



CONSTRUCTION
EQUIPMENT
ASSOCIATION

UK Economic Report

Impact, implications and
opportunities

June 2025



Spending Review Summary

The June 2025 Spending Review (SR25) outlines the UK Government's spending plans for departmental day-to-day expenditure until 2028–29, and capital investment until 2029–30.

Key takeaways

Departmental budgets are set to grow by an average of 2.3% over the period. Day-to-day departmental spending will increase by 1.2% per year in real terms between 2025/26 and 2028/29.

Prioritised sectors

- Health and social care: A 2.8% annual rise, with £10 billion committed to NHS tech and £4 billion more for social care.
- Local government: Core spending power increases from £69.4 billion in 2025/26 to £79.3 billion in 2028/29.
- Defence: Spending will rise to 2.6% of GDP by 2027, with an ambition to reach 3% in the next Parliament.

Other areas of focus

- Infrastructure and productivity: Support for digital delivery, standardisation, and modern methods of construction.
- Green infrastructure: Over £20 billion committed to low-carbon energy, transport and adaptation.
- Regional investment: Ongoing support for devolved administrations and combined authorities.
- Housing: The Government aims to deliver 1.5 million new homes.
- Fiscal scrutiny: Stronger emphasis on business case quality and deliverability. Increased openness to private capital and blended finance models.

ONS Data and GDP Information

The latest ONS data (covering April 2025) presents a mixed economic picture.

- GDP declined by 0.3% in April, following 0.2% growth in March. The fall was driven by higher National Insurance Contributions (NICs), new US tariffs, and changes to Stamp Duty.
- Services output fell by 0.4%, mainly due to reduced house-buying and legal activity.
- Production output fell by 0.6%.
- Construction grew by 0.9% — a rare positive across sectors.

Labour market data

- Payrolled employment decreased by 55,000 from March to April, and by 115,000 year-on-year.
- Employment rate (16–64) was 75.1%.
- Unemployment rose to 4.6%. The May 2025 benefit Claimant Count reached 1.735 million.

Inflation and earnings

- Average earnings (excluding bonuses) rose 5.2% annually.
- Adjusted for CPIH (CPI including housing), real earnings increased by 1.4%.
- CPI inflation fell to 1.7% (September 2024 — latest available).

UK Commercial Energy Prices v Global Markets

UK commercial energy prices remain a serious challenge for manufacturers.

Electricity

- In 2023, UK industrial electricity prices were 46% above the International Energy Agency (IEA) country median.
- Prices were nearly 50% higher than in France and Germany.
- UK electricity remains approximately 25% more expensive than most of Europe (excluding Italy).
- Slower investment in renewables and ageing infrastructure that increases distribution costs.
- A marginal pricing system where electricity prices are set by the most expensive source — often gas.
- Taxes, levies, and standing charges that add further costs compared to European systems.
- Geopolitical instability, particularly related to Russia and LNG dependency.

Gas

- While domestic gas prices are relatively low, wholesale commercial gas costs remain high compared to pre-2021 levels.

Key reasons for high UK prices

- Continued reliance on imported natural gas, exposing UK prices to global volatility.

Outlook

- Wholesale prices fell slightly in early 2025, but most analysts expect commercial energy costs to stay high throughout the year.
- Government is reviewing support options, including a two-way Contract for Difference, but no immediate relief is expected.

What this means for OEMS

The data suggests a cautiously optimistic outlook — but one that comes with challenges.

Positives

- Continued investment in housing, infrastructure, and green energy will drive demand for new equipment.
- Construction output remains stable, despite wider economic contraction.
- Government backing for digital methods and MMC aligns with industry innovation.
- Funding for net zero projects will support demand for low-emission and specialised equipment.
- The sector continues to benefit from a strong export base, with over 60% of output going overseas.

Challenges

- Persistently high energy prices are a significant threat to profitability, investment, and competitiveness.
- Energy-intensive manufacturing processes are particularly exposed, limiting R&D and expansion.
- High costs may discourage further UK-based investment and production.
- There is an increased risk of “de-industrialisation” if cost pressures are not addressed.
- Project approvals may slow under stricter scrutiny, affecting future equipment demand.
- Skills shortages remain a constraint, especially for digital and green technologies.

UK Industrial Strategy 2025

The Government has launched its long-term Industrial Strategy, supported by an Advanced Manufacturing Sector Plan. Together they set a ten-year direction for supporting innovation, growing exports, reducing costs and investing in the manufacturing base. While construction equipment manufacturing is not named explicitly, many of the plan's commitments apply to the sector - provided it is included in delivery.

Skills and training

The Strategy commits to new skills and technical colleges focused on engineering and manufacturing. There is support for modular and hybrid training models. However, no immediate reform has been announced to simplify the Apprenticeship Levy or the Immigration Skills Charge. The CEA will continue to press for greater flexibility and sector-specific funding.

Energy costs

A significant breakthrough is the extension of energy price relief for manufacturers. The British Industry Supercharger and British Industrial

Competitiveness Scheme aim to reduce UK industrial electricity costs in line with competitors like Germany. A consultation will determine eligibility, and the CEA will engage to ensure construction equipment manufacturers are included.

Access to finance

The British Business Bank will receive £7 billion in new funding to support SMEs with growth, innovation and scale-up. New tax incentives have also been introduced to improve capital investment conditions. Members who struggle to access finance or scale should look if these new routes apply to them.

Regional manufacturing clusters

The Strategy will deliver regional Advanced Manufacturing Clusters with central support. These aim to grow supply chains and create skilled jobs outside traditional centres. Selection of cluster locations is not yet finalised. The CEA is working to ensure construction equipment hubs are considered in cluster development.

What's missing

Construction equipment is not mentioned explicitly in either the Industrial Strategy or the Sector Plan, despite being a high-value, export-driven, net-zero-aligned manufacturing subsector. There is also little detail on how smaller OEMs and suppliers will be brought into delivery mechanisms, particularly on skills and energy.

Next steps

The CEA is engaging directly with Government to:

- Secure construction equipment's recognition within the advanced manufacturing framework.

- Push for inclusion in energy relief and cluster schemes.
- Support a more flexible skills and levy model for the sector.

We will update members on developments, consultations, and any opportunities for input or funding access.

10-Year UK Infrastructure Strategy

The UK Government has announced a £725 billion plan to transform the nation's infrastructure over the next decade. The newly published 10-Year Infrastructure Strategy aims to drive economic growth, raise living standards, and address long-term underinvestment in key sectors including transport, energy, housing, education, health, and digital connectivity.

The Strategy provides long-term funding certainty, allowing the construction industry to invest in skills, technology, and capacity. One of the core features is a digital Infrastructure Pipeline, launching in July 2025. This online tool will offer detailed data on major projects.

This includes timelines, funding allocations, and procurement routes — giving businesses greater visibility to align resources and plan investments.

Key elements of the strategy

- £19.8 billion for transmission network upgrades.
- Major transport projects such as Transpennine Route Upgrade, East West Rail, and the Lower Thames Crossing.
- Clean power targets by 2030 supported by investment in offshore wind, solar, nuclear and hydrogen.
- £119 billion for schools, hospitals, and prisons over five years.

The Strategy highlights the importance of modern methods of construction, digital technologies such as digital twins, and nature-based solutions. Legislative reforms are on the way via a new Planning and Infrastructure Bill to simplify approvals and accelerate delivery. Procurement reform consultations are also underway to enhance social value, support SMEs, and increase sector-wide sustainability.

The Government also plans to encourage private investment through PPPs, the RAB model, and the National Wealth Fund. These are designed to create public-private opportunities and support delivery at scale.

Comments from the CEA

Viki Bell, Chief Executive of the CEA said: “We welcome the launch of the UK Industrial Strategy — and in particular, the long-term thinking behind it. Plant and equipment manufacturers require stability, infrastructure, and skilled personnel to thrive, and this Strategy demonstrates a clear understanding of industry needs.

The commitment to reduce electricity costs is a potential game-changer for manufacturing. Commercial energy prices in the UK have placed firms at a real disadvantage for too long, so the proposed reductions — through both the Competitiveness Scheme and Supercharger support — could offer significant relief. As the Government consults on eligibility, we will be looking to ensure construction equipment

manufacturers are included.

In terms of skills, we're pleased to see investment in engineering, the establishment of technical colleges, and support for modular and hybrid training models. However, the details on levy reform remain light. We know from our members that simplifying the system and making it more flexible is crucial, particularly for smaller OEMs and the hire sector supply chain.

It's also encouraging to see serious funding now targeted toward helping British firms scale up. The additional £7 billion for the British Business Bank, alongside support for Advanced Manufacturing clusters, shows an ambition to unlock capital and support regional growth. That matters for our sector, especially when bringing new safety systems, cleaner machines, and digital solutions to market.

While construction equipment manufacturing wasn't named explicitly in this Strategy, we hope to see it fully embraced within the Advanced Manufacturing Sector

Plan, where it clearly belongs. Our members stand ready to support infrastructure, house building, and net zero goals. This Strategy is a positive step, and we look forward to working with Government to ensure our sector is part of its delivery."