STABLE BUT STUCK

The UK economy remains stuck in a low-growth cycle, with modest expansion masking fragility. GDP rose just 0.1% in Q3 2025 after the 0.3% rise in Q2, confirming the post-election rebound has faded. Business investment has become subdued, hiring has slowed, and consumer confidence and spending are now constrained by high borrowing costs and fiscal uncertainty.

The increase in employer National Insurance Contributions earlier this year continues to weigh on hiring and investment, with firms citing higher payrolls as a deterrent. Employment growth is near zero, while businesses have been delaying investment decisions pending clarity on the Budget.

Inflation stabilised but stays high at 3.8%, nearly double the Bank of England's (BoE) 2% target. Input price pressures eased, especially in energy and transport, but service-sector inflation and wage growth remain elevated. The BoE held a 4.0% base rate in November, citing persistent inflation and resilient pay growth as reasons to delay cuts. Markets anticipate a rate cut by early 2026, but weak data, rising unemployment and slow wage growth raise prospects of a December move.

The broader economy shows uneven growth and lingering stagnation. PMI data indicate modest service-sector expansion and softer manufacturing contraction. The composite index sitting at 50.5 in November suggests some traction, but activity remains marginally above neutral. Businesses report tentative stabilisation but remain cautious, constrained by weak orders, rising costs, and policy uncertainty.

Global headwinds add to domestic uncertainty. New US tariffs disrupted trade and contributed to commodity price volatility. Oil prices remain contained, but elevated input costs and supply chain risks continue to pressure inflation.

Construction output exceeded expectations, buoyed by public infrastructure and repair work, though private-sector activity is weakening and new infrastructure orders have fallen. Residential building remains subdued: housing starts nearly 20% below 2022 with developers citing high financing costs, planning delays, and weak buyer confidence. Commercial activity shows slight gains, mainly in refurbishments, but new-build investment is limited. Public non-residential and infrastructure work are bright spots, up 23% and 3% year-on-year, driven by education, healthcare, transport, and energy projects.

The appointment of Andy Roe as Building Safety Regulator (BSR) Chair in July, subsequent change of approach and increase in staff recruitment is easing the backlog of High-Rise Buildings in the Gateway Process. Combined with the London Mayor's decision to lower the minimum affordable housing requirement to 20% in new developments and temporarily cut the Community Infrastructure Levy for developers by 50%, the outlook for developers is improving.

Skills shortages and an ageing workforce continue to drive wage pressures as vacancies fall. Construction pay growth slowed to 3.5%, but bonuses remain robust, especially in infrastructure roles. Employment data suggests firms are cautious but willing to recruit candidates, reflecting gaps in technical and supervisory skills.

Looking ahead, growth prospects remain muted. The Office for Budget Responsibility expects GDP growth of around 1.0% in 2026, well below trend.

The Budget's tax-heavy tilt is likely to deepen concerns about business capacity, investment, and consumer confidence. Rising labour and compliance costs, pension changes, and uncertainty around future property taxation may limit firms' ability to invest, expand capacity, and deliver productivity gains needed to meet housing and infrastructure ambitions. At the same time, frozen tax thresholds and pension reforms risk reinforcing the squeeze on households, dampening spending that underpins commercial construction.

Tender price inflation has moderated, reflecting easing material costs and softer demand. The BCIS All-In Tender Price Index forecasts growth of 2.5% in 2025, rising to 2.9% in 2026. However, higher employer NICs and elevated material costs, alongside viability challenges, mean contractors remain under pressure and operate on tight margins. Stace's analysis sets the Stace LLP TPI all-in average forecast at 3.0% for 2026 for both the UK and London.

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INDUSTRY HEADLINES

OUTPUT

Construction output edged up 0.1% in Q3 25, as repair and maintenance (+0.6%) offset a 0.2% dip in new work. Gains in public non-residential (+4.5%) and private housing R&M (+2.9%) balanced declines in private housebuilding (-1.9%) and infrastructure (-1.5%). (ONS)

NEW ORDERS

New orders jumped 9.8% quarter-on-quarter, driven by private commercial (+51.4%) and industrial projects (+114.1%), despite falls in other non-residential (-40.5%), infrastructure (-12.5%), and private housing (-5.1%). (ONS)

MATERIALS

Material prices should stabilise after recent volatility, but remain sensitive to shifts in demand or geopolitical shocks. BCIS expects costs to rise by 13% by Q3 30. (BCIS)

LABOUR

Labour continues to be the dominant source of cost pressure. Employer National Insurance Contributions increases and a higher National Living Wage pushed the BCIS Labour Cost Index up 7.1% in Q2 25, with a further 15% rise forecast by Q3 30. (BCIS)

VACANCIES

Construction vacancies fell by 5.2% in the three months to October 2025 and were 20.0% lower than a year earlier. However, they remain 7.4% above pre-pandemic levels and continue to trend above the long-term average. (ONS)

TENDER PRICE FORECAST

	BCIS	Stace Forecast	
	Annual	Annual	Av per Quarter
2025	2.5%	2.50%	0.625%
2026	2.9%	3.00%	0.750%
2027	3.1%	3.50%	0.875%
2028	3.5%	3.50%	0.875%

3.0%
2026 UK TPI
All-in

3.0%
2026 London TPI
All-in

THE UK ECONOMY

↑0.1%
GDP GROWTH
July – September 2025

↓3.6%
CPI to October 2025

↑2.6%
HPI to September 2025

→4.0%
BANK RATE
November 2025

↓4.6%
UK REGULAR WAGE GROWTH
September 2025

↑5.0%
UNEMPLOYMENT RATE
September 2025

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