Monthly Construction Update

Business Statistics Team

11th April 2022

Department for Business, Energy & Industrial Strategy

Construction output decreased by 0.1% in volume terms in February 2022

The **Office for National Statistics** published estimates of construction output for [February 2022](), this morning:

- Monthly construction output decreased by 0.1% in volume terms in February 2022, which was the first monthly decrease since October 2021; this follows an upwardly revised 1.6% increase in January 2022.

- Anecdotal evidence from returns received for the Monthly Business Survey for Construction and Allied Trades suggested the storms experienced between 16 and 21 February 2022 resulted in projects being delayed, as more working days were lost on sites and premises than normal for this time of the year.

Monthly all work index, chained volume measure, seasonally adjusted, Great Britain, January 2010 to February 2022

- The decrease in monthly construction output in February 2022 came from a decrease in repair and maintenance (0.5%) as new work saw a slight increase of 0.1% on the month.

- At the sector level, the main contributors to the decline in February 2022 were infrastructure, and non-housing repair and maintenance, which decreased by 2.5% and 0.9% respectively.

- The level of construction output in February 2022 was 1.1% (£155 million) above the February 2020 pre-coronavirus (COVID-19) level; new work was 3.7% (£354 million) below, while repair and maintenance work was 10.2% (£509 million) above.

- Despite the monthly decrease, construction output rose 2.4% in the three months to February 2022; this is the strongest growth in the three-month-on-three-month series since June 2021 (4.0%), with similar increases seen in both new work, and repair and maintenance (2.2% and 2.6% respectively).

Gross Domestic Product increased by 0.1% in February 2022

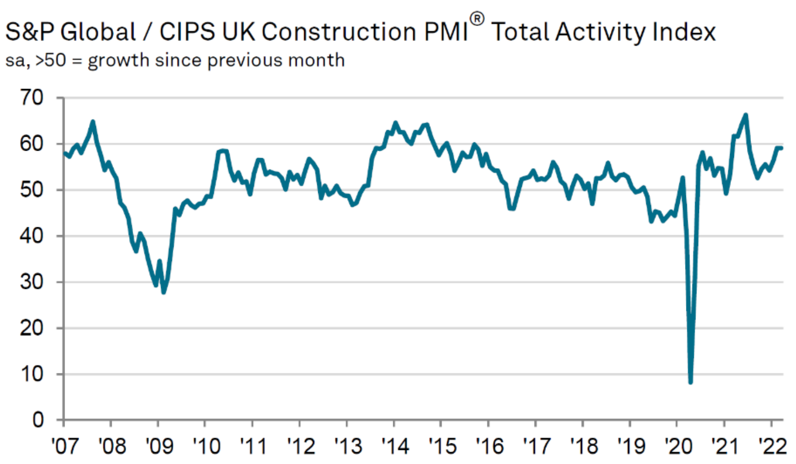
The **Office for National Statistics** published estimates of GDP for [February 2022] this morning:

- Gross domestic product (GDP) grew by 0.1% in February 2022, following 0.8% growth in January 2022.
- Services grew by 0.2% and was the main contributor to February's growth in GDP; this was partially offset by production, which fell by 0.6% and construction, which fell by 0.1%.
- The services growth in February 2022 was mainly driven by tourism-related industries with increases in both travel agency, tour operator and other reservation service and related activities (growing 33.1% on the month), and accommodation (growing 23% on the month).
- Output in consumer-facing services grew by 0.7% in February 2022, following 2.0% growth in January (revised up from 1.7%); non-consumer facing services remained level on the month following 0.5% growth in January (revised down from 0.6%).
- Monthly GDP is now 1.5% above its pre-coronavirus (COVID-19) pandemic level (February 2020).
- Services is now 2.1% above its pre-coronavirus level, while construction is 1.1% above and production is 1.9% below. Within services, consumer-facing services are now 5.2% below their pre-coronavirus levels, while all other services are 4.0% above.

S&P Global / CIPS UK Construction Purchasing Managers Index for March 2022

S&P Global (formerly IHS Markit) **CIPS** published their latest construction purchasing managers index for March 2022 on 6th April 2022.

- March data pointed to a continued rise in UK construction output, helped by the fastest increase in new work for seven months. However, escalating inflationary pressures and concerns about the economic impact of the war in Ukraine contributed to a sharp drop in business optimism. The degree of confidence about the growth outlook was the weakest since October 2020.



Sources: S&P Global, CIPS.

- The headline S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – registered 59.1 in March, unchanged from February and well above the 50.0 mark that separates expansion from contraction. The latest reading signalled the joint-fastest rate of output growth since June 2021.

- Commercial work was the best-performing segment in March (index at 60.8), with projects restarting amid the roll back of pandemic restrictions. This part of the construction sector has seen output growth accelerate for three months in a row and the latest upturn was the strongest since June 2021. In contrast, the recoveries in civil engineering (index at 56.3) and residential work (54.9) lost momentum in March. The latter saw the slowest expansion of the three broad categories monitored by the survey.

- Total new orders expanded at a robust and accelerated pace in March, with the latest rise the strongest since August 2021. Construction companies typically cited improving tender opportunities and resilient customer demand, despite some reports that economic uncertainty and rising costs had limited new business growth.

- Rising workloads contributed to a considerable rise in staffing numbers during March. That said, the pace of job creation eased to its weakest so far this year amid ongoing difficulties filling vacancies.

- Mirroring the trend for new orders, latest data signalled a sharper increase in purchasing activity across the construction sector. Input buying rose at the steepest pace since July 2021, driven by a combination of stronger demand and efforts to build stocks where possible.

- Capacity constraints, a lack of haulage availability and ongoing logistics difficulties led to another sharp downturn in supplier performance. Around 33% of the survey panel reported longer lead times for construction products and materials, while only 1% saw an improvement. However, delays remained less widespread than the peak seen last summer.

- Imbalanced supply and demand, alongside escalating energy, fuel and commodity prices, resulted in a rapid rise in average cost burdens in March. The overall rate of input price inflation accelerated sharply since February and was the highest for six months.

- Concerns about the war in Ukraine, forecasts of severe cost inflation and a less favourable global economic outlook all weighed on constructors' confidence in March. Around 48% of the survey panel expect a rise in business activity during the year ahead, while only 15% predict a decline. However, the balance of positive sentiment was the weakest seen since October 2020.

Business Insights and Impact on the UK economy

The Office of National Statistics published Business insights and impact on the UK economy on 7th April 2022, based on responses from the voluntary fortnightly business survey (BICS) collected between 21st March and 3rd April 2022

- Between 7th March and 3rd April 2022, weighted by count, 20.8% of construction firms reported turnover had decreased compared to normal expectations for the time of year, whilst 54.8% reported turnover was unaffected and 5.7% reported turnover had increased. The respective all industry averages were 25.7%, 54.0% and 8.2%.

- Between 21st March and 3rd April 2022, weighted by count, 10.5% of construction firms reported paying sick leave for the voluntary self-isolation of employees testing positive for coronavirus (COVID-19), compared to an all industry average of 16.5%.

- Between 7th March and 3rd April 2022, weighted by count and excluding businesses with less than 10 employees, 33.0% of construction firms reported global supply chain disruption, compared to an all inductry average of 28.4%.

- Between 21st March and 3rd April 2022, weighted by count, 70.5% of construction firms reported having some form of concern for their business in the next month. The all industry average was 69.2%.

Construction Output Forecasts for Winter 2021/2022

Experian published their Winter 2021/2022 forecasts for the construction sector in January 2022.

- The expectation is that in 2021 the construction industry recovered (+14%) most, but not all, of the contraction seen in 2020. However, there were substantial differences in sector performance, ranging from soaring output levels in the infrastructure sector (+36%) to a further decline in commercial construction (-2%).

- The trend for construction over the 2022 to 2024 period is predicted to be similar to the economy as a whole, although growth is projected to be stronger in the former, driven by strong private housing, investment in rail, health and education stock, and industrial construction in particular. The primary risk to the forecasts is the rapid spread of the Omicron variant of the Covid 19 virus, which in a worst-case scenario could lead to a fourth national lockdown across the UK.

- Public housing is one of only two sectors, the other being the commercial one, in which output is projected to be still below its pre-pandemic level in 2024. Output in the sector fell by almost a third in 2020 and the recovery last year has been a modest 4%. While growth over the three years to 2024 is expected to average around 5% per annum, in the normal course of events a reasonable level of expansion, it will still not be enough to take output back to 2019 levels.

- New infrastructure output is estimated to have soared in 2021, by well over a third, after only a modest fall of around 5% in the previous year, making the sector by far the best performer during the two years of the pandemic so far. Electricity, roads and rail (notwithstanding issues around the accuracy of ONS sub-sector breakdowns) were the primary drivers of the very strong growth last year. However, having surged so strongly in 2021, infrastructure output is expected to increase only moderately in the three years to 2024.

- The public non-residential building sector struggled to show much growth last year, with output in by far the biggest sub-sector, education, which accounts for nearly 50% of the sector, stagnant. However, the drive to build 500 new schools by 2030, combined with a rise in university work should mean that the period of stagnation is short lived, and expansion returns from 2022 onwards.

- Industrial construction output rose only marginally in 2021, with the warehouse sub-sector experiencing its first contraction for seven years. However, the sector should return to growth this year and over the three-year forecast period is projected to see the strongest rate of expansion of any construction sector, averaging nearly 13% per annum.

- The commercial construction sector suffered one of the biggest contractions in 2020, but it was the only sector to see a fall last year, of an estimated 2%. The big decline in GDP in 2020, substantial changes to office working practices, big drops in footfall and an even faster rise in online retailing, and the complete lockdown of some sectors during the course of the year combined to sharply reduce the demand for new facilities. The problem the sector has moving forward is that a number of the above factors are likely to persist into the medium and long term.

- As is the case across the construction industry, non-residential R&M output is expected to have bounced back strongly in 2021 from its pandemic-induced contraction in 2020. After double-digit growth across the non-residential R&M sub-sectors in 2021, expansion is projected to moderate thereafter.

The **Construction Products Association** (CPA) published scenarios for construction as part of their analysis of the market impact in January 2022.

- The CPA forecasts that output in the industry will grow by 4.3% in 2022, slowing to 2.5% in 2023 compared to the 13.3% seen in 2021. This demonstrates the resilience of the sector to the initial Covid-19 lockdown and the end of the Brexit transition period in 2020.

- Housebuilding, the largest sector within the UK construction industry, is expected to remain buoyant while infrastructure will be the major driver for growth.

- Product supply issues, a major challenge in 2021, have eased recently, but may still cause problems, particularly in the spring period and particularly for smaller building companies.

- Continuing to benefit from the ‘race for space,’ output in private housing is forecast to rise by 3.0% in both 2022 and 2023 following 17.0% growth in 2021. The CPA suggests that the double-digit inflation in house prices will fall as the impact of the end of the stamp duty holiday and the further restriction of the Help to Buy scheme feeds through. The outlook for volume remains positive, with most major house builders reporting strong near-term demand and healthy profit margins fuelled by demand for housing in affordable areas of the UK.

- Also benefiting from the ‘race for space’ in the near-term is the private housing rm&i sector. Here the CPA forecasts output to remain flat at the historically high level reached with 17.0% growth last year. Rising renovation project costs and higher inflation rates are expected to slow down consumer spending on larger projects. UK households have benefited from building up over £200 billion of savings from the past two years but rising costs are spelling caution for spending compared to 2021.

- The CPA forecast indicates the infrastructure sector will remain the main driver for growth in 2022. Key projects include the Thames Tideway Tunnel, Hinkley Point C and HS2. At least two of these projects report delays due to supply constraints, and this could result in further work being pushed into 2023. Taking this into account, the sector is still expected to rise by 9.7% in 2022 and 1.1% in 2023, taking the sector to a new all-time high.

- While supply issues have eased off over the past six months, the CPA still considers these to be the biggest challenges to overall growth. These challenges are not spread equally across the sector, with smaller specialist sub-contractors feeling the pressure more.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** forecast survey (which uses an average of private sector forecasts) results were published in March 2022.

- The mean GDP forecast for 2022 is 3.9% growth, down from 4.3% in the previous month's survey.
- The mean GDP growth forecast for 2023 is 1.6%, down from 2.0% in the previous month's survey.

The **OECD** published their latest Economic Outlook in December 2021:

- UK GDP is projected to grow by 6.9% in 2021, by 4.7% in 2022 and 2.1% in 2023.
- Global GDP is projected to grow by 5.6% in 2021, by 4.5% in 2022 and by 3.25% in 2023.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 17th March 2022, covering intelligence gathered mostly between mid-January and late February 2022.

- Construction output growth remained modest as rising costs, and materials and labour shortages continued to weigh on activity, though order books remained strong.
- Contacts said that rising material and labour costs had caused delays to some projects as customers waited for costs to come down or had made some projects unviable.
- Lead times for many materials continued to be lengthy, though availability had improved since Summer 2021, when shortages were at their most severe. Companies reported placing orders early and buying larger quantities of materials to limit the effect of shortages, though this was easier for larger firms than for smaller companies, because larger firms have more buying power with suppliers and generally have stronger financial positions.
- Nonetheless, contacts expected output growth to remain positive this year, with demand supported by public sector infrastructure spending, strong housebuilding activity and plans to reconfigure office and commercial space.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published by **BEIS** on 6th April 2022.

- There was a 4.5% decrease in brick deliveries in February 2022 compared to January 2022, according to the seasonally adjusted figures.
- There was a 1.1% decrease in block deliveries in February 2022 compared to January 2022, according to the seasonally adjusted figures.
- The material price index for 'All Work' increased by 20.2% in February 2022 compared to the same month the previous year.

Builders Merchant Building Index

The Builders Merchant Building Index for January 2022 was published by the **Builders Merchants Federation** and **GfK** on 22nd March 2022.

- Total Builders Merchants January 2022 value sales were up 24.1% compared with January 2021, with all categories selling more.
- Total sales in January 2022 were 15.1% higher than in January 2019, with 10 of the 12 categories selling more. Landscaping and Timber & Joinery Products led the field.
- Total sales in Nov 2021 to Jan 2022 were 19.3% higher than the same three months the previous year, with one more trading day this year. All categories sold more.
- Last 3 months year-on-year v 2019: Across all merchants, sales in Nov 2021 to Jan 2022 were 18.8% higher than in Nov 2018 to Jan 2019, with no difference in trading days.
- In the 12 months Feb 2021 to Jan 2022, Total Merchants sold 32.8% more than in the same period a year earlier.

Expected dates for future construction output releases

Release for:	*Publication date:*
March 2022	12th May 2022
April 2022	13th June 2022
May 2022	13th July 2022

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