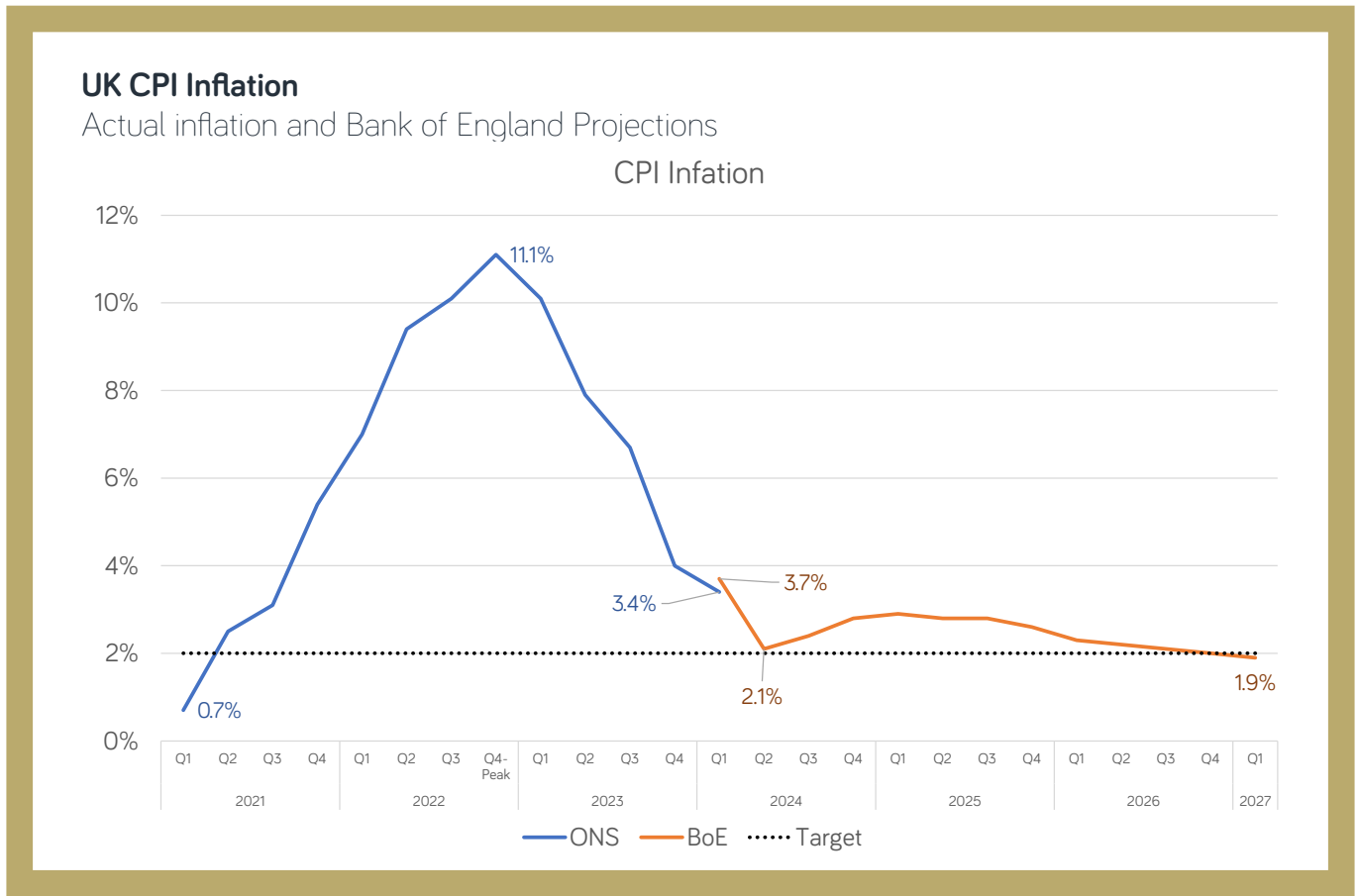
In line with other developed economies, inflation is falling rapidly from its peak in late 2022 and is approaching the 2% target.

However, while growth is expected to return, it is likely to be weak. The International Monetary Fund expects the UK's economy to grow by less than 1% in 2024, and by less than 2% in 2025. The Bank of England is even more cautious.

On the upside, the latest (February) PMI survey on UK business activity suggests private sector output continues to improve, with the PMI Composite Index, at 49.7, just below the 50 'no change' level, a six-month high. The rapid and deep contraction 2023 saw in the private housing sector is forecast to be ending.

As inflation falls, hopes rise that interest rates will follow, making capital more accessible to potential clients.





UK Quarterly CPI: Source ONS and Bank of England

The rate of Consumer Price Inflation (CPI) continues to fall quickly. CPI rose by 3.4%, in the 12 months to February 2024, down from 4.0% in January. It is well below its recent peak of 11.1% in October 2022 and is on course to near the Bank of England’s 2.0% target in the second quarter of this year.

As inflation falls, it becomes more likely that interest rates will fall too. However, the Bank of England (BoE) remains cautious, noting that Inflation may remain above target in 2024 (2.8% forecast for Q4) and 2025 (2.6%, Q4).

The BoE states:

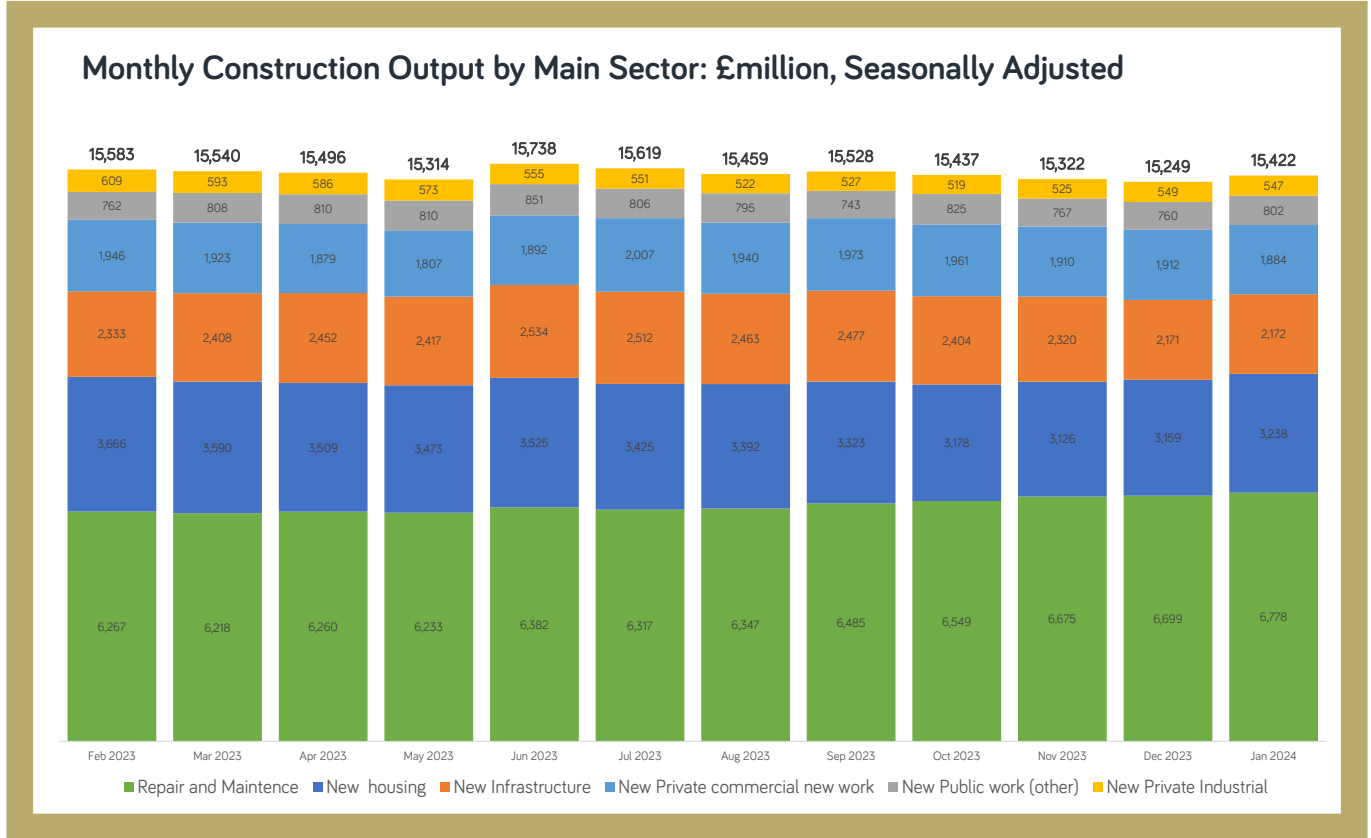
“Yes, we have had good news. But we have to be more confident that inflation will fall all the way back to the 2% target – and stay there. We are not yet at a point where we can lower interest rates. The level of Bank Rate remains appropriate. Any decision to change Bank Rate will depend on how the evidence evolves.”

Looking at their last full forecast (in February), the BoE has judged that GDP growth will gradually accelerate during the forecast period, but will remain subdued.

The Bank of England’s central forecast for UK GDP growth from 2024 to 2027 is:

- 0.1%** in the year to Q1 2024
- 0.5%** in the year to Q1 2025
- 0.8%** in the year to Q1 2026
- 1.5%** in the year to Q1 2027

Construction Output



Monthly Construction Output, source ONS

In their latest release of Construction Industry Output data (March 2024), the Office of National Statistics (ONS) describe construction output falling in 2023, but an early uptick in the first month of 2024.

ONS estimate that Construction Output decreased by 0.9% in the three months to January 2024 and by 1.3% when comparing Q4 2022 with Q4 2023.

Monthly construction output rose by 1.1% in January, following three consecutive monthly falls. While this is encouraging, it is just one month's data, and based on early estimates.

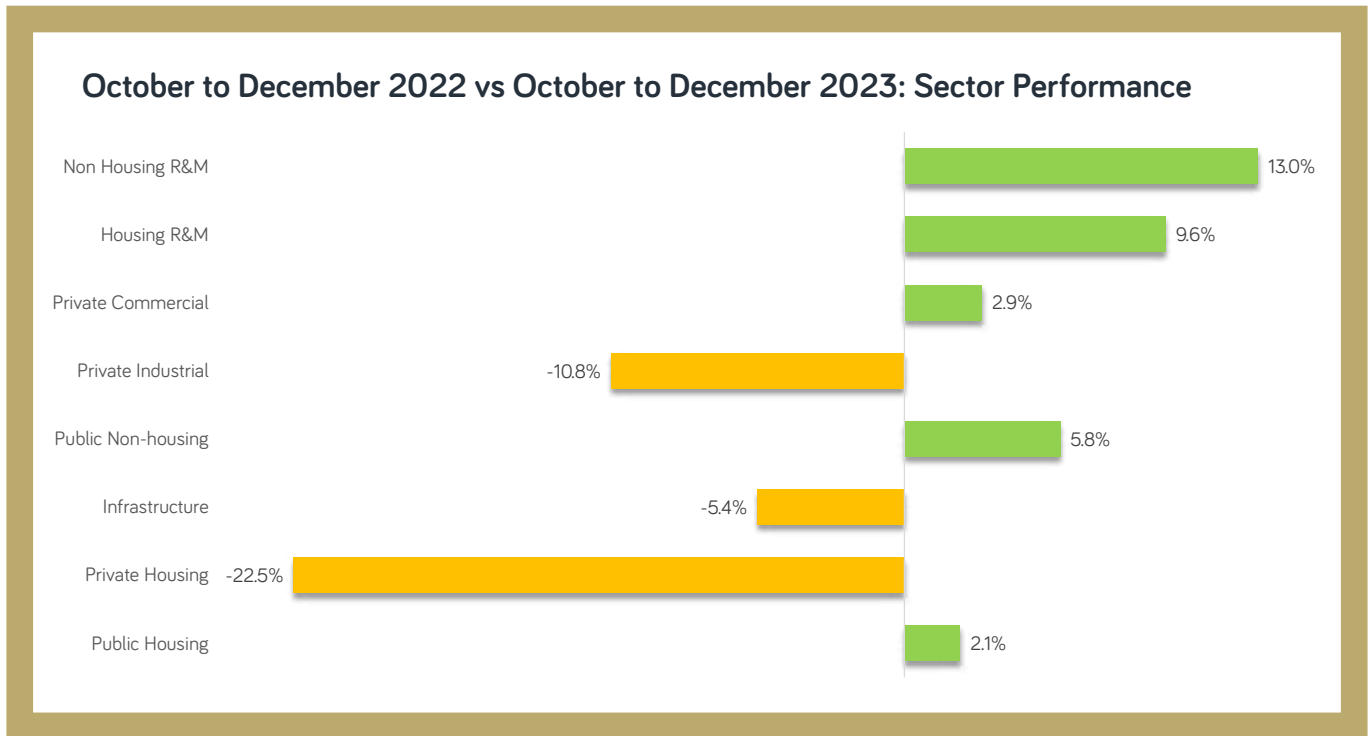
New housing (+2.5%), public non-housing (+5.5%) and repair and maintenance (R&M) (+1.2%) have all seen monthly growth after a very challenging 2023. Commercial (-1.5%) and industrial (-0.4%) have both seen monthly falls, however.

Data from the ONS also suggest that construction output costs have broadly stabilised, with overall construction output prices rising by 3.1% in the year to December 2023, with a 3.8% increase for new work, and 1.8% for R&M.

Construction output in the 3 months to December 2023

1.3%

lower than the 3 months to December 2022

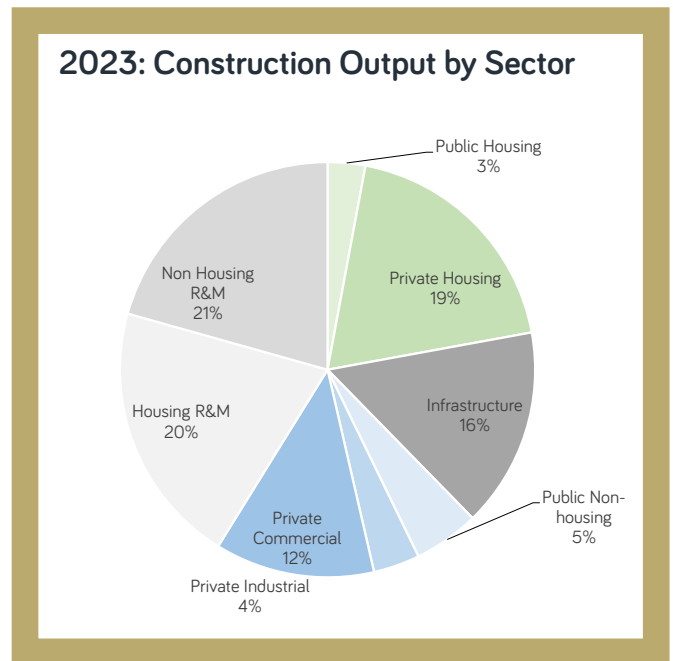


Construction Output by Sector, source ONS

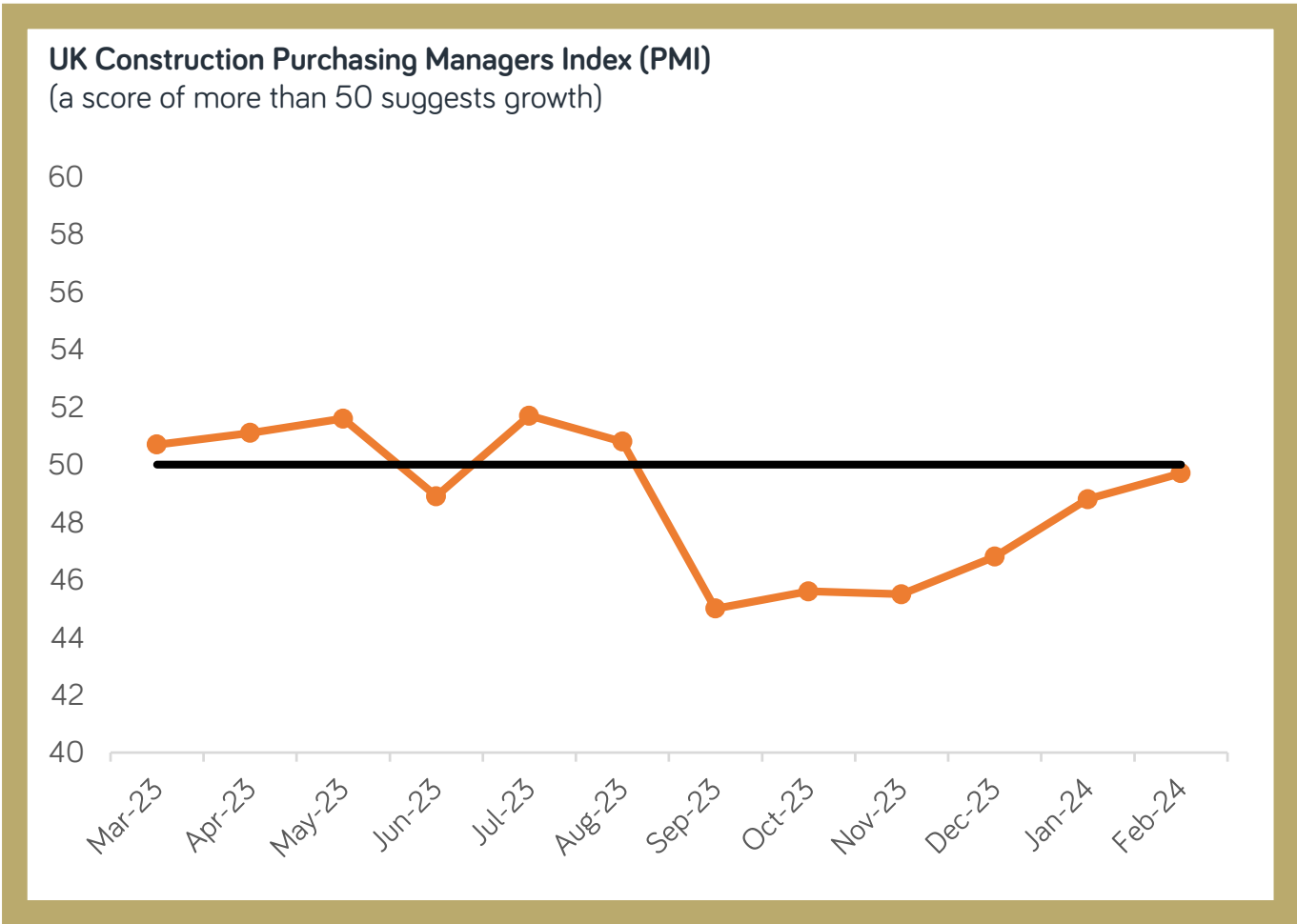
Looking more closely at the quarterly data by sector, comparing October to December 2022 with the same period in 2023, R&M has been the best-performing sector, with housing R&M growing by 9.6% and non-housing R&M by 13.0%. Among new work, public non-housing (which includes schools and hospitals) has been the best-performing sector. The private commercial (2.9%) and public housing (2.1%) sectors have also grown.

Private housing accounts for over a third of RIBA Chartered Practice revenue, and a majority of revenue for small practices. Again, this sector has seen a sharp decline, with output falling by 22.5% when comparing October to December 2023 with the same period in 2022. This has made for an extremely challenging year for many practices.

Looking at the overall mix of the construction sector in 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 19% in 2023. The share for non-housing R&M has grown from 19% in 2021 to 21% in 2023.



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

The February 2024 PMI Index was at 49.7, a shade below the 50 no-change level and negative for a sixth successive month. However, this is a 0.9 improvement on last month, and up almost 5 points when compared to the recent low of 45.0 in September 2023. Hopes of increased demand for housing are rising.

The PMI score for housing stood at 49.8, approaching market stability. It is at its highest level since November 2022 and has seen an improvement of over 5 points in the most recent month.

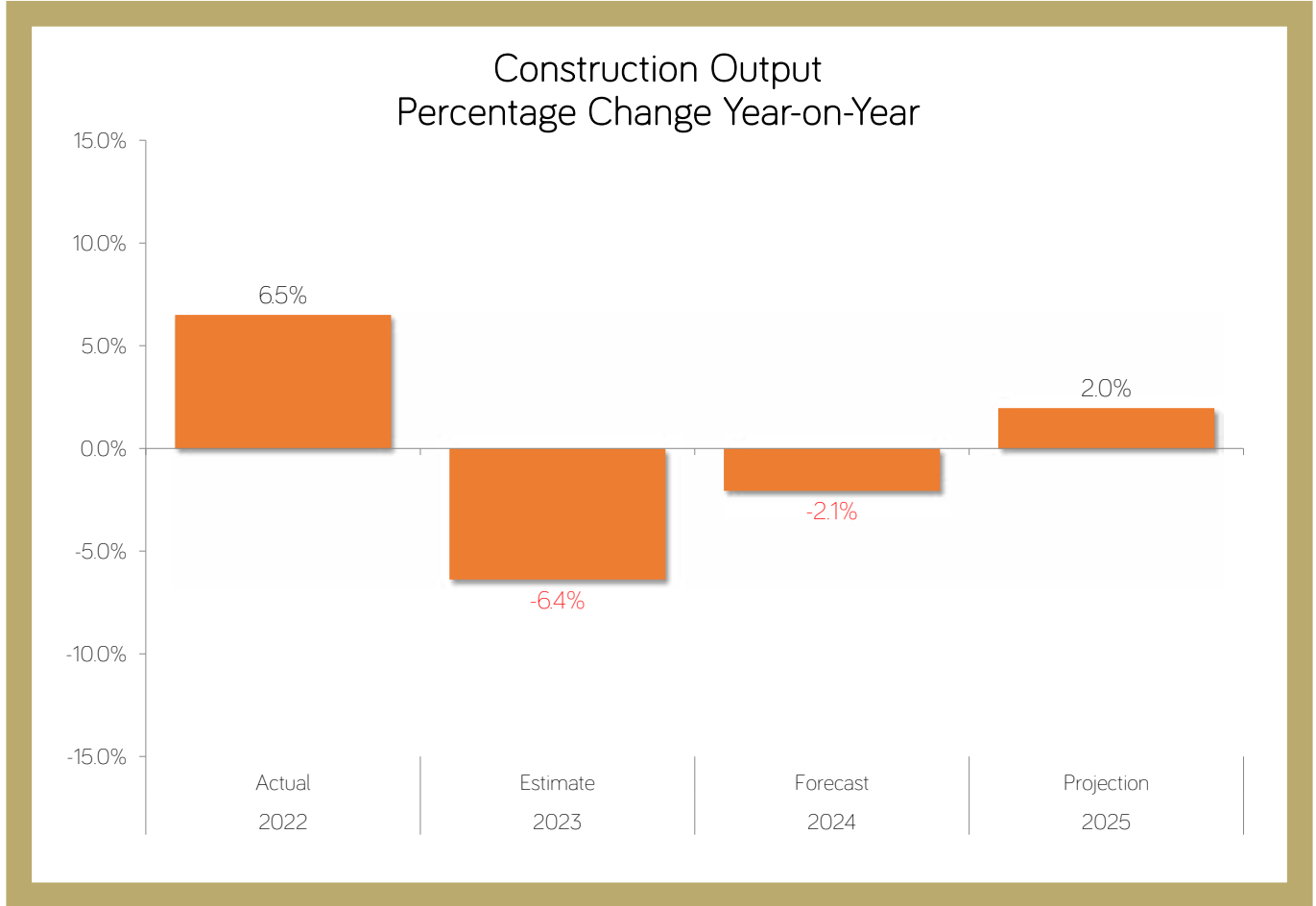
The commercial sector has been more subdued, with S&P Global / CIPS reporting that construction companies are citing hesitancy among clients and budget constraints as reasons for a relatively weak outlook.

Overall, S&P Global give a welcome upbeat summary of future market conditions:

“A stabilisation in house building meant that UK construction output was virtually unchanged in February. This was the best performance for the construction sector since August 2023 and the forward-looking survey indicators provide encouragement that business conditions could improve in the coming months.

Total new orders expanded for the first time since July 2023, which construction companies attributed to rising client confidence and signs of a turnaround in the residential building segment.”

Construction Output: Future Projections



Construction Output: source: CPA

The Construction Products Association’s (CPA) Construction Industry Forecasts 2023-2025 provide a detailed view of the performance of the construction industry based on the value of construction output.

The CPA forecast that the construction industry will remain challenging for those within it, with a forecast of further contraction in 2024, on the heels of an estimated contraction of over 6% in 2023. Growth is expected to resume in 2025. However, the CPA estimates that construction output at the end of 2025 will still be 6.5% lower than at the beginning of 2023.

Falls in the private housing sector have significantly contributed to this, with the sector being volatile since the pandemic. Private housing starts are forecast to fall by 4.0% in 2024 but to rise by 7.0% in 2025.

The sectors that are forecast to grow in 2024 include public non-housing and non-housing R&M.

Value of Construction Output
2024

-2.1%

CPA

Architectural Workload

RIBA Future Trends Workload Index*

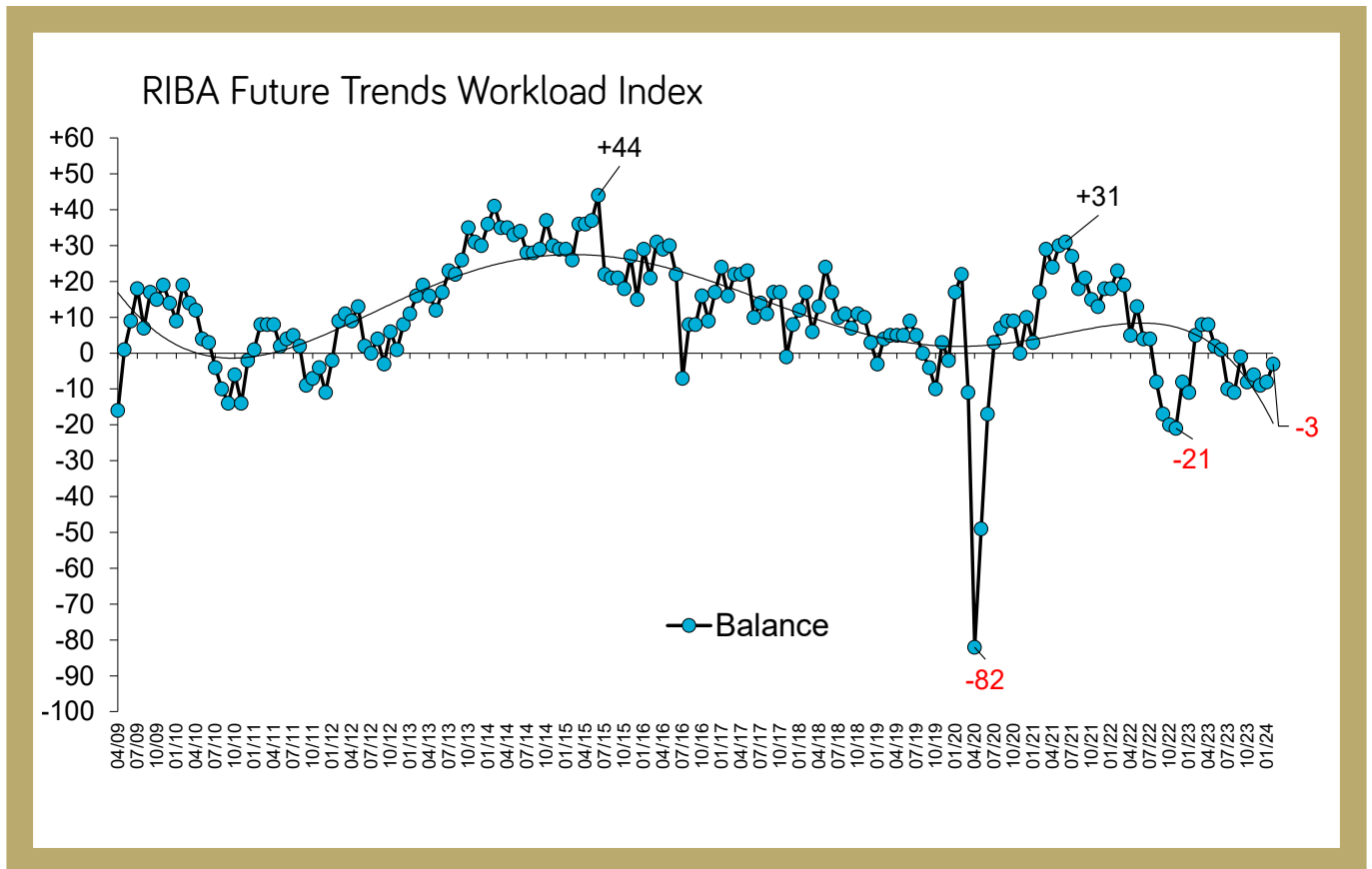
The first quarter of 2024 has seen architects remain pessimistic about coming workloads, with the RIBA Future Trends Workload Index having been negative since July 2023; a negative figure indicates an overall expectation of workload contraction in the coming three months. This is now the longest run of pessimism about future workload since RIBA Future Trends was launched in 2009.

This expectation of reduced workloads has been most pronounced for smaller practices while medium and large practices have remained optimistic about near-term workload prospects.

However, there are signs of pessimism receding and, perhaps, optimism returning. The Index now stands at -3 up from a low of -11 in August 2023 and is on an upward path.

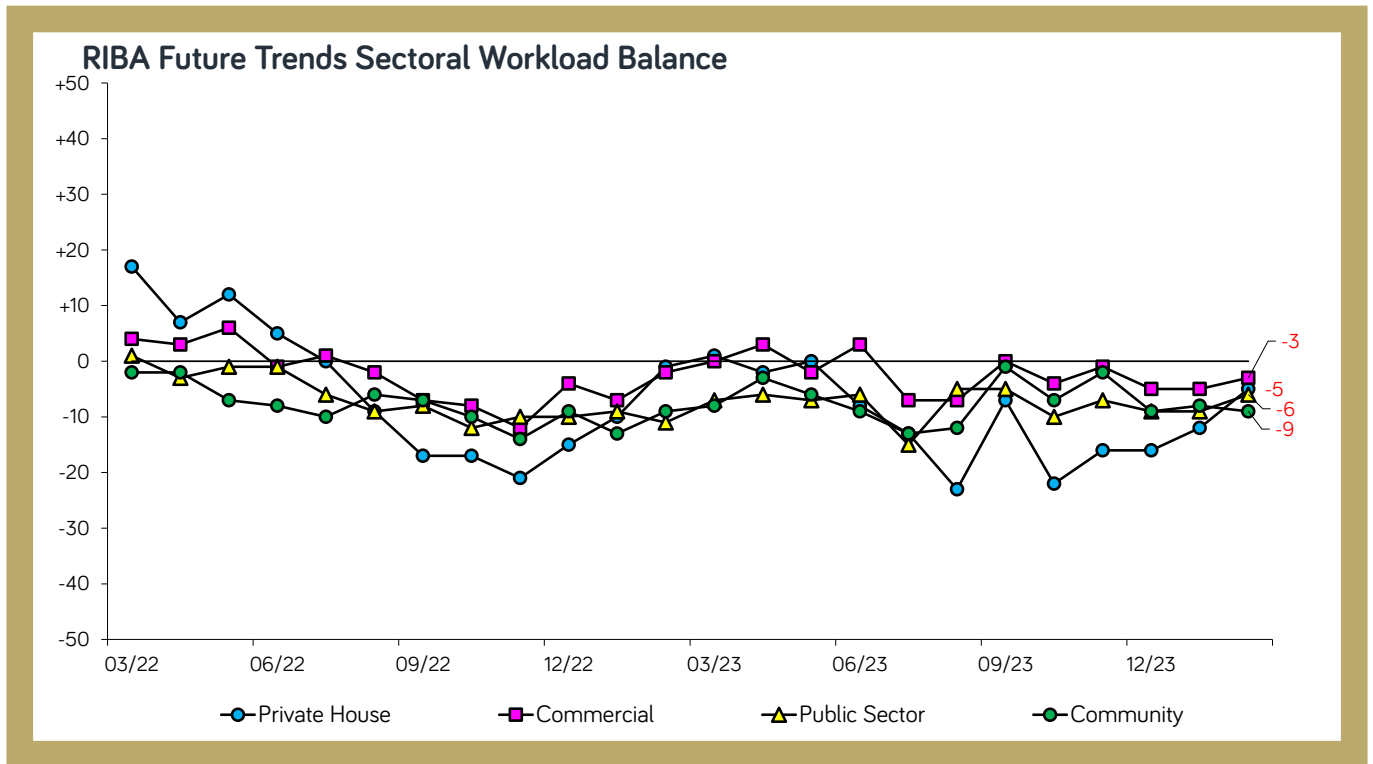
In the context of a weak economy and raised interest rates, practices have continued to highlight the challenges of client hesitancy, fee competition from outside the profession, raised project costs and ongoing planning delays. However, an increasing number of practices are more optimistic about the future, citing increases in enquiries and commissions.

The 2024 RIBA Future Trends reports can be seen [here](#).



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

Architectural Workload Index* by Sector



RIBA Future Trends 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** has swung from strong optimism to intense pessimism over the last three years, with a Workload Index high of +36 in March 2021, and a low of -23 in August 2023. However, since that low, the RIBA Private Housing Workload Index has been on an upward trajectory. Although still negative, in February 2024 it stood at -5.

Architects' assessment for future work in the **Commercial Sector** remains negative, having posted balance scores of -3 in February and -5 in January. Covering work such as offices, retail, and entertainment venues, it remains the sector with the least pessimistic outlook.

Workload predictions for the **Public Sector** remain weak at -6, with the sector Index having been negative for 23 months. The acute need to renew our public estate, including schools and hospitals, has yet to translate into new commissions. Greater certainty for the sector may come after a general election.

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 -9 and has been negative for two years.