Resilience without recovery

The UK economy has proved more resilient than anticipated this year, with GDP growth exceeding expectations and parts of the private sector strengthening despite mixed business sentiment and weakening consumer confidence. However, this resilience remains uneven and uncertain.

Recent GDP improvements have been partly attributed to communications and technology, with AI-related investment and adoption attracting attention. Growth is becoming increasingly concentrated in service-led areas of the economy, while construction output and new orders remain weak. The prospect of higher inflation in 2027 and the consequential interest rates threatens to delay recovery further.

Housebuilding remains weak as affordability constraints, higher borrowing costs and subdued buyer confidence weigh on demand. Infrastructure has provided support through continued investment in energy, utilities and major public-sector projects, while repair and maintenance has proved more resilient than new work. However, neither has offset weakness in residential construction and other private-sector activity, leaving recovery elusive.

The medium-term pipeline remains substantial, but investment commitments do not guarantee projects reaching site. Delays, cancellations and funding and delivery uncertainty risk postponing activity. Maintaining workforces and investing in capacity requires confidence in future workloads, yet that confidence becomes increasingly difficult to sustain if projects repeatedly slip.

Recruitment has slowed with weaker workloads, but finding suitably experienced and qualified people remains a challenge. Fewer vacancies may reflect recruitment caution rather than improved labour availability. Responding to an upturn will depend on whether workers and specialist skills remain accessible when projects proceed. A shortfall could undermine project viability.

The renewed focus on young people not in education, employment or training (NEETs), following Alan Milburn's review of youth inactivity, is particularly relevant. Construction could offer employment to some of the circa one million affected, while addressing longer-term skills requirements. Technical education and apprenticeships could help, but employers need confidence and financial capacity to offer entry-level opportunities, provide training and invest in the next generation.

Subdued workloads are discouraging recruitment and training, potentially reducing workforce capacity just as recruitment needs rise. This risks renewing skills shortages and wage pressures that could further undermine project viability.

Inflation is likely to make the immediate outlook more difficult still. The initial assumption that energy-related price pressures would prove relatively short-lived is looking increasingly optimistic, with CPI rising to 3.6% in October and the Bank of England now expecting inflation to reach about 5% by the middle of 2027. Higher fuel, energy and transport costs are feeding through supply chains, while the potential for second-round effects on wages and wider prices remains a concern. The Bank's return to interest rate increases, taking Bank Rate to 4.0%, likely to rise further still, reflects these pressures, with borrowing costs likely to remain restrictive for some time. Even if energy prices moderate, the lagged effects of higher costs and tighter monetary policy will continue to weigh on investment and demand.

For construction, the implications extend well into 2027. Stronger headline figures offer little reassurance to a sector dependent on investment, financing conditions and project delivery. Higher materials, transport and energy costs continue to threaten margins and viability, while expensive finance continues to constrain housing demand and private-sector investment. Pressures on public finances could also limit the Government's ability to invest to offset weakness elsewhere.

The challenge is twofold: restoring construction growth while retaining the people and skills to support it. The pipeline may eventually deliver, but further delays could make recovery harder.

Tender price inflation remains relatively subdued. The BCIS All-in Tender Price Index rose 0.7% between Q2 and Q3 2026, taking annual growth to 3.2%, compared with 4.3% for the General Building Cost Index. Input costs are outpacing contractors' prices as weak demand and intense competition limit cost recovery, prompting many to absorb or mitigate increases to protect workloads. Reduced workloads and a weaker pipeline could further intensify competition in the main contractor and subcontractor markets, offsetting some of the increases in materials and other input costs. On balance, our view is that tender price inflation in 2027 will be broadly in line with 2026. A recovery in demand could, however, intensify competition for contractor and subcontractor capacity and renew price pressures, particularly if energy and materials costs remain volatile. Stace's current analysis of the data has led us to set the Stace LLP TPI all-in average forecast at 3.5% for 2026 and 3.0% for 2027 for the UK and London.

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Industry headlines

Output

Construction output fell 0.7% in Q3 2026 as new work declined 1.6%, outweighing 0.5% growth in repair and maintenance. Private new housing work fell 4.7%. September output rose 0.8% after four consecutive monthly declines, with infrastructure new work contributing most to the increase. (ONS)

New orders

Construction new orders rose 1.2% in Q3 2026 but remained 25.3% below a year earlier. Infrastructure and private commercial orders increased 33.5% and 10.8% respectively, partly offset by falls of 22.4% in private new housing and 24.6% in private industrial orders, indicating continued weakness. (ONS)

Materials

Material price inflation accelerated to 7.2% year-on-year in September 2026. Despite improved aggregate sales and concrete block deliveries, demand remained subdued. Brick deliveries fell 15.4% annually, while elevated brick and block stocks and deliveries of several key materials below pre-pandemic levels reflected weak activity. (DBIST)

Labour

Construction employed an estimated 2.07 million people in Q3 2026, comprising about 1.33 million employees and 735,000 self-employed workers. Employee numbers fell 0.8% year-on-year and self-employment declined 8.5%, suggesting recruitment caution and reduced reliance on self-employed labour, although underlying skills constraints remained. (ONS)

Vacancies

Construction vacancies fell 16.2% in the three months to October 2026, among the largest quarterly sector declines. Recruitment demand cooled as contractors responded to weaker workloads and uncertainty over future projects, with vacancy levels moving closer to those seen before the pandemic. (ONS)

Tender price forecast

	BCIS	Stace forecast	
	Annual	Annual	Av per quarter
2026	3.0%	3.50%	0.875%
2027	2.6%	3.00%	0.750%
2028	2.9%	3.50%	0.875%
2029	c. 2.7%	3.50%	0.875%

3.0%
2027 UK TPI
All-in

3.0%
2027 London TPI
All-in

The UK economy

↑ 0.2%
GDP growth
September 2026

↑ 3.6%
CPI to October 2026

↑ 1.2%
HPI to September 2026

↑ 4.0%
Bank Rate
November 2026

↓ 3.5%
UK regular wage growth
September 2026

↓ 4.6%
Unemployment rate
September 2026

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