

Monthly Construction Update

Business Statistics Team

13th April 2023



Department for
Business & Trade

Construction output decreased by 1.7% in volume terms in January 2023

The **Office for National Statistics** published estimates of construction output for [February 2023](#) this morning.

- Monthly construction output is estimated to have increased 2.4% in volume terms in February 2023; this follows a 1.7% fall in January 2023, with February 2023 being the highest monthly value in level terms (£15,558 million) since records began in January 2010.
- The increase in monthly construction output came from increases in both repair and maintenance (4.5%) and new work (1.1%) on the month.
- Anecdotal evidence suggested several reasons for the increase in February 2023; it was partially driven by a bounce back from the fall in January 2023, but also continued strength across repair and maintenance sectors; many firms also noted an improvement of weather in February, which allowed them to get more work done.
- At the sector level, eight out of the nine sectors saw a rise in February 2023, with the main contributors to the monthly increase seen in private housing repair and maintenance, and non-housing repair and maintenance, which increased 5.0% and 3.7%, respectively.
- Alongside the monthly increase, construction output saw an increase of 0.9% in the three months to February 2023; this is the sixth period of consecutive growth in the three-month-on-three-month series; the increase came solely from a rise in repair and maintenance (3.1%), as new work saw a decrease (0.5% fall).
- The main positive contributors to the increase in the three months to February 2023 were non-housing repair and maintenance (5.5%) and infrastructure new work (2.8%); with the main negative contributor being private new housing (4.4% fall), despite the increase on the month; anecdotal evidence suggested a general slowdown in housing across recent months.

Gross Domestic Product was flat (0.0%) in February 2023

The **Office for National Statistics** published estimates of GDP for [February 2023](#) this morning.

- Monthly real gross domestic product (GDP) is estimated to have shown no growth in February 2023, where falls in services and production were offset by growth in construction. This follows growth of 0.4% in January, revised up from growth of 0.3% in the previous publication.
- Looking at the broader picture, GDP grew by 0.1% in the three months to February 2023.
- The services sector fell by 0.1% in February 2023, after growing by 0.7% in January 2023, revised up from 0.5% in the previous publication.

- The largest contributions to the fall in services output in February 2023 came from education and public administration and defence; compulsory social security, industrial action took place in both of these industries in February 2023.
- Output in consumer-facing services grew by 0.4% in February 2023, this follows growth of 0.3% in January 2023 (unrevised from our previous publication); the largest contributor to this growth came from retail trade, except for motor vehicles and motorcycles.
- Production output fell by 0.2% in February 2023, following a fall of 0.5% in January 2023, revised from a fall of 0.3% in the previous publication.

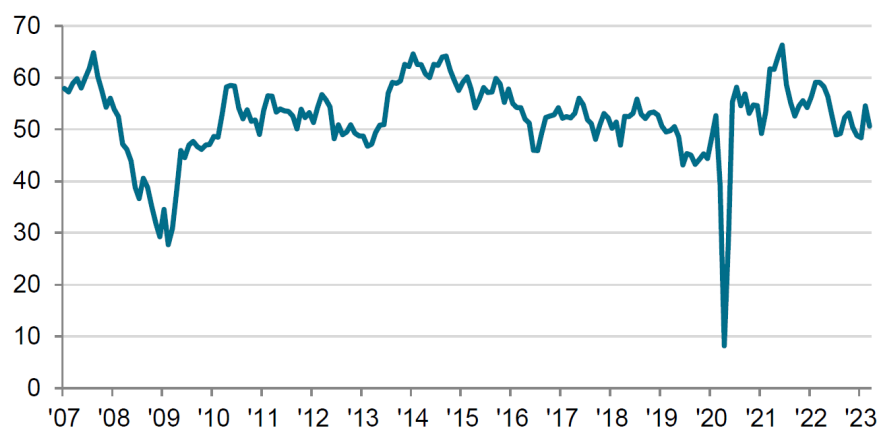
S&P Global / CIPS UK Construction Purchasing Managers Index for March 2023

S&P Global CIPS published their latest [construction purchasing managers index](#) for March 2023 on 6th April 2023.

- March data highlighted another rise in UK construction output, helped by a moderate increase in new orders. The civil engineering category saw the fastest rise in business activity, while house building was the weakest-performing area. Lower volumes of residential building work have now been recorded for four months in a row.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 10-30 March 2023.

- Supply conditions improved in March, reflecting greater availability of construction products and materials, alongside fewer logistics bottlenecks. The overall improvement in vendor performance was the strongest since November 2009.
- At 50.7 in March, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – was down from 54.6 in February but above the 50.0 no-change threshold for the second month running. The latest reading signalled a marginal overall increase in total construction output.
- Civil engineering activity (index at 52.0) was the fastestgrowing area of construction output in March. Survey respondents again cited a boost from work on HS2 infrastructure projects and robust demand for other transport-related construction activity.
- The latest survey also signalled an increase in commercial building work (index at 51.1), although the rate of expansion eased from February's nine-month high. Meanwhile, housing activity (index at 44.2) decreased at a sharp and accelerated pace in March. The rate of decline was the fastest since May 2020,

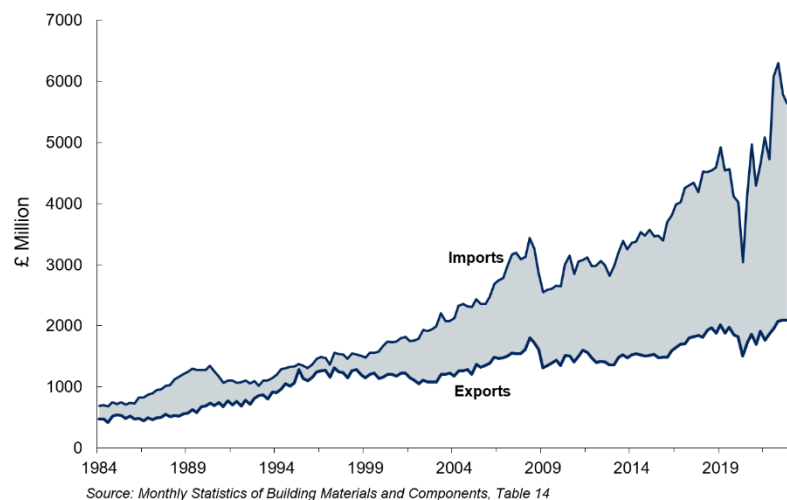
with survey respondents often citing fewer tender opportunities due to rising borrowing costs and a subsequent slowdown in new house building projects.

- Despite subdued housing market conditions, latest data signalled a further increase in total new work received by construction companies. The latest rise was the secondfastest since July 2022. Greater workloads led to a solid upturn in staff recruitment, with the rate of job creation accelerating to its fastest since last October. That said, some construction firms noted that elevated wage pressures and shortages of available candidates had acted as a constraint on hiring.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published on 5th April 2023.

- Imports of construction materials increased by 27.8% in 2022 compared to 2021, from £18,621 million to £23,798 million.
- Exports of construction materials increased by 16.9% in 2022 compared to 2021, from £7,029 million to £8,215 million.
- The material price index for 'All Work' increased by 10.6% in February 2023 compared to the same month the previous year.



This followed an increase of 10.4% in January 2023 compared to January 2022.

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 6 April 2023, this release is in headline-only format, summarising information on the overall UK businesses. The survey was live from 20 March to 2 April 2023.

- In February 2023, one in nine (12%) businesses with 10 or more employees experienced global supply chain disruption; down from 20% in September 2022 and the lowest percentage reported since the question was introduced in December 2021.
- More than two-thirds (67%) of trading businesses reported that they were able to get the materials, goods or services they needed from within the UK in February 2023; up 6 percentage points compared with January 2023.
- Looking ahead to April 2023, approximately 7 in 10 (72%) businesses reported some form of concern for their business; the top two concerns reported by businesses continued to be energy prices (17%) and inflation of goods and services prices (16%).
- In February 2023, approximately one in nine (12%) businesses were directly or indirectly affected by industrial action, with 3 in 10 (30%) of those businesses reporting that they were unable to fully operate as a consequence.
- Around 1 in 12 (8%) businesses reported that their employees' hourly wages had increased in February 2023 compared with January 2023; this was 14% for businesses with 10 or more employees.

- More than a quarter (28%) of businesses with 10 or more employees were experiencing worker shortages in late March 2023, though this figure has gradually fallen from 36% in late August 2022; nearly half (49%) of those businesses reporting worker shortages indicated that their employees were working increased hours as a consequence.

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 grow 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 January 2023.

- The construction industry is expected to endure a recession this year after two strong years for the industry. According to the Construction Products Association's Winter Forecasts, construction output is expected to fall by 4.7% in 2023 before recovering slowly in 2024 with growth of just 0.6%.
- The construction industry is not immune to the impacts of a wider UK economic recession, rising interest rates and inflation. Private housing new build, the largest construction sector, and private housing repair, maintenance, and improvement (rm&i), the third largest sector, are forecast to be the worst affected

sectors this year. Falls in activity in these areas are expected to be partially offset by continued growth in infrastructure, the second largest sector, which is already at historic high levels of activity. Even here, however, there are growing concerns over the impacts of double-digit construction cost inflation. Given financial constraints for government, this means that we are likely to see the value of activity expected previously but not the volume.

- Private housing is forecast to be the sector most affected by the downturn and fortunes for the sector over the next 12-18 months are likely to go one of two ways. The main forecast anticipates a soft landing for the housing market, which involves a sharp decline in demand during 2022 Q4 and 2023 Q1 before a recovery in demand this Spring. Even still, private housing output in 2023 is forecast to experience an 11.0% fall as housebuilders focus on completing existing developments rather than starting new sites. This fall is primarily due to rising mortgage rates, falling real wages and poor consumer confidence. The largest impact of the decline in demand is likely to be on property transactions, which are anticipated to fall in 2023 by around 20% whilst house prices are anticipated to decline by 8% -10%.
- Private housing rm&i output was driven to historic high levels in 2021 due to increased working from home and a 'race for space'. Given further expected falls in real wages and increases in mortgage payments for many households this year, a further decline in private housing rm&i output of 9.0% is forecast in 2023. This will focus on a fall in larger improvements activity, before slow growth of 1.0% in 2024 as activity recovers in line with the wider UK economy. Unsurprisingly, however, one area of private housing rm&i that continues to remain strong is energy-efficiency retrofit; given homeowner concerns over energy prices, insulation and solar panel installations activity is currently buoyant.
- Infrastructure continues to go from strength to strength, reaching historic high levels in 2022 as it benefitted from multi-billion pound projects such as HS2, the Thames Tideway Tunnel and Hinkley Point C as well as long-term frameworks activity in sub-sectors such as rail, roads and energy. Going forward, further growth in infrastructure output is expected but it is likely to be slower than in previous years due to cost inflation and financial constraints. After 4.9% growth in 2022, infrastructure output is forecast to rise by 2.4% in 2023 and 2.5% in 2024.
- CPA Economics Director Noble Francis said "The construction industry has enjoyed a buoyant two years since the first national lockdown largely shuttered the industry back in Spring 2020. Overall, however, construction output is forecast to fall by 4.7% this year. It is worth keeping in mind the broader context that this is not 2008 and the decline is nowhere near the fall in output that occurred in the last recession. Looking back 15 years ago, construction output fell by 15.3% over two years during the global financial crisis."

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [Forecast Survey](#) (which uses an average of private sector forecasts) results were published in March 2023.

- The mean GDP forecast for 2023 is -0.5% up from -0.8% in the previous month's survey.
- The mean GDP forecast for 2024 is 0.7%, unchanged from the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in March 2023:

- Global GDP growth is projected to increase by 2.6% this year, up from the 2.2% forecasted in November, then increase by 2.9% in 2024.

- UK GDP is projected to decline by 0.2% this year, up respectively from the -0.4% forecasted in November, and to grow by 0.9% in 2024.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the [Agents' Summary of Business Conditions](#) on 23 March 2023, covering intelligence gathered mostly between mid-January and early March 2023.

- Construction output volumes contracted further, driven by softer demand for housing and as higher costs continued to weigh on activity. The fall in output volumes compared with a year ago came as larger house builders slowed build rates in response to weaker demand. Construction of social housing also weakened.
- Contacts said rising costs and delays relating to planning and utility connection continued to constrain output. And spending on home improvements also fell, reflecting squeezed household incomes.
- Construction of office and commercial property continued to be weak, though demand for office refurbishment remained good. And most public infrastructure projects were reported to be going ahead as planned.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for December 2022 and for quarter 4 2022 was published by the **Builders Merchants Federation, GfK and MRA Research** on 22nd March 2023.

January 2023:

- Total Builders Merchants value sales were up +0.2% in January 2023 compared with the same month last year. Volume sales were -16.5% lower with price up +19.9%. With one more trading day this year, like for like sales (which take trading day differences into account) were -4.6% lower. Nine of the twelve categories sold more. Renewables & Water Saving (+46.0%), Decorating (+20.5%) and Plumbing, Heating & Electrical (+17.5%) grew most, Timber & Joinery Products (-14.6%) was weakest.
- Total Merchants sales were +31.1% higher in January 2023 than in December 2022. Volume sales were +28.6% higher with price up +1.9%. With five more trading days this month, like-for-like sales were flat (-0.1%). Renewables & Water Saving (+49.6%) was up the most, followed by Ironmongery (+38.0%). Services (+10.2%) was weakest.
- Total sales in November 2022 to January 2023 were +0.2% higher than in November 2021 to January 2022, with price inflation of +18.8%, and volume down 15.7%. There were no differences in trading days. Nine of the twelve categories sold more. Renewables & Water Saving (+42.1%), Plumbing, Heating & Electrical (+17.9%) and Decorating (+16.2%) did best. Timber & Joinery Products 13.8% was weakest.

Quarter 4 2022:

- Total value sales data from Britain's Builders' Merchants shows Q4 2022 recorded +2.9% year-on-year growth, with +16.4% price inflation compensating for volumes which fell -11.6%. With one less trading day this year, like-for-like value sales were +4.6% higher.
- Ten of the 12 categories sold more in Q4 2022 compared to the previous year with Renewables & Water Saving again growing the most (+48.6%). Plumbing, Heating & Electrical (+18.6%) and

- Workwear & Safetywear (+14.8%) both recorded their highest quarterly revenues and were among the nine categories growing faster than Merchants overall. Only Landscaping (-5.9%) and Timber & Joinery Products (-11.5%) sold less.
- Comparing Q4 2022 with Q4 2019, a more normal pre-Covid trading year, sales for October to December 2022 were +24.4% higher than the same months three years ago. Volume sales were -7.6% down and prices were up +34.7%. All categories sold more including significant increases for Renewables & Water Saving (+59.3%), Landscaping (+32.2%), Timber & Joinery Products (+27.9%), and Heavy Building Materials (+25.9%) which all grew faster than total Merchants.
- Quarter-on-quarter, total value sales were -13.9% down in Q4 compared to Q3. Volume sales were -18.3% down while prices were up +5.4%. With five less trading days in the most recent period, overall like-for-like sales were -6.6% lower than Q3. Plumbing, Heating & Electrical (+13.2%) grew the most, followed by Workwear & Safetywear and Renewables & Water Saving (both +7.1%). Seasonal category Landscaping (-33.6%) was the weakest.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
March 2023	11 th May 2023
April 2023	14 th June 2023
May 2023	13 th July 2023

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