

# Role of construction industry in uk economy



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## Introduction

The UK construction sector plays a key role in the UK economy, which comprises an ocean of products, services and technologies. These may vary in terms of their economic value they generate, reflecting differences in their use of particular factor of productions and the value they generate from them. In line with this the UK construction can be classified in, firstly construction contracting industry, then provision of construction related professional services and finally construction related to products and materials. This sector is also to be hold a considerable growth opportunities of the globalisation of the construction market which a forecast shows that it will grow by over 70% by 2025. The below mentioned coming paragraphs will elaborate more on the pros and cons of being globally competitive

## Construction industry in the UK economy

The UK construction industry nowadays is one of the largest sectors, which has added £90 billion, to the UK economy and has created almost 10% of the UK employment. It also bares many factors that can affects demand, which one of them is globalisation. The construction industry in UK has a good position to take advantage of global market. The construction sector in UK is known for its services like architecture and development of advanced technologies used in construction such as Building Information Modelling (BIM) and also it has a higher proportion of patents to construction. In 2011 UK has exported construction contracting to give a trade surplus of £590 million. One of the main strength of UK is at exporting architecture and quantity surveying services. In line with this the contracting industry form part of one of the largest sub-sector in the construction industry in the UK.

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This has been proven as it has accounted nearly 70% of the total value added generated by UK's construction and around 70% in the job sector. In spite of that, the UK's technologies capabilities in the construction export are mixed up across its sub-sectors. Although significantly smaller compared to others, construction products and services play an important key role in the well-being and generate economic profits, about £4.2 billion in gross value added in 2011. However UK this is not the case in UK's trade performance in construction related products, which has made a deficit of about £6.2 billion in 2012. The construction sector was not spared with the 2008's recession. From 2007 to 2011 the construction sector has accounted a downfall of 2.2% of the UK's GVA. But everything seems to start going on the track according to a survey done by ONS. The most recent Construction Product Association forecasts clearly indicate that a fall in construction output of 2.1% in 2013 because of the effects of cuts in public investment. The table below shows the output in the construction industry statistics.

#### UK construction in the global economy

It is also important to note that the UK construction industry has come across problems concerning global market during the economic downfall in 2008, in spite of this UK remains one of the largest construction contracting industry. The construction industry in the United Kingdom has faced many drastic changes over the past 5 years which include increasing of prices of raw materials, limited funding, government spending cuts, corporate failures and falling consumer spending coupled with new accounting standards and regulatory requirements. It has been predicted that global construction market will significantly rise by 4.3% per annum, from USD\$8,663 billion in

2012 to USD\$15, 030 billion in 2025. There are several factors that can accentuate international development.

### Globalisation

Globalisation endorses the main key features to be globally competitive. Most of us globalisation concerning political, economic, social and technological force appears all but unstoppable. As a result of this constant increase in demand global transport infrastructure, advancements in information and communication technologies, and significant progress in the elimination of tariff and non-tariff barriers, businesses are now more fluid in concur this more geographical locations around the world.

### Consumer Demand

As the construction sector covers a wide variety of sub-sectors, including civil engineering, engineering manufacturing and house building, consumer preferences vary considerably across parts of the sector. Overall, greater consumer uncertainty and restricted credit conditions since 2008 have dampened consumer demand for a range of construction products. However, over the past 20 years there has been a general growing interest in property development in the UK and globally, with individuals placing increasingly high demands on builders including requirements for energy efficiency and high quality finishes. Preferences between urban and rural dwellings, and regarding home ownership versus rental accommodation, also have important effects on the demands placed upon the sector.

### Demographic change

An ageing population and change in entire well being of the population has brought forward the provision of the healthcare facilities, housing, education and infrastructure. The increase in life expectancy the overall population has pushed to find the need for hospital and care homes and thus their construction, repair and maintenance. Supply of a proper workplace of elders can be beneficial to the younger generation as they can learn key skills, which are in the verge of becoming lost skills. This can be a reason why UK construction industry must not fully invest into international.

### Sustainable construction

An Annual growth of 22. 8% has been forecasted for 2017 as a result of the increasing low carbon regulatory requirements and a much greater societal demand for greener products. According to a recent survey around half the architects, engineers, contractors, building owners and building consultants around the world anticipate that at least 60% of their work will be green by 2015.

### Emerging markets

By 2020 emerging economies are expected to account for 55% of all construction spending. Recent countries, like China and Brazil, are expected to follow this trend to be able to experience transformational changes in the performance of their economy to develop their economies compared to developed economies, although they are more prone to have an increase in demand in areas such as utilities provision and infrastructural renewal, for the big-ticket and development to arise, it will depend on how the growth of the nation is going on.

### Drivers of long-term growth

One among of the numerous drivers of growth in this sector are certainly to gain access to foreign markets and increases export activity. In line with this there are much more factors associated to long-term growth. The below mentioned point will elaborate more on the factors that pushes UK construction industry to drive competitiveness and a long-term growth organisation.

### People and skills

The future of UK construction industry, either international or domestic, resides in the skills and flexible workforce. One other hand there has been a drastic fall in the apprenticeship completions in construction related to industries during these past years. In addition to that about one fifth of all vacancies in the wider construction sector are persistent and hard to fill because employers cannot recruit staff with the right skills, qualifications or experience.

### Innovation capability

Being competitive, to survive and grow, innovation will be essential to meet these expectations. Competitiveness can lead be advantageous, thus improve productivity and enable companies to aim higher. The R&D showed that construction industry has been less innovative compared to other sectors in the UK economy. Although there has been £7. 42 billion versus £3. 15 billion in 2007 to invest in terms of design and organisational innovation it still remains low compare to the other sectors.

This is due to:

1. High level of industry fragmentation and limited collaboration
2. Procurement impacting on the level of collaboration
3. Sub-optimal knowledge transfers and lost learning points
4. Issues around market uptake and awareness of benefits from innovation
5. Access to finance and risk-averse attitude to innovation.

#### Access to finance

For long the access to finance have been one of the most important aspect for a company to operate and grow. Studies proved that construction faces more difficulties to obtain finance from bank this is because they are considered to have a much higher risk due to low level of fixed capital and smaller firm size. In addition to this late payment make it difficult for construction industries to rely on credit to smooth cash flow on their businesses.

#### Supply chain development

Supply chain has a large part in the construction industry. Most of the supply chain is being source in the UK. A survey has made to estimate for every £1 spent in construction at least 90% stays in UK. Also an analysis made by BIS has clearly show that for a large building project, the main contractor directly manage around 70 sub-contracts which most are smaller in size.

To end there are more factors that can impact on the demand for construction and influence the sector's performance and activity. For example, including regulation and standards, land availability and the planning system and the wider macroeconomic environment.

### Conclusion

Given, the advantages and disadvantages of being an international industry outlined in the previous paragraph, it is quite predictable that despite of the unpredictable challenges that has arise in the recent financial and economic crisis of 2008, the construction industry in the UK still play an important role in the well being and vital for the UK economy. This has lead UK to be one of the largest construction markets in the Europe. UK construction sector has been responding well to the challenges that global market has brought foreword but also it has shown potential of taking advantage of substantial opportunities that global market will give them in the future.

The UK is famous for having the most professional construction services. Also being for providing world-class architecture and development of technology such as Building Information Modelling (BIM). In line with this, UK is also known to have a greater proportion of employees in construction contracting with the required qualification like a degree or equivalent qualification, which has almost doubled over the last ten years. In some professional services such as architecture and quantity surveying, the sector continues to run a trade surplus in construction sector.

UK construction sector have seize many opportunities present to them. Being globally competitive, the UK construction industry is will place to benefit



more from the opportunities for a global shift such as low carbon economy and green and sustainable construction. But, there will be a continuous need to ensure investment in the innovation and technology, along with this there must have and increase in collaboration between businesses and research institution for UK to be able to realise its potential. In connection with this UK construction sector must pay particular attention to shortage of skills, and limited awareness of financing options. They must also brought improvements concerning supply chain and they have relatively low levels of exports in construction products and materials.