STACE OUTLOOK INDEX | Q2 2026

FRAGILITY BENEATH STABILITY

The UK economy entered 2026 on a weaker footing than expected. Although GDP remained resilient through late 2025 and Q1 2026, much of that strength now looks front-loaded. The economy grew by 1.4% in 2025, but momentum faded as business confidence, household spending, and investment came under pressure from high borrowing and labour costs, persistent inflation, and geopolitical uncertainty.

GDP rose by 0.3% in March, taking Q1 2026 growth to 0.6%, but the pattern was uneven, with 0.4% growth in February and none in January, leaving conditions fragile. Some activity appears to have been brought forward ahead of expected rises in energy and input costs rises linked to the Middle East conflict, particularly in wholesale, retail, and manufacturing. Indicators now point to a softer Q2, with weaker consumer confidence and slower spending likely to weigh on growth.

Headline inflation has eased from earlier peaks, but energy prices, supply chain disruption, and higher employer National Insurance Contributions have renewed cost pressure. Services inflation remains elevated, although wage growth has begun to ease as the labour market shows signs of softening, while the escalation of conflict in the Middle East is increasingly feeding through to energy markets and global supply chains, reinforcing cost volatility and uncertainty and intensifying concerns around imported inflation and energy security.

The Bank of England has held the Bank Rate at 3.75% but signalled that policy could tighten further if inflation remains persistent. Markets still expect rates to stay high, though the path ahead is less certain as weaker activity is weighed against the risk of further energy-led inflation.

Construction continues to reflect wider economic weakness. Output grew by just 0.7% in 2025, with repair and maintenance work and public infrastructure providing support while private housing and much of the commercial market remained subdued.

Residential construction remains under pressure from affordability constraints, weak buyer confidence, and elevated financing costs. Delays associated with Gateway 2 and the introduction of the Building Safety Levy add to broader delivery challenges across the sector. Prime London office markets demonstrate resilience due to a shortage of Grade A space, with occupiers prioritising refurbishment and Category B fit-outs over relocation. This reflects the importance of high-quality, sustainable assets in a supply constrained market.

Construction PMI data show falling new orders, softer employment, and rising input costs driven by fuel prices, shipping disruption, and supply chain delays. Infrastructure and commercial orders have weakened, raising concerns about medium-term workload despite support from the £718bn ten-year National Infrastructure and Service Transformation Authority pipeline and related activity, largely concentrated in energy and major public sector investment.

Construction employment fell during 2025, vacancies declined sharply, and earnings growth weakened into 2026. An ageing workforce, weak productivity, and too few new entrants continue to constrain long-term capacity, even as softer demand eases labour shortages.

The sector remains caught between weak short-term confidence and longer-term demand. Infrastructure investment and housing demand support the medium-term outlook, but uncertainty, high costs, and cautious investment risk limiting future capacity. Without sustained investment in skills, productivity, and project pipelines, the industry may still struggle to meet future housing and infrastructure demand.

Tender prices have remained contained through 2026, although underlying risks are becoming volatile due to inflationary pressures, geopolitical uncertainty, and ongoing supply chain disruption. The BCIS All-In Tender Price Index rose by 2.8% year-on-year to Q1 2026, with annual growth of around 3.0% forecast for the year. While contractors remain keen to secure workload, margins continue to be tightly managed, with pricing becoming increasingly cautious on higher-risk projects and suppliers adopting more defensive commercial positions. Our analysis has led us to set the Stace LLP 2026 TPI all-in average forecast at 3.50%.

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INDUSTRY HEADLINES

OUTPUT
Construction output rose by 0.4% in Q1 26, as gains in repair and maintenance (+3.4%) offset a 1.9% fall in new work. The largest contribution came from private housing repair and maintenance (+4.1%) whereas private new housing work fell by 2.6%. (ONS)

NEW ORDERS
New orders fell by 10.5% (£1.238bn) in Q1 26. The fall came mainly from new public housing (-33.7%), followed by private commercial (-18.5%), public non-residential (-13.9%), and infrastructure (-11.2%). This was partially offset by private new housing increasing (up 4.8%). (ONS)

MATERIALS
Construction material price inflation remains relatively subdued, with the 'All Work' material price index rising by 2.6% y-on-y in March 2026. Availability and supply conditions have improved as weaker demand across housing and commercial sectors suppress usage, however, multiple factors pose upside risks to pricing and lead times. (DBT)

LABOUR
The labour market has softened but remains constrained. Employment edged above 2.05 million in early 2026, driven by employee growth, while self-employment remains around 20% below its 2019 peak. Unemployment and redundancies have edged up as demand conditions weaken, and labour availability eases but specialist trades shortages still limit capacity. (ONS)

VACANCIES
Construction vacancies fell by 13.0% in Q1 26 and were down 38.7% y-on-y, their lowest level since the pandemic. The sharp decline in hiring demand points to growing uncertainty around future workloads and weakening activity across parts of the supply chain. (ONS)

TENDER PRICE FORECAST

	BCIS	Stace Forecast	
	Annual	Annual	Av per Quarter
2026	3.20%	3.50%	0.875%
2027	2.40%	3.00%	0.750%
2028	3.30%	3.50%	0.875%
2029	2.90%	3.50%	0.875%

3.50%
2026 UK TPI
All-in

3.50%
2026 London TPI
All-in

THE UK ECONOMY

↑0.6%
GDP GROWTH
January – March 2026

↓2.8%
CPI to April 2026

↓0.4%
HPI to March 2026

→3.75%
BANK RATE
May 2026

↓3.4%
UK REGULAR WAGE GROWTH
March 2026

↑5.0%
UNEMPLOYMENT RATE
March 2026

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