Monthly Construction Update

Business Statistics Team

13th January 2023

Department for Business, Energy & Industrial Strategy

Construction output was unchanged (0.0%) in volume terms in November 2022

The **Office for National Statistics** published estimates of construction output for November 2022 this morning.

- Monthly construction output is estimated to have flat growth (0.0%) in volume terms in November 2022; this follows a downwardly revised increase of 0.4% in October 2022 (revised down from growth of 0.8% in our previous publication).
- The flat growth in monthly construction output in November 2022 came from a decrease in new work (0.4% fall), offset by an increase in repair and maintenance (0.6%) on the month.
- At the sector level, the main positive contributors to the flat growth were seen in infrastructure new work and non-housing repair and maintenance, which increased 4.2% and 2.4%, respectively; the main negative contributors were seen in private new housing and private housing repair and maintenance, falling 4.8% and 1.7%, respectively.
- The level of construction output volume in November 2022 was 3.1% (£452 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was 3.4% (£327 million) below its February 2020 level, while repair and maintenance work was 15.5% (£778 million) above the February 2020 level.
- Construction output saw an increase of 0.3% in the three months to November 2022; the increase came solely from growth in new work (1.3%) as repair and maintenance saw a decrease (1.2% fall).
- Revisions in this release are seen back to January 2021 and are consistent with the Gross domestic product (GDP) quarterly national accounts, UK: July to September 2022 bulletin, published on 22 December 2022.

Gross Domestic Product grew by 0.1% in November 2022

The **Office for National Statistics** published estimates of GDP for November 2022 this morning.

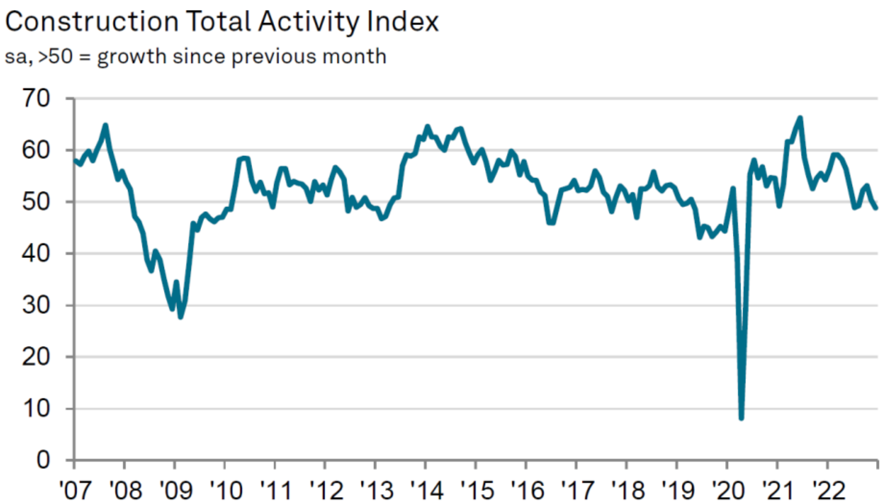
- Monthly real gross domestic product (GDP) is estimated to have grown by 0.1% in November 2022, following growth of 0.5% (unrevised from our previous publication) in October 2022.
- Looking at the broader picture, GDP fell by 0.3% in the three months to November 2022.
- The services sector grew by 0.2% in November 2022, after growth of 0.7% (revised up from a growth 0.6% in our previous publication) in October 2022; the largest contributions came from administrative and support service activities and information and communication.

- Output in consumer-facing services grew by 0.4% in November 2022, following growth of 1.5% (revised up from a growth of 1.2% in our previous publication) in October 2022; the largest contribution to growth came from food and beverage service activities in a month where the FIFA World Cup started.

- Production output decreased by 0.2% in November 2022, after a fall of 0.1% (revised down from flat in our previous publication) in October 2022; manufacturing was the main driver of negative production growth in November 2022, partially offset by a positive contribution from mining and quarrying.

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

S&P Global (formerly IHS Markit) **CIPS** published their latest construction purchasing managers index for December 2022 on 6th January 2023.



Sources: S&P Global, CIPS.
Data were collected 06-22 December 2022.

- UK's construction sector recorded a fall in business activity during December, ending a three-month sequence of growth, with the rate of decline the fastest since May 2020. A similar trend was observed for new orders, which saw a renewed fall that was the strongest for over two-and-a-half years.

- Concurrently, sentiment amongst firms towards the year ahead outlook for activity dipped into negative territory for only the sixth time on record, reflecting fears around the near-term economic outlook.

- At 48.8 in December, down from 50.4 in November, 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 below the 50.0 mark to signal the first contraction in construction sector output since last August.

- Although commercial construction activity continued to rise in the final month of the year, the rate of contraction eased to the slowest in the current four-month sequence and was only fractional overall (index at 50.3).

- The uplift in the commercial sector was outweighed by contractions across the residential and civil engineering sectors in December. Housing activity declined for the first time since last July and only marginally (48.0), while civil engineering recorded a sixth consecutive monthly contraction in output (46.8) and the rate of decline remained sharp overall.

- December data pointed to the first fall in employment since January 2021. Weak sales meant vacancies were often not being filled, according to panellists.

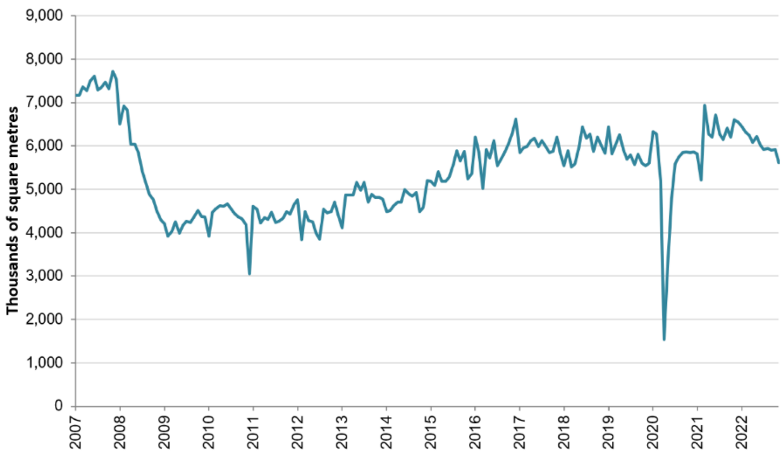
- Turning to prices, costs faced by construction companies continued to increase during the final month of the year. Although still marked, the rate of inflation was the weakest for two years.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published by **BEIS** on 11th January 2023.

- There was an 8.2% decrease in brick deliveries in November 2022 compared to November 2021, according to the seasonally adjusted figures.
- There was a 15.1% decrease in concrete block deliveries in November 2022 compared to November 2021, according to the seasonally adjusted figures.

Chart 1: Seasonally adjusted deliveries of Concrete Blocks, GB



- Price indices for November 2022 are not available due to the delayed release of Producer Price Indices (PPI) data by the Office for National Statistics.

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 5 January 2023, which was live from 12 December to 27 December 2022.

- Between 12 December and 27 December, 86% of construction businesses reported they were fully trading and 6% that they were partially trading. Respective all industry averages were 85% and 8%.
- Between 12 December and 27 December, 5% of construction businesses currently trading reported incurring extra costs at the end of the EU transition period due to increased red tape, 5% due to extra tariffs or taxes, 14% due to additional transportation costs, 13% extra costs associated with changing supply chains, 3% extra costs associated with storage of goods and 6% extra costs in importing services or goods. Respective all industry averages were, 9%, 7%, 14%, 10%, 3% and 9%.
- Around 32% of construction businesses that had not permanently stopped trading reported their main concern in January 2023 would be inflation of goods and services prices, 10% falling demand for goods and services and 8% energy prices. Respective all industry averages were 15%, 14% and 22%.
- Between 12 December and 27 December, in response to worker shortages, 25% of construction businesses that had not permanently stopped trading reported employees working increased hours, 11% had had to pause trading entirely, 30% had paused some trading, 11% had to recruit temporary workers and 42% were unable to meet demand. Respective all industry averages were 40%, 2%, 17%, 14% and 42%.

Construction Output Forecasts

Experian published their Winter 2022 [forecasts] for the construction sector in January 2023.

- The construction sector ended 2022 on a low note, with the PMI business activity index slipping into decline. New orders have been flagging and mounting headwinds in the form of elevated cost pressures, rising interest rates, intensifying budgetary constraints and an uncertain economic backdrop are weighing down on the sector. As such, the forecast for construction output in 2023 has been downgraded.

- Construction output is set to decline by 1.7% in 2023 and downside risks loom. Headwinds in the form of elevated inflationary pressures, a cost of living crisis, rising interest rates and economic uncertainty will collectively weigh on construction going forward and this has prompted a downgrade to the forecast. Our assumption is that current crises will ease by 2024 and their impacts will fade over the remainder of the forecast period. Hence, we expect a return to positive growth of 1.1% and 2.8% in 2024 and 2025 respectively.

- The private industrial sector is expected to growth by 49.8% in 2022, 0.6% in 2023 and -0.5% in 2024. Almost inevitably, after a year of very strong expansion, the prospects for industrial construction going forward are much more muted. The factory sub-sector has performed above expectations, but the weaker economic prognosis is likely to hit manufacturing output, with a consequent knock-on impact on demand for new facilities.

- The Public Non-residential sector is forecast to decline by -5.2% in 2022 and 1.6% in 2023 and 1.7% in 2024. The backlog of new orders suggests that output should be on a rising trend, at least in 2023. However, the issue is likely to be how much feeds into output given the budgetary constraints both central and local government are under, compounded by fast rising costs.

- The housing sector is forecast to grow by 9.3% in 2022, -6.6% in 2023 and 2.8% the following year. Growth in the non-residential building sector is forecast to be 4.8% in 2022, 1.0% in 2023 and 0.9% in 2024. Growth in new work is forecast at 4.9% in 2022, -2.4% in 2023 and 1.9% in 2024 down from 10.6% growth in 2021.

- Repair and maintenance (R&M) is forecast to grow by 6.0% in 2022, -0.7% in 2023 and -0.2% in 2024, down from 16.8% in 2021.

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 January 2022.

- The mean GDP forecast for 2023 is -1.0% on the same level as the previous month's survey.
- The mean GDP forecast for 2024 is 0.6%, down from 0.7% 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 15 December 2022, covering intelligence gathered mostly between mid-October and late November 2022.

- Construction output fell as home renovations declined sharply and commercial development weakened.

- Contacts said housing renovation continued to fall as households completed catch-up work following the pandemic and reined in spending due to cost of living concerns. Large housebuilders said output was being supported by strong order books, though smaller developers reported slowing activity.

- Construction of industrial and office premises continued to weaken as rising cost inflation increased the risks around returns for developers. Contacts reported delays to public sector infrastructure projects as contractors sought to renegotiate pricing to cover rising costs.

Builders Merchant Building Index

The Builders Merchant Building Index for October 2022 was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 15th December 2022.

- Total value sales were up 7.5% in October 2022 compared with October 2021. Volume sales were 5.6% lower with price up +13.9%, with no difference in trading days this year. Eleven of the twelve categories sold more, and eight categories performed better than Merchants overall led by Renewables & Water Saving (+66.1%). Timber & Joinery Products (-8.4%) sold less.

- Total Merchants sales were -0.9% lower in October 2022 than in September 2022. Volume sales were 1.8% lower with price up +0.9% 0.9%. There were no differences in trading days. Plumbing, Heating & Electrical (+9.3%) grew most, followed by Tools (+5.4%). Seasonal category Landscaping (-8.1%) was weakest.

- Total value sales in October 2022 were +19.6% higher than the same month three years ago (a more normal year pre Covid). Volume sales fell by 8.9%, and prices were +31.2% higher. With two less trading days this year, like for like sales (which take trading day differences into account) were +31.0% higher. Four of the twelve categories sold more than Merchants overall. Renewables & Water Saving (+59.5 %) was strongest. Landscaping (+31.2%), Timber & Joinery Products (+23.4%) and Heavy Building Materials (+21.5%) also did well. Tools (-0.7%) and Miscellaneous (-5.1%) were weakest.

- Total Merchants sales in January to October 2022 were 8.1% higher than in the same period a year earlier. Renewables & Water Saving (+29.9%) and Kitchens & Bathrooms (+20.1%) were strongest.

Expected dates for future construction output releases	
Release for:	*Publication date:*
December 2022	10th February 2023
January 2023	10th March 2023
February 2023	13th April 2023

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