

Monthly Construction Update

Business Statistics Team

11th November 2021



Department for
Business, Energy
& Industrial Strategy

Construction output grew by 1.3% in September 2021

The **Office for National Statistics** published an estimate of [construction output](#) for September 2021 this morning:

- Monthly construction output grew 1.3% in volume terms in September 2021; new work and repair and maintenance both grew on the month, increasing by 1.3% and 1.2% respectively.
- The level of construction output in September 2021 was 1.0% (£141 million) below the level of February 2020, before the coronavirus (COVID-19) pandemic; new work was 3.5% (£334 million) below the February 2020 level, while repair and maintenance work was 3.9% (£194 million) above the February 2020 level.

Monthly all work index, chained volume measure, seasonally adjusted,
Great Britain, January 2010 to September 2021



Source: Office for National Statistics - Construction Output and
Employment

- In contrast to the monthly growth, quarterly construction output fell 1.5% in Quarter 3 (July to Sep) 2021, compared with Quarter 2 (Apr to Jun) 2021; both new work (0.3%) and repair and maintenance saw decreases (3.6%).
- Total construction new orders fell 9.2% (£1,221 million) in Quarter 3 2021, compared with Quarter 2 2021.
- The annual rate of construction output price growth was 5.1% in September 2021; this was the strongest annual rate of construction output price growth since records began in 2014.
- At the type of work level, the annual rate of price growth in the 12 months to September 2021 was at its strongest in new housing (7.5%) and private industrial new work (6.3%).

Gross Domestic Product grew by 0.6% in September 2021 and by 1.3% in Quarter 3 2021

The **Office for National Statistics** published estimates of GDP for [September 2021](#) and for [Quarter 3 2021](#) this morning:

September 2021

- Gross domestic product (GDP) is estimated to have grown by 0.6% in September 2021 but remains 0.6% below its pre-coronavirus (COVID-19) pandemic level (February 2020).
- Services output grew by 0.7% in September 2021 as human health activities grew by 6.4%, mainly because of a large rise in face-to-face appointments at GP surgeries in England.
- Output in consumer-facing services fell by 0.6% mainly because of a 13.3% fall in the wholesale and retail trade and repair of motor vehicles and motorcycles, while all other services rose by 1.0%.
- Consumer-facing services are 5.5% below their pre-coronavirus (COVID-19) pandemic levels, while all other services are now 1.0% above.
- Production output decreased by 0.4% in September 2021, mainly because of a 4.1% fall in the distribution of gas, its fourth consecutive monthly fall following exceptionally high output levels in May 2021 when adverse weather conditions boosted supply.
- Construction output increased by 1.3% in September 2021 following two consecutive months of contraction, and the sector is now 1.0% below its pre-coronavirus pandemic level; growth in construction was driven by growth in repair and maintenance (1.2%) and new work (1.3%).
- GDP growth for July 2021 has been revised from a 0.1% fall to a 0.2% fall, while August 2021 has been revised from 0.4% growth to 0.2% growth; these revisions were mainly because of late survey data for the services industries.

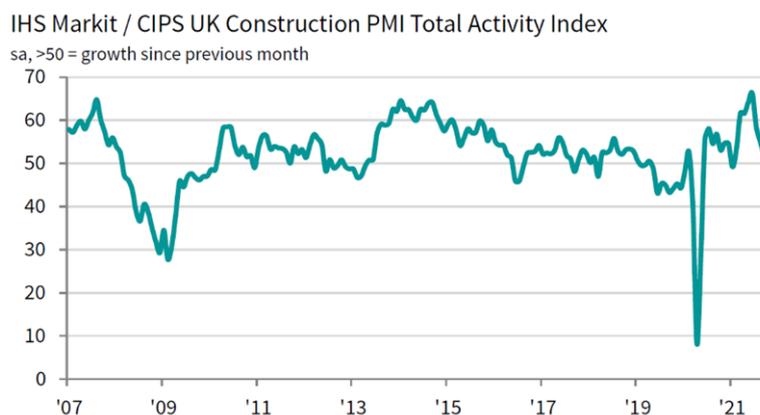
Quarter 3 2021

- UK gross domestic product (GDP) is estimated to have increased by 1.3% in Quarter 3 (Jul to Sept) 2021 following the continued easing of coronavirus (COVID-19) restrictions.
- In output terms, the largest contributors to this increase were from hospitality, arts and recreation and health following the further easing of restrictions and reopening of the economy.
- The level of quarterly GDP is now 2.1% below where it was before the coronavirus pandemic at Quarter 4 (Oct to Dec) 2019; ONS also published an [article](#), which further examines the comparisons to pre-coronavirus pandemic levels between quarterly and monthly GDP estimates.
- In Quarter 3 2021, household consumption made the largest contribution to expenditure; there was a fall in underlying inventories, likely reflecting some of the recent supply chain challenges, and a negative contribution from net trade.

IHS Markit CIP UK Construction Purchasing Managers Index for October 2021

IHS Markit CIPS published their latest [construction purchasing managers index](#) for October 2021 on 4th November 2021.

- October data indicated that business activity gained speed across the construction sector, but growth remained much softer than the 24-year high seen in June. Construction companies continued to report widespread supply constraints and rapidly increasing purchase prices, although these trends were the least severe since April.



Sources: IHS Markit, CIPS.

- The headline seasonally adjusted IHS Markit/CIPS UK Construction PMI Total Activity Index registered 54.6 in October, up from 52.6 in September, to signal a robust and accelerated rise in output volumes. This index has posted above the 50.0 no-change value in each of the past nine months, peaking at 66.3 in June.
- House building (index at 55.4) replaced commercial work (55.2) as the best-performing category of construction work in October. The latest increase in residential work was the strongest for three months. Commercial construction also expanded at a quicker pace than in September. Civil engineering activity (51.4) increased only marginally in October.
- New order growth was unchanged from September's eight month low and much weaker than seen on average during the summer.
- Resilient pipelines of new work were highlighted by a steep increase in purchasing activity across the construction sector in October. The latest expansion was the fastest for three months and often reflected pre-purchasing ahead of new project starts. Employment numbers also increased at a sharp and accelerated pace in October.
- More than half of the survey panel (54%) reported longer delivery times among suppliers in October, while only 2% saw an improvement. Delays were overwhelmingly linked to haulage driver shortages and international shipping congestion. However, the number of construction firms reporting longer wait times for supplier deliveries was down from 63% in September and a peak of 77% in June.
- The latest data signalled another steep rise in input costs, but the rate of inflation slipped to a six-month low. Around 73% of the survey panel reported an increase in purchase prices in October, which was attributed to rising energy and commodity prices as well as raw material shortages and a lack of transport availability.
- The near-term outlook for construction growth remained positive in October. Just over half (52%) forecast an increase in output during the year ahead, while only 8% expect a decline.

Business Insights and Impact on the UK economy

The Office of National Statistics published [Business insights and impact on the UK economy](#) on 4th November 2021, based on responses from the voluntary fortnightly business survey (BICS).

- Between 18th September and 31st October 2021, weighted by count, 4.3% of all construction firms surveyed said they had paused trading and did not intend to restart in the next two weeks, 12.8% reported they were currently partially trading and 81.3% reported they were fully trading.
- Between 4th October and 31st October 2021, weighted by count, 65.1% of construction firms currently trading said that prices of materials, goods or services had increased more than normal, compared to an all industry average of 35.8%. The construction industry has shown a steady increase in prices of materials, goods and services bought since May 2021.
- Between 4th October and 17th October 2021, of construction businesses that had not permanently stopped trading, 10% reported not being able to get the materials, goods or services needed, whilst 25.4% reported having to change suppliers or find alternative solutions to get necessary the materials, goods or services.
- Between 18th October and 31st October 2021, weighted by count, 21.3% of construction firms that had not permanently stopped trading reporting experiencing worker shortages, compared to an all industry average of 14.2%.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 4th November 2021.

The scheme ended on 30th September 2021.

- In construction, furloughing peaked on 14 April 2020 with 724,000 employments furloughed, falling to 131,000 on 31st October, before rising to 246,000 on 31st January 2021. On 28th February 2021 there were 231,000 furloughed employments, falling to 141,000 on 31st May. On 30th September 2021, when the scheme ended, the figure was 92,000.
- The provisional value of claims between 1st May 2021 and 30th September 2021 was around £498 million, with a provisional take-up rate of 7% in the construction sector on 30th September 2021.

HMRC published further experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) on 4th November 2021. The scheme ended on 30th September 2021.

- Construction is the sector with the highest number of potentially eligible individuals (1.2 million) for the fifth SEISS grant.
- By 7th October 2021, self-employed construction workers had made 427,000 claims for the fifth SEISS grant, totalling £1.1 billion, an average of £2,500 per claimant. This was the second highest average value behind the finance and insurance activities sector at £2,900.

Construction Output Forecasts for 2021 and 2022

Experian published their Autumn 2021 [forecasts](#) for the construction sector in October 2021.

- Construction output is expected to bounce back strongly this year, regaining most of the ground lost in 2020. Quarterly data supports this scenario, with output up 2% q-on-q in 2021 Q1 and by 3% in Q2. Recent

monthly data paints a somewhat weaker picture, with output falling m-on-m since April, at an increasing rate. Nevertheless, given this year's starting point compared with the nadir of output in 2020 Q2, it is almost inevitable that strong growth will be posted in 2021. Expansion is predicted to slow in 2022 but remain relatively robust, before a return to more normal rates of increase in 2023.

- All the major construction sectors are projected to experience growth over the 2021 to 2023 period, but a handful are likely to remain smaller in 2023 compared with their pre-pandemic levels in 2019 due to the depth of the decline in 2020 and/or the strength of recovery.
- The prospects for public housing have not changed substantively since the summer forecasts, with the recovery in the sector not strong enough to return it to pre-pandemic output levels by the end of the current forecast period. Output in the first half of this year has been 19% higher than in the corresponding period of 2020, but the differential is likely to narrow sharply in the second half.
- In purely growth terms, forecasts for private housing over the next three years are not much stronger than those for the public housing sector, but as the former saw a much shallower decline in 2020, it is expected to exceed its pre-pandemic output level by next year.
- The infrastructure sector saw the shallowest fall in output (5%) of any of the new work sectors in 2020 and with growth of 19% expected this year, should exceed its pre-pandemic level and set a record high.
- Little has changed in forecasts for the public non-residential sector since the summer, except for a small uplift in the projected growth rate in 2022, with the level of new orders improving markedly in 2021 Q2 on a four-quarter moving total basis. While growth in the sector over the next three years is expected to be at the lower end of the range across construction sectors, public non-residential output held up relatively well in 2020 and is predicted to exceed pre-pandemic levels in 2022.
- Overall, growth in commercial construction over the next three years is expected to be slightly stronger than predicted in the summer, with a slightly worse 2021 but a better 2022. However, the sector is still one of two, the other being public housing, where output in 2023 is projected to remain under 2019's level.
- There is not a great deal of difference between the expected performance of the repair & maintenance (R&M) and new work sectors over the next three years (annual average growth of 7.4% vs. 7.8%). However, the former experienced a significantly smaller fall in output in 2020 than the latter (10% vs.16%).

The **Construction Products Association** published scenarios for construction as part of their analysis of the [market impact](#) in October 2021.

- Construction output growth up is forecast to rise by 14.3% in 2021, up from 13.7% in the previous forecast, and by 4.8% in 2022, down from 6.3% in the previous forecast.
- With more buoyant demand so far in 2021, supply chain constraints are expected to hinder growth over the remainder of the year and into 2022. There is doubt as to whether there is sufficient capacity in the whole construction supply chain to enable demand. Skills shortages, product availability and cost inflation, HGV driver shortages, the impacts of energy cost rises, and delays at ports are all expected to make up an unprecedented number of constraints on growth for the months ahead.

- Infrastructure is forecast to be the key driver of construction growth for the year ahead. Less affected by supply-side issues than other areas of construction, the main activity in the sector is due to work on five-year spending plans within the regulated sectors of rail, water, roads and energy.
- Output in private housing, the largest construction sector, is forecast to rise by 17.0% in 2021 and by 6.0% in 2022 with house builders confident regarding demand at the end of this year and in the first half of 2022. The private housing forecast for next year is a downward revision from 8.0% forecast in the Summer, reflecting concerns about affordability and the sustainability of double-digit house price growth.
- In the private housing rm&i sector, output is forecast to rise by 20.0% this year but remain flat at a historically high level, in 2022. According to the Bank of England, households have accumulated £200 billion of savings over the past 18 months. Most small contractors have renovation projects lined up for the next six months, but their capacity is being tested by skills and products shortages. Impacts of rising costs over the next six months may lead to more subdued consumer confidence and spending on renovation projects later next year.
- In the commercial sector, activity on the fit-out and finishing of new and existing offices, retail and leisure buildings, plus changes in use of existing commercial developments into residential and warehouses, remains strong. However, firms in these areas report that skills shortages remain key constraints. While demand for new high-profile, grade A office space appears to be robust, new investment is lacking in mid-range office space and in retail.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [forecast survey](#) (which uses an average of private sector forecasts) results were published in October 2021.

- The mean GDP forecast for 2021 is 6.9% growth, up from 6.7% the previous month's survey.
- The mean GDP growth forecast for 2022 is 5.1%, down from 5.4% in the previous month's survey.

The **OECD** updated their [Economic Outlook](#) in September 2021:

- UK GDP is projected to grow by 6.7% in 2021 and grow by 5.2% in 2022.
- Global GDP is projected to grow by 5.7% in 2021 and 4.5% in 2022. A strong rebound in Europe, the likelihood of additional fiscal support in the United States next year and lowering household saving will boost growth prospects in advanced countries.
- Global GDP has now surpassed its pre-pandemic level, but output and employment gaps remain in many countries, particularly in emerging-market and developing economies where vaccination rates are low.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the [Agents' Summary of Business Conditions](#) on 23rd September 2021, covering intelligence gathered between mid-July and early September 2021.

- Contacts said activity was above pre-pandemic levels but was curtailed by supply-chain issues that affected the availability of materials and, to a lesser extent, by labour shortages. As a result, there were some reports of companies having to turn down work.
- Construction of private housing remained strong, with home improvement and repair and maintenance activity also supporting output. However, contacts said that materials shortages were causing delays to projects being started and completed.
- Private commercial development activity was mixed: demand was weak among sectors that had been adversely affected by the pandemic, such as retail, hospitality and higher education, where construction activity was mostly focused on essential repair and maintenance work. By contrast, construction activity was strong in logistics and warehousing and IT-related sectors. There were some signs of demand increasing for office refurbishments.
- Public infrastructure projects continued to support construction output, but there were reports of some delays in contracts being awarded, while budget constraints weighed on demand from local authorities.
- Contacts said that order books in general were strong, but uncertainty over materials costs and shortages were deterring some construction firms and clients from competing for tenders or from putting out contracts to tender, which could weigh on future output.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 3rd November 2021.

- The material price index for 'All Work' increased by 23.6% in September 2021 compared to September 2020 and by 0.1% compared to August 2021.
- Cement production decreased by 11.4% to 8.0 million tonnes in 2020, compared to 9.1 million tonnes the previous year. This follows a fall of 1.3% in 2019.
- Clinker production decreased by 11.4% to 6.9 million tonnes in 2020, compared to 7.8 million tonnes the previous year. This follows a rise of 1.2% in 2019.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for August 2021 was published by the **Builders Merchants Federation** and **GfK** on 20th October 2021.

- Total Builders Merchants August 2021 value sales were up 23.0% compared with August 2020, with 11 out of 12 categories selling more.
- Total sales in August 2021 were 18.2% higher than in August 2019, with only five categories selling more. Growth was primarily driven by Timber & Joinery and Landscaping.
- After strong performances in early summer, Total Merchants sales in August were 7.9% lower, with no difference in trading days. Only Workwear & Safetywear sold more.

- Total sales in June-August 2021 were 22.1% up on the same three months in 2020, with one less trading day this year. Eleven categories sold more, with only Workwear & Safetywear selling less.
- Last 3 months v 2019: Across all merchants, sales in June to August 2021 were 20.9% higher than in June to August 2019, with no difference in trading days.
- In the eight months January to August 2021, Total Merchants sales were 39.6% higher than the same period last year, with two less trading days in 2021.
- In the 12 months September 2020 to August 2021, Total Merchants sold 27.8% more than in the same period a year earlier.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
October 2021	10 th December 2021
November 2021	14 th January 2022
December 2021	11 th February 2022

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