

Monthly Construction Update

Business Statistics Team

11th November 2022



Department for
Business, Energy
& Industrial Strategy

Construction output increased by 0.4% in volume terms in September 2022

The **Office for National Statistics** published estimates of construction output for [September 2022](#) this morning.

- Monthly construction output increased 0.4% in volume terms in September 2022, which is the third consecutive monthly growth following small upward revisions, to 0.6% in August 2022 and 0.2% in July; September 2022 shows the highest level of construction output (£15,125 million) since records began in January 2010.
- The increase in monthly construction output in September 2022 came from increases seen in both new work (0.6%) and repair and maintenance (0.2%) on the month.

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



Source: Office for National Statistics – Construction Output and Employment

- At the sector level, 5 out of the 9 sectors saw a rise in September 2022, with the main contributors to the monthly increase seen in public housing repair and maintenance and infrastructure new work, which increased 11.3% and 2.8%, respectively.
- The level of construction output in September 2022 was 4.0% (£575 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level. New work was 0.3% (£29 million) below its February 2020 level, while repair and maintenance work was 12.0% (£604 million) above the February 2020 level
- Alongside the monthly increase, construction output saw an increase of 0.6% in Quarter 3 (July to Sept) 2022, although this is the weakest quarterly growth since Quarter 3 2021 (1.1% fall); the increase came solely from growth in new work (2.4%) as repair and maintenance saw a decrease (2.2% fall).
- Total construction new orders increased 6.4% (£774 million) in Quarter 3 2022 compared with Quarter 2 (Apr to Jun) 2022; this quarterly growth came mainly from private commercial new orders, which rose 27.7% (£832 million).

Gross Domestic Product fell by 0.6% in September 2022

The **Office for National Statistics** published estimates of GDP for [September 2022](#) this morning.

- Gross domestic product (GDP) is estimated to have fallen by 0.6% in September 2022, after a fall of 0.1% in August 2022 (revised from a fall of 0.3% in our previous publication) driven by a fall in the services sector.
- Looking at the quarterly picture, GDP fell by 0.2% in the three months to September 2022 compared with the three months to June 2022.
- Services fell by 0.8% in September 2022 after growth of 0.1% in August 2022 (revised from a fall of 0.1% in our previous publication); the largest contribution to the fall came from a 3.2% fall in information and communication activity, and a 2.0% fall in wholesale and retail trade, and repair of motor vehicles and motorcycles.
- Output in consumer-facing services fell by 1.7% in September 2022, after a fall of 1.6% in August 2022 (revised from a fall of 1.8% in our previous publication).
- Production grew by 0.2% in September 2022, after a fall of 1.4% in August 2022 (revised from a 1.8% fall in our previous publication); electricity, gas, steam and air conditioning supply grew by 1.5% and was the largest contributor to growth in production in September 2022.
- Construction grew by 0.4% in September 2022, after growth of 0.6% in August 2022 (revised from growth of 0.4% in our previous publication); the monthly increase came from increases in both new work (0.6%), and repair and maintenance (0.2%).

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

S&P Global (formerly IHS Markit) **CIPS** published their latest [construction purchasing managers index](#) for October 2022 on 4th November 2022.

- October PMI® data indicated that the UK construction sector gained momentum, with total industry activity rising at the fastest pace since May.
- Despite signalling a solid recovery in business activity from the downturn seen this summer, construction companies indicated that growth expectations for the year ahead remained very subdued. The degree of

Construction Total Activity Index
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.
Data were collected 12-28 October 2022.

optimism fell sharply since September and was the lowest for almost two-and-a half years, reflecting falling volumes of new work and worries about the longer-term UK economic outlook.

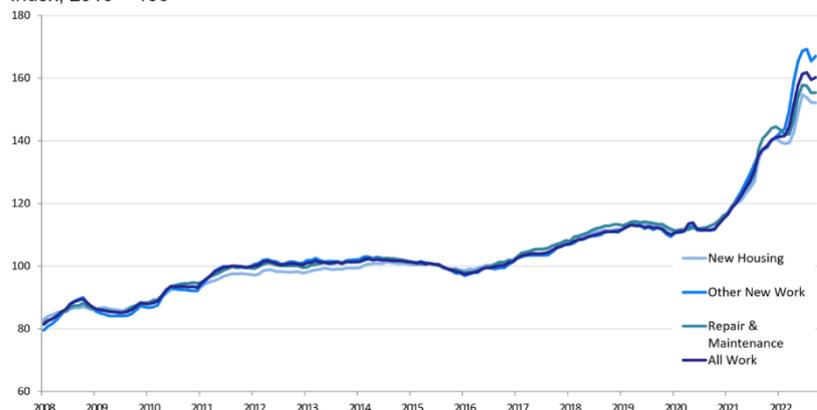
- At 53.2 in October, up from 52.3 in September, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – registered the highest reading since May. Moreover, the index continued to pick up from the 26-month low seen in July (48.9). Higher levels of business activity were attributed to a combination of new project starts and strong pipelines of unfinished work.
- Commercial building was the best-performing category in October (index at 54.5), with output growth reaching a five month high. Residential work also expanded (51.2), but at a softer pace than in September. Meanwhile, civil engineering activity decreased for the fourth month running (48.5).
- Looking ahead, construction firms are relatively downbeat about their growth projections for the year ahead. Around 33% of the survey panel anticipate a rise in business activity, while 26% predict a decline. The resulting index signalled the lowest degree of optimism since May 2020.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 2nd November 2022

- The material price index for 'All Work' increased by 16.7% in September 2022 compared to the same month the previous year.
- There was a 2.6% increase in brick deliveries in September 2022 compared to September 2021, according to the seasonally adjusted figures.
- There was a 9.7% decrease in concrete block deliveries in September 2022 compared to September 2021, according to the seasonally adjusted figures.

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 for National Statistics** published further information from their fortnightly [Business insights and impact on the UK economy](#) publication on 3 November 2022, which was live from 17 October to 30 October 2022.

- Weighted by count, between 1 to 30 September, 22% of construction firms that had not permanently stopped trading reported experiencing global supply chain issues in September 2022, 50.3% reported not experiencing supply chain issues, whilst 17.4% reported being not sure. The all-industry averages for businesses with 10 or more employees were 20%, 46.7% and 12.3% respectively.

- Weighted by count, between 17 to 30 October 2022, 23% of businesses that had not permanently stopped trading reported switching electrical equipment to standby or off more than usual in the last three months, 30% have taken some other form of actions to reduce their energy costs, while 49% have not taken actions.
- Weighted by count, between 1 November and 30 November 2022, 55.6% of business with 10 or more employees that had not permanently stopped trading reported that input price inflation and energy prices are their main concern for November 2022, 29.4% reported having other concerns (top 5 being: exchange rate 5.7%, supply chain disruption 5%, interest rates 4.5%, competition 4.3%, taxation 3.5%), whilst 9% reported having no concerns for November 2022.

Construction Output Forecasts

Experian published their Summer 2022 [forecasts](#) for the construction sector in July 2022.

- Total construction output in 2021 reached £169.6 billion (2019 prices), a close to 13% increase on the previous year, regaining most of the ground lost during the worst of the pandemic. The industry started 2022 well, with output up 8% in real terms in the first two months compared with the same period of 2021. Growth will slow, but the prognosis is one of expansion over the forecast period, averaging 3.7% a year. This would take output to £189.4 billion in 2024, over 7% above its pre-pandemic level in 2019.
- Total construction output rose by nearly 13% in 2021, recovering most, but not all, of the ground lost during the height of the pandemic in 2020. Expansion has continued into the first four months of this year, with output reaching £59.37bn (2019 prices, seasonally adjusted), 6.5% up on the corresponding period of 2021. The only sectors not to experience growth over this period are the public non-residential and private commercial ones. Expansion is expected to slow somewhat during the remainder of the year but growth for total construction output is still projected to come in at over 5% in 2022.
- Despite anaemic GDP forecasts for 2023 and 2024, construction output is predicted to grow at a reasonable rate, of 3.3% in the former year and 2.7% in the latter one. The only sector not forecast to see expansion over the two-year period is the public housing one. The projections for the whole of the forecast period are similar to those made in the spring, but lower than the winter forecasts, due to unforeseen external factors, such as the conflict in Ukraine.
- Growth in new work is forecast at 6.1% in 2022 and 3.2% in 2023, down from 11.3% growth in 2021. The housing sector is forecast to grow by 3.3% in 2022 and 1.9% in 2023. Growth in the non-residential building sector is forecast to be 9.6% in 2022 and 5.3% in 2023.
- Repair and maintenance (R&M) is forecast to grow by 3.7 in 2022 and 3.5% in 2023, down from 15.7% last year.

The **Construction Products Association** (CPA) published their autumn construction industry forecast as part of their analysis of the [market impact](#) in November 2022

- Construction output is forecast to fall by 3.9% in 2023 following a rise of 2.0% in 2022, as activity currently continues at a high level. The fall for 2023 is a sharp downward revision from -0.4% in the Lower Scenario of the CPA's Summer Forecasts. This is mainly due to the impact of a wider economic recession,

exacerbated by the effect of the 'Mini Budget', and the consequent fallout from recent political uncertainty.

- There are still many factors which will adversely affect the construction forecast such as falls in real wages and potential further rises in interest rates, which will likely lead to further falls in consumer spending decisions. On top of these issues, the wider uncertainty around the UK economy means that demand for private housing new build and private housing repair, maintenance, and improvement (rm&i) is expected to fall. Other key construction sectors such as commercial and infrastructure are also expected to be affected by increasing concerns over construction cost inflation, which are likely to hinder project viability.
- With an annual turnover of £37 billion, private housing is the largest sector in the construction industry. Activity is currently strong with most major house builders sold through to 2023 Q1. However, after the 'Mini Budget' announced in October 2022 and the resulting financial market chaos, interest rates are expected to peak at 4%. Activity was already expected to slow due to rising interest rates to 3% but the announcement worsened this forecast. The repercussions of this on mortgage rates will dampen potential demand and house prices for new homeowners. Furthermore, after more than a decade of low mortgage rates, some existing homeowners will be faced with the pressure of increased mortgage repayments and some may be forced sellers, adding further pressure to the housing market. As a result, property transactions and prices are likely to fall over the next year, with house builders likely to reduce house building targets. After growth of 3.0% in 2022, private housing output is now forecast to fall by 9.0% in 2023 before returning to 1.0% growth in 2024.
- Following a record level of £24 billion last year, private housing rm&i output, the third largest construction sector, has been decreasing since March 2022. With a drop in real wages and sharp increases in mortgage payments for many households, there is likely to be a further fall in smaller, discretionary improvements and renovation spending. Output in this sector is expected to decline by 4.0% in 2022 and 9.0% in 2023, before marginal growth of 1.0% in 2024.
- Commercial output is forecast to remain flat in 2022 before a fall of 5.1% in 2023. This comes as buoyant fit-out and refurbishment activity is offset by a hiatus in major new office and mixed-use tower projects, which dominate the sector. With accelerating costs and worsening economic prospects, however, it raises the question of whether those projects will break ground in the near-term or whether they will be paused or even cancelled.
- Infrastructure, the second largest construction sector, should be the least affected by issues of household finances and rising interest rates. Nonetheless, it is not immune to the impacts of both sharp cost rises and government making clear that it will not increase departmental budgets to deal with rising costs. Therefore, we are likely to see the value of activity that we expected previously but not the volume. In the medium-term, projects towards the end of the government's Spending Review will get pushed back into the next review. Overall, after 5.2% growth in 2022, infrastructure output is forecast to rise by 1.6% in 2023 and 2.6% in 2024. This will be driven by larger projects already underway such as HS2, Hinkley Point C and Thames Tideway despite the cost overruns and delays.
- Overall, given that construction output is expected to fall significantly over the next 12 months, it is critical that new government is focused on delivering its targets. Additionally, as part of its movement towards Net Zero, the UK must prioritise the energy-efficiency of its new and existing homes.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2022 is 4.2% up from 4.1% in the previous month's survey.
- The mean GDP forecast for 2023 is -0.9%, down from -0.3% from the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in September 2022:

- Global GDP stagnated in the second quarter of 2022 and output declined in the G20 economies. Global growth is projected to remain subdued in the second half of 2022, before slowing further in 2023 to an annual growth of just 2.2%.
- UK GDP is projected to grow by 3.4% in 2022, down from 4.8% in the December 2021 projection, and 0.0% 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 22 September 2022, covering intelligence gathered mostly between mid-July and late August 2021.

- Construction output growth weakened as high materials costs, labour shortages and economic uncertainty weighed on activity.
- Contacts in residential construction said that planning delays and concerns about rising build costs had slowed the pace of new projects starting. Growth in domestic home improvements and maintenance had also eased. In social housing, new construction had been held back by budget constraints and commitments to refurbish existing properties.
- By contrast, commercial construction activity remained strong, in particular for office developments in prime locations. Demand for warehouse and data centre premises also remained robust, but demand for retail and leisure premises weakened further.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for August 2022 was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 20th October 2022.

- Total value sales were up +10.0% in August 2022 compared with August 2021. Volume sales were -4.2% lower with price up +14.8%. With one more trading day this year, like-for-like sales (which take trading day differences into account) were +5.0% higher. Nine categories performed better than Merchants overall, including Renewables & Water Saving (+27.3%) and Kitchens & Bathrooms (+26.9%).
- Total Merchants sales were +1.1% higher in August 2022 than in July 2022. Volume sales were flat (-0.2%) with price up +1.3%. With one more trading day like-for-like sales were -3.5% lower this month.

- Total value sales in August 2022 were +29.9% higher than August 2019 (a more normal year pre Covid). Volume sales fell by -1.2%, and prices were +31.5% higher. With one more trading day this year, like-for-like sales were +24.0% higher. Three of the twelve categories outperformed merchants overall.
- Total sales in June to August 2022 were +2.8% higher than in June to August 2021, with price inflation of +15.7%, volume down -11.1%. With two less trading days, like-for-like sales were +6.1%. Ten of the twelve categories sold more than merchants overall.
- Compared with the same months three years ago, sales in June to August 2022 were +24.3% higher than in June to August 2019, driven by price inflation (+30.5%) not volume (-4.7%). With one less trading day this period like-for-like sales were +26.3% higher. All categories sold more.

| Expected dates for future construction output releases | |
|--|--------------------------------|
| <i>Release for:</i> | <i>Publication date:</i> |
| October 2022 | 12 th December 2022 |
| November 2022 | 13 th January 2023 |
| December 2022 | 10 th February 2023 |

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