

Building on Brexit

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After the Brexit vote, the outlook for the UK economy remains tough ? especially for construction, says Jeremy Blackburn

Ahead of the UK's EU membership referendum, RICS worked with members and stakeholders to consider the impact of the 2 possible outcomes across the property sectors.

Following the decision to leave the EU, we will continue with this evaluation and propose measures for continued investment in development, housing, construction, commercial property and the rural economy.

The result of the referendum caused huge political upheaval, with the resignation of David Cameron and a Conservative leadership contest won by Theresa May. This meant a new government, a new Prime Minister and new priorities.

With Philip Hammond appointed Chancellor and Mark Carney still Governor of the Bank of England, there was greater emphasis on reinforcing the UK economy. In August, [the bank announced its biggest stimulus package](#) since the 2008 financial crisis, including an interest rate revision, the Term Funding Scheme to provide funding for banks at interest levels close to bank rate, and the purchase of corporate debt.

Carney said the UK's economy was resilient, but the bank's surveys said it would only narrowly avoid recession and potentially require further stimulus. The Federation of Master Builders even [claimed that the sector was already in technical recession](#). While the economy has performed well in recent years compared to those of other countries and has recovered from the 2008 crash, overall growth levels have remained sluggish. The Chancellor ditched the previous austerity measures and suggested he would take the period up to the [Autumn Statement](#) in November to assess Brexit's impact on the economy and, if required, implement a fiscal reset.

While consumer spending has held up, business surveys report that companies are reluctant to recruit or invest. This indicates mixed levels of confidence, despite government stimulus being mostly targeted at businesses.

Some survey results deteriorated significantly shortly before and after the vote; the Confederation of British Industry, the Bank of England and Deloitte all reported investment intentions slumping. The [Purchasing Managers' Index surveys](#) perhaps provided the biggest scare, dropping significantly in June and July - the sharpest monthly economic decline since 2009 - but rising during August. This was a strong relative, rather than absolute, recovery.

The [British Chamber of Commerce also cut its growth forecast in September](#), predicting growth

of 1.8% this year compared to its estimate of 2.2% in March. It claimed the UK would 'skirt', but manage to avoid, recession. However, [a report from accountancy and services group BDO](#) suggested that business optimism was beginning to improve, after dropping to a 3-year low in August.

RICS UK Construction Market Survey

The pace of increase in construction workloads continues to slow, extending a trend that stretches back to mid-2015. Workload growth moderated in Q2 across all sectors as uncertainty delayed investment, with the private commercial and industrial sectors seeing the greatest slowdown. Workloads and employment should continue growing, but more slowly than previously anticipated.

For Q2, the biggest constraint on output was finance, with more than 2/3 of contributors highlighting this as the principal challenge. Despite the slowdown in Q2 activity, 56% of contributors reported skills shortages as a constraint.

Q2 saw a further moderation in the growth trend, but the Bank of England's actions should alleviate some of this pressure. Nevertheless, anecdotal evidence indicates that the government's challenge to establish a new relationship with the EU could see some construction investment plans scaled back.

Theresa May has announced a 'major housebuilding campaign', recognising that while housing market drivers remain domestic – for instance, death, divorce and debt – there is a need to build at much greater scale across the tenures.

RICS has welcomed the decision for a comprehensive industrial strategy, especially plans to reinforce strategic sectors such as steel, but this must include fresh thinking around innovation and skills. Policies announced before the referendum, such as increasing capital allowances, should be maintained.

May has also signalled that one of her priorities as Prime Minister is controlling immigration. This could potentially limit access to the single market and have an impact on construction, its labour supply and skills shortages.

The government must make Brexit an efficient process, secure a balanced deal with the EU, ensure that this is enough to keep Scotland in the UK, maintain the free movement area with the Republic of Ireland, mitigate any impacts on the UK economy and make us competitive globally, at the same time returning us to an upward growth trend. There are some challenges ahead.

Jeremy Blackburn is [RICS Head of UK Policy](#)

Further information

- [The 2016 Construction Market Survey](#)
- This feature is taken from the RICS *Construction journal* (November/December 2016).