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Lower for longer

Introduction

As domestic inflation starts to fall, there is a growing belief that tough monetary medicine is working. However, the cost of success will be even greater than expected. The Bank of England's prognosis of 'higher for longer' interest rates to root out persistent inflation will result in very weak growth between now and 2025. For growth-driven sectors like construction, prospects continue to deteriorate, and we expect that prices will remain 'lower for longer' as a result. This outlook reaffirms our tender price forecast downgrade published in June 2023.

Deteriorating growth prospects

The precarious balance between growth, inflation and monetary policy is at the heart of our latest forecast. The UK economy has certainly proven more robust than previously expected, with the Bank of England (BoE) now predicting growth of 0.5% in 2023 rather than a 0.5% contraction. However, in its latest Monetary Policy Report, the BoE has acknowledged the scale of the effort needed to eliminate inflation - forecasting the need for high interest rates until 2025, and, as a result, downgrading GDP growth forecasts for this period to 0.5% or below. This outlook, the consequence of the sharpest tightening in monetary policy for 35 years, is supported by an equally gloomy update from the National Institute of Economic and Social Research (NIESR), as well as concrete signs of a slowdown in recent PMI data releases.

Whilst CPI inflation is forecast to reach 5% by the turn of the year, down from 6.8% at the time of writing, inflation pressures remain sensitive to market developments. For instance, with core inflation in June unchanged from the previous month at 6.9%, and with stronger than expected wage growth data, the prospect of at least one further interest rate rise in the current cycle has grown. Table 1 highlights just how dramatically BoE forecasts have changed – particularly with respect to growth and interest rates. The table also illustrates a widening gap between OBR forecasts for growth and the BoE viewpoint. Given that government tax and spend plans are informed by OBR projections, the prospect of an OBR downgrade will be a concern for the Treasury.

Interest rates impacting investment and project viability.

As the economic cycle has evolved, the interest rate burden has become a far more material drag on viability than inflation or resource availability. Lower construction prices are unlikely to compensate for the costs of a hike in interest rates to over 5%. However, the picture is confusing. On the one hand, yields on government bonds have reached a 16-year high in recent weeks as investors bet that interest rates will stay higher for longer. On the other, mortgage rates were cut repeatedly during August 2023 as competition for business broke out between UK lenders. High finance costs mean that the BoE now forecasts that housing investment will fall by around 6% in both 2023 and

2024, and by a further 3% in 2025 - a much lower level of expenditure than was being forecast just three months ago. Meanwhile, the latest business sentiment survey from the Confederation of British Industry (CBI), finds that the share of firms citing financing costs as a barrier to investment has reached its highest level since 1991.

Rising interest rates are also starting to impact on business performance as well as investment. The latest EY-Parthenon profit warning report finds that changing credit conditions triggered one in five profit warnings in Q2 2023, the highest proportion since Q2 2008. This is most noticeable in the housing market, where a slowdown triggered 14% of profit warnings in Q2 2023 and in construction, which saw the highest level of warnings in a single quarter in three years. With base rates and finance costs forecast to rise further in 2023, prospects for an improvement in business performance are poor.

	OBR March 2023 Forecast (Nov 2022)	BoE August 2023 Forecast (May 2023)
GDP	• 2023: -0.2% (-1.4%) • 2024: +1.8% (+1.3%)	• 2023: +0.5% (+0.25%) • 2024: +0.5% (+0.75%) • 2025: +0.25% (+0.75%)
CPI	• Year to Dec 2023: +2.9% (+7.4%)	• Year to Dec 2023: +4.9% (+5.1%) • Year to Dec 2024: +2.5% (+2.25%)
Base Interest Rate	• Peak of 4.3% (5%) in Q3 2023	• 3Q 2023: +5.3% (+4.7%) • 3Q 2024: +6.0% (+4.2%)
Unemployment	• Peak of 4.4% (4.9%) in 2024	• 2023 +4% (+3.75%) • 2024 +4.5% (+4%) • Peak of 4.8% in Q3 2025
Business Investment	Total from Q1 2022 to Q1 2028: • £1,403bn (£1,409bn)	• Year to 4Q 2023: +1.75% (-0.25%) • Year to 4Q 2024: -2.0% (0%)

Table 1 - Dire growth outlook

Sources: Office for Budget Responsibility, Economic and Fiscal Outlook (March 2023 and November 2022), Bank of England, Monetary Policy Report (August 2023 and May 2023)

Note: Figures in brackets refer to previous forecast – Nov 2022 for the OBR and May 2023 for BoE.

Housing leads the slowdown.

Viability and demand levels remain core themes in the housing market. Recent trading updates from the housebuilders have done little to raise spirits, with Taylor Wimpey, for instance, reporting that they had started just 13 sites in H1 2023 compared to 50 in the same period in 2022. Perhaps of greatest concern is the August 2023 profit warning from Crest Nicholson, highlighting a halving of sales rates during the summer months as higher interest rates put off buyers. Bad news from builders comes on top of the latest update from the National Housebuilding Council (NHBC) which found that only 38,044 new homes were registered in Q2 2023, 42% down on Q2 2022.

Prospects have not been helped by DLUHC's confirmation in July 2023 of an 18m height threshold for second staircases in new residential buildings. We have recently commented on the impact of the second staircase rule in London on the pipeline of new residential projects. This unexpectedly tough ruling will bring many more schemes onto scope, requiring redesign, adding additional cost and reducing development value. Viability will also inevitably take a hit due to loss of sales area. Michael Gove was careful to stress plans for transition arrangements when making the announcement, but, in practice, the market will quickly recognise that new schemes with a single stair are second-best. Few developers will take the risk of proceeding with an existing design, leading to more schemes potentially being delayed.

No wonder then that the Construction Products Association (CPA) has further downgraded its forecast for the UK construction industry in 2023, suggesting recently that an overall 18.5% contraction in housing output will lead to a 7% decline in UK construction output this year. But while it is too early to predict when a recovery might start, the fact that several major lenders - Including Nationwide, Halifax and HSBC - are cutting interest rates in August is a good sign that some competition is being injected into a moribund housing market.

Signs of a broader slowdown?

Despite the slowdown in residential development, latest ONS data shows that total construction output has grown for eight quarters in succession, albeit at a much slower rate of 0.3%. Such resilience, presently driven entirely by repair and maintenance, is remarkable given recent traumas, albeit that new build work has already contracted by 2% from a peak in 3rd quarter 2022.

Nevertheless, concrete signs of a slowdown in construction are emerging, with the 12.4% fall in new orders data from the ONS in Q1 2023 compounded by a further fall of 7.1% in the three months to June. Indeed, it was the third consecutive fall in quarterly new orders. At £10.2bn, the Q2 2023 value was the lowest level since the second quarter of 2012, discounting the Covid-era data in 2020. As the pipeline contracts, the prospects of a long-predicted slowdown in construction activity become inevitable, and we expect this to accelerate in line with our previously published projections.

The most recent slowdown on orders was driven by a 33% fall in public other new work – such as health and education - and a 27% decline in infrastructure. These disappointing figures reflect a recent National Audit Office (NAO) report which found that the Department for Education is behind its initial schedule for awarding contracts on its 10-year programme of major rebuilding and refurbishment, having awarded just 24 contracts as of March 2023 - well below its target of 83. Given that infrastructure spending should presently be at record levels, any delay in project approvals is a lost opportunity.

It is important not to overread a single datapoint, but the apparent slowdown in public sector investment is definitely a watch-out and shows that no sector is immune to a reduction in demand. The public sector has been resilient until now, in particular with output for non-housing new build and housing repair and maintenance both up almost 6% in Q2 2023 compared to the same period last year. Unlike 2009/10, when increased public investment helped to shield some contractors from the worst of the credit crunch, there will be fewer sources of resilient funding in 2023/24, focused more on building safety and decarbonisation rather than new build projects. We examine the workload challenge further in our **Spotlight on Growth**.

Signs of an industry response

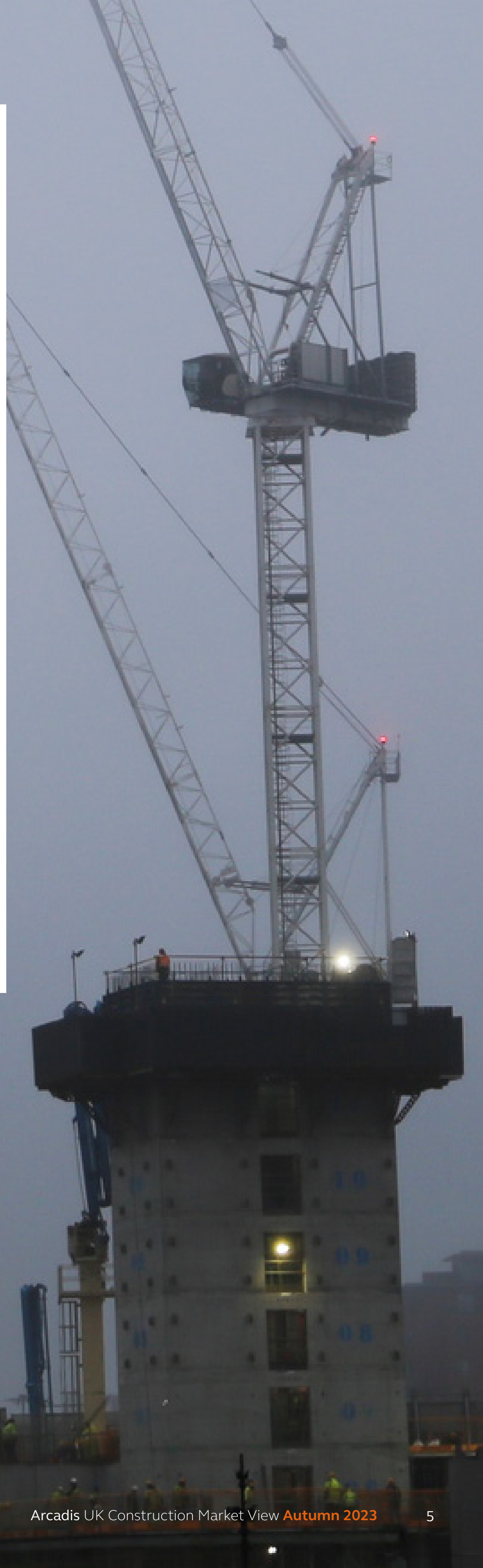
Sands appear to be shifting across the construction landscape, with a mixed bag of trading updates, evidence of restructuring and a disturbingly high level of business failures.

The latest data from the government's Insolvency Service showed that there were 2,244 business failures in construction in England and Wales in the second quarter of 2023, the highest quarterly total since at least 2010 and way above the average quarterly total over the past 13 years (1,579). The collapse of Henry Construction and entry into administration for Ilke Homes and Buckingham Group will take substantial capacity out of the sector. The combined turnover of Buckingham and Henry was more than £1bn. Henry's fixed-price, part direct-delivery construction model was broken by inflation in 2021 and 2022. More than 700 suppliers and subcontractors are potentially exposed to outstanding debts totalling £43m.

Looking ahead, latest EY-Parthenon profit warnings data shows that FTSE Construction and Materials companies issued six profit warnings in Q2 2023, the highest quarterly total since Q2 2020. Over the last 12 months, there have been 14 warnings from 11 companies, with 28% of the sector warning in total.

Outside of the listed sector, contractors including Higgins Group, Morrisroe Group and the UK-arm of Sisk have all announced pre-tax losses, with most citing the inflation on fixed price contracts as the main trigger. Meanwhile, other contractors including Wates, Sir Robert McAlpine and BAM have initiated restructuring as firms target greater efficiencies and focus on sectors with a greater potential for growth. Such changes are not confined to the contractor market either, with housebuilder Bellway consulting on the potential closure of two divisions and a limited number of redundancies, whilst major brick manufacturer Forterra has outlined job losses following a restructure of its commercial and support operations.

All of these measures highlight a construction sector that has endured tough times and is battening down the hatches as storm clouds gather. Our view is that it is unlikely that contractors will expose themselves to too much risk through low-ball pricing, even as markets slow.



Forecast

We anticipated a significant slowdown in work and opportunity in our most recent Summer Market View. The pipeline is deteriorating even as workload remains resilient. Wage pressures are the main inflationary driver and are fully priced into our forecasts.

Low growth outlook dashes hopes for mid-term recovery

In our Summer 2023 Market View, we downgraded our forecast on the basis of a deteriorating outlook – particularly for inflation and the pathway for long-term interest rates. We asked whether the construction sector was heading towards a capitulation, a tipping point where present market conditions for workload, employment and prices can no longer be maintained.

The implication of a tipping point is of course that previous assumptions about behaviours, particularly with respect to contractor work winning and pricing practice need to be revised. At present, we continue to expect that contractors will continue to price work prudently, with appropriate allowances for profit and risk. Should market conditions continue to deteriorate, it is foreseeable that some contractors and sub-contractors will reduce prices to secure work in competitive tenders. We have not yet reached this point but have come closer as a result of recent market trends.

Despite this, the paradoxical strength of the UK economy remains a problem, with short-term resilience triggering further interest rate hikes which in turn weaken future growth prospects. A dynamic, growing economy and a healthy construction market go hand-in-hand. Businesses and families need to be confident to invest in homes, factories and plant and a current account surplus provides a vital foundation for ambitious, long-term capital programmes.

As highlighted in the introduction, economy-wide constraints affecting the UK have to be eliminated to create spare capacity to enable inflation to return to target. This includes levels of employment and investment as well as consumption. BoE's August update is a tacit admission that more pain will be required if spare capacity is to be created to eliminate inflation. Crest Nicholson's recent shock profit warning, accompanied by a near 9% hit on the share price, suggests that these measures are already having an impact.

For a cyclical industry like construction, this spells trouble. Even as industry workload and sentiment remain steady, the foundations for future workload and prosperity are being undermined. The correction, when it comes, could be more substantial than previously thought – as highlighted by a rapidly deteriorating orders pipeline, down by nearly 20% compared to this time last year.

Material costs – relief at last

Material costs are finally falling after two years of punishing price hikes. In **Zoom into…materials inflation risk**, we take a deep dive into the drivers behind the emerging deflation trend.

Currently, most of the deflation is transitory – e.g., driven mainly by falling energy prices rather than by wider market factors. In our analysis, we highlight that manufacturers in the aggregate absorbed more inflation

than they passed on to clients, and also that energy price risk remains a significant issue. Manufacturers are likely to bake in, through hedging, current wholesale energy costs that are twice as high as pre-Covid levels rather than remain exposed to global shocks.

The elimination of materials price risk is a positive development for clients and contractors in that it will remove some of the need for large risk allowances that have had a negative impact on project viability.

Labour costs – no room for complacency

Our long-term view on construction market inflation has been informed by an expectation that labour costs would become an increasingly significant inflation component, as labour scarcity bites and the direct labour model reduces the flexibility available to employers with respect to employment costs and utilisation.

In an unexpected development, the numbers of self-employed operatives increased by 5% in the 2nd quarter. This is the first material increase since mid-2021, although numbers are still down by over 20% compared to 2019. Our interpretation is that the increase is most likely down to a return of workers into formal employment as other opportunities dry up. Our view is that this does not represent an increase in capacity.

During the pandemic, rates for self-employed operatives shot up, particularly for trades associated with the booming housebuilding sector. Over the past 12months, the rate of increase in site rates has moderated. Data from Hays for 2Q 2023 shows site rates up by 4.7%, whilst data from labour agency Hudson's Contracts records an increase in weekly earnings of 6.5% since June 2023.

By contrast, directly employed labour rates are set to increase substantially in 3Q 2023 as a one-year, 8% award for construction operatives takes effect. Mechanical, electrical and plumbing (MEP) trades have yet to agree a deal to replace their current two-year, 3% per annum agreement and there is sure to be extra pressure on MEP employers to close some of the gap between earnings of skilled operatives and wages in the wider economy.

The area of greatest concern is associated with the professional, technical and scientific grades, where employment has increased by around 25% since 1Q 2019. There is huge competition for these resources across many sectors, and as a result, pay has been increasing at over 10% for the past 12 months. This will affect contractors, consultants and other advisors, as the war for talent takes another twist.

Now that earnings are increasing at a rate above inflation, and with mortgage cost hikes rippling through the economy, we remain cautious with respect to the chances of a labour cost-led correction in construction prices. Some trades associated with housebuilding may benefit from falling day-rates, although this is likely to involve a return to typical earnings rather than a substantial rebasing.

Insolvency – a crisis of capacity?

Our introduction highlights the significant increase in insolvency numbers that has taken place in the past 18 months. Business failures in the sector are on an upward trend and are above levels last seen after the great financial crisis in 2010 and 2011. The failures of Henry Construction and Buckingham Group have taken two top-50 general contractors out of the market and will have a further knock-on effect as their supply chain absorbs losses on millions of pounds of unsecured credit. Latest 'Red Flag Alert' data from insolvency specialist Begbies Traynor highlights that 61,400 construction businesses represent a 14% share of enterprises exposed to significant financial distress. Most of these will be micro-enterprises, but the data point is emblematic of an industry that is exposed on a broad front to low margins and unpredictable cashflow and consequently exposed to a greater risk of failure as turnover falls.

The sustainability of the contractor model is also likely to come under greater pressure in coming years as higher costs of finance take their toll. Latest BoE analysis on the potential for rising interest rate payments to increase the risk of debt default suggests that around 70% of medium-sized companies could be exposed to a low interest rate coverage from 2023 onwards. Whilst these levels are some way off the level of exposure suffered after the dotcom crash and the great financial crisis, they are a reminder that higher for longer interest rates will affect market capacity as well as workload.

The implication of this analysis for the forecast is that industry capacity may continue to contract as workload also shrinks. In turn this could create conditions for either upward or downward pressure on pricing. The outlook is far from clear, even as the slowdown accelerates.

Since the publication of our June 2023 construction forecast, conditions for our markets have deteriorated. Borrowing costs have increased substantially over and above base rate hikes and are expected to remain high for the next two years to help eliminate persistent inflation. As the BoE unleashes even more firepower in order to create slack in the economy, our conclusion is that prospects for the investment economy including housebuilding and commercial development are likely to be further downgraded.

Further factors that will hold back growth include the wider regional impact of the reset second staircase rule and the unexpectedly rapid slowdown in public sector procurement. This is evidenced in another disappointing set of orders data that highlights the broad-based decline in opportunity.

In view of the downgraded forecasts published by Arcadis in Summer 2023, we retain our view on price inflation across building and infrastructure. We highlight that there is a negative outlook for prices in 2024 in particular but retain our current projection in advance of seeing further market-backed evidence of correction.

Our central prediction for the period 2023 to 2025 remains low inflation, not deflation. However, in the light of worsening data, particularly in connection with the housebuilding sector, we highlight that there is now a material downside risk of a competitive price correction.

The forecast has three major components, in line with our Summer 2023 projection:

- Input cost inflation affecting labour only will continue to result in higher construction costs, even as workload falls.
- A slowdown in current and future workload in London will mean that there will be no differential between regional and London markets in the medium term.
- Infrastructure will continue to be affected by materially-higher inflation than for buildings, enabled by cost-reimbursable contract models as well as competition in the resilience and energy transition sectors.

Our unchanged Autumn 2023 forecast is set out below:

- We retain our 2023 forecast for buildings in London and the regions at 2%. Only two regions are securing new workload above the level of the long-term trend – North East and South West England.
- We retain our buildings inflation forecast for London and the regions in 2024 at 1-2% in anticipation of improved buying conditions. Market conditions could deteriorate further based on emerging demand-side evidence.
- We retain our 2023 forecast for infrastructure at 5-7%. Cost pressures on road and rail projects will be to the bottom of the range.
- We retain our infrastructure forecast for 2024 at 3-4% in anticipation of sustained demand from energy and water sectors.
- We forecast that prices across all sectors in 2025 will rise by 3-4%.
- Looking forward to 2026 and 2027, we maintain our long-term inflation expectation at 4% for buildings across all regions. We retain our 5% forecast for infrastructure in anticipation of further growth in water and energy investment.

	Regional Building Construction TPI	London Building Construction TPI	National Infrastructure Construction TPI
2022	10% (10%)	10% (10%)	12% (12%)
2023	2% (2%)	2% (2%)	5-7% (5-7%)
2024	1-2% (1-2%)	1-2% (1-2%)	3-4% (3-4%)
2025	3-4% (3-4%)	3-4% (3-4%)	3-4% (3-4%)
2026	4% (4%)	4% (4%)	5% (5%)
2027	4% (4%)	4% (4%)	5% (5%)
Total	**24-26%**	**24-26%**	**33-37%**

Inflationary drivers	Deflationary drivers
• High levels of workload	• Structural deflation after 2022 peak
• Sector-specific demand	• General economic slowdown
• Core inflation	• Order book replacement across most sectors
• Loss of industry capacity	• Lower fuel costs
	• Risk attitude

Zoom into: materials inflation risk

The dominant feature of the construction inflation environment since 2020 has been the cost of materials. Recent figures suggest that the tide has turned. Trading updates from across the sector highlight that materials price inflation is moderating. Is this a temporary, demand-led reversal or a return to long-term stability?

Input costs and factory gate prices

Commodity prices have had a big role to play in the inflation story. Globally, market conditions were benign in the years leading to 2020, but metals and minerals prices rose by about 40% after the initial lockdown period in 2020. Gas and electricity costs in Europe increased by much more than the global trend due to the Ukraine crisis and still remain at double the levels seen before 2020. Prices for both energy and for metals and materials have levelled off since the start of 2023, albeit at materially-higher price levels.

Greater stability in global markets has already been reflected in UK manufacturing sectors. Overall, the costs of manufacturing inputs fell by 3.3% in the year to July 2023. This is an accelerating trend, and the current negative growth rate is the lowest since May 2020. The main driver is a near 40% fall in the price of crude oil in the last 12 months.

Lower prices only matter if they flow into the wider economy. Factory gate prices charged by material producers fell by 0.8% in the year to July 2023. Factory gate price inflation has not been this low since October 2020, although the ONS data highlights that manufacturers may have absorbed more input cost inflation after 2020 than they passed onto their customers. At the peak of the inflation cycle in October 2022, manufacturers were absorbing over 40% cost hikes whilst increasing prices by less than 30%. This is highlighted in figure 1, which shows that a much bigger differential remains between input and output indices compared to the long-term trend.

Are construction materials prices falling yet?

As highlighted in our introduction, construction output is forecast to fall by 7% in 2023, even as the UK economy avoids recession. Pricing of construction materials is therefore much more likely to be exposed to demand-led deflation as well as repricing enabled by falling input costs.

Latest data from the Department for Business and Trade (DBT) showed that annual UK construction materials price inflation, based on a basket of materials, fell by 2.0% year-on-year in June 2023. The picture behind the headline figures is inevitably more complex. Prices for reinforcing steel and timber have been falling for some time, but has, up until now, been offset by increases in categories including insulation materials. However, in the past three months there has been very little upward inflation whilst downward pressure has remained on rebar and so on. The one exception is ready mixed concrete – up 19% in the year

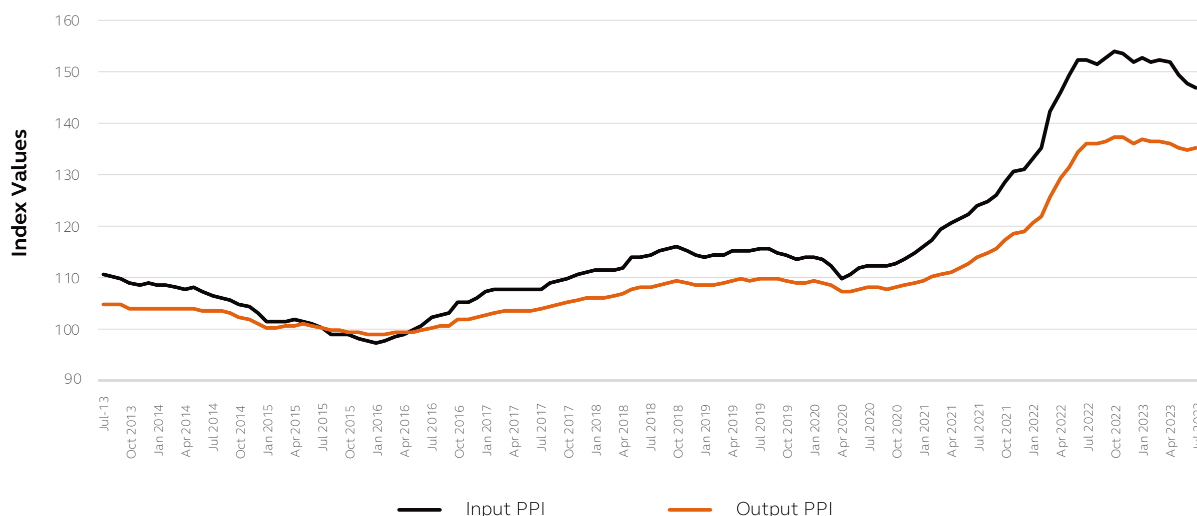


Figure 1: The input PPI level continued to fall in July 2023, while the output PPI level remained relatively stable

and 10% in the past three months.

Other positive news points to an easing of wider constraints in the supply chain. The August 2023 CIPS Construction PMI survey reports shorter delivery periods and the latest ONS Business Insights and Conditions Survey (BICS - June 2023) reports that over 73% of UK construction companies in the survey were readily able to get the materials, goods or services they needed from the UK. At the height of the Covid-19 pandemic in October 2020, only 35% of construction firms gave a positive response.

Have costs reached a new baseline?

Between 2018 and 2020, the prices of construction materials increased at 1-2% per annum. Materials were the stable part of the price equation. Margin, risk and labour costs were far less predictable. Since June 2022, prices have returned to a more stable trajectory, albeit with more fluctuation as categories like insulation and rebar have shot up and down in price. Looking forward, have prices reached an equilibrium? Could they fall? Or worst of all, could there be a price hike around the corner?

There are several factors that could influence the future trajectory. The first centres around energy. Europe's globally sourced LNG imports are far more sensitive to supply disruptions. Natural gas prices surged 40% in early August at the prospect of strikes in Australia. Goldman Sachs – a leading bank in commodities – has warned that European prices could double or even triple this winter.

By contrast, the risk of a spike in demand for commodities from China has dissipated. Quarter on quarter growth fell to just 0.8% in 2Q 2023 and exports in July 2023 fell by 14.5% year on year. A weaker Chinese economy places less competition on supplies of natural gas and on goods such as steel, which should help further quell price pressures elsewhere.

Another equally unexpected deflationary development is the UK's carbon price, which affects the costs of the UK's energy-intensive manufacturers. Prices for carbon in the UK Emissions Trading Scheme (UK ETS) peaked at £98 per tonne in August 2022, but have fallen sharply since March 2023 due to an increase in the number of credits allocated to UK businesses. The price now stands at just £40 per tonne providing UK-based manufacturers of carbon-intensive products like steel and glass extra headroom to pass savings back to customers. European carbon prices remain unchanged however, which may mean that there is less competitive pressure to drive prices down.

In conclusion, most of the transitory effects of energy cost reductions have passed through the materials supply chain, but not all of the price hikes were passed to clients in the first place. With commodity markets stable and with wages increasing faster than background inflation, manufacturers will be careful to defend current price levels rather than engage in repeated rounds of discounting during an extended slowdown. With manufacturers like Ibstock mothballing capacity, and with continuing risks around energy prices, clients should take the discounts where they find them, but not bank on falling material prices as a panacea for strained capital budgets.

Spotlight on: hot spots, soft spots and not spots

Current forecasts for construction anticipate that growth will return in 2024, aided by a modest rebound in housebuilding. The 'higher for longer' hypothesis undermines these assumptions – particularly the positive impetus that markets are expected to experience once the cycle turns.

Survey data collected by Arcadis in preparation of our Autumn Market View forecast suggests that an increasing number of clients are delaying investment, and those that do invest are progressing projects on a stage-by-stage basis, minimising expenditure and risk in a highly-uncertain environment. The caution of these clients is reflected in latest ONS new orders data. After a strong post-Covid bounce back, orders have been on the slide for three quarters and very few sectors are showing signs of life at all. Other than the electricity sector that continues to be boosted by energy-transition related investment, only schools and universities in the private sector, and, surprisingly, retail are showing much spark. Offices are doing OK, well up against an inflation-adjusted long-term trend, but down in the short-term.

Housebuilders like Persimmon, who reported half year results in early August 2023 have carefully managed expectations with respect to completions in 1H2024 and have reduced expenditure on their landbank. Looking forward, all incentives to bring forward activity including Help to Buy, and the Future Homes Standard transition have all run their course. Volume sales to registered landlords and institutional landlords may sustain some demand, but in the aggregate, housing markets are likely to be subdued.

Logistics, like the housing market, have ridden the post-Covid wave, but that also appears to be losing momentum. Cushman and Wakefield, for example, forecast a contraction in e-commerce volumes in both 2024 and 2025, which will undermine demand for new

development. Take-up in 2Q 2023 was the lowest since 1Q 2020 and availability has returned to the long-term trend. Meanwhile construction volumes and pipelines for logistics remain healthy even as a contraction accelerates. There is likely to be further pain in the sector – even as long-term fundamentals remain strong.

Probably the soft spot causing the greatest concern is the public sector. Ministers are keen to highlight that public sector investment is at the highest level since the late 1970s, but not only are spend levels declining, but programmes are slowing also. 88% of the Building and Infrastructure programmes reviewed in the recent IPA Annual Report on Major Projects were rated amber or red, indicating some concerns with respect to deliverability. Given that the whole life cost of these programmes totals more than £400bn, any delay should be a cause for concern. Capital spending is projected to fall in line with the rate of inflation, but the reduction seen in recent data is much deeper than this, particularly in rail, road and non-residential buildings. Hopefully, some of the reduction is the short-term consequence of redesign and reprocurement in response to high prices. A June survey by SIGOMA, (the Special Interest Group of Municipal Authorities representing 47 urban authorities across England), found that around 60% of members were taking cost-cutting measures to manage stretched capital budgets. Almost half said they had already delayed projects, while 35% said they had axed projects that they can no longer afford to finance or will reduce the overall number of projects for the current financial year.

Many contractors will be concerned that the safety net of public spending could be pulled away, just as it is most needed. Quasi-public sector programmes including building safety and decarbonisation of housing will assume even greater importance as other sources of workload diminish.

In summary, there are far more 'not spots' than hot spots in the current market as the counter-cyclical public sector slows spending in the face of inflation and expenditure constraints.

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Arcadis

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