



End of Year Update on the Autumn Statement

December 2022

The Time is Now...

The 'mini budget' by Kwasi Kwarteng on 23rd September 2022 felt like a knee jerk reaction and was questioned by many, bringing with it significant market uncertainty and bringing the value of the pound to an all-time low. The turbulent time that followed raised more questions and had a detrimental impact on the UK economy and ultimately the UK Government. The Autumn Statement published in November was an opportunity for us all to see if the new Prime Minister can ensure that stability and confidence will be restored.

The time is now...

Our recap on the Autumn Statement

Business Policy and Taxation

Tax rates generally were raised or frozen, such as reverting back to raising corporation tax to 25% from April 2023, and public spending increases were kept to a minimum with exceptions for healthcare, education, and welfare support for the vulnerable. Targeted investment is being given to industries identified by the Government as areas of greatest potential growth, such as **digital and green technology, and life sciences**¹. Further to this, **retail, hospitality, leisure, and small businesses** will be protected from the largest tax increases². Other changes for employers include Class 1 secondary national insurance frozen at £9,100 through to 2028, and employment allowance of £5,000 fixed until March 2026. Finally, the National Living Wage will be increased from £9.50 an hour for over-23s to £10.42 from April 2023. The tax policy published in the Autumn Statement has been planned to increase in effect over the next five years rather than address economic stresses maximally in Year 1.



UK Economy Update Excerpt

The UK economy is expected to be in recession for the next three quarters over 2023 with inflation at a 40 year high, and for growth to be slow thereafter. By examining the performance of the construction industry over previous periods of financial difficulty in Figure 1, we can see that the industry previously has acutely felt the impact of recession (both in 2008 and 2020) but recovered stronger than expected. Further to this, in Figure 2, which focuses on data in Figure 1 from 2021 onwards, while the percentage growth of GDP in Q3 was in decline, it was still positive. By the release of Q4 data it may well be below zero with continuing signs of contracting, however the construction sector will still be performing above average. There are several external factors combined with an environment of uncertainty such as the Russia-Ukraine war, energy prices, and global inflation, but with 6.4% growth of new orders in the industry in Q3³, there is reason to believe a future downturn won't overly dampen the construction market.

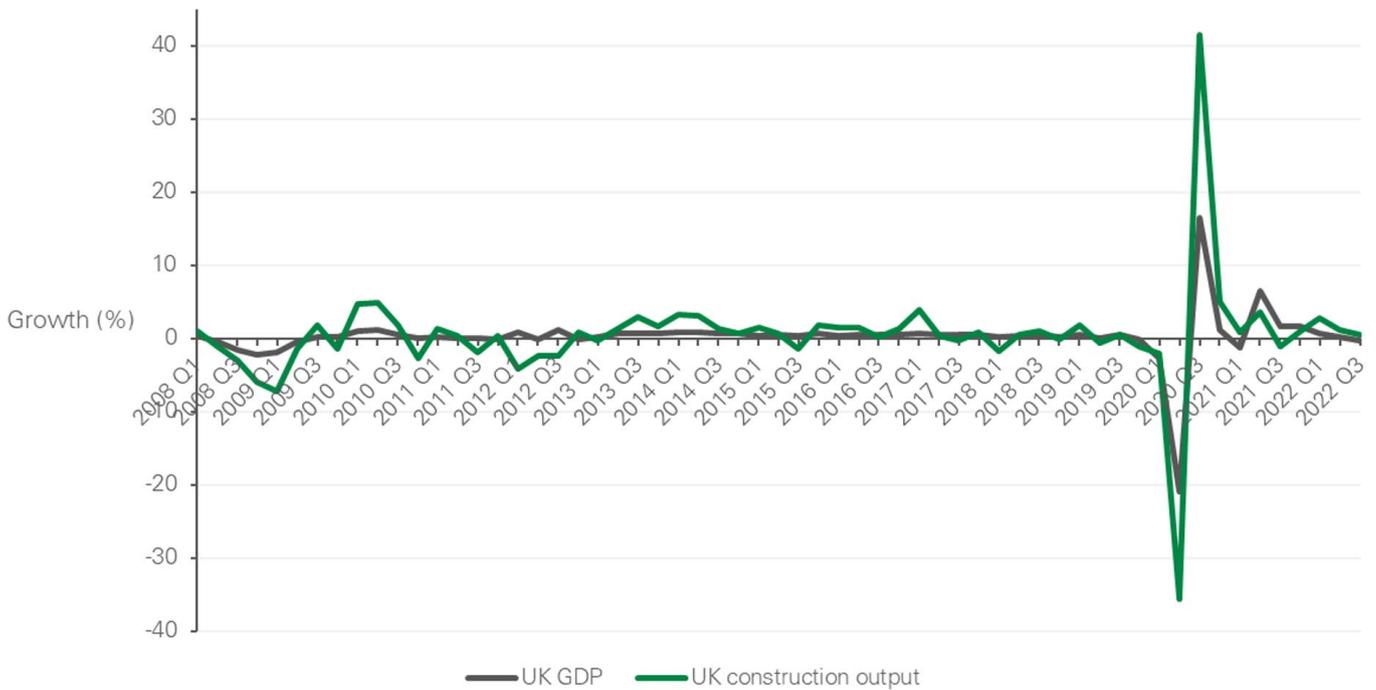


Figure 1 - Quarter-on-quarter % growth comparison between UK GDP and construction output (data from the ONS)

Released alongside the Autumn Statement, and perhaps not so widely publicised, the OBR (Office for Budget Responsibility) predicts growth for 2022 of 4.2%. However, following that the size of the economy will shrink by 1.4% in 2023. A comparison to the Bank of England forecast (see Figure 3) released just a few weeks before the Autumn Statement shows the impact of the measures taken are expected to have on the UK economy. The OBR and the Bank of England calculate their forecasts independently with their own assumptions, and both agree that 2023 will be a challenging year with a strong recovery in 2024.



Figure 2 - Quarter-on-quarter % growth comparison between UK GDP and construction output (data from the ONS)

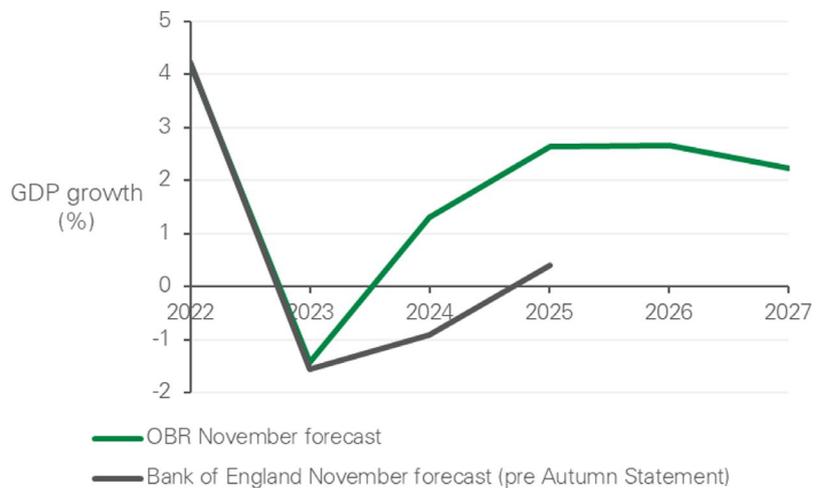


Figure 3 - Forecasts of GDP growth

The OBR predicts that inflation will average 7.4% in 2023, down from 9.1% in 2022, before returning closer to the Bank of England’s target of 2%. The OBR forecast assumes that the Bank of England’s interest rate will peak at 5% in 2023 and not fall below 4% until 2026. However, Figure 4 shows the CPI inflation turning negative in 2024, so it could be seen that the Bank of England’s interest rate will drop sooner than expected by the OBR to avoid falling below the 2% inflation target. If the Bank Rate falls sooner than expected, GDP performance could improve, which coupled with lower government borrowing costs would encourage a stronger market recovery and growth.

Comparing CPI (household inflation) with TPI (construction cost inflation) in Figure 4 outlines the drawn-out decline of inflation predicted by BCIS impacting the construction industry. The latest release by BCIS was prior to the Autumn Statement, as a result it is expected that TPI will further decrease over the forthcoming period.

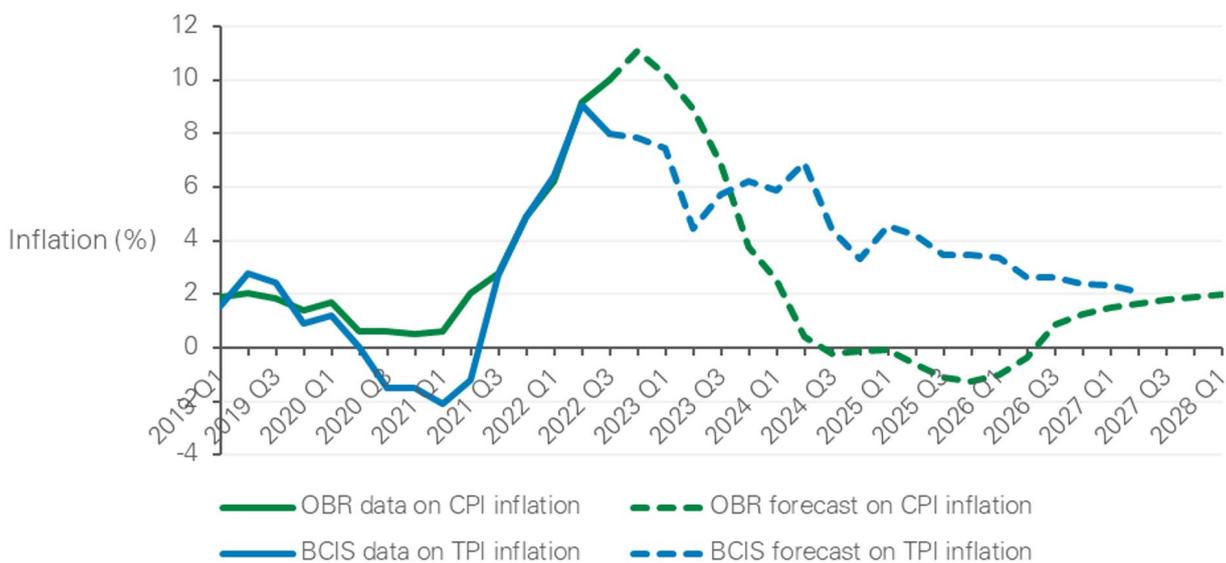


Figure 4 - CPI forecast (data from the OBR and BCIS)



Closing Remarks

With rising costs set to continue throughout 2023, we feel that this will further tighten the construction industry. We do however welcome certain aspects of the Government’s Autumn statement with continued commitment and investment in large infrastructure projects such as Sizewell C, HS2 and East West Railway. In addition, its support in identifying key growth areas such as digital and green technology, life sciences, retail, hospitality, and leisure that will receive preferential treatment in the form of sustained or increased funding.

Despite the theme of uncertainty during the second half of 2022, there are many reasons for optimism in the construction sector. The Chancellor’s Autumn Statement prevented a sharp shock to the economy, allowing the industry to continue to leverage strong demand and a secure pipeline of work.

Contacts



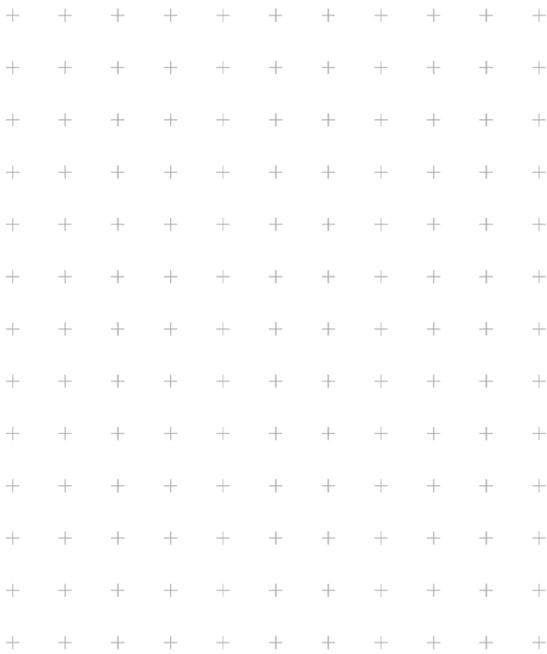
Simeon Shentall
Data Analyst

simeonshentall@ridge.co.uk



Matthew Sumpter
Partner

matthewsumpter@ridge.co.uk



RIDGE

¹<https://www.gov.uk/government/publications/autumn-statement-2022-documents/autumn-statement-2022-html>
(accessed 30th November 2022)

²<https://www.gov.uk/government/publications/autumn-statement-2022-business-rates-factsheet/autumn-statement-2022-business-rates-factsheet#:~:text=Protecting%20high%20streets%20from%20rising%20inflation%3A%20extended%20and%20increased%20business,to%20%2C%2A3110%2C000%20per%20business>
(accessed 30th November 2022)

³<https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/newordersintheconstructionindustry>
(accessed 30th November 2022)

