RIBA Quarterly Economics Report

The Architectural Market

Summer | 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 is showing signs of recovery. After the mild recession of last year, Q1 2024 has seen strong growth (0.7%). The Bank of England forecasts sustained, though modest, growth to 2027. Inflation is falling and is expected to be around the 2% target rate until 2027. Interest rates look to have peaked, with the official bank rate being cut by 0.25 points to 5.00% in August. Falling interest rates will ease the downward pressure on the economy. Instability in the global markets is an emerging concern, however.

Assessments of the construction industry are improving. While 2024 may remain challenging for many, **new starts** are set to pick up this year, with a recovery gathering pace in 2025 and 2026. In 2025, housing is set to be the fastest-growing sector for new starts.

Construction **output** is expected to grow from next year onward.

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

+4

The UK Economy

UK Gross Domestic Product

After shrinking in two successive quarters in the second half of 2023, the UK shows signs of recovery. The Office for National Statistics (ONS) estimate that UK Gross Domestic Product (GDP) increased by 0.7% in quarter 1 (Jan to Mar) 2024.

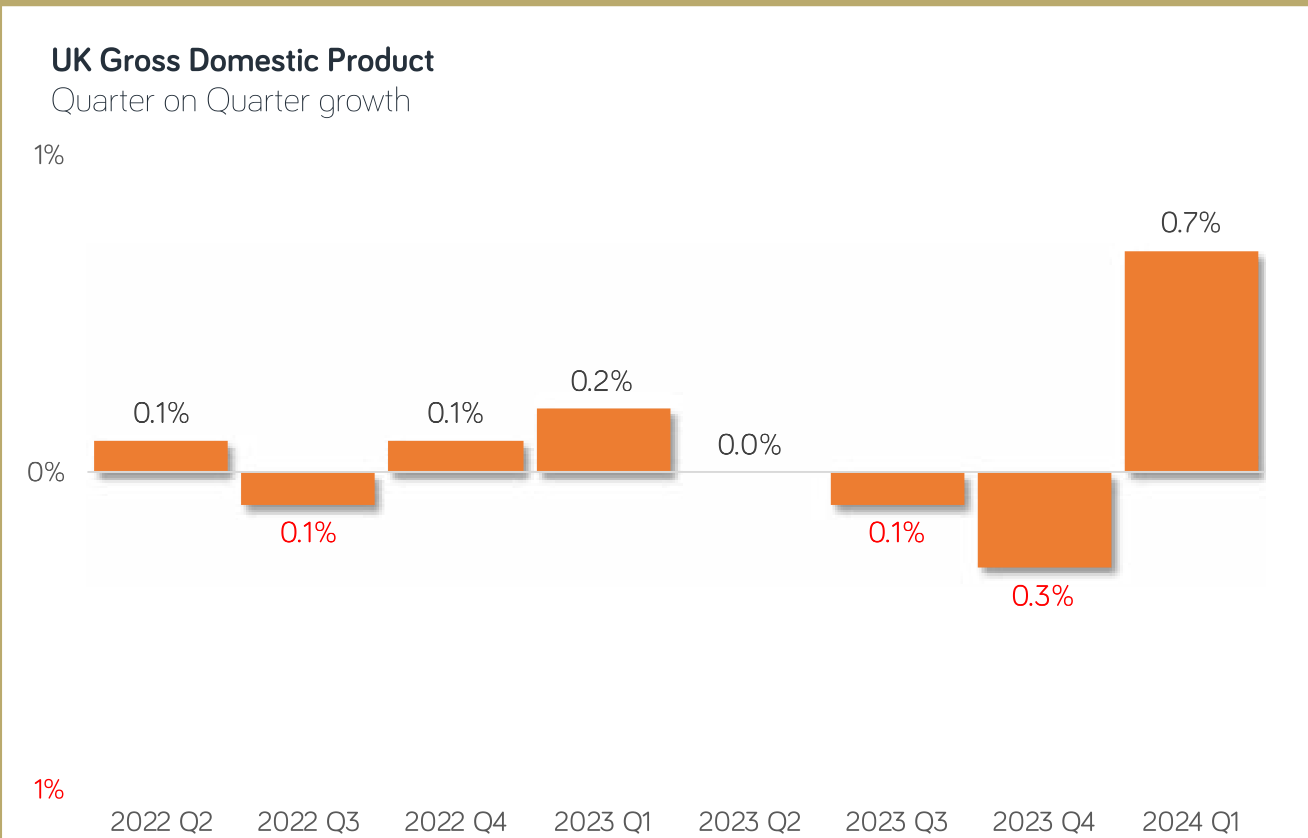
Looking at the **quarter,** among the three main ONS-reported sectors, services grew by 0.8% and production by 0.6%. However, the construction industry shrunk by 0.6%.

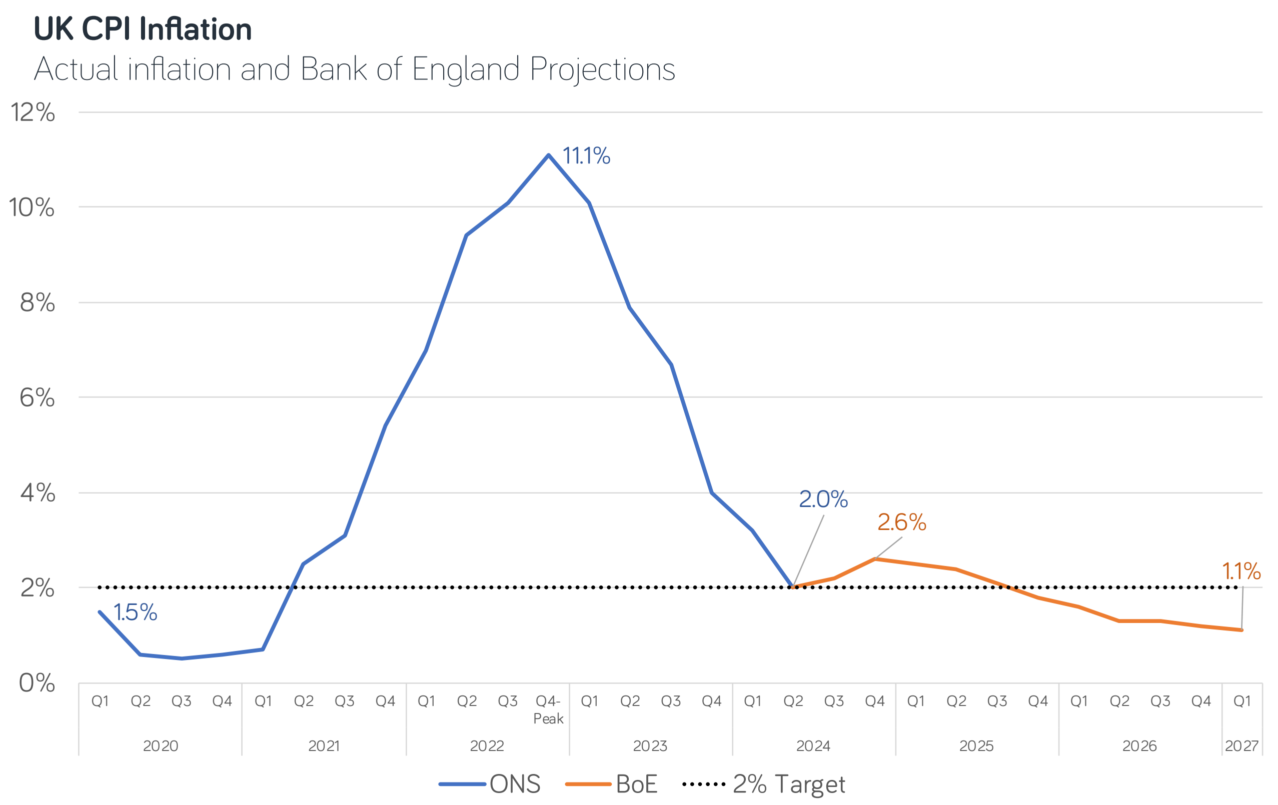
Looking at the **monthly** data, the economy showed no growth in April but grew by 0.4% in May. Construction output grew by 1.9% in May 2024, following a fall of 1.1% in April 2024.

In the July 'Global Economic Outlook' update, the International Monetary Fund (IMF) anticipates worldwide growth of 3.2% and 3.5% in 2024 and 2025, respectively, and 1.7% and 1.8% in 'Advanced Economies'.

The IMF outlook for the UK remains positive but subdued, with 0.7% growth this year, and 1.5% next. In their latest forecast, the Bank of England is more optimistic about this year (see below) and anticipates inflation stabilising around the 2% target rate.

With an initial cut in interest rates in August, further rate falls are set to follow (though perhaps slowly), stimulating the economy and making capital more accessible to potential clients.





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

Consumer Price Inflation (CPI) has fallen to the 2% target level and is stabilising.

CPI held at 2% in the 12 months to June 2024, the same as the 12 months to May 2024, although upward pressure on CPI continues to come from the service industries and domestic inflation.

Owner occupiers' housing costs, separately measured by the ONS and which include changes in mortgage interest payments, rose by 6.8% in the 12 months to June 2024. This is the highest annual rate since July 1992 and suggests that many homeowners will struggle to invest in domestic improvement projects in the near term. However, this will ease as and when interest rates and mortgage costs continue to fall.

The BoE has cut the base rate by 0.25 percentage points to 5%. CPI has been at the 2% target for two consecutive months. But the Bank is not rushing to cut interest rates further::

"We need to make sure that inflation stays low. We need to put the period of high inflation firmly behind us. And we need to be careful not to cut rates too much or too quickly"

Looking at their last full forecast (in August), the BoE has judged that GDP growth will be between 1 and 2% during the forecast period.

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

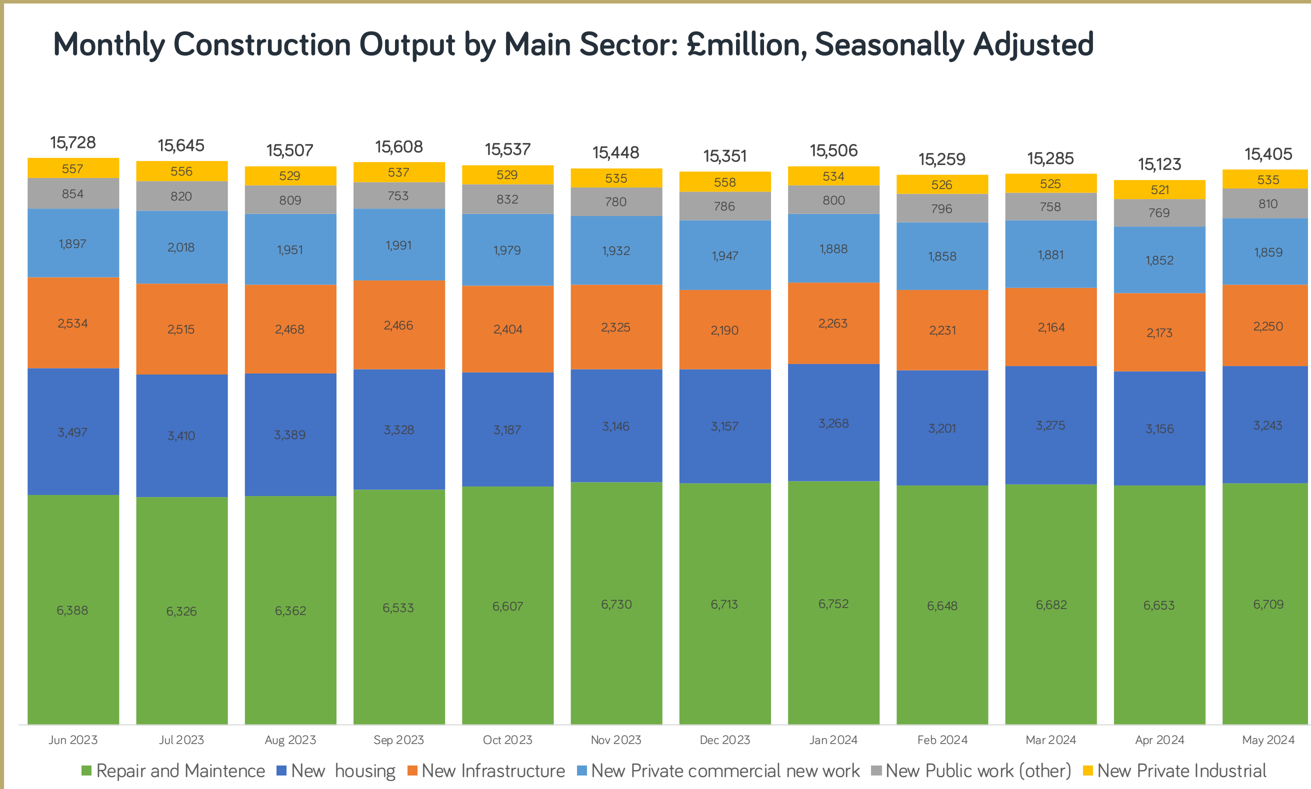
1.5% in the year to Q3 2024

1.0% in the year to Q3 2025

1.5% in the year to Q3 2026

1.7% in the year to Q3 2027

Construction Output



Monthly Construction Output, source ONS

In their latest release of Construction Industry Output data (July 2024), the ONS describe construction output as having fallen in 2023 but, after a faltering start to 2024, beginning to recover from May.

The ONS estimate that Construction Output fell by 0.7% in the three months to May 2024; this came from a decrease in new work of 0.9% and a 0.3% fall in repair and maintenance.

Monthly construction output rose by 1.9% in May, following a fall of 1.1% in April. While this is encouraging, it is just one month's data, and based on early estimates.

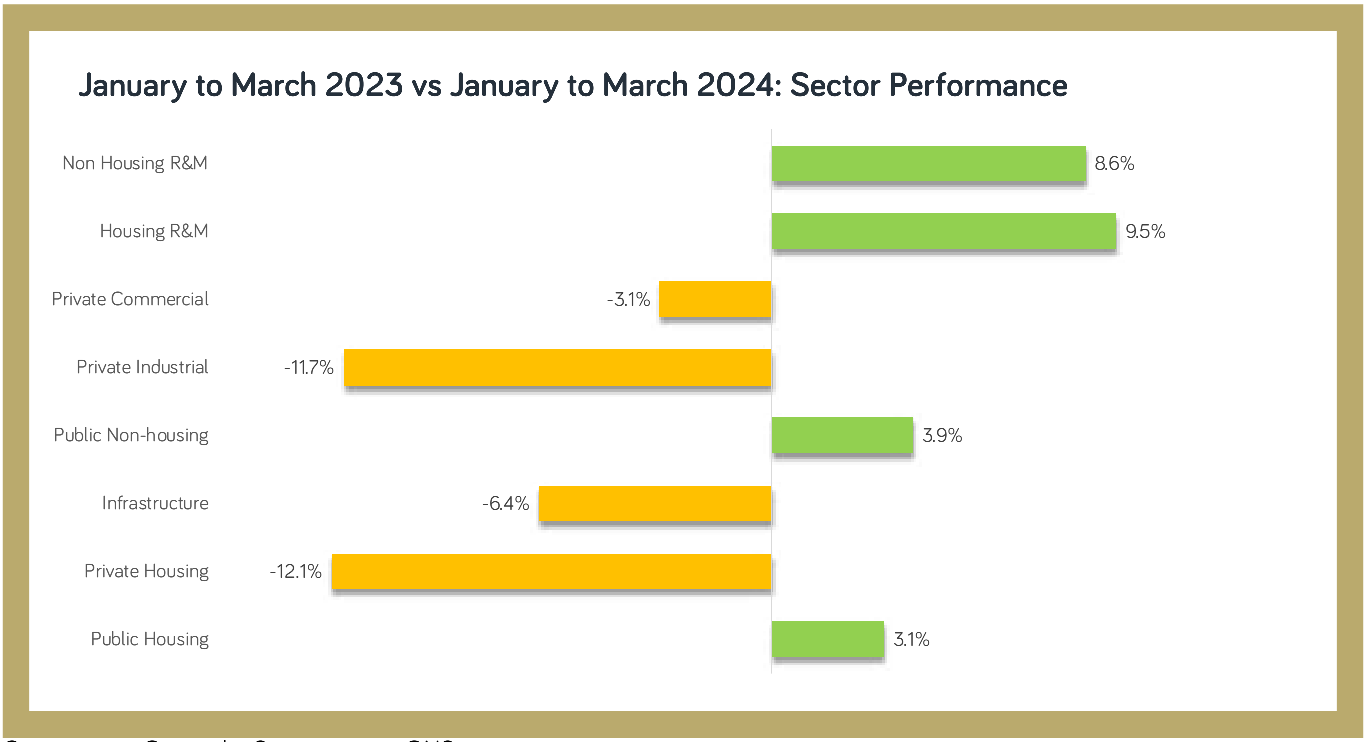
All but two of the construction sectors monitored grew in May, with new housing (+2.8%), infrastructure work (+3.5%) and public non-housing (+5.5%) non-housing repair and maintenance (+2.1%) being the largest contributors to the overall growth.

Data from the ONS also suggests that construction output costs have broadly stabilised, with overall construction output prices rising by 1.5% in the year to March 2024, with the same 1.5% increase for both new work and repair & maintenance (R&M).

Construction output in the 3 months to March 2024

0.4%

lower than the 3 months to March 2023

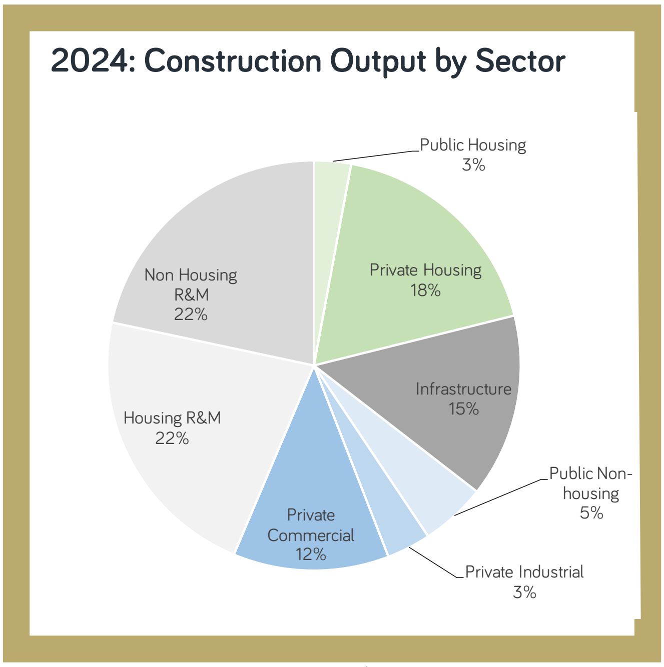


Construction Output by Sector, source ONS

Looking more closely at the quarterly data by sector, comparing January to March 2023 with the same period in 2024, R&M has been the best-performing sector, with housing R&M growing by 8.6% and non-housing R&M by 9.5%. Within new work, public non-housing (which includes schools and hospitals) has been the best-performing sector (3.9% growth). Private industrial (-11.7%), infrastructure (-6.4%), and private housing (-12.1%) have seen the sharpest decline, quarter to quarter.

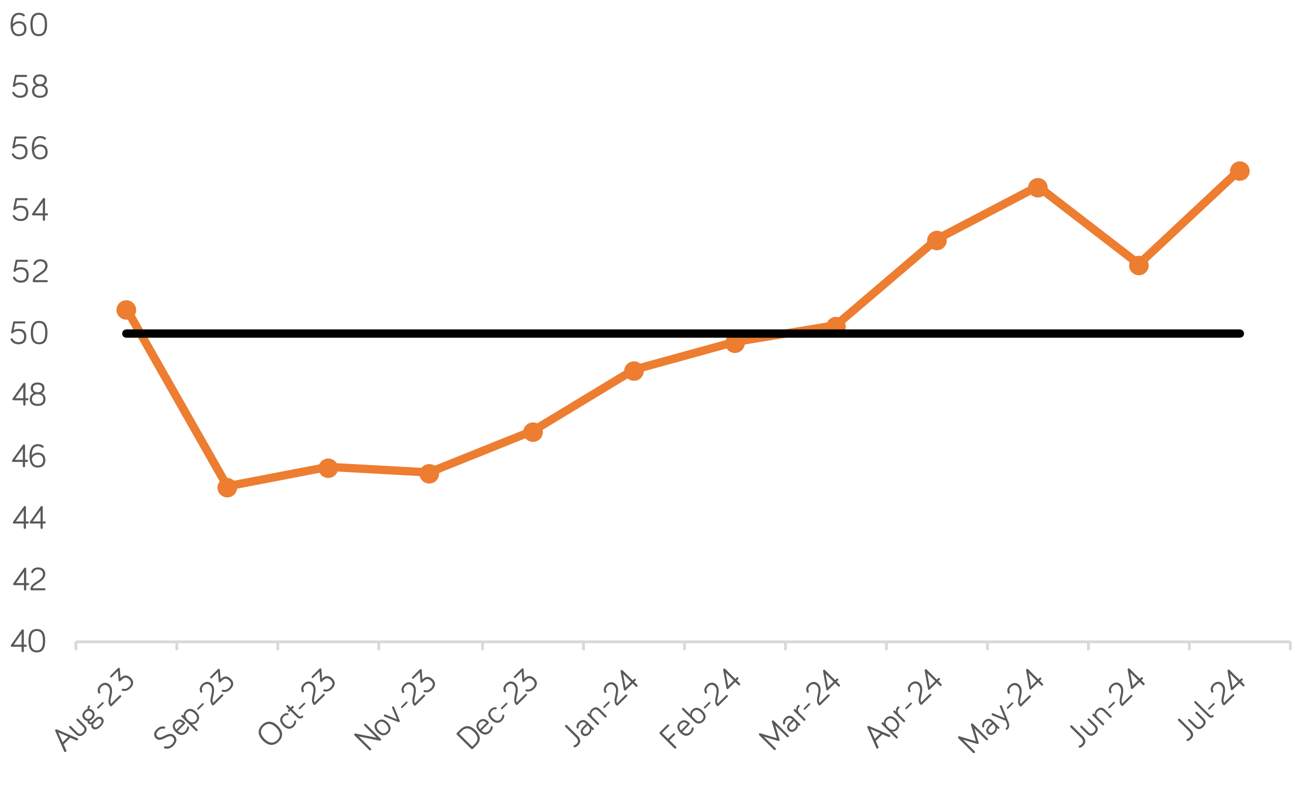
Looking at the overall mix of the construction sector in 2024 to date, private housing has made up a little under a fifth (18%) of the total output value. The percentage share of private housing has fallen from 22% in 2022 to 18% in 2024.

Housing R&M (22%) and non-housing R&M (22%) each account for just over a fifth of total construction output. The percentage share of non-housing R&M has grown from 19% in 2021 to 22% in 2024.



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 July 2024 PMI Index rose sharply to 55.3 above the 50 no-change level and has been positive for five successive months. The current index suggests strong growth in activity in the construction sector and the fastest rate of expansion of the PMI index since May 2022.

All three construction sectors saw activity increase in July, with work on housing projects returning to growth, commercial activity increasing solidly, and the most rapid growth within civil engineering.

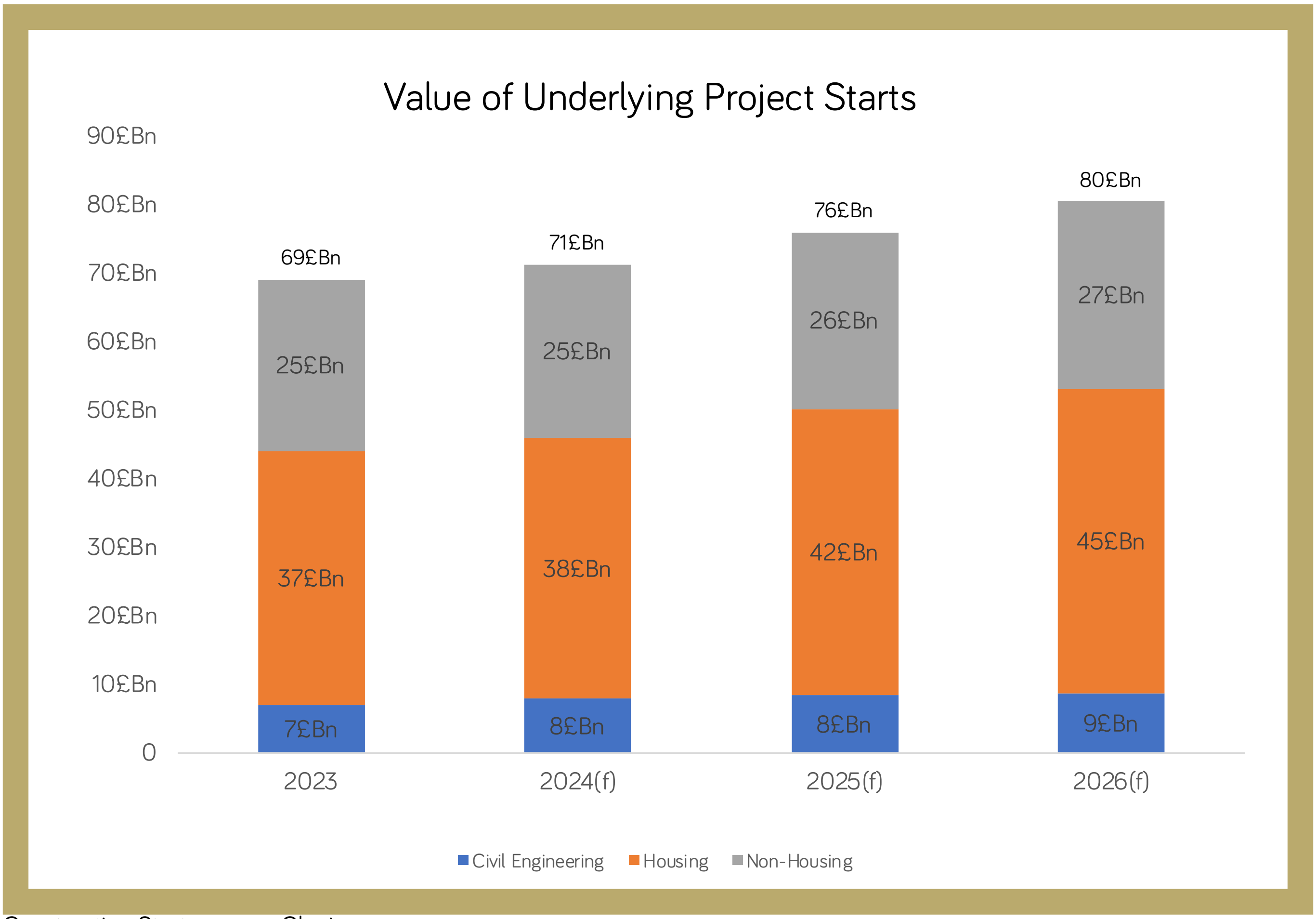
An emerging challenge may be the sector's capacity to meet increasing demand.

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

The election-related slowdown in growth seen in June proved to be temporary, with the pace of expansion roaring ahead in July. Firms saw the strongest increases in new orders and activity since 2022 as paused projects were released amid reports of improved customer confidence.

"The strength of demand moved the sector closer to capacity, bringing a recent period of improving supplier performance to an end.

Construction Output: Future Projections



Construction Starts: source Glenigan

The Glenigan Construction Industry Forecast 2024-2026 provides a view of the industry's future performance based on the value of project starts (rather than output value). It excludes projects with a value greater than £100m.

As the general economy is forecast to grow, so is the construction industry. Glenigan forecast that the industry will enter a period of year-on-year growth of new starts, with growth of 3% this year, accelerating to 7% in 2025 and then 6% in 2026. Sectors identified as leading the growth include private housing, offices, hotel and leisure, and logistics. The public sector may also grow, depending on the government's spending decisions.

Should new starts grow at the pace forecast, an increasing concern will be the industry's capacity to meet demand. It will need increased productivity, the adoption of innovative, digital ways of working, and an increased supply of construction workers.

Value of Project Starts 2024:

+3.0%

Glenigan

Architectural Workload

RIBA Future Trends Workload Index*

The latest set of RIBA Future Trends findings are the most encouraging for some time.

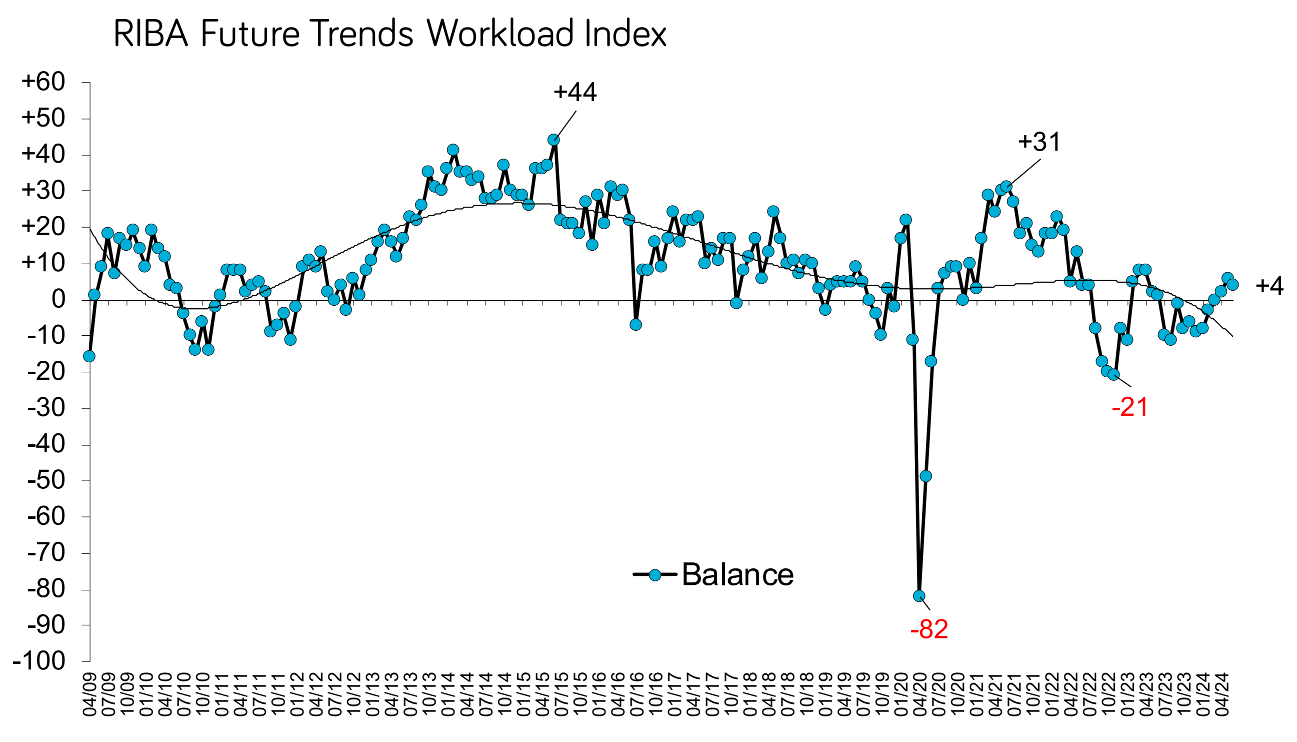
The second quarter of 2024 has seen architects become optimistic about coming workloads. In April, a nine-month run of negative Workload Index data ended. The last three months have all shown architects expecting workloads to increase, on balance.

In June, the RIBA Future Trends Workload Index stood at +4.

The RIBA Future Trends Permanent Staffing Index returned a +6 balance figure in June, the highest since the first half of 2022, suggesting the outlook for permanent staffing levels is improving and that an increasing number of practices may be preparing for long-term growth.

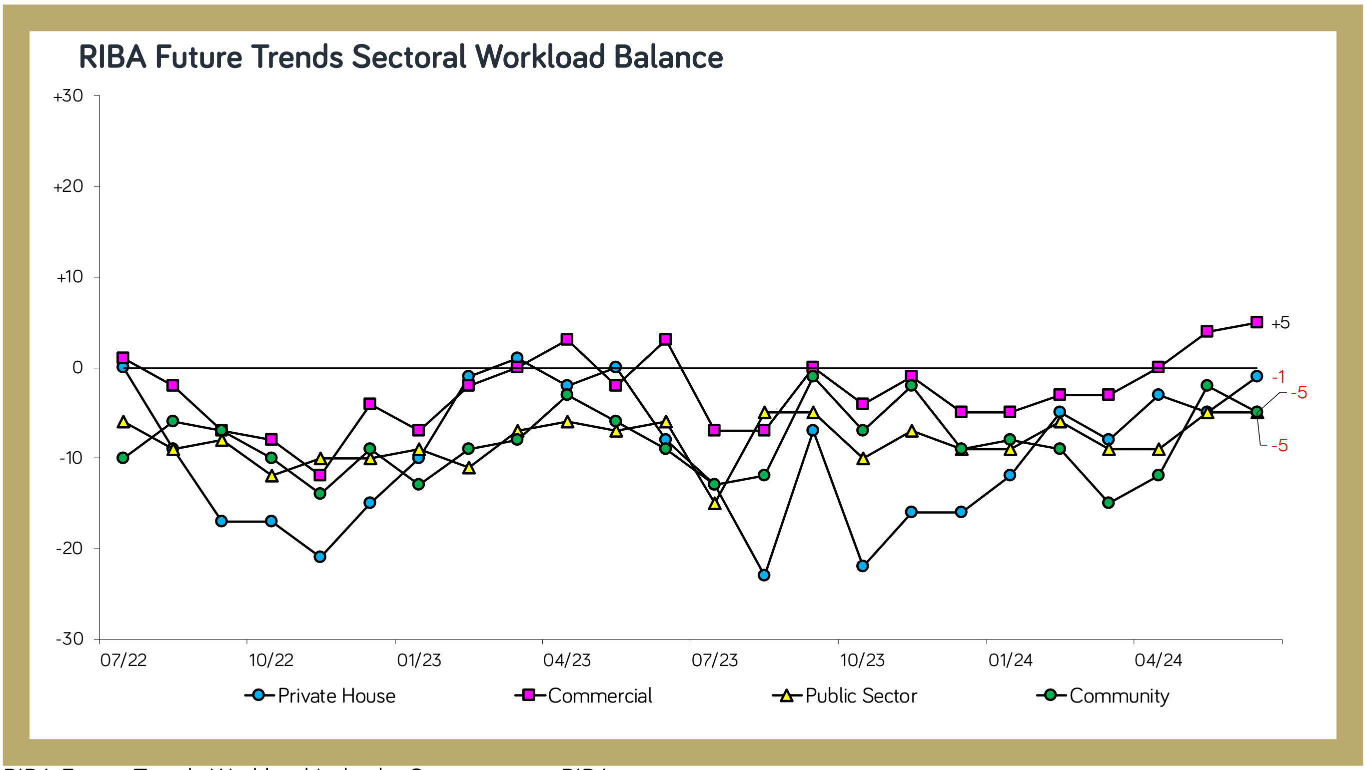
Significant challenges remain, however, including a planning system that continues to impede project progress, add cost, and tie up project funding. Practices continue to highlight cash-flow challenges, late client payments, and fee competition, especially from outside the profession.

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 at the four work sectors monitored through RIBA Future Trends, the Commercial sector has become positive in outlook, but the remaining three (Housing, Community and Public) remain negative. However, the trend is for an improving outlook across the board, even as monthly indices fluctuate.

Architects' assessment for future work in the **Commercial sector** has become positive, indicating an expectation of growing workloads. With a balance of +5, the sector has recovered from a negative (-5) outlook at the start of the year and from a recent low of -12 towards the end of 2022. The commercial sector includes work on offices, retail, hotels, and entertainment venues.

With a -1 Workload Index figure in June, the overall expectation is for a contracting **Private Housing sector.** However, the sector is slowly but appreciably recovering, with the Index now 22 points higher than its low of -23 in August 2023, and 11 points higher than at the start of the year.

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 -5, although this marks an improvement on the -15 figure seen in March this year.

Although slightly improved, the workload predictions for the **Public sector** remain weak at -5, but improved from the -9 figure at the start of the year. Even with public estate urgently needing renewal, the sector Index has been negative for 27 consecutive months. The new government's multi-year spending review, to conclude in the spring, may give greater long-term clarity.