Monthly Construction Update

Business Statistics Team

13th December 2023

Department for Business & Trade

Construction output decreased by 0.5% in volume terms in October 2023

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

- Monthly Construction output saw a decrease of 0.3% in the three months to October 2023; this came solely from a decrease in new work (2.0% fall), as repair and maintenance increased by 2.2%.
- Monthly construction output is estimated to have decreased 0.5% in volume terms in October 2023; this follows an increase of 0.4% in September 2023, with the monthly value in level terms in October 2023 at £15,485 million.
- The decrease in monthly output came solely from a decrease in new work (1.7% fall), partially offset by an increase in repair and maintenance (1.3%) on the month.
- At the sector level, three out of the nine sectors saw a fall in October 2023, with the main contributors to the monthly decrease seen in private new housing and private commercial new work, which decreased 5.2% and 1.2%, respectively.
- Anecdotal evidence suggested that heavy rainfall and strong winds led to delays in planned work in October 2023; a high number of comments from businesses noted the negative effect of storms specifically.

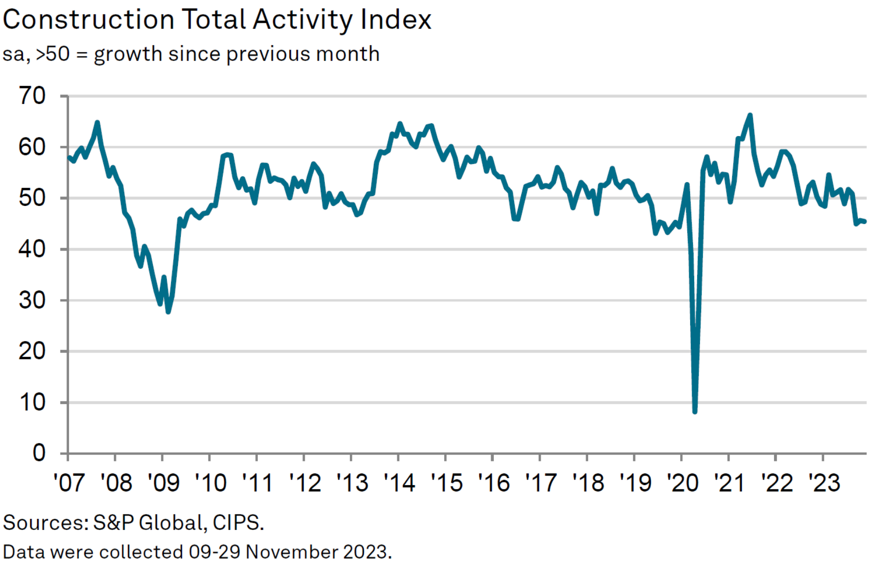
Gross Domestic Product decreased by 0.3% in October 2023

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

- Monthly real gross domestic product (GDP) is estimated to have shown no growth in the three months to October 2023, compared with the three months to July 2023.
- Monthly GDP is estimated to have fallen by 0.3% in October 2023, following growth of 0.2% in September 2023.
- Services output fell by 0.2% in October 2023, driven by a fall in information and communication, and was the main contributor to the fall in growth in GDP; this follows growth of 0.2% in September 2023.
- Production output fell by 0.8% in October 2023, driven by widespread declines in manufacturing, after showing no growth in September 2023.

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

S&P Global CIPS published their latest construction purchasing managers index for November 2023 on 6h December 2023.



- UK construction companies indicated a decline in business activity for the third consecutive month during November, led by another sharp fall in residential building. Elevated borrowing costs and subdued demand for new housing projects were widely cited as factors holding back construction activity.

- Latest survey data pointed to the steepest reduction in purchasing costs across the construction sector for more than 14 years. This was linked to lower raw material prices, alongside greater competition among suppliers in response to falling demand for construction inputs.

- The headline S&P Global / CIPS UK Construction Purchasing Managers' Index™ (PMI®) – a seasonally adjusted index tracking changes in total industry activity – registered 45.5 in November, down fractionally from 45.6 in October and below the 50.0 no-change value for the third month running. The latest reading was the second-lowest since May 2020 and signalled a marked reduction in total industry activity.

- November data illustrated that house building (index at 39.2) remained by far the weakest-performing segment, followed by civil engineering (43.5). Survey respondents cited cutbacks to residential development projects and a general slowdown in activity due to unfavourable market conditions.

- Commercial building showed some resilience (index at 48.1), but activity in this category has now decreased for three months in a row. Construction firms noted that lacklustre domestic economic conditions and delayed decision-making by clients on major investment spending had been factors limiting demand.

- November data suggested a continued lack of new work to replace completed projects. Total new orders decreased for the fourth month running, albeit at the slowest pace since August. Customer hesitancy and greater borrowing costs were often reported as weighing on sales volumes, especially in the housing category.

- Business activity expectations for the year ahead picked up from October's recent low, but remained notably weaker than seen in the first half of 2023. Concerns about the near-term demand outlook contributed to a renewed decline in staffing numbers during November and a marked reduction in purchasing activity.

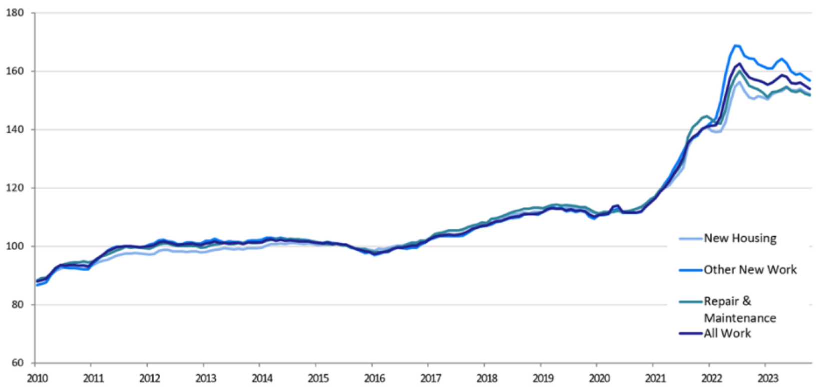
- Input buying has now decreased in five of the past six months, largely reflecting reduced workloads and a lack of new project starts. Some firms also commented on destocking efforts in response to improved supply conditions, which led to lower input buying in November.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 6th December 2023.

- The material price index for 'All Work' decreased by 2.1% in October 2023 compared to the same month the previous year.
- There was a 29.1% decrease in brick deliveries in October 2023 compared to October 2022, according to the seasonally adjusted figures.
- There was a 24.2% decrease in concrete block deliveries in October 2023 compared to October 2022, 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 1 December 2023, summarising information on the overall UK business population. The survey was live from 13 to 26 November 2023.

- In October 2023, 67% of trading businesses with 10 or more employees reported that they were able to get the materials, goods or services they needed from within the UK; while more than 1 in 8 (13%) were either unable to get the materials, goods or services they needed from within the UK, or had to change suppliers or find alternative solutions to do so.
- In October 2023, 5% of businesses with 10 or more employees experienced global supply chain disruption, broadly stable with September 2023 and the lowest proportion reported since the question was introduced in late December 2021.
- In late November 2023, 18% of businesses reported that they were using, or intending to use, increased homeworking as a permanent business model, with improved staff well-being reported as the main reason for doing so, at 56%.
- Less than 1 in 10 (9%) businesses experienced worker shortages in late November 2023, with 44% of those businesses reporting they were unable to meet demands as a result.
- Less than 1 in 10 (7%) businesses reported that their employees' hourly wages had increased in October 2023 compared with September 2023 (9%).
- Approximately 4% of businesses were affected by industrial action in October 2023, the lowest proportion reported since this question was introduced in June 2022; of those businesses affected, more than a quarter (28%) reported their workforce had to change their working location.

Construction Output Forecasts

Experian published their Autumn 2023 forecasts for the construction sector in October 2023.

- Total construction output rose by 6.2% in real terms in 2022, its second consecutive year of good growth after the pandemic-induced contraction in 2020. Output last year was 2.5% above its pre-pandemic level in 2019. Trends in the first half of 2023 have held up reasonably well, but the rest of the year is expected to be much more challenging for the industry and especially for the housing sectors as the impact of rate rises and elevated inflation negatively affect demand. Furthermore, the economic backdrop remains fragile, and uncertainty plagues the outlook. While a recession does not feature in the baseline view, GDP growth is likely to be tepid. As such, total construction output is projected to decline by 1.4% in 2023and drop by a further 2% in 2024. They do expect some mixed fortunes over the coming 12-18 months across the sub-sectors, with the common theme of the residential sector bearing the brunt of the losses. It will take until 2025 for a meaningful positive position to return.

- The housebuilding sector faces several challenges in the near term, from faltering housing demand, stagnating economy, soaring mortgage rates and stubborn inflationary pressures which are pushing up building material costs. While total housing output recorded a healthy outturn in 2022 at £46.2bn it had been largely supported by government-backed demand-side initiatives (such as the temporary suspension of Stamp Duty, publicly supported 95% mortgages and the Help to Buy scheme). The dismantling of this support over the last year has had severe consequences for the housebuilding sector.

- We expect the Repair, Maintenance & Improvement (RM&I) sector to stay weak in 2023 as private housing RM&I falters in the face of the economic stagnation and inflationary pressures that has beleaguered the wider housing sector while public housing RM&I fails to make any notable gains.

- Infrastructure was the sector least impacted by the COVID-19 pandemic in 2020 and was the strongest sector in 2021, growing by 28.1% to a new record of £27.9bn. Output was steady in 2022, falling by just 0.6% to £27.8bn. In the four quarters ending June 2023 output totalled £28.6bn, 3% above the previous four quarters. Infrastructure has held up better than expect and as such output is forecast post growth of just over 4% in 2023, but the weight of the economic backdrop will see modest growth of 0.3% in 2024 and just 2.2% in 2025.

- The very strong new orders figures for industrial construction in 2021 and 2022 are still having a positive residual impact on output in the sector this year, although growth will be much more moderate than the stellar 42% seen in 2022. However, weak economic performance this year and next, combined with the end of the Brexit-induced boom in demand for logistics facilities, is likely to lead to a fall in output in the sector in 2024. RICS Commercial Property Monitor supports this view, with the previously very buoyant industrial market weakening in recent months across all indicators. Relatively modest growth is expected to return from 2025 as general economic conditions improve.

- After six consecutive years of contraction, public non-residential output is finally expected to grow this year, by 2.6%. Output in the first seven months of this year was 6% up in real terms on the corresponding period of 2022, with the increase particularly strong in the agriculture & miscellaneous sub-sector.

- 2022 marked a 5th consecutive year of decline of output in the commercial sector, but the woes of this sector predate the pandemic. Indeed, the sector has struggled to recover from the 2008/09 financial crash and output currently stand at £21.8bn (2019 prices) compared with £39.3bn from the 2008 peak. More recently, the downward trend in output has paused, but the rally in indicators such as S&P Global/CIPS UK Construction Purchasing Managers' Index (PMI) has recently stalled. That said, the September PMI survey, commercial construction stood out as a key uplifting segment, with office refurbishments helping prop up the sector. There are concerns this could be hindered by elevated interest rate hikes and surveys suggest a more subdued tone.

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

- According to the CPA's Autumn Forecasts, published today, construction output is expected to fall by 6.8% in 2023, similar to the 7.0% contraction forecast three months ago, before a further marginal fall of 0.3% in 2024. This is a revision down from the 0.7% growth forecast in the summer publication due to a weaker economic backdrop. Although UK interest rates are now likely to have reached a peak that is lower than previous expectations, it is now anticipated that they will remain at this level for longer, until 2025, due to stubborn inflation. Consequently, the UK economy is expected to flatline throughout 2024, holding back the recovery in major sectors of construction activity such as new build housing and repair, maintenance and improvement (rm&i) to 2025. Even in infrastructure, output is now expected to fall marginally as more roads projects appear likely to be pushed back or cancelled than anticipated only three months ago. Nevertheless, activity will remain near the current high levels due to work continuing on major projects already down on the ground.
- Private housing is both the largest construction sector and the sector forecast to be the worst affected by prevailing economic conditions this year. The sharp increase in mortgage rates since the end of last year has led to house builders reporting a 30-40% fall in demand and it has remained weak throughout Summer and early Autumn. Interest rates and mortgage rates are expected to remain high for longer and adversely affect demand throughout next year. As a result, after a 19.0% fall in completions and output this year, completions are forecast to remain flat in 2024 with no growth until 2025. Whilst the balance of risks to private housing clearly remains on the downside, a positive policy stimulus in the Chancellor's Autumn Statement would help demand to start to recover next year.
- Private housing rm&i is the second-largest construction sector and activity continues to be on a general downward trend after the 'race for space' spike between 2020 and 2022. Output is forecast to fall 11.0% this year. As with new build housing, the weak economic backdrop in 2024 will limit the pace of recovery, with a weaker housing market reducing transactions-related improvements and a notable fall in new planning applications for larger improvements work. This will keep construction output flat in 2024, which is a downgrade from the 2.0% growth expected in the Summer Forecasts. Energy-efficiency retrofit – primarily insulation and solar photovoltaic work – continues to remain strong; however, whilst there are government programmes such as ECO4, the Great British Insulation Scheme and the Boiler Upgrade Scheme in place, there are still questions over their delivery.
- In the third-largest sector, infrastructure activity remains strong down on the ground due to work continuing on major projects such as HS2 between Old Oak Common and Birmingham, the Thames Tideway Tunnel and Hinkley Point C. Unfortunately however, following on from earlier announcements of delays to major road and rail schemes, it appears that more roads projects are being pushed back or cancelled than anticipated in the forecasts in Summer, whilst new projects continue to be delayed due to strong cost escalation and viability concerns. The impact of the government's decision to cancel HS2 between Birmingham and Manchester is limited as the majority of this work was planned to occur beyond the forecast period. Similarly, the £36 billion of local and regional projects around the country announced by the Prime Minister are unlikely to start before 2029. Infrastructure output is expected to fall by 0.5% in 2023, from its current high level, before remaining broadly flat (-0.1%) in 2024.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2023 is 0.4% unchanged from the previous month's survey.
- The mean GDP forecast for 2024 is 0.2%, down 0.1% from the previous month's survey.

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

- UK GDP is projected to grow by 0.3% this year, unchanged from the previous forecast in June, and to grow by 0.8% in 2024, down from 1.0% forecasted in June.
- Global GDP growth is projected to increase by 3.0% this year, up from the 2.7% forecasted in June, then increase by 2.7% in 2024, down from the 2.9% forecasted in March.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 21 September 2023, covering intelligence gathered mostly between early July and late August 2023.

- Construction volumes fell further as demand weakened, costs remained elevated, and the availability of funding reduced.
- Housebuilders reduced openings of new sites and slowed building on existing sites as house sales slowed. Home improvement activity remained subdued.
- Many commercial real estate projects, such as warehousing and data centres, continued. But work on a growing number of projects had been slowed, and new projects were increasingly being postponed.
- There was still a lot of office refurbishment going on to increase energy efficiency and attract staff back to office working.
- Much public infrastructure work continued, but the recently announced delays to HS2 had raised concerns. Some local road and rail infrastructure projects had also been halted or delayed.

Builders Merchant Building Index

The Builders Merchant Building Index for August was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 29th November 2023.

September 2023:

- Total Builders Merchants value sales were down -6.1% in September 2023 compared with the same month last year. There was no difference in trading days. Eight of the twelve categories sold more than Builders Merchants, led by Tools (+7.4%), Decorating (+7.3%) and Kitchens & Bathrooms (5.9%). Services (-12.0%) and Timber & Joinery Products (-13.9%) sold less.
- Total Merchants sales were -3.4% lower in September 2023 than in August 2023. With one less trading day this month, like-for-like sales were 1.2% higher. Nine of the twelve categories sold more led by Workwear & Safetywear (+2.7%) and Plumbing, Heating & Electrical (2.3%). Landscaping (-9.2%) and Services (-8.3%) sold less.

Quarter 3 2023:

- Total sales in Quarter 3 2023 were 1.4% lower than the previous quarter. With four more trading days this period, like-for-like sales (which take trading day differences into account) were -7.9% lower. Ten of the twelve categories sold more than Builders Merchants overall. Kitchens & Bathrooms (+7.5%) and Workwear & Safetywear (+4.9%) did best. Landscaping (-13.3%) and Heavy Building Materials (-1.7%) sold less.
- Total sales in Quarter 3 2023 were 3.3% lower than Q3 2022. There was no difference in trading days. Nine of the twelve categories sold more than Builders Merchants overall. Renewables & Water Saving (27.8%), Decorating (10.5%) and Plumbing, Heating & Electrical (9.1%) did best. Timber & Joiner Products (-13.1%), Services (-7.3%), and Landscaping (-7.0%) sold less.
- Quarter 3 overall BMBI index was 147.3, with two more trading day, like-for-like Index was 143.3. All categories exceeded 100. Seasonal category Landscaping (168.9) led the field followed by Kitchens & Bathrooms (156.2) and Timber & Joinery Products (148.3) with Heavy Building Materials just behind at 146.9.

Expected dates for future construction output releases	
Release for:	*Publication date:*
November 2023	12th January 2024
December 2023	15th February 2024
January 2024	13th March 2024

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