



# Brexit and the outlook for Construction

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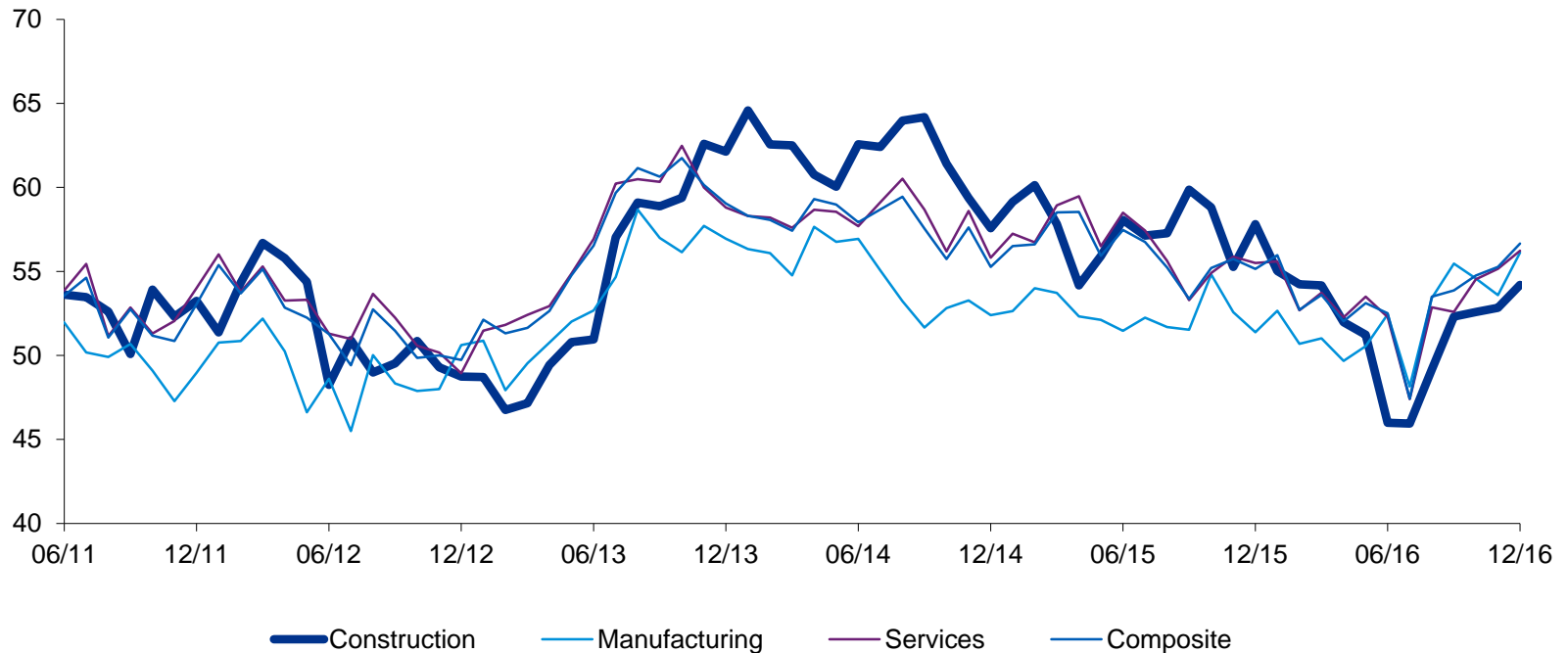


# The Brexit Paradox

It was supposed to be a meltdown, but...

# Sentiment has picked up since the EU referendum vote

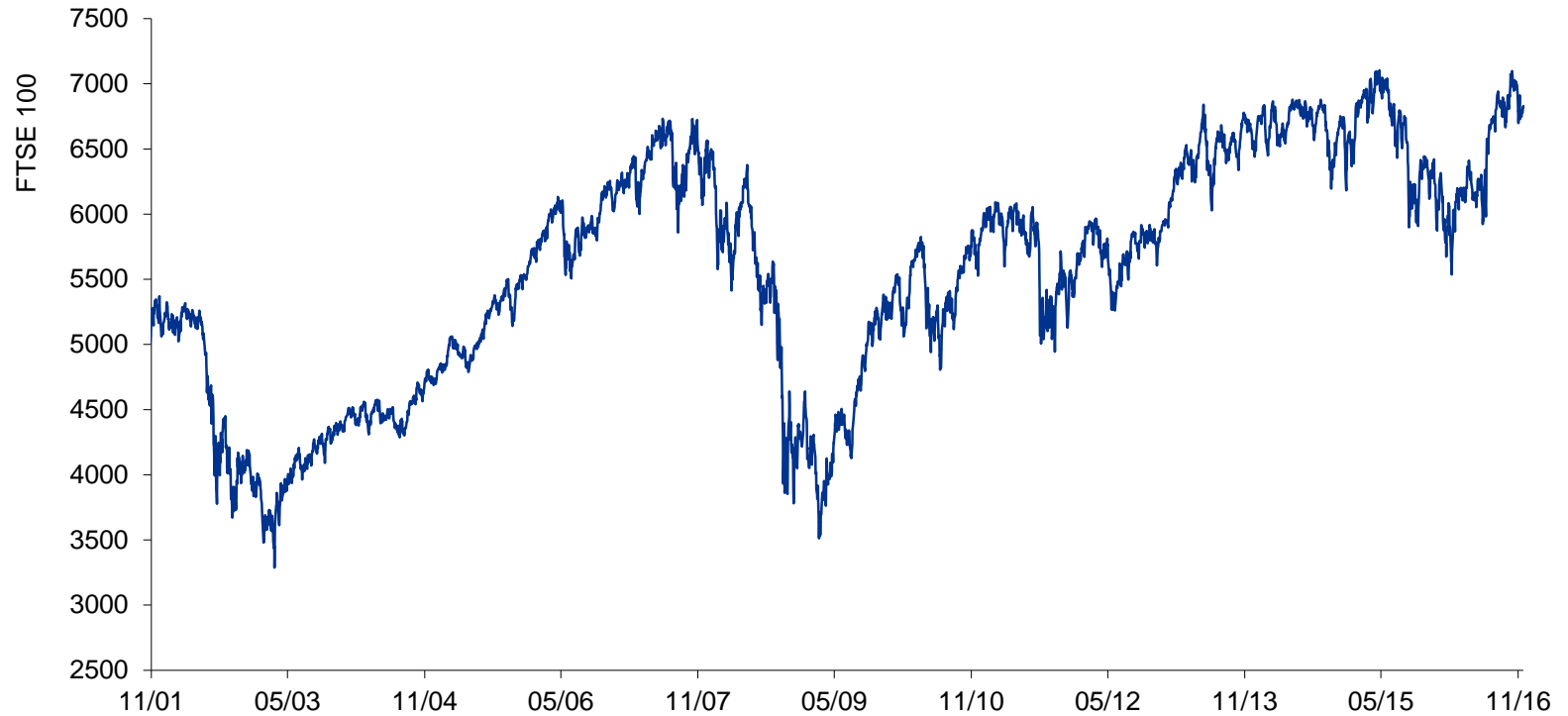
## Purchasing Managers Index (Composite, Construction, Manufacturing, Services)



Source: Markit

# UK equities have shrugged off Brexit and Trump

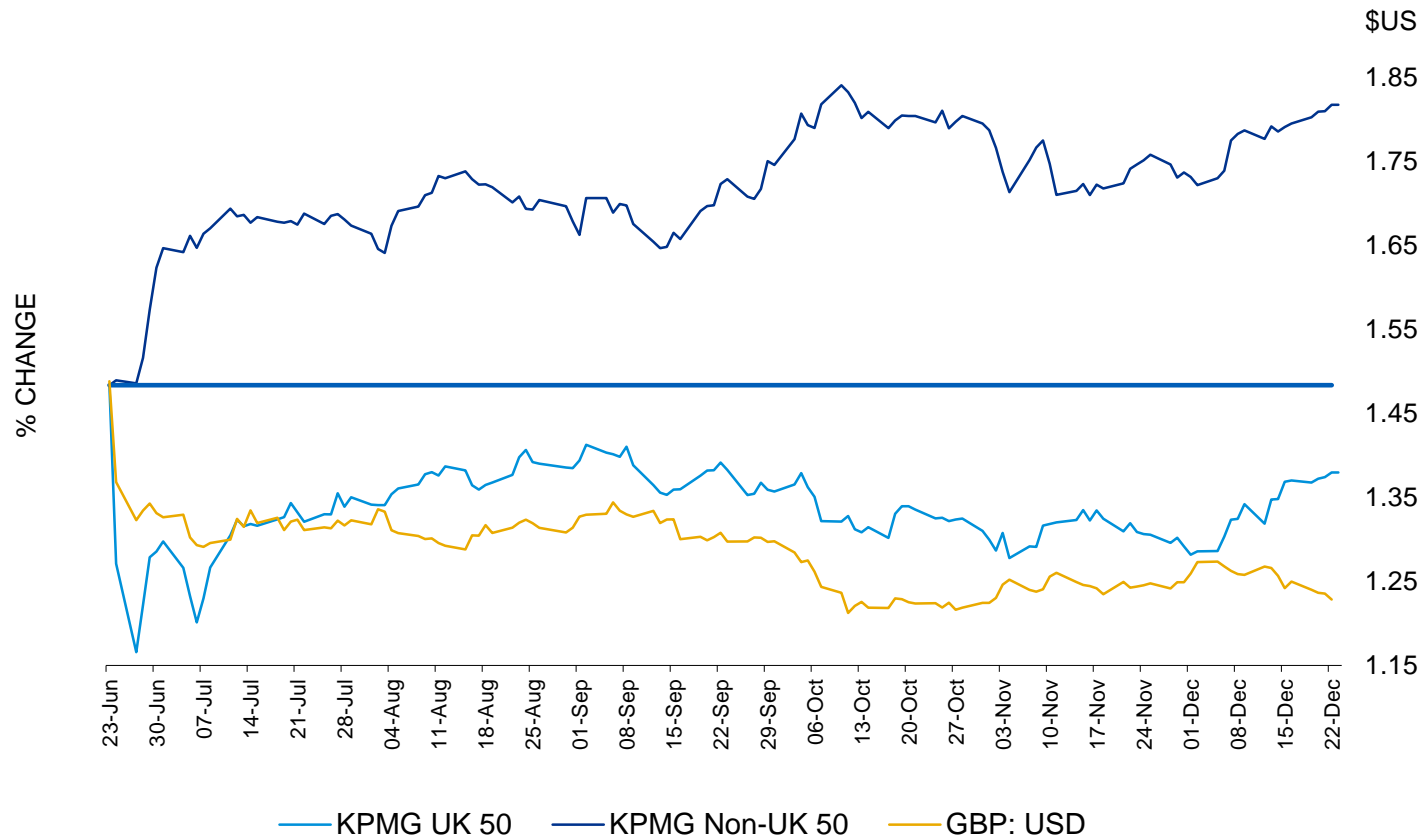
## FTSE 100



Source: Bloomberg

# Though performance is a function of external exposure

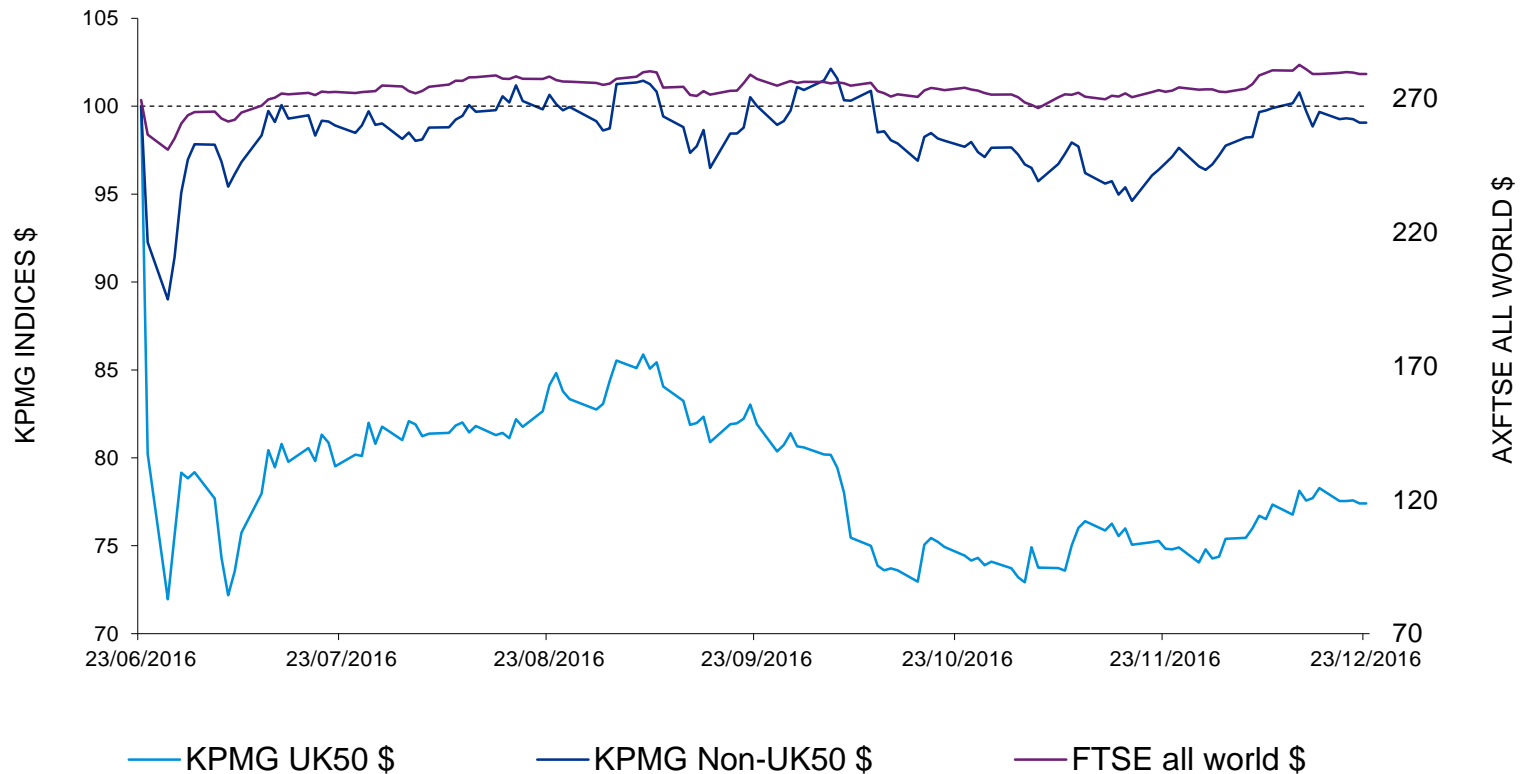
## Performance of KPMG indices since Brexit vote



Source: KPMG analysis, Bloomberg, Capital IQ and Thomson Reuters Datastream

# And removing the exchange rate effect changes the picture

## Performance of KPMG indices since vote, in dollars

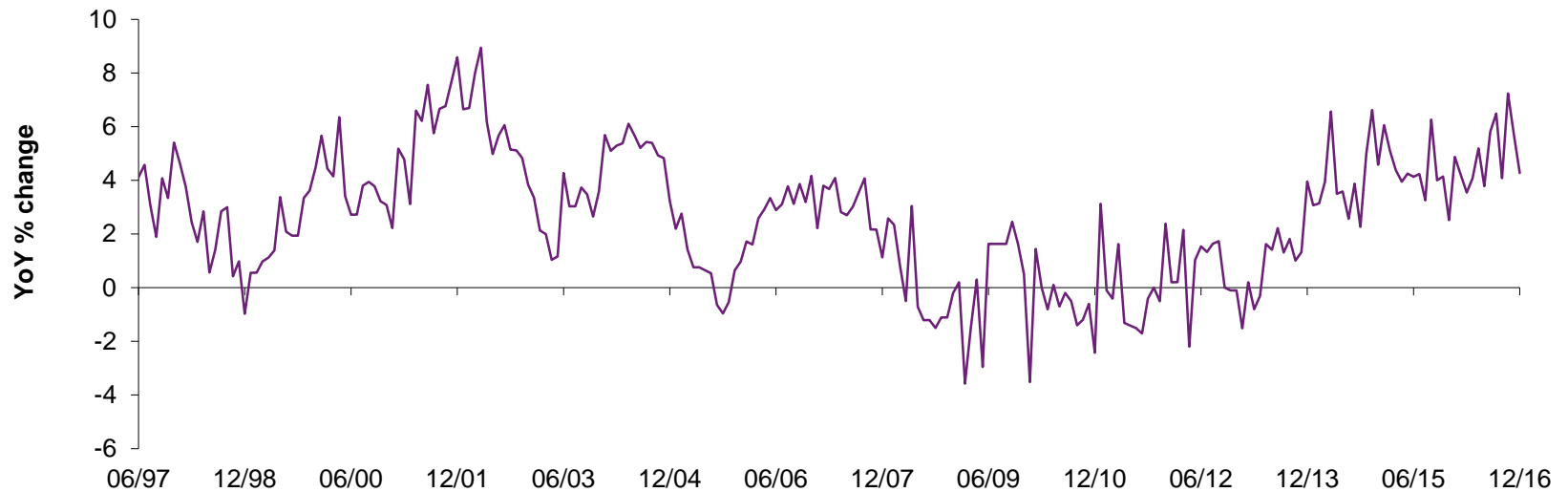


Source: KPMG analysis, Bloomberg, Capital IQ and Thomson Reuters Datastream

# Retail spend has proved remarkably resilient

## Retail Sales

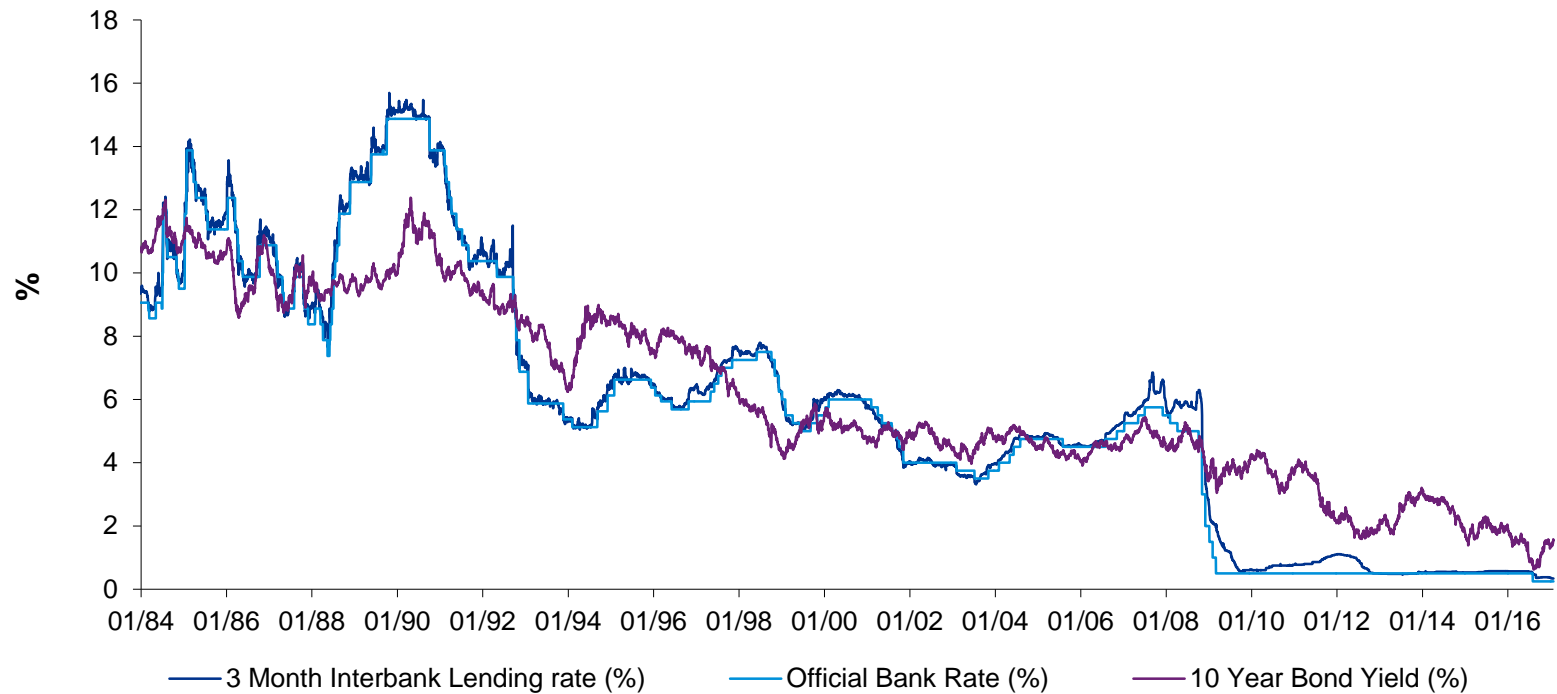
(Retail Sales: All Retailing including Automotive Fuel (SA,2013=100))



Source: ONS

# Fuelled by low interest rates

## UK Bond Yields and BoE rate



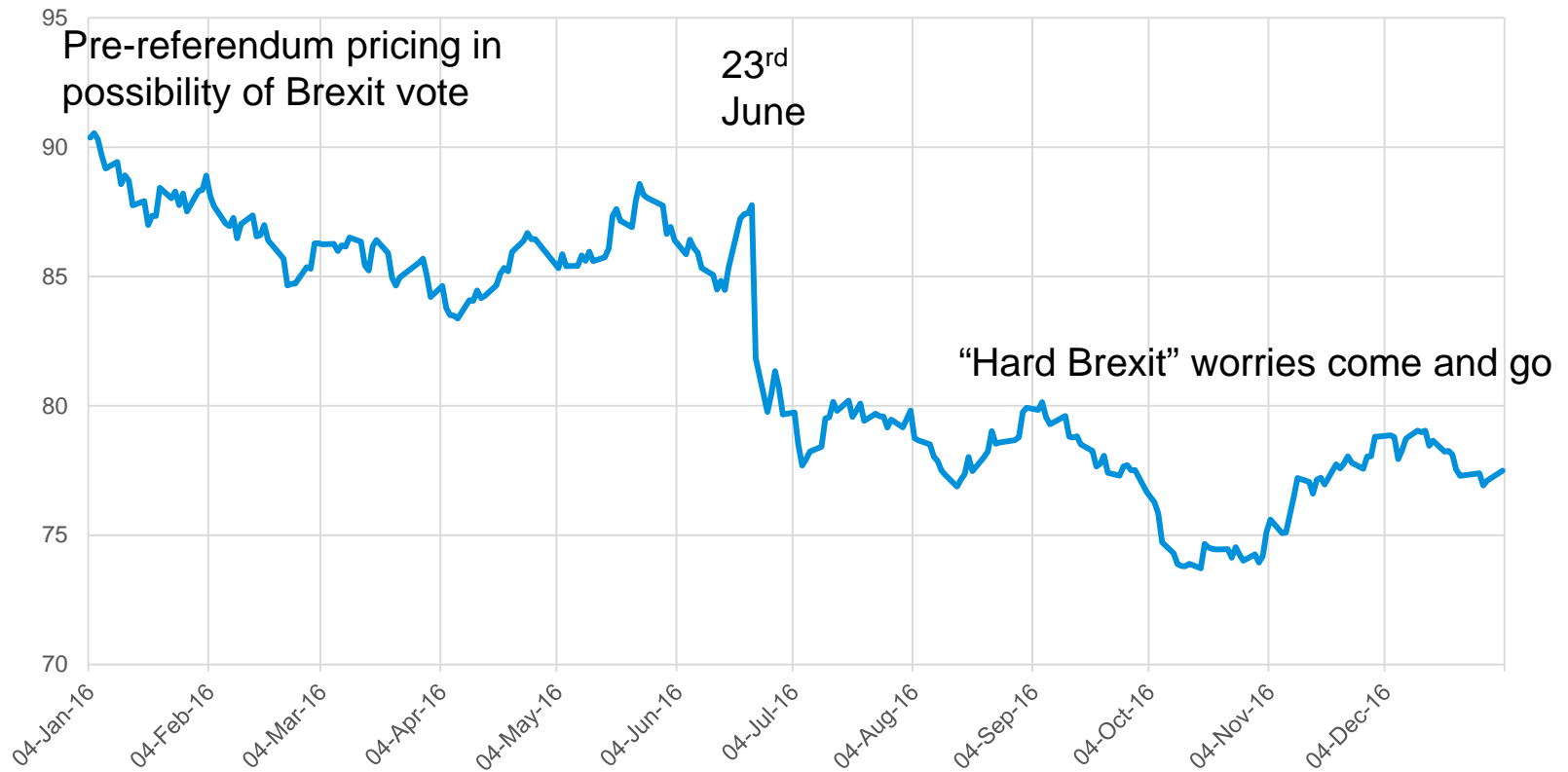
Source: Bank of England



# Exports are benefiting from the 18% fall in sterling in 2016

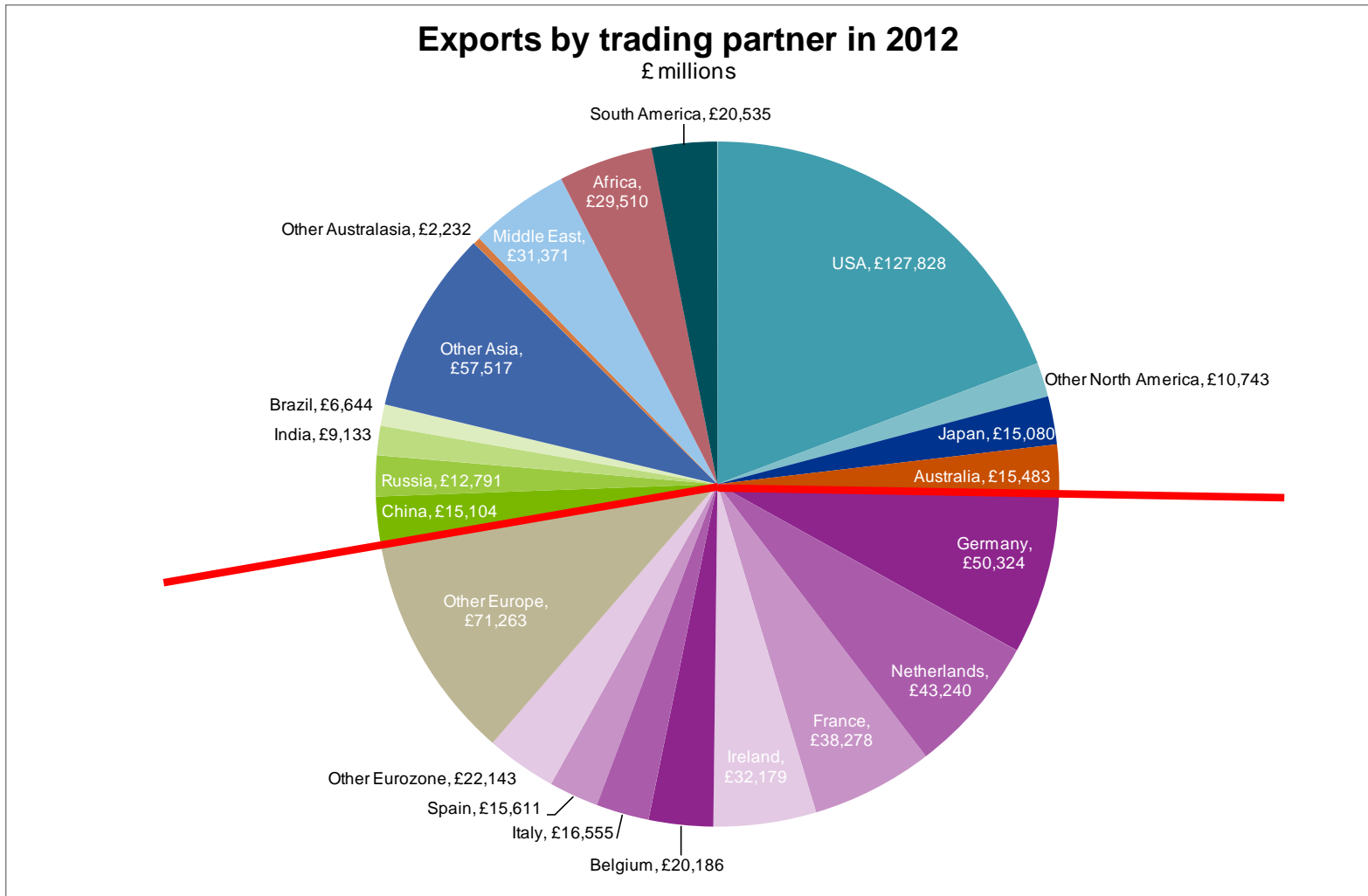
## Sterling exchange rate

(effective exchange rate index, 2005=100)



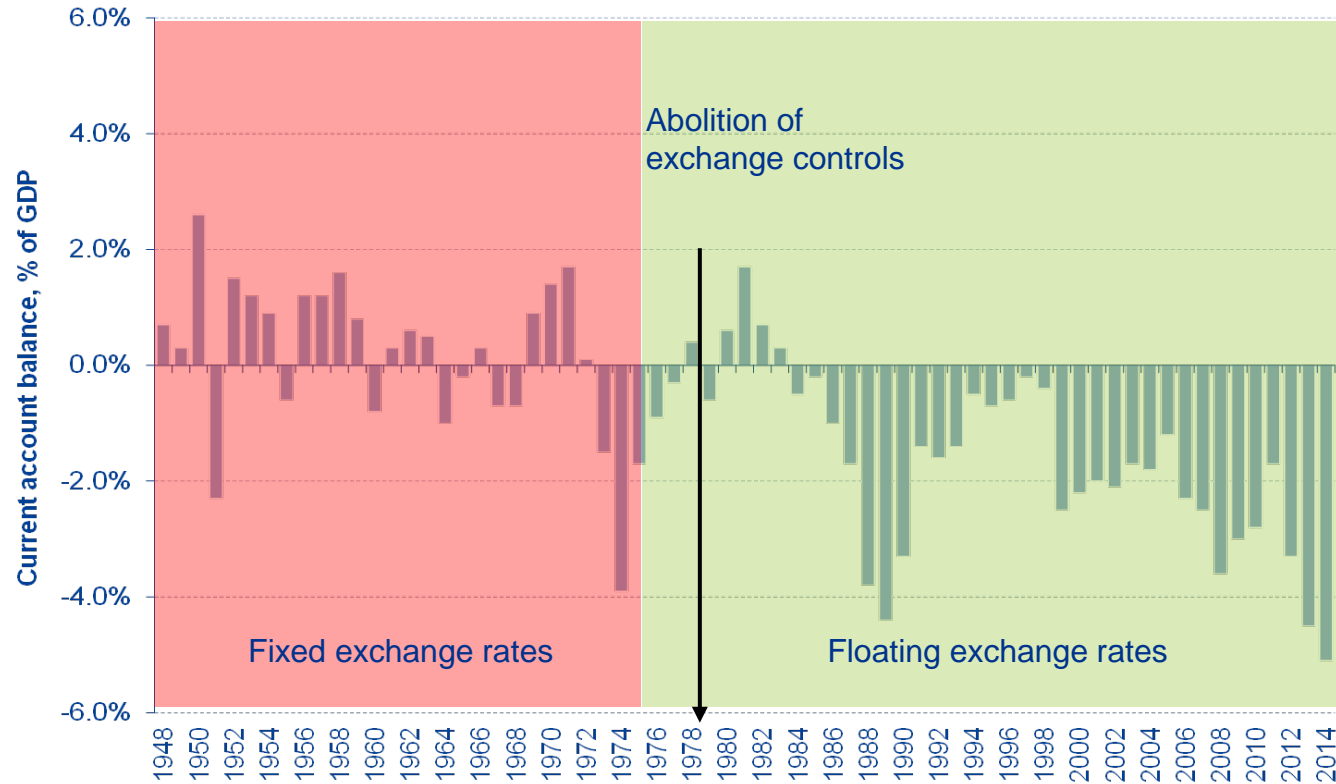
Source: Bank of England

# But nearly half of UK exports go to Europe



# & trade deficit suggests the fall is likely to prove permanent

## UK current account balance (% of GDP)



Source: ONS, *The Pink Book*

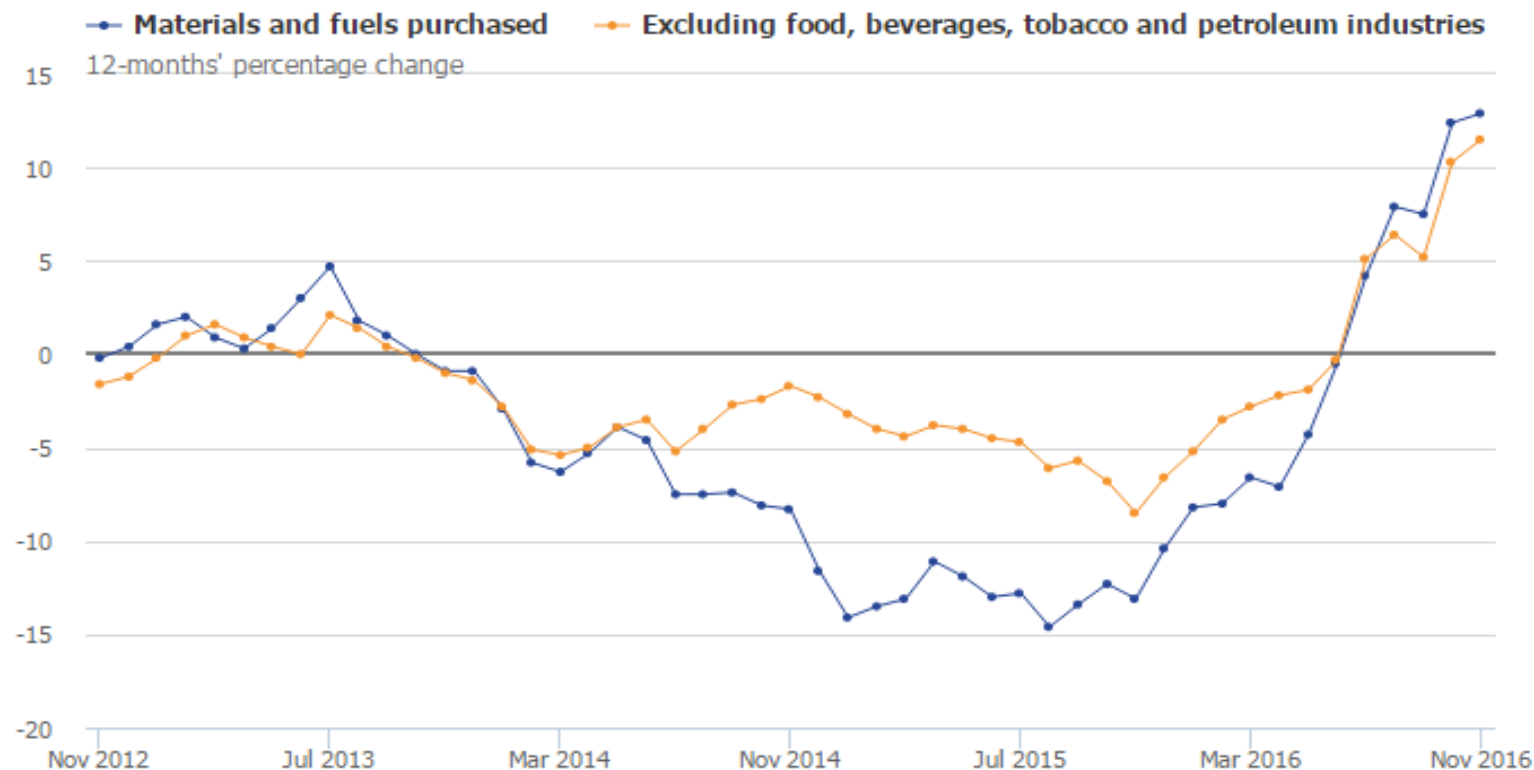


So it will all be ok  
then?

Well, not really...

# Raw materials cost has risen 12% as sterling has weakened

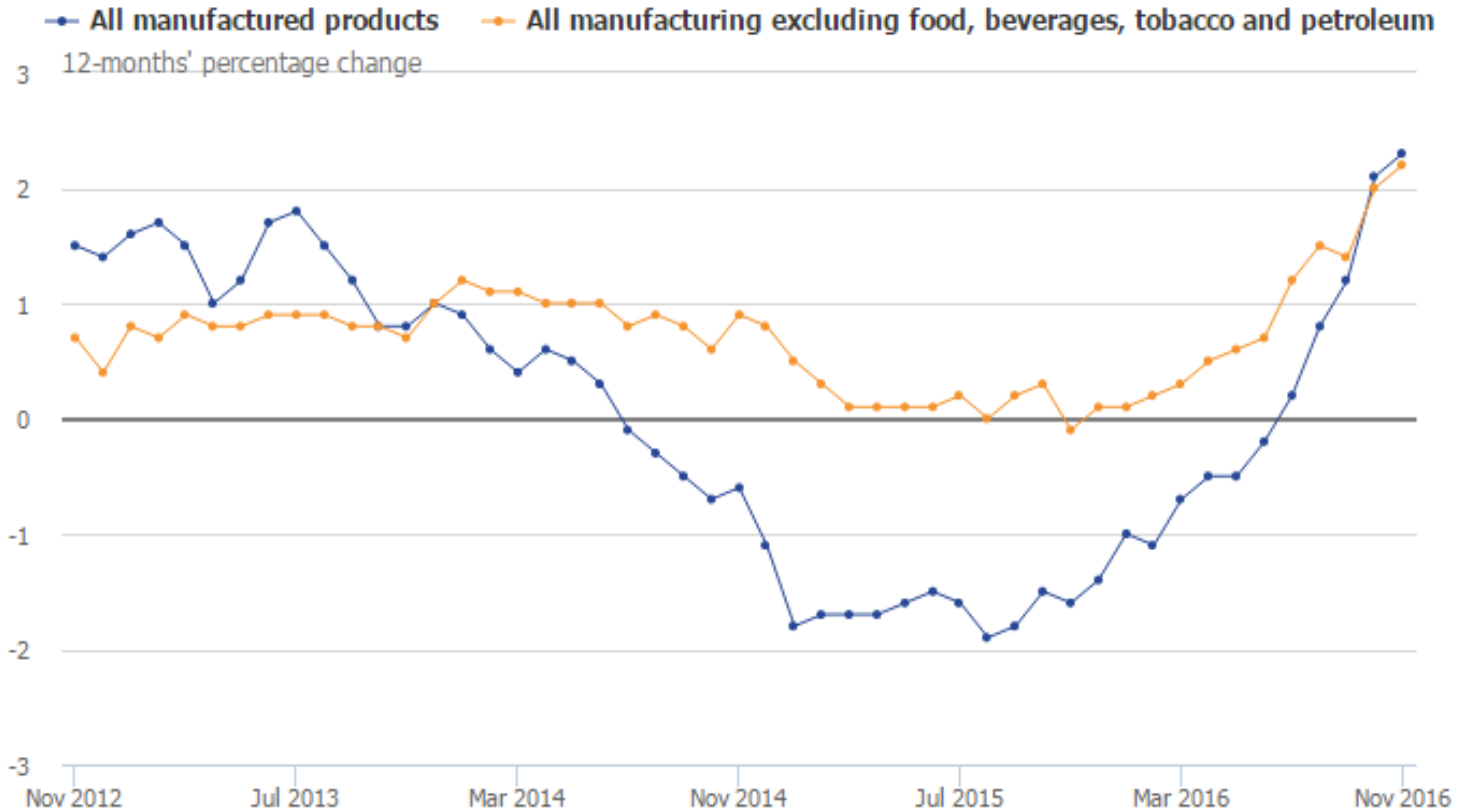
## Manufacturing input prices



Source: ONS

# Leading to a 2% increase in output prices

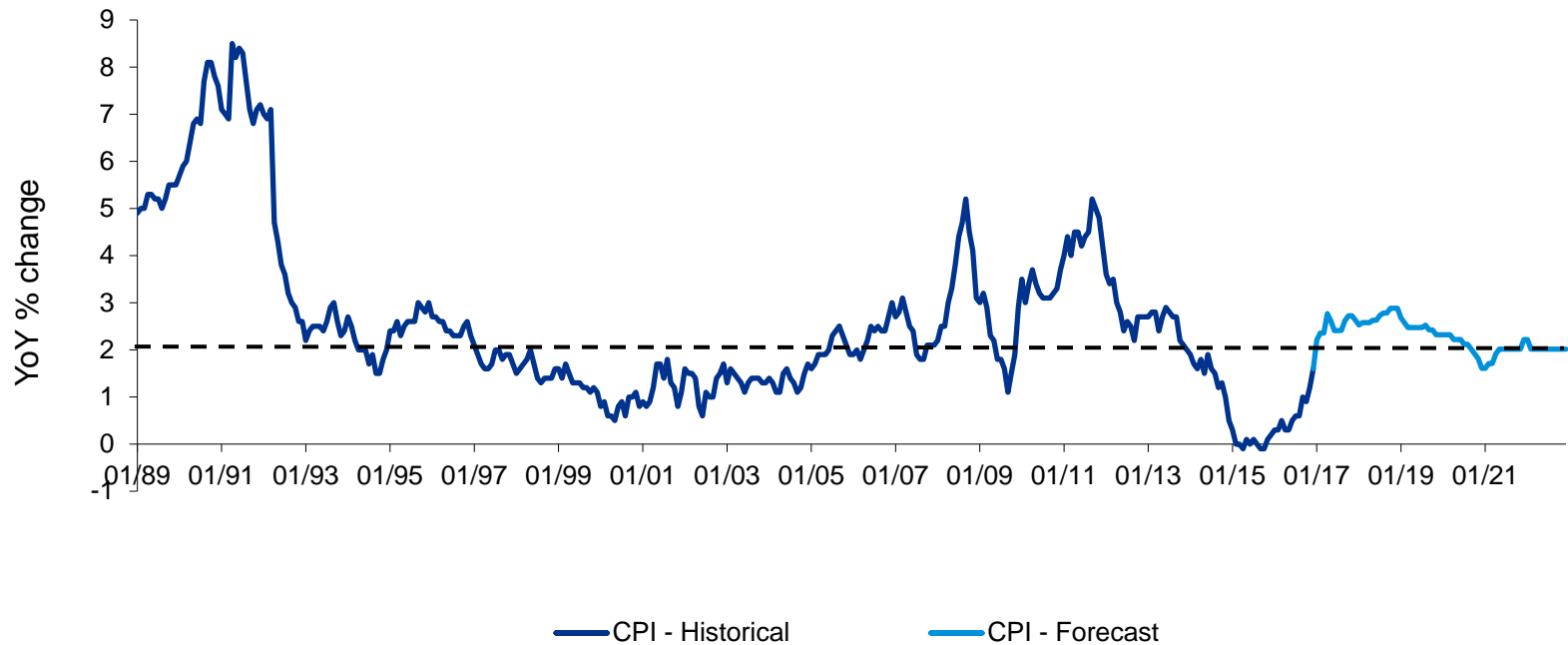
## Manufacturing output prices



Source: ONS

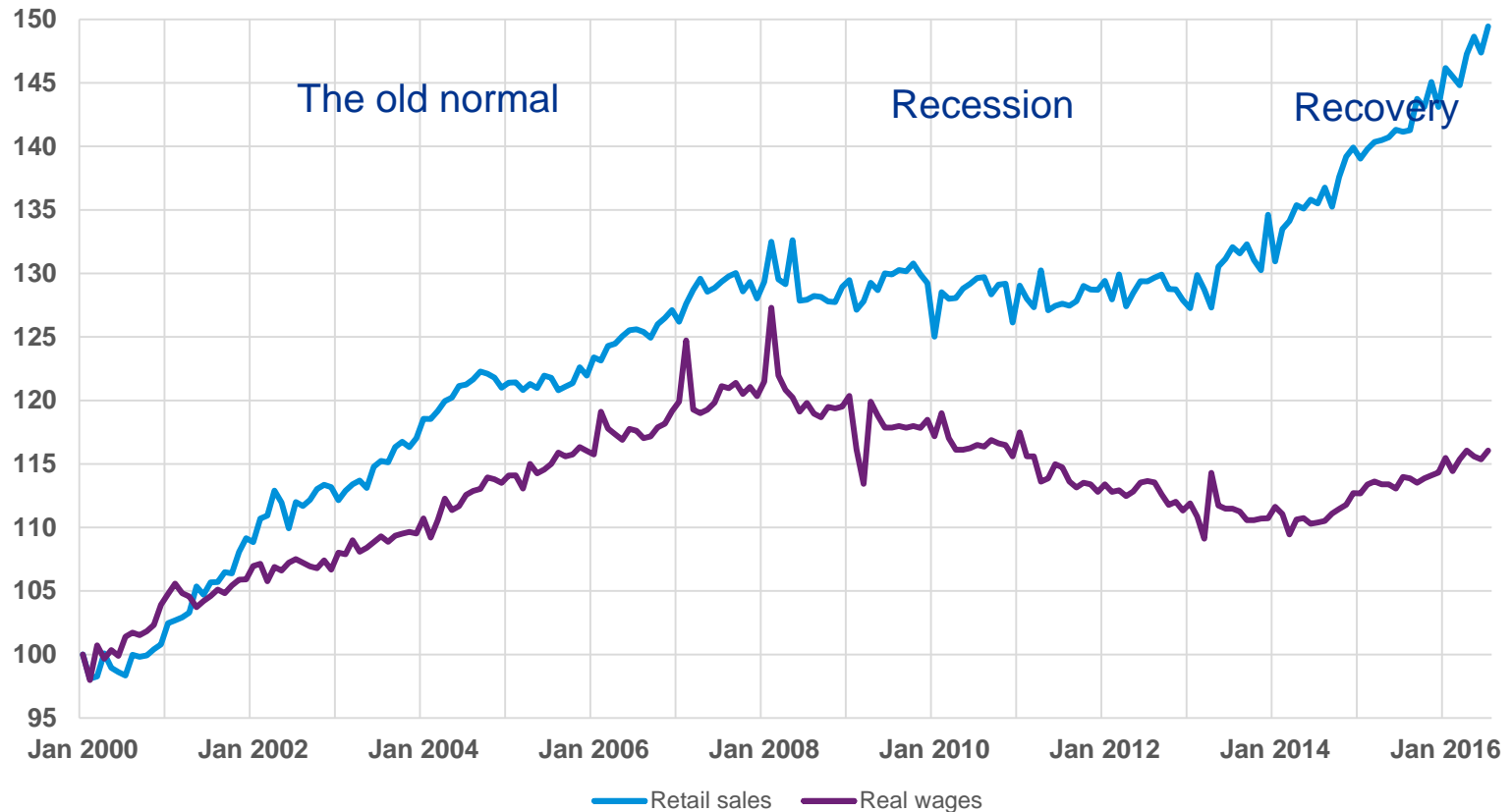
# Driving increases in inflation and reducing real wages

## CPI - Inflation Consumer Price Indexes (2015=100)



Source: ONS, KPMG projections

# Real retail sales have outpaced real wages since 2010



Source: ONS



# Funded by a fall in savings

## Household savings ratio

(savings as a percentage of household disposable income)



SOURCE: WWW.TRADINGECONOMICS.COM | OFFICE FOR NATIONAL STATISTICS

Source: ONS



# Acknowledged by Government in lower growth forecasts

Table 1.1: Overview of the economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2015	2016	2017	2018	2019	2020	2021
<b>Output at constant market prices</b>							
Gross domestic product (GDP)	2.2	2.1	1.4	1.7	2.1	2.1	2.0
GDP per capita	1.4	1.3	0.7	1.0	1.4	1.4	1.4
GDP levels (2015=100)	100.0	102.1	103.5	105.2	107.4	109.7	111.9
Output gap	-0.3	-0.2	-0.6	-0.6	-0.3	-0.1	0.0
<b>Expenditure components of real GDP</b>							
Household consumption	2.5	2.8	1.2	1.1	2.1	2.0	2.0
General government consumption	1.5	1.0	0.6	0.5	0.3	0.6	0.8
Business investment	5.1	-2.2	-0.3	4.1	5.3	4.1	3.6
General government investment	-2.0	2.3	3.3	2.1	1.9	8.8	3.3
Net trade <sup>1</sup>	-0.4	-0.2	0.3	0.3	-0.1	-0.1	-0.1
<b>Inflation</b>							
CPI	0.0	0.7	2.3	2.5	2.1	2.0	2.0
<b>Labour market</b>							
Employment (millions)	31.3	31.7	31.8	31.9	32.0	32.2	32.3
Average earnings	1.8	2.2	2.4	2.8	3.3	3.6	3.7

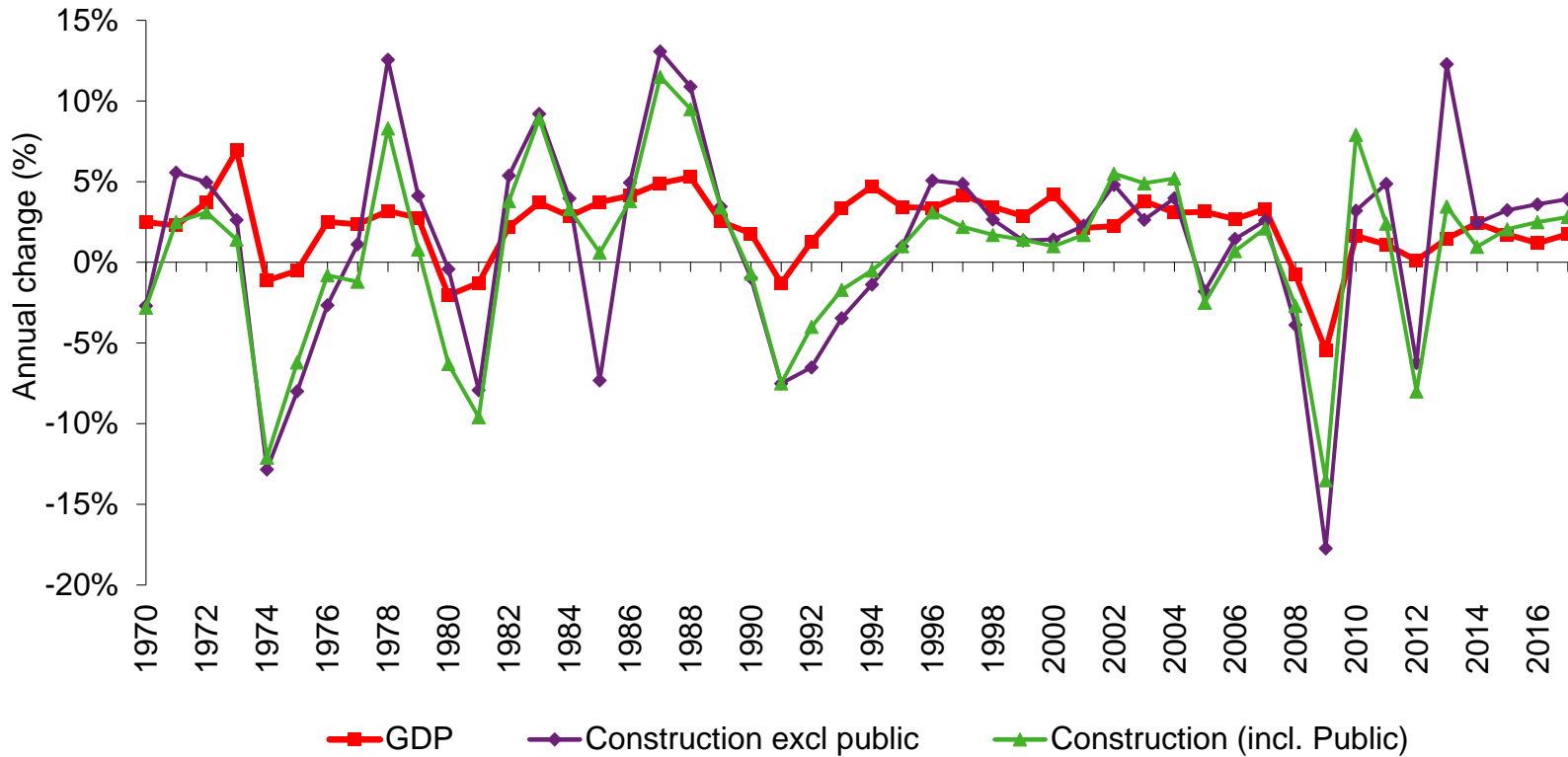
Source: OBR Economic and Fiscal Outlook, November 2016



# Impact on construction

Divides the industry into winners and losers

# Construction output reflects GDP & Government policy



Source: ONS, Economist Intelligence Unit and Mintel

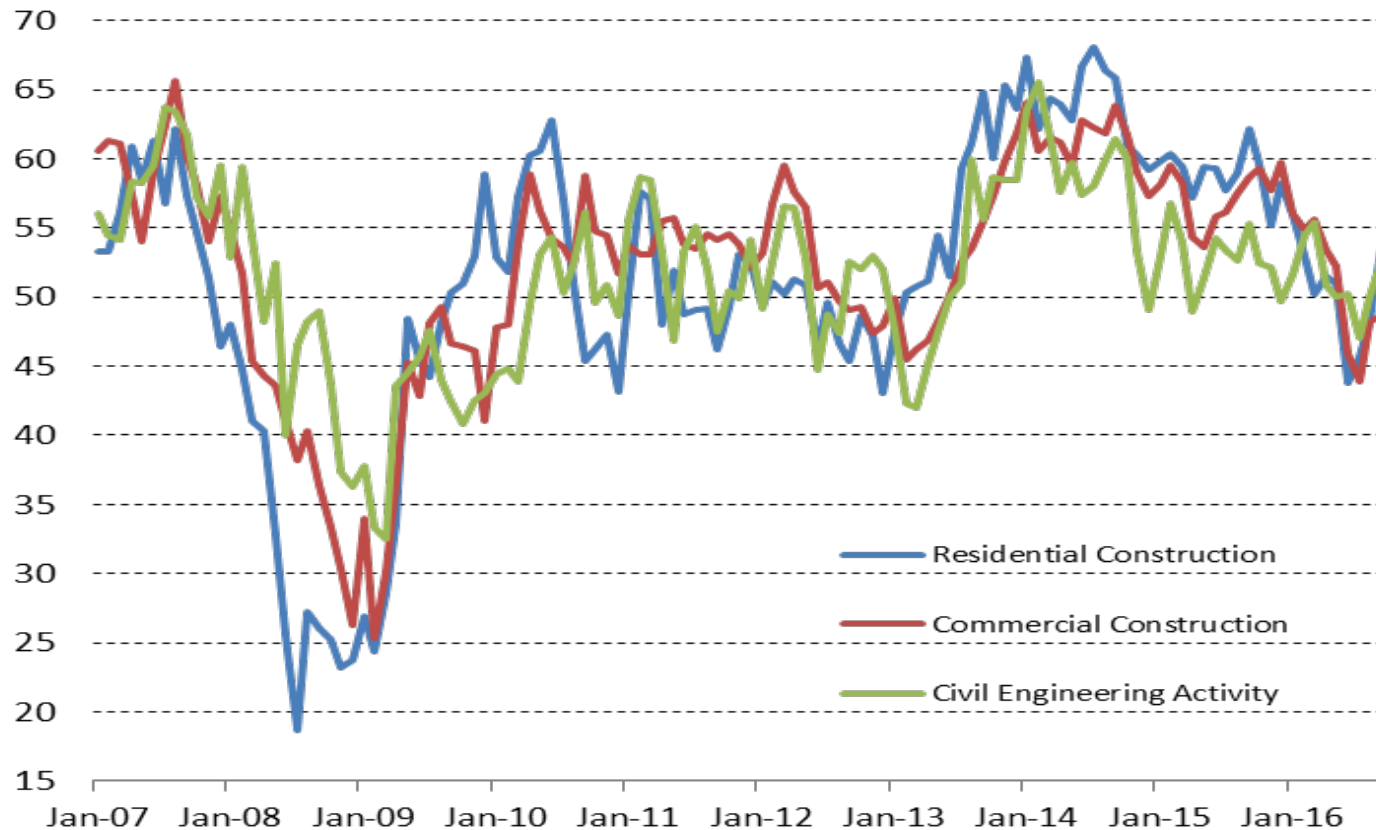


# Commercial

Is likely to suffer under all scenarios

# Commercial is already the weakest construction segment

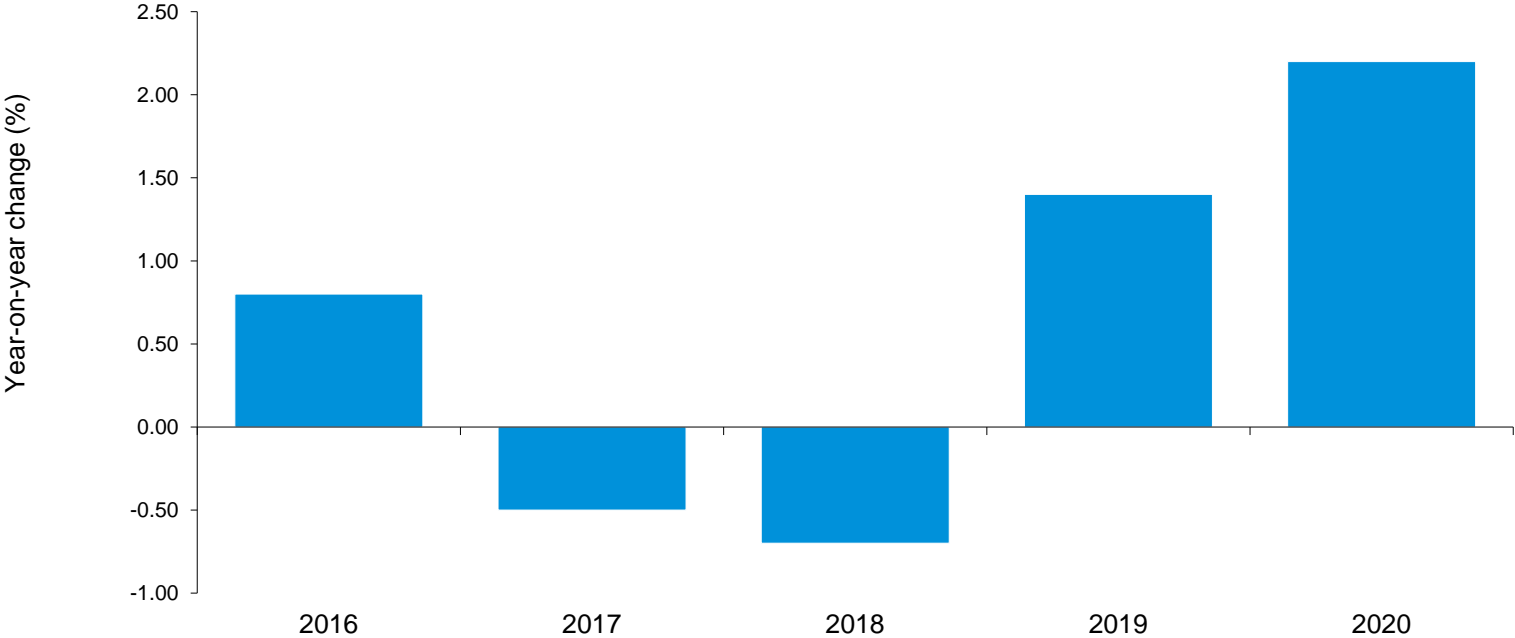
PMI, Seasonally Adjusted, 50.0 = no-change



Source: IHS Markit / CIPS

# And private investment is being stalled by uncertainty

UK investment forecast (percentage change year-on-year)



Source: KPMG Forecast



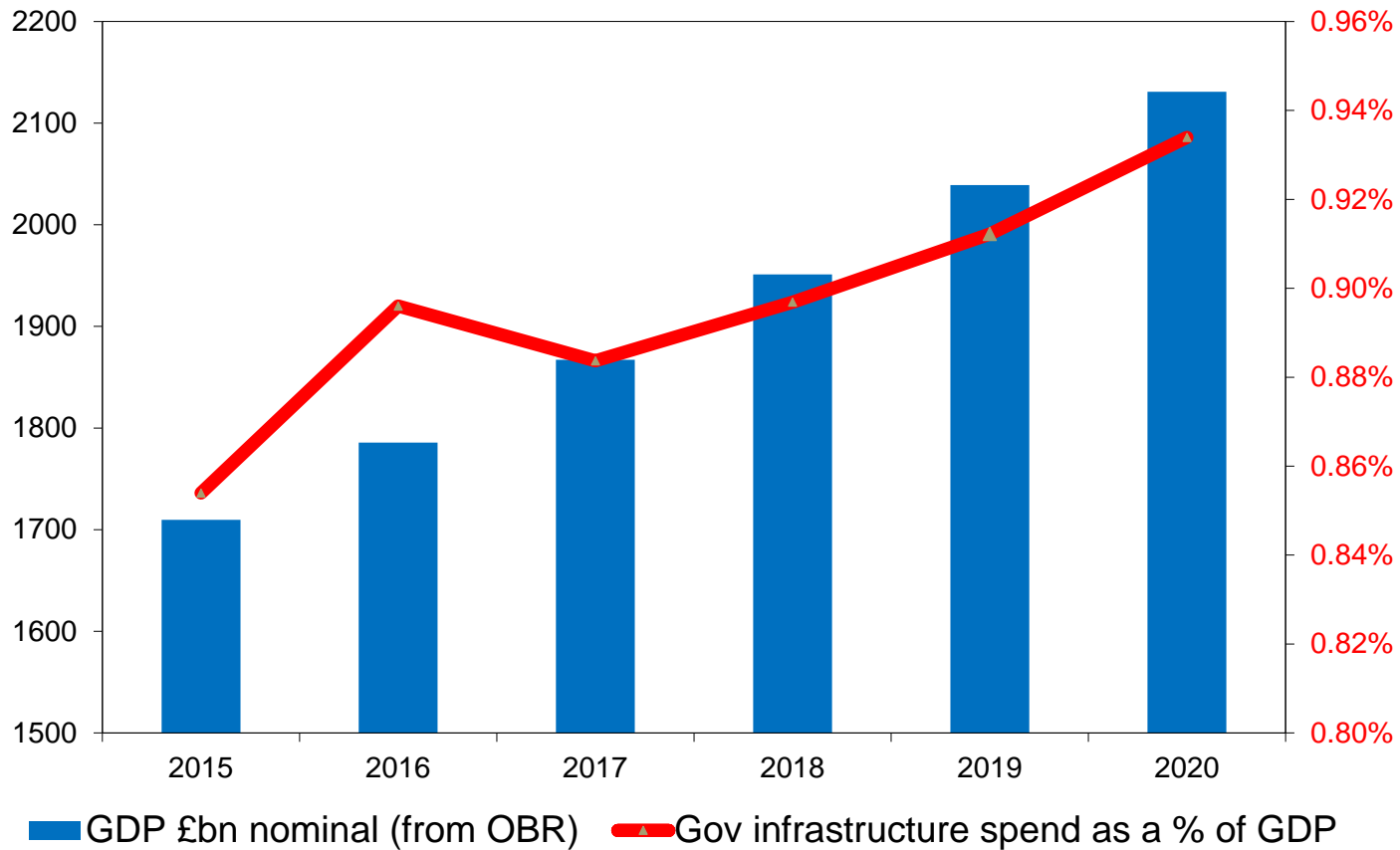


# Infrastructure

Will keep the lights on



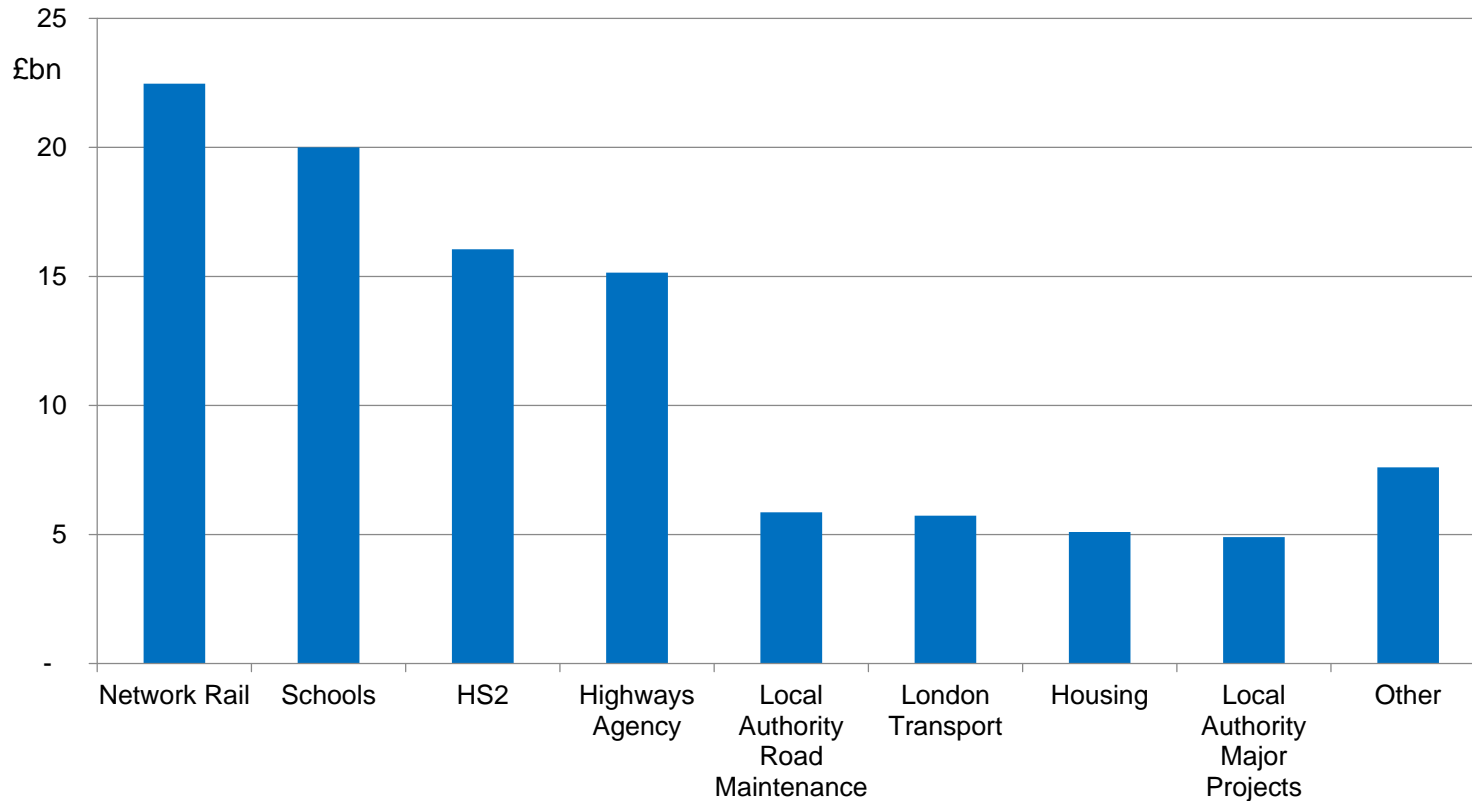
# Government infrastructure spend is forecast to rise



Source: HMT "Investing in Britain's Future", June 2013; Office of Budget Responsibility

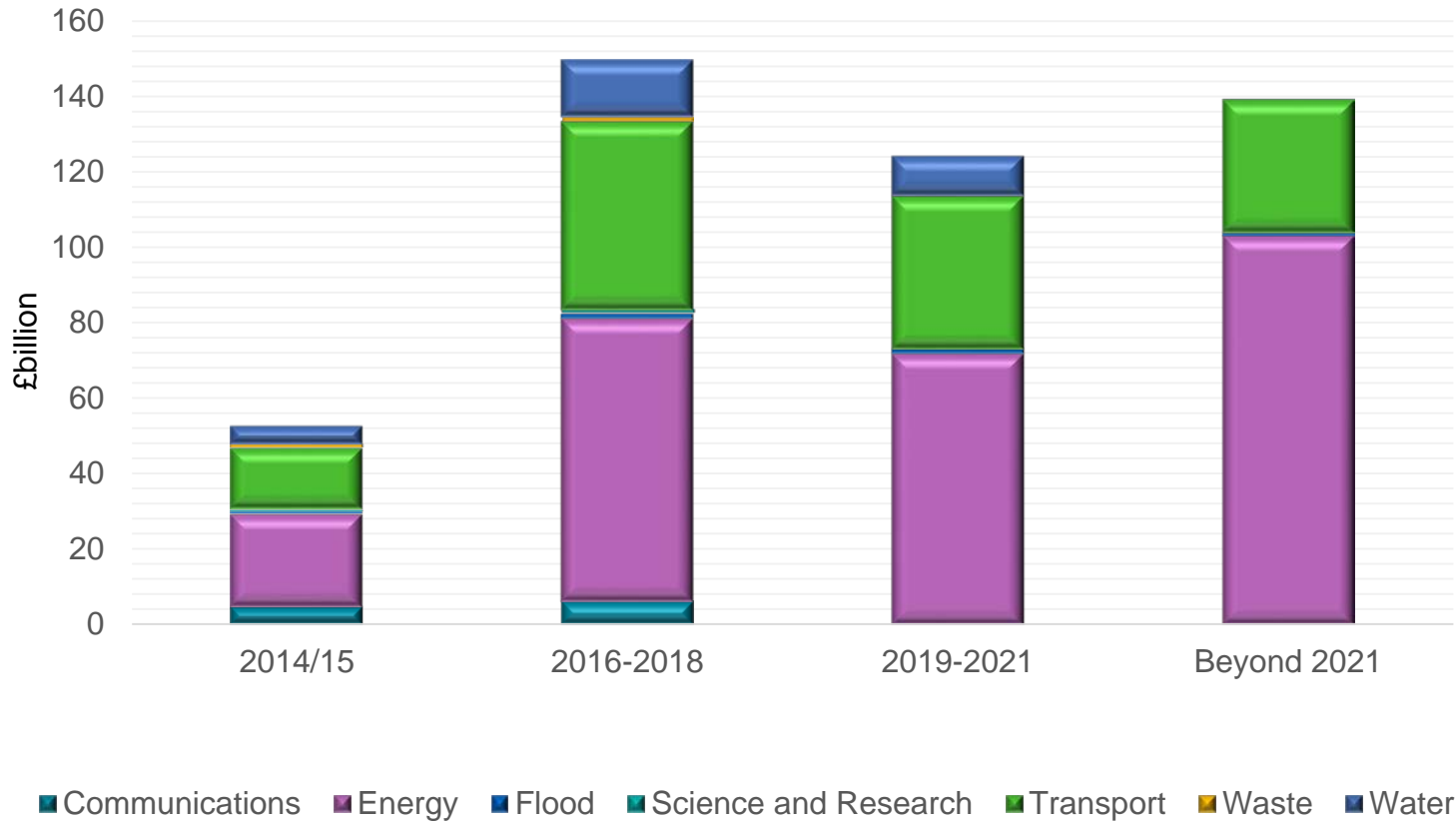
# But spend is concentrated on road and rail

Total UK Government forecast spend over period 2015/16 – 2020/21



Source: HMT "Investing in Britain's Future", June 2013

# Energy dominates the overall infrastructure pipeline



Source: National Infrastructure Pipeline

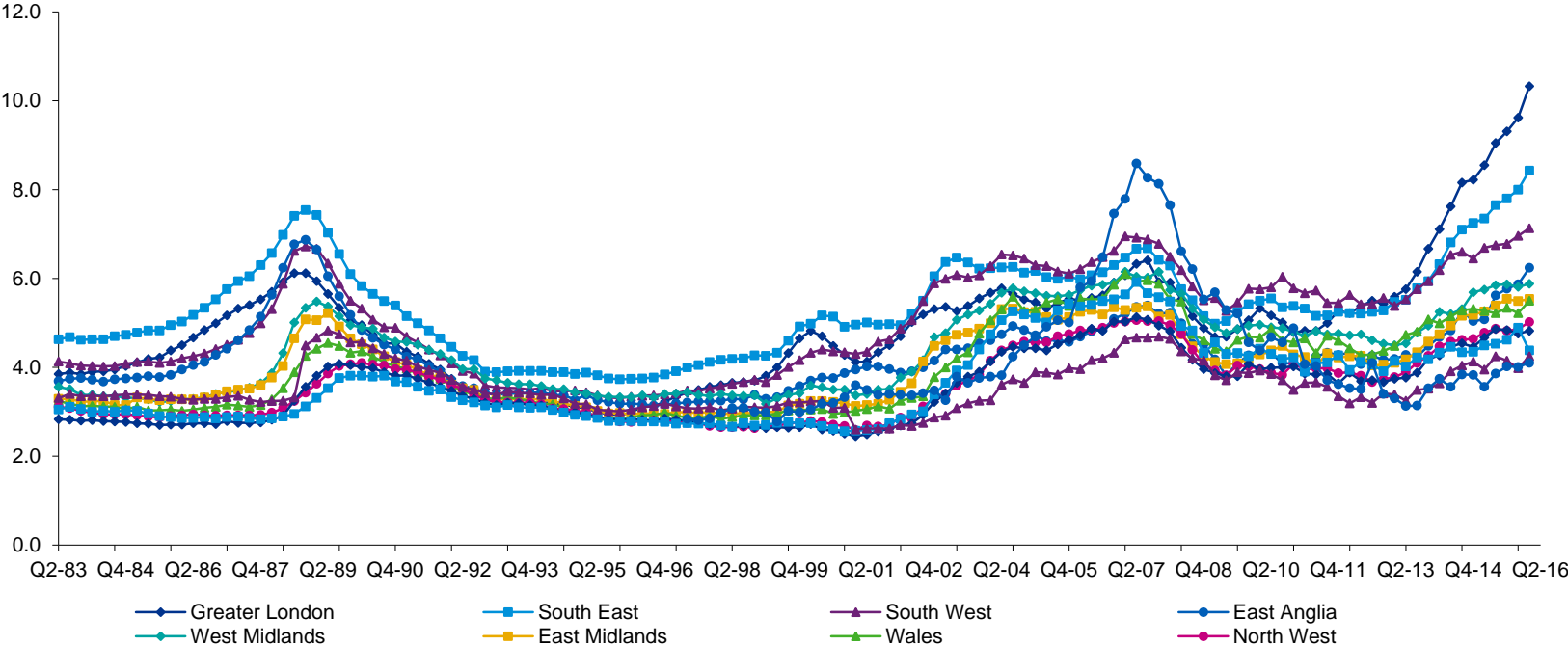


# Housebuilding

Depends on Government policy

# House price valuations continue to diverge by region

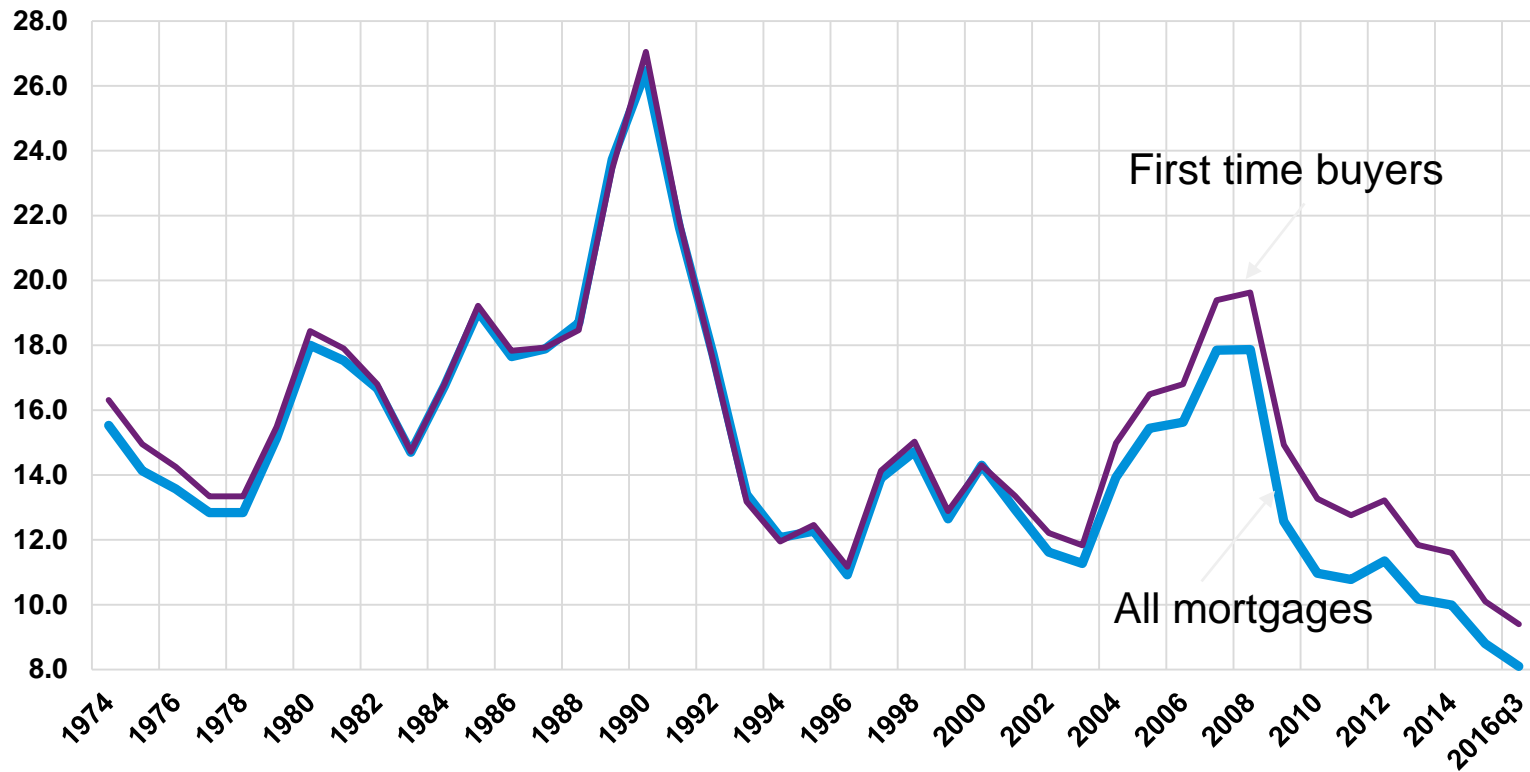
Regional house price to income ratios for all buyers  
(Halifax House Price Earnings Ratio)



Source: Halifax, Haver

# But interest rates are low, so mortgages remain affordable

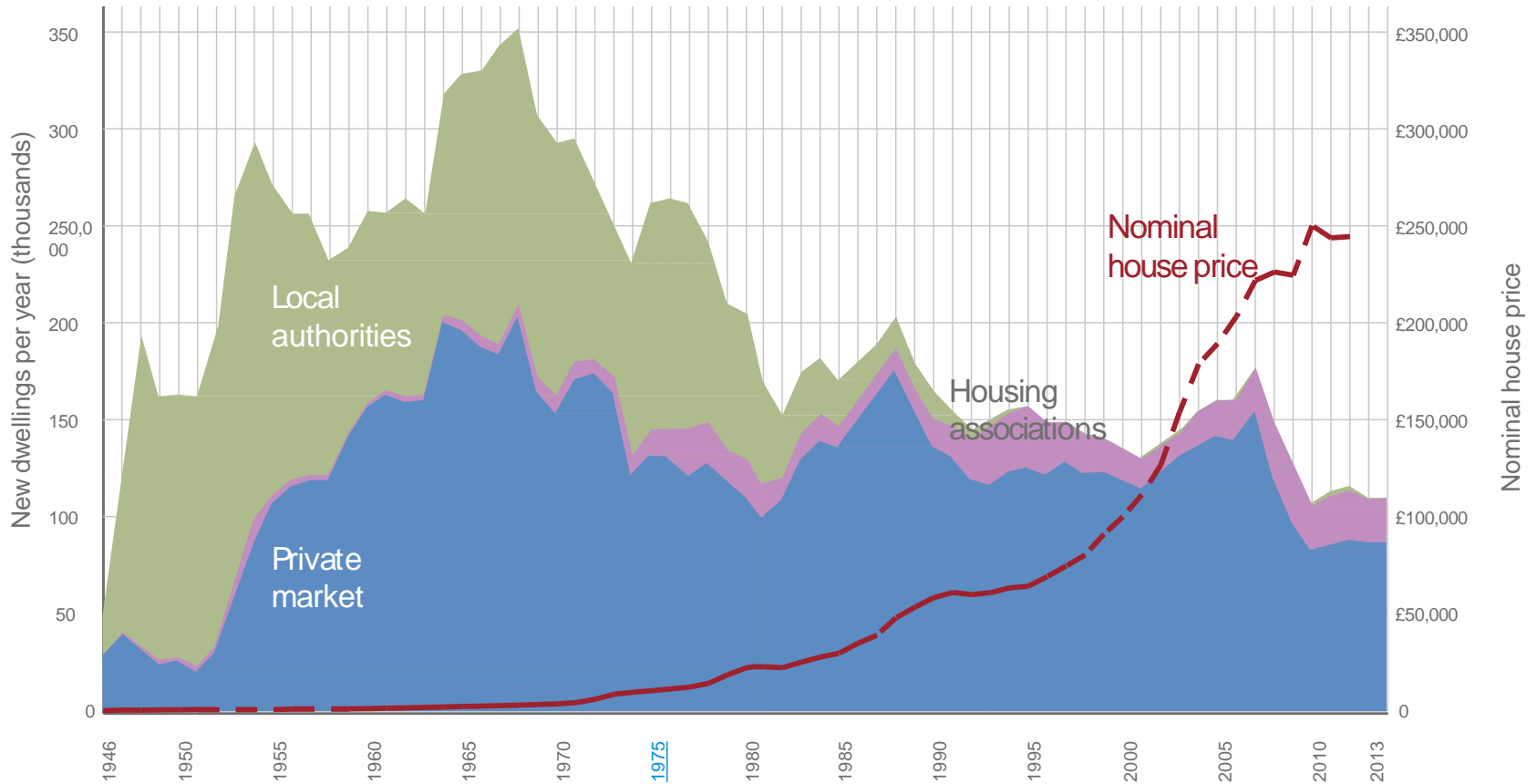
Mortgage interest payments relative to income  
(per cent)



Source: Council of Mortgage Lenders

# Supply side gap remains the fundamental constraint

## House building since 1946



Source: Shelter / KPMG "Building the Homes We Need" 2014



# Employment & Skills

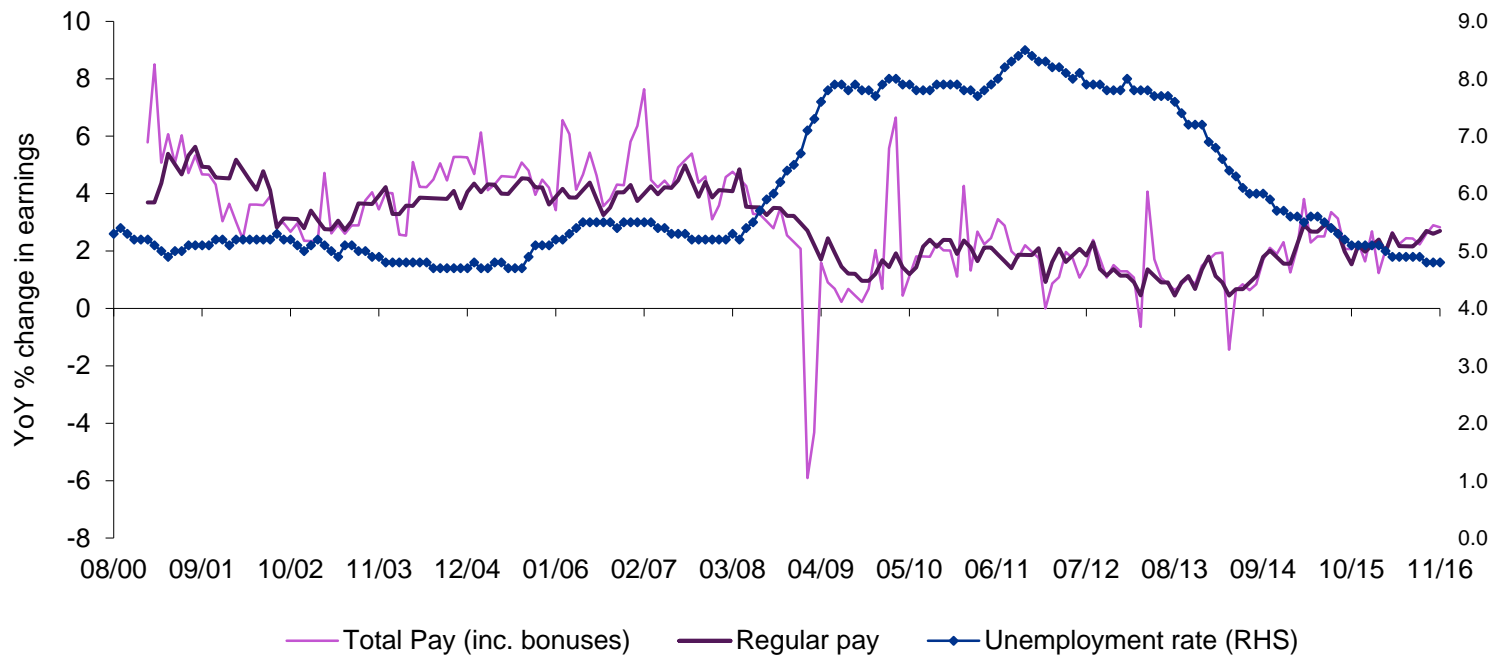
Is the major risk (and opportunity)



# Unemployment levels are at an historic low

## Unemployment and Wages

(Unemployment rate and average weekly earnings)



Source: Haver

# So construction labour shortages will persist

## London and South East construction labour estimates 2014 - 2017

(Blue = pipeline; orange = estimated)



At least **20%** more labour required than available

**51%** deficit in training provision

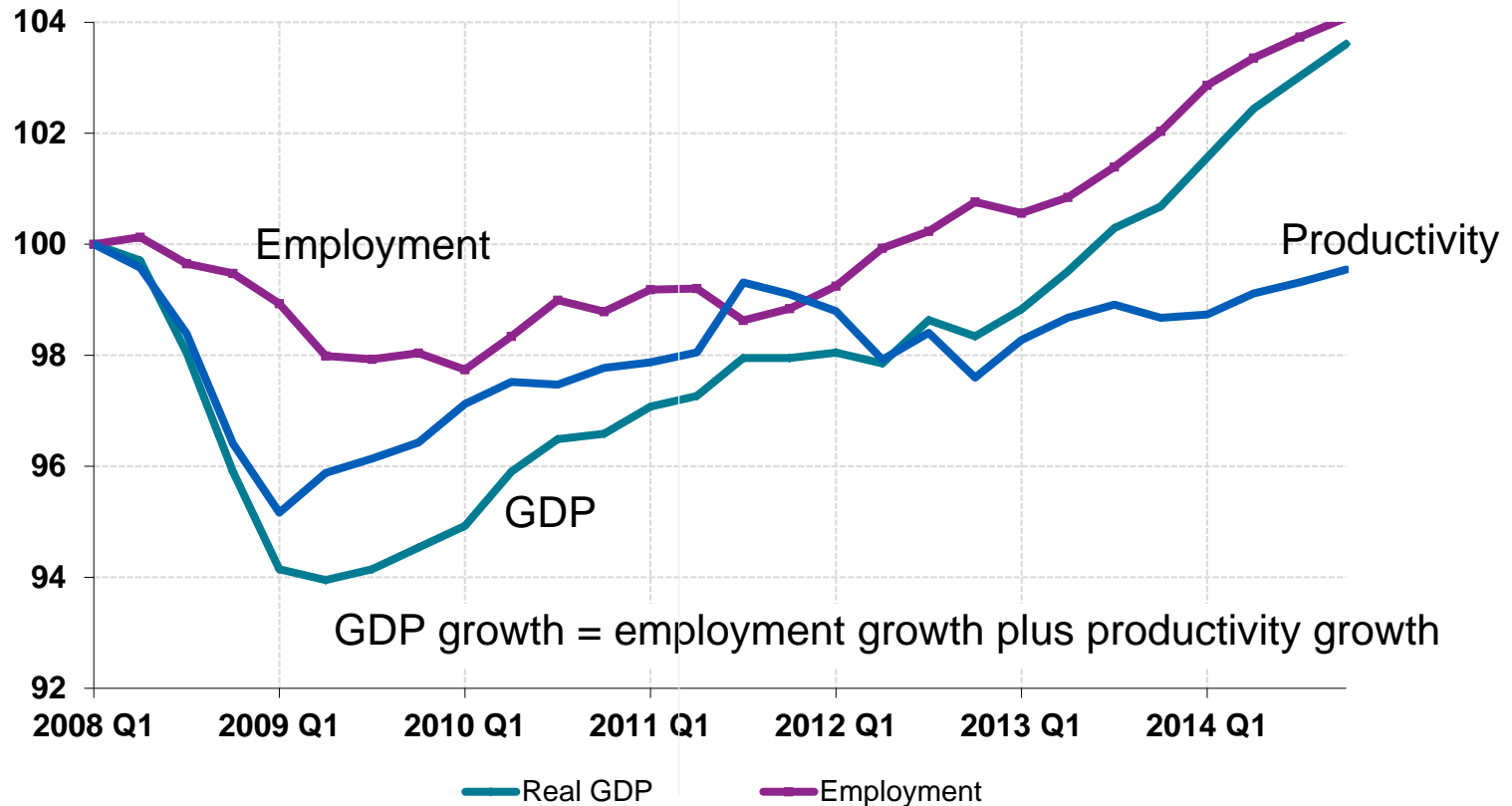
**70%** of Nine Elms workforce is non-UK nationals

Source: LCCI – KPMG Skills to Build 2014 Construction Skills Index, November 2014

# Economic growth has come from rising employment

## Real GDP and Employment

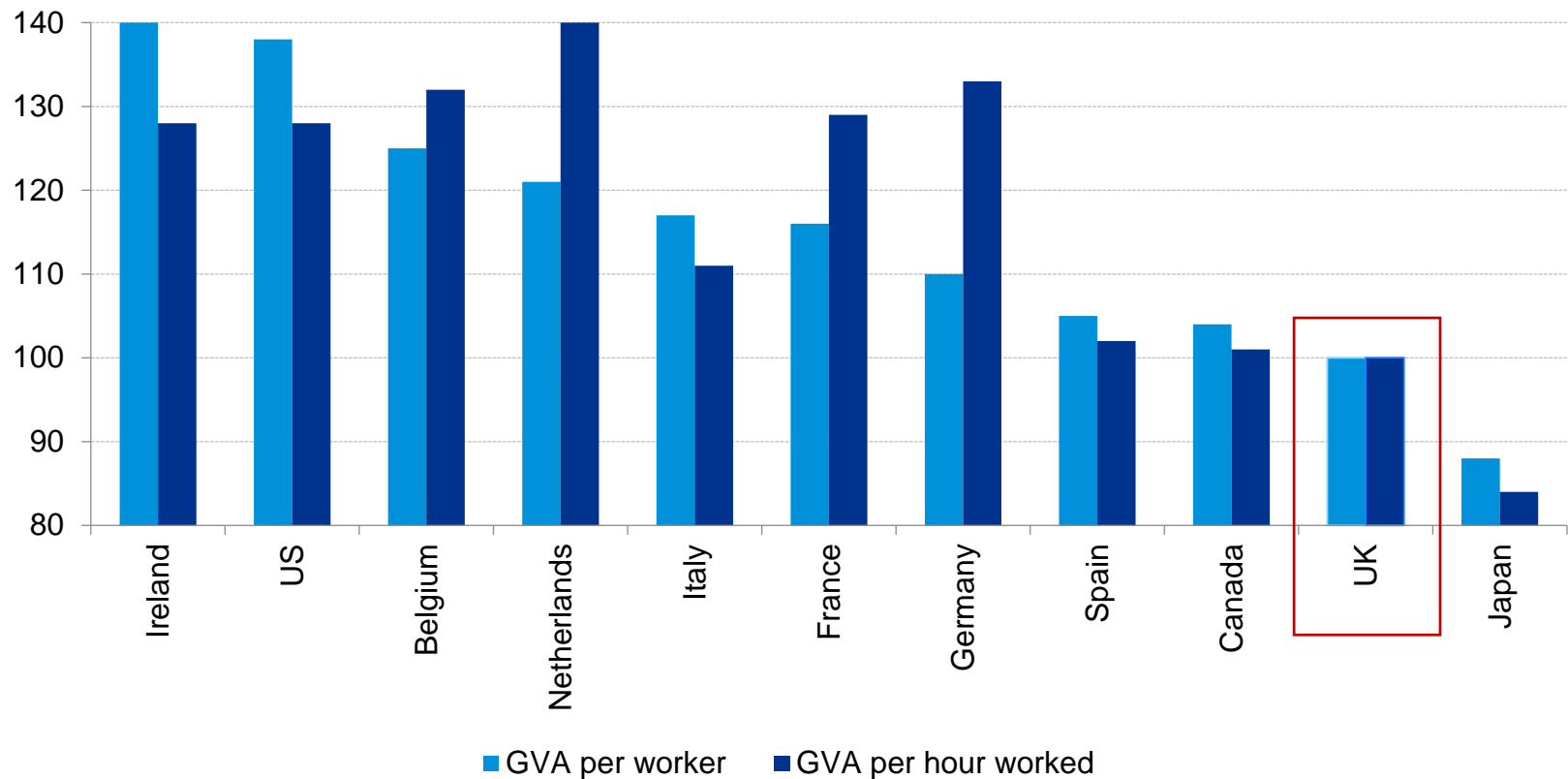
2008 Q1=100



Source: ONS

# And productivity remains a major issue

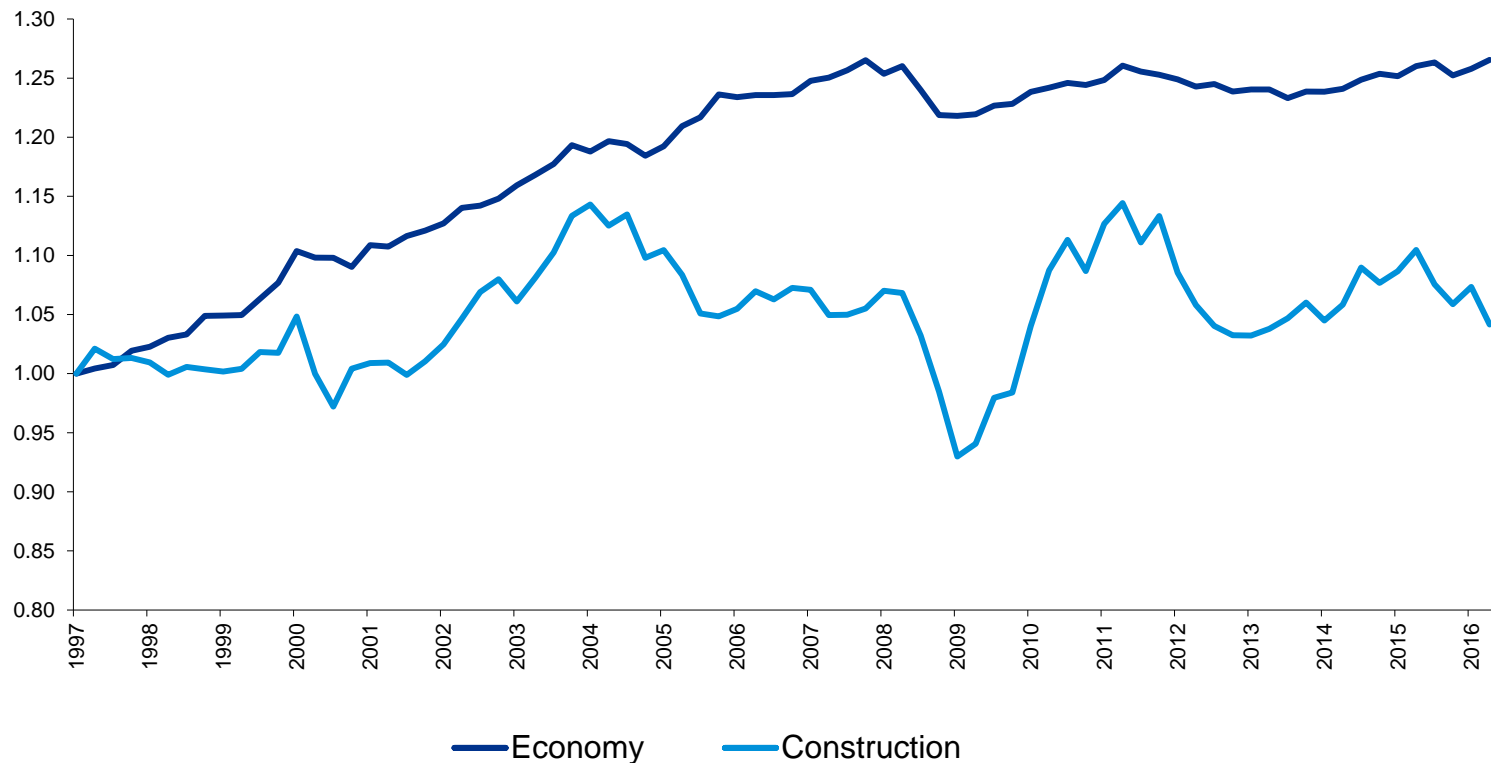
Productivity performance, 2010-2014 average (current prices, UK=100)



Source: ONS

# Especially in construction

UK productivity (1997 Q1 = 100)



Source: ONS



# Key issues and challenges

# Key Strategic Issues for the construction industry

1

Industry skills need and gap

2

Technology opportunity

3

Leadership, voice and Industrial Strategy

4

Industry structure and initiatives to drive reform

5

Potential for consolidation