Monthly Construction Update

Business Statistics Team

14th June 2023

Department for Business & Trade

Construction output decreased by 0.6% in volume terms in April 2023

The **Office for National Statistics** published estimates of construction output for April 2023 this morning.

- Monthly construction output is estimated to have decreased 0.6% in volume terms in April 2023; this follows two months of consecutive growth.
- The decrease in monthly output came from a decrease in new work (1.0% fall), with a small offset from an increase in repair and maintenance (0.1%) on the month.
- At the sector level, five out of the nine sectors saw a fall in April 2023, with the main contributors to the monthly decrease being private housing repair and maintenance and private housing new work, which decreased 5.7% (£149 million) and 3.0% (£99 million), respectively.
- Anecdotal evidence suggested a continued slow-down in private housing, referencing economic worries with customers hesitant to request work; despite this, similar to last month, some companies across other sectors have again reported an easing in inflation.
- Alongside the monthly decrease, construction output saw an increase of 1.6% in the three months to April 2023; this is the eighth period of consecutive growth in the three-month-on-three-month series; the increase came solely from a rise in repair and maintenance (5.7%), as new work saw a decrease of 0.9%.

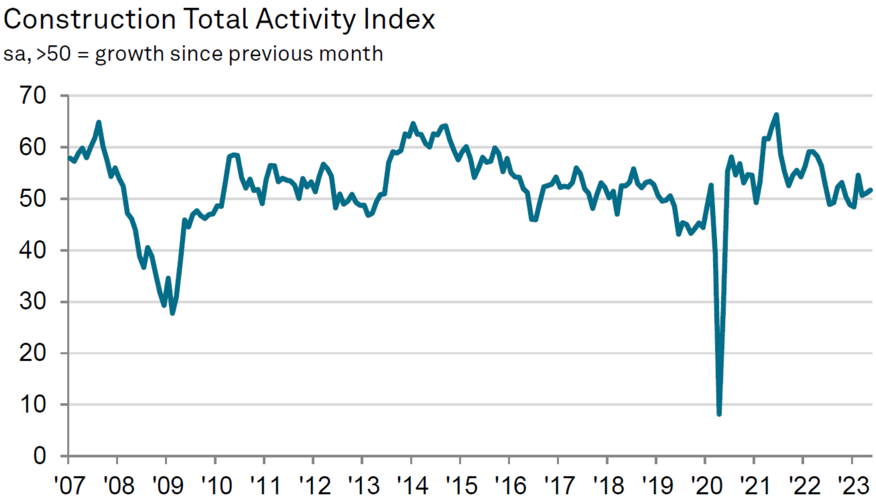
Gross Domestic Product increased by 0.2% in April 2023

The **Office for National Statistics** published estimates of GDP for April 2023 this morning.

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in April 2023, after a fall of 0.3% in March 2023.
- Looking at the broader picture, GDP grew by 0.1% in the three months to April 2023.
- The services sector grew by 0.3% in April 2023, following a 0.5% fall in March 2023, and was the main contributor to the growth in monthly GDP in April.
- Output in consumer-facing services grew by 1.0% in April 2023, following a fall of 0.8% in March 2023.
- Production output fell by 0.3% in April 2023, after growth of 0.7% in March 2023.
- There are no revisions to previously published data in this release.

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

S&P Global CIPS published their latest construction purchasing managers index for May 2023 on 6th June 2023.



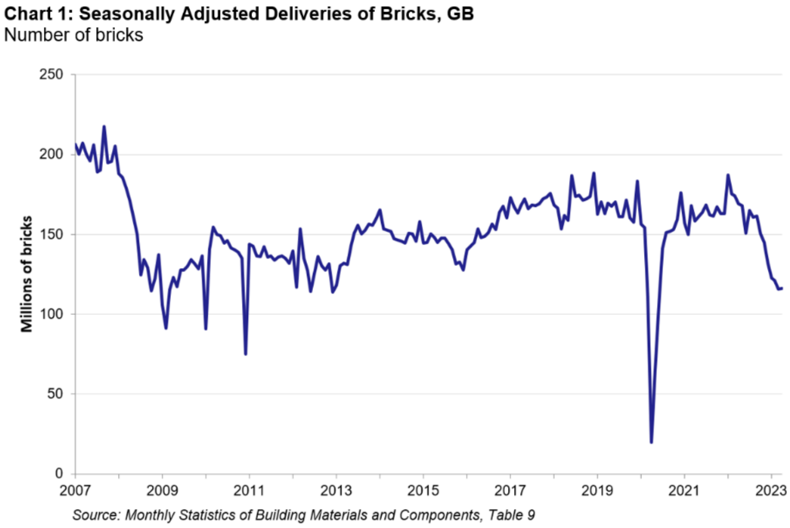
Sources: S&P Global, CIPS.
Data were collected 11-30 May 2023.

- May PMI® data signalled a modest upturn in overall UK construction output, driven by faster rises in commercial building and civil engineering activity. Meanwhile, house building remained by far the weakest-performing category of activity, with output declining at the steepest pace for three years.
- Supply conditions continued to normalise in May, as highlighted by the greatest improvement in vendor lead times since August 2009. This helped to alleviate cost pressures across the construction sector, with the overall rate of input price inflation easing to its weakest for 32 months.
- 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 51.6 in May, up from 51.1 in April and above the neutral 50.0 mark for the fourth successive month. Although indicative of only modest growth, the latest reading pointed to the strongest upturn in total construction activity since February activity.
- There were again divergent trends across the three main categories of construction activity. Commercial building (index at 54.2) was the best-performing segment, with output rising at a robust and accelerated pace. Construction companies cited a gradual turnaround in confidence among clients and faster decision-making on new projects. Civil engineering also gained momentum (index at 53.9), with growth hitting an 11-month high in May.
- Worries about the impact of higher interest rates and subdued market conditions continued to dampen housing activity. Work on residential building projects decreased for the sixth month running and at the steepest pace since May 2020. Aside from the pandemic-related downturn, the latest reading for this category of construction activity (42.7) was the lowest for just over 14 years.
- Total new business meanwhile increased at a strong pace in May, despite weakness in the house building sector. The overall rise in construction order books was the strongest recorded since April 2022. This spurred an upturn in staffing numbers for the fourth month in a row. However, input buying remained broadly unchanged during the latest survey period, which partly reflected efforts to reduce excess inventories.
- Supply conditions improved considerably in May. Average lead times for the delivery of construction products and materials shortened to the greatest extent since August 2009. This was attributed to fewer logistics bottlenecks, alongside an improved balance between demand and supply.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 7th June 2023.

- There was a **31.8% decrease** in brick deliveries in April 2023 compared to April 2022, according to the seasonally adjusted figures.
- There was a **18.3% decrease** in concrete block deliveries in April 2023 compared to April 2022, according to the seasonally adjusted figures.
- The material price index for 'All Work' increased by 4.7% in April 2023 compared to the same month the previous year. This followed an increase of 8.7% in March 2023 compared to March 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 8 June 2023, this release is in headline-only format, summarising information on overall UK businesses. The survey was live from 15 May to 28 May 2023.

- Latest results suggest business conditions continue to remain challenging, but estimates show small signs of positive improvement for some measures; examples include a stable proportion of businesses reporting they were able to get materials, goods and services from within the UK, and a higher proportion of businesses reporting having fewer concerns for their business.
- Nearly two-thirds (65%) of trading businesses reported that they were able to get the materials, goods or services they needed from within the UK in April 2023, unchanged from March 2023.
- When asked in May 2023, 68% of businesses reported they had some form of concern for June 2023, down from the 71% reporting concerns the previous month for May 2023, and the lowest percentage reported this year; those that reported energy prices as their main concern fell from 18% for May 2023 to 15% for June 2023, and concerns about inflation of goods and services prices fell from 16% to 15%.
- Nearly two-thirds (63%) of businesses were not experiencing worker shortages in late May 2023; 13% reported they did have shortages and the remainder selected "not sure" or "not applicable", stable with late April 2023.
- Nearly a quarter (23%) of businesses reported that their employees' hourly wages had increased in April 2023 compared with March 2023 (14%); this was 48% in April 2023 for businesses with 10 or more employees compared with March 2023 (23%).
- In April 2023, fewer than 1 in 10 (9%) businesses were directly or indirectly affected by industrial action; of these, 24% reported they were unable to fully operate as a consequence and 32% selected "other" as a reason, for example, reduced demand for goods and/or services and a fall in the number of customers.

Construction Output Forecasts

Experian published their Spring 2023 forecasts for the construction sector in May 2023.

- Construction output is set to decline by 1.3% in 2023 as weakness in the housing sector, both in terms of new work and RM&I, dampen the outlook. While headwinds in the form of elevated inflationary pressures, a cost-of-living crisis, rising interest rates and economic uncertainty continue to collectively weigh on construction going forward, the UK backdrop has brightened compared with the previous forecast and it is largely the fate of the residential sector which is hampering prospects. As the UK economic landscape continues to improve and the housing market recovers towards the end of the year there is a return to construction output growth of 1.0% and 2.6% in 2024 and 2025 respectively.

- The housing sector is expected to decline by 7.1% in 2023, then increase by 2.5% in 2024 and 4.8% in 2025. The near-term outlook for housebuilding is undeniably weak. The driver of growth in the overall sector – private housebuilding – is under renewed pressure. At the same time, no compensating momentum is forthcoming from the public side. On the private sector side, the cost-of-living crisis, rising interest rates, economic uncertainty and the rolling back of supportive schemes are weighing on buyer demand. As a result, buyer enquiries and house prices have both fallen for several consecutive months. In this backdrop, there is little incentive for private housebuilders to undertake new work. On the public sector side, local authorities face the double whammy of ongoing budgetary constraints and further funding cuts as well as heightened pressure to redirect existing funding from new construction towards RM&I.

- Housing Repair Maintenance & Improvement (RM&I) is forecast to decline by 1.9% in 2023, stay flat (0.0%) in 2024 and grow by 1.0% in 2025. The public and private Repair Maintenance & Improvement (RM&I) sectors have had notably divergent experiences in the recovery from the pandemic. While private housing RM&I enjoyed a swift bounce back from a sharp decline to hit a record high of £28.7bn in 2022, up 12.9% year over year, growth in public housing RM&I failed to establish momentum and fell back once again in 2022 as output shrank to £7bn marking.

- The new infrastructure sector is expected to grow by 2.4% in 2023, 1.8% 2024 and 2.6% in 2025. Infrastructure output fell by 4.8% in 2020 weighed down by pandemic related disruption but saw a strong rebound of 28% in 2021. While momentum has faltered, with the sector experiencing a marginal decline of 0.6% in 2022, the recent PMI data points towards a relative outperformance this year. Forecasts for 2025 will also see a new record high for infrastructure at £29.7bn.

- The private industrial sector is expected to grow by 2.1% in 2023, decline by 0.5% in 2023 and rise by 2.2% in 2025. The industrial construction sector was the star performer of the construction industry in 2022, posting growth of 42%, taking output up to £6.75bn (2019 prices), its highest level since 2007. The weaker economic prognosis for the economy is expected to impact manufacturing output negatively and consequently the demand for manufacturing facilities.

- The Public Non-residential sector is forecast to grow by 1.7% in 2023, 1.6% in 2024 and 3.1% in 2025. The public non-residential sector experienced its sixth consecutive year of decline in 2022, with output falling by over 9% in 2022. There were multiple announcements in the Spring 2023 Budget which should benefit the public non-residential sector, including £200m for local regeneration projects in England, a further £161m for mayoral combined authorities and Greater London, £400m for new 'levelling up partnerships', and another £11bn added to the defence budget over the next five years, some of which will be construction related. It remains the case that the strongest growth over the next three years is likely to be in the agriculture & miscellaneous sector, driven by work on the Defence Estate and the prison building programme.

The **Construction Products Association** (CPA) published their autumn construction industry forecast as part of their analysis of the market impact in May 2023.

- Construction output is forecast to fall from a record-high level and contract by 6.4% in 2023 according to the CPA's Spring Forecasts. This is a downgrade from a fall of 4.7% expected in the Winter, driven primarily by sharp falls in the two largest construction sectors – private new housing and private housing repair, maintenance and improvement (rm&i) – together with recent government announcements of delays to major infrastructure projects.
- Private housing new build, and private housing rm&i account for around 40% of total construction output and are forecast to be the sectors in which demand is most affected by a macroeconomic backdrop of falling household incomes and higher interest rates. In infrastructure, the third-largest sector, growth is expected but has been downgraded from the Winter Forecasts owing to government delaying HS2 work at Euston station and work on major road schemes. A wider recovery in economic growth in 2024 is expected to boost demand for both new build housing and rm&i activity and total construction output is forecast to return to growth, rising by 1.1%.
- Private housing is the sector forecast to experience the sharpest contraction in 2023, with a 17.0% fall in output in 2023. Following the government's disastrous Mini Budget last Autumn which directly led to interest rates rising to a 14-year high, the resulting higher mortgage rates combined with broader cost of living increases and falling real incomes led to a significant weakening in homebuyer sentiment and a sharp drop in demand heading into this year. Continued pressure on household budgets and the absence of stimulus for homebuying in the Budget, particularly first-time buyers, means that demand from a key segment of the market will remain subdued. The forecast assumes a pickup beginning in the traditional Spring selling season with mortgage interest rates settling at current levels – lower than at the end of 2022 but still significantly higher than 12 months ago and the ultra-low rates of the last decade. However, a gradual improvement in demand will need to be maintained throughout the Summer and beyond to shore up house builder confidence to start new developments and drive the recovery in building activity in 2024.
- Private housing rm&i is similarly exposed to the fall in real incomes but is also experiencing slower demand. This is due to the fading impact of the one-off boost to activity during and immediately after the pandemic, when increased working from home, a 'race for space', and accumulated savings and housing wealth saw households investing in large improvements projects. A drop in planning applications in the second half of 2022 and the return of competing spending decisions such as overseas holidays point to a reduced pipeline of improvements work and discretionary r&m projects for this year. As a result, output is forecast to fall 9.0% in 2023, which is partly offset by strong activity on energy efficiency retrofit and solar/PV work, before a broader economic recovery that drives output growth of 2.0% in 2024.
- In infrastructure, forecast growth rates have been downgraded in the Spring Forecasts to 0.7% for 2023 and 1.2% for 2024, from 2.4% and 2.5% respectively in Winter. Activity on regulated frameworks in water & sewerage, road and rail provides sizeable activity, but growth in the sector tends to be driven by large projects, most recently by HS2, the Thames Tideway Tunnel and Hinkley Point C. Nonetheless, in the space of six months the UK government has gone from announcing it would bring forward 138 infrastructure projects to start by the end of this year to cancelling this and delaying HS2 Phase 2a and Euston station, the Lower Thames Crossing and other roads projects by two years in an attempt to reduce government spending near-term. HS2 Phase 2a is beyond the scope of the forecasts and previous forecasts had

factored in delays and cost overruns on current phases, but the pause of work at Euston, for which preparatory work had begun, will adversely affect activity during the forecast period.

- CPA Head of Construction Research Rebecca Larkin: "Despite the improvement in the outlook for the UK economy compared to six months ago, the headwinds of falling real incomes and interest rate rises remain. For construction, the most acute effects of this will be felt in the two largest sectors of activity and those that are most exposed to a slowdown in discretionary household spending: private housing and private housing rm&i. The sharp falls that are forecast for housing in 2023 mean that overall, a construction recession will be unavoidable. However, it is important to emphasise that the starting point is a record-high level of activity and the 6.4% contraction expected is smaller than during the construction recessions of 2008/09, 2012 and 2020.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2023 is -0.1% up from -0.2% from the previous month's survey.
- The mean GDP forecast for 2024 is 0.8%, unchanged from the previous month's survey.

The **OECD** published their latest Economic Outlook in June 2023:

- UK GDP is projected to grow by 0.3% this year, up respectively from the -0.2% forecasted in March, and to grow by 1.0% in 2024, up from 0.9% forecasted in March.
- Global GDP growth is projected to increase by 2.7% this year, up from the 2.6% forecasted in March, then increase by 2.9% in 2024, unchanged from the March forecast.

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 March and Q1 2023 was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 23rd May 2023.

March 2023:

- Total Builders Merchants value sales were down -6.7% in March 2023 compared with March 2022. Volume sales were -19.7% down with price up +16.2%. There was no difference in trading day. Nine of the twelve categories performed better than Merchants overall, including Renewables & Water Saving (+26.6%), Workwear & Safetywear (+19.7%), Plumbing, Heating & Electrical (+8.4%), Decorating (+7.9%), and Kitchens & Bathrooms (+7.3%). Services (-9.6%), Timber & Joinery Products (-17.0%) and Landscaping (-25.6%) sold less.
- Total Merchants sales were 14.8% higher in March 2023 than in February 2023. With three more trading day this month, like-for-like sales were -0.1% lower. Landscaping (+9.0%) was up the most, followed by Workwear & Safetywear (+3.7%) and Timber & Joinery Products (+1.3%). Plumbing, Heating & Electrical (-4.1%) and Renewables & Water Saving (-8.8%) were weakest.

Quarter 1 2023:

- Total Builders Merchants value sales were down -2.3% in Q1 compared with the same period last year. Volume sales were -16.4% lower with price up +16.9%. There was one more trading day this quarter compared with last year. When looking at like-for-like sales (which take trading day differences into account), nine of the twelve categories sold more, including Renewables & Water Saving (+40.0%), Workwear & Safetywear (+13.1%), Decorating (+12.2%), Plumbing, Heating & Electrical (+11.0%), and Kitchens & Bathrooms (+6.9%). Services (-6.0%), Timber & Joinery Products (-16.6%) and Landscaping (-19.5%) sold less.
- Total Merchants sales were 5.8% higher in Q1 2023 than in Q4 2022. With five more trading day this quarter, like-for-like sales were -2.5% lower. Renewables & Water Saving (+12.8%) was up the most, followed by Miscellaneous (+3.8%). Workwear and Safetywear (-10.0%) was weakest.
- Total sales in April 2022 to March 2023 were 2.3% higher than in the same period a year earlier. With two trading day less in the most recent 12 months period. Ten of the twelve categories sold more. Renewables & Water Saving (+36.2%), Workwear & Safetywear (+16.2%), and Kitchens & Bathrooms (+15.4%) did best. Timber & Joinery Products (-10.1%) and Landscaping (-7.6%) were weakest.

Expected dates for future construction output releases	
Release for:	*Publication date:*
May 2023	13th July 2023
June 2023	11th August 2023
July 2023	13th September 2023

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