Monthly Construction Update

Business Statistics Team

12th May 2022

Department for Business, Energy & Industrial Strategy

Construction output increased by 1.7% in volume terms in March 2022

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

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

- Monthly construction output increased by 1.7% in volume terms in March 2022, the fifth consecutive monthly growth and a record high in monthly level terms (£14,994 million) since monthly records began in January 2010.

- The increase in monthly construction output in March 2022 was driven by increases seen in both repair and maintenance (3.0%) and new work (1.0%). At the sector level, private housing repair and maintenance (5.8%) and private commercial new work (4.0%) were the main contributors to the monthly increase.

- Anecdotal evidence from returns received for the Monthly Business Survey for construction and allied trades suggested storms between 16 and 21 February 2022 resulted in businesses seeing a higher workload in March 2022; this is because of the repair work derived from the storms.

- The level of construction output in March 2022 was 3.7% (£539 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was 1.6% (£148 million) below the February 2020 level, while repair and maintenance work was 13.8% (£687 million) above the February 2020 level.

- Along with the monthly increase, construction output rose 3.8% in Quarter 1 (Jan to Mar) 2022; outside of the coronavirus pandemic period, this is the strongest quarterly growth since Quarter 1 2017 (3.9%).

- Total construction new orders decreased by 2.6% (£346 million) in Quarter 1 2022 compared with Quarter 4 2021; despite this quarterly fall, all sectors are still above their pre-coronavirus pandemic level (Quarter 4 2019).

- The annual rate of construction output price growth was 7.3% in the 12 months to March 2022; this was the strongest annual rate since records began in 2014.

Gross Domestic Product fell by 0.1% in March 2022, but increased by 0.8% in Quarter 1 2022

The **Office for National Statistics** published estimates of GDP for March 2022 and for Quarter 1 2022 this morning:

Monthly GDP estimate for March 2022

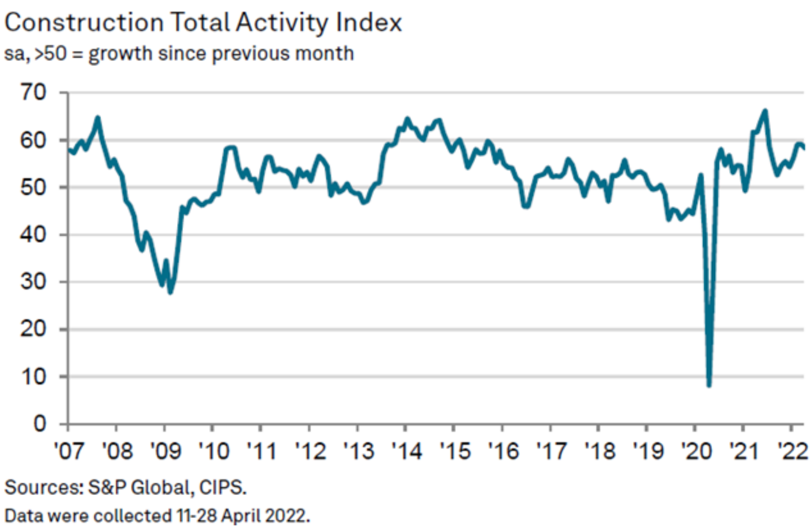
- Gross domestic product (GDP) fell by 0.1% in March 2022, after no growth in February 2022 (revised down from 0.1% growth).
- Services fell by 0.2% in March 2022, whilst Production fell by 0.2%. Construction grew by 1.7%.
- Monthly GDP is now 1.2% above its pre-coronavirus (COVID-19) pandemic level (February 2020).

Quarterly GDP estimate for Quarter 1 2022

- UK gross domestic product (GDP) is estimated to have increased by 0.8% in Quarter 1 (Jan to Mar) 2022, and by 8.7% compared with Quarter 1 2021.
- In output terms, services increased by 0.4% with the largest contributors from information and communication, accommodation and food, and transportation and storage industries, while there was a decline in wholesale and retail.
- In Quarter 1 2022, there was a 0.6% increase in household consumption partially offset by large movements in international trade flows. However, there is some additional uncertainty on the EU trade flows because of recent changes in how some of these data are collated.
- The level of quarterly GDP in Quarter 1 2022 is now 0.7% above its pre-coronavirus level (Quarter 4 (Oct to Dec) 2019).

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

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



- UK construction companies reported another rise in business activity during April, but the speed of recovery lost momentum amid weaker new order gains. Survey respondents noted higher costs and worries about the economic outlook had started to slow demand.
- Signs of a slowdown in client spending contributed to another drop in growth expectations, with the degree of optimism about future workloads the lowest since September 2020.

- At 58.2 in April, down from 59.1 in March, the headline S&P Global /CIPS UK Construction Purchasing Managers' Index (PMI), which measures month-on-month changes in total industry activity , signalled the weakest rate of output growth since January. The index has nonetheless posted above the crucial 50.0 no-change mark in each month since February 2021.

- Of the three main construction segments monitored by the survey, the fastest-growing remained commercial work (index at 60.5), followed by civil engineering (56.2). Residential work remained the worst-performing sub-sector in April and saw the greatest loss of momentum (53.8 vs. 54.9 in March).

- The near-term outlook for construction activity deteriorated in April as total new order volumes expanded at the slowest rate for four months. Escalating raw material prices and, in some cases, hesitancy due to higher borrowing costs and geopolitical uncertainty were reported as headwinds to demand.

- A strong pipeline of construction projects and efforts to boost stocks where possible resulted in a steep rise in purchasing activity. Higher levels of input buying have been recorded each month since June 2020.

- Suppliers struggled to keep up with demand for construction products and materials. Around 45% of the survey panel reported longer lead times, while 2% noted an improvement. The resulting index measuring suppliers' delivery times across the sector signalled a sharper downturn in performance than in the previous month.

- Higher prices paid for energy, fuel and raw materials led to a steep increase in average cost burdens during April. Survey respondents also noted that the removal of red diesel subsidies had pushed up costs. The overall rate ofpurchasing price inflation accelerated to its fastest since September 2021.

- Looking ahead, the percentage of construction companies forecasting an upturn in business activity during the next 12 months (43%) continued to surpass those expecting a fall (12%). The gap narrowed again in April, however, and as a result the Future Activity Index dropped to a 19-month low.

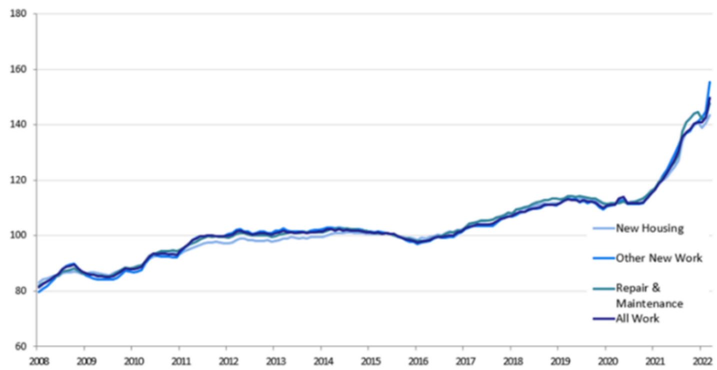
Building Materials

The latest Monthly Statistics of Building Materials and Components were published by **BEIS** on 4th May 2022.

- There was a 0.4% decrease in seasonally adjusted brick deliveries in March 2022 compared to the same month the previous year.
- There was an 8.4% decrease in seasonally adjusted block deliveries in March 2022 compared to the same month the previous year.

- The material price index for 'All Work' increased by 24.5% in March 2022 compared to the same month the previous year and by 5.0% from February 2022 to March 2022.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components, Table 1

Business Insights and Impact on the UK economy

The Office of National Statistics published Business insights and impact on the UK economy on 5th May 2022, based on responses from the voluntary fortnightly business survey (BICS) which was live between 19th April and 1st May.

- In March 2022, weighted by count, 7.9% of construction businesses reported turnover had increased, whilst 56.0% reported turnover was unaffected and 14.5% reported turnover had decreased. The respective all industry averages were 13.6%, 54.6% and 19.9%.

- In March 2022, weighted by count, 61.7% of construction businesses reported an increase in the price of materials, goods or services bought, whilst 31.6% of construction reported an increase in the price of materials, goods or services sold. The respective all-industry averages were 50.1% and 23.5%.

- In March 2022, weighted by count, 8.2% of construction businesses reported raw material stock levels were lower than in February 2022, whilst 5.5% reported finished goods stock levels were lower. Respective all-industry averages were 7.2% and 6.4%.

- Weighted by count, 42.6% of construction businesses reported expecting the prices of the goods or services they sold in April to increase, compared to an all-industry average of 30.6%.

Construction Output Forecasts

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 May 2022.

- The CPA forecasts that output in the industry will grow by 2.8% in 2022, a sharp revision down from the 4.3% growth forecast three months ago. The downward revision stems from concern around a host of price pressures arising from both local and global issues.

- Demand remains strong across the industry in Q2, and the current project pipeline suggests that this will support activity levels until at least 2022 Q3.

- Prior to the conflict in Ukraine, UK construction was already facing labour and product availability issues and the impact of reverse charge VAT and IR35. Rising energy costs were driving near-record price increases in construction products and the continued conflict is exacerbating this issue. The impact of these pressures, and of more general rising costs, on demand will vary considerably by sector. The broad picture is one of positive market conditions in the short term with anticipation of tougher times ahead.

- Private housing repair, maintenance and improvement, SMEs report that demand remains high, but this is the sector arguably most exposed to current price inflation, falls in consumer confidence and pressures on household incomes. Overall, output is expected to fall by 3% in 2022 and 4% next year from current all-time highs.

- Private housing, the largest construction sector, remains strong, with housebuilders reporting resilient demand. Longer term, are questions over consumer confidence, but output in this sector is forecast to rise by 1% in both 2022 and 2023. This contrasts with the 3% per year growth forecast three months ago.

- The fastest growth is expected in the industrial sector, in which output is forecast to rise by 9.8% in 2022 and 9.3% in 2023, due to a strong pipeline of warehouse projects, resulting from a long-term shift towards online shopping.

- Infrastructure, traditionally less affected by immediate economic conditions, remains positive, with forecast growth of 8.8% in 2022 and 4.6% in 2023.

- On the supply side, the main immediate impact of the war in Ukraine for construction products will be the knock-on from rising energy prices and commodity shortages. Soaring energy costs will have to be passed on and lead to sharp rises in the cost of energy-intensive products. This will affect both imported products such as aluminium and steel and locally sourced products such as bricks and cement. Contractors are likely to feel the pressure first, particularly those working to fixed-price contracts. For future projects, contractors will be forced to re-price, add fluctuation costs and introduce risk-sharing arrangements to deal with the uncertainty over potential cost inflation.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** Forecast Survey (which uses an average of private sector forecasts) results were published in April 2022.

- The mean GDP forecast for 2022 is 3.9% growth, unchanged the previous month's survey.

- The mean GDP growth forecast for 2023 is 1.4%, down from 1.6% in the previous month's survey.

The **OECD** published their latest interim Economic Outlook in March 2022:

- Moves in commodity prices and financial markets since the outbreak of the war in Ukraine could, if sustained, reduce global GDP growth by over 1 percentage point in the first year.

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 long, 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.

Builders Merchant Building Index

The Builders Merchant Building Index for January 2022 was published by the **Builders Merchants Federation** and **GfK** on 21st April 2022.

- Total Builders Merchants February 2022 value sales were up 22.9% compared with February 2021, with all categories selling more.
- Total sales in February 2022 were 22.6% higher than in February 2019, with all categories selling more. Growth was driven by two categories: Landscaping (+51.1%) and Timber & Joinery Products (+38.3%).
- Total sales in Dec 2021 to Feb 2022 were 21.4% higher than the same three months the previous year, with no difference in trading days. All categories sold more.
- Across all merchants, sales in Dec 2021 to Feb 2022 were 20.5% higher than in Dec 2018 to Feb 2019, with no difference in trading days.
- In the 12 months Mar 2021 to Feb 2022, Total Merchants sold 34.6% more than in the same period a year earlier.

Expected dates for future construction output releases

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

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