Monthly Construction Update

Business Statistics Team

12th January 2024

Department for Business & Trade

Construction output decreased by 0.2% in volume terms in November 2023

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

- Construction output saw a decrease of 0.6% in the three months to November 2023; this came solely from a decrease in new work (3.6% fall), as repair and maintenance increased by 3.8%.
- Monthly construction output is estimated to have decreased 0.2% in volume terms in November 2023; this follows an upwardly revised decrease of 0.4% in October 2023, with the monthly value in level terms in November 2023 at £15,571 million.
- The decrease in monthly output came solely from a decrease in new work (2.0% fall), as repair and maintenance increased by (2.1%).
- At the sector level, three out of the nine sectors saw a fall in November 2023, with the main contributors to the monthly decrease seen in private new housing and infrastructure new work, which decreased 3.9% and 2.0%, respectively.
- Anecdotal evidence suggested effects of adverse weather, including heavy rainfall and strong winds in November 2023, led to delays in planned work.

Gross Domestic Product increased by 0.3% in November 2023

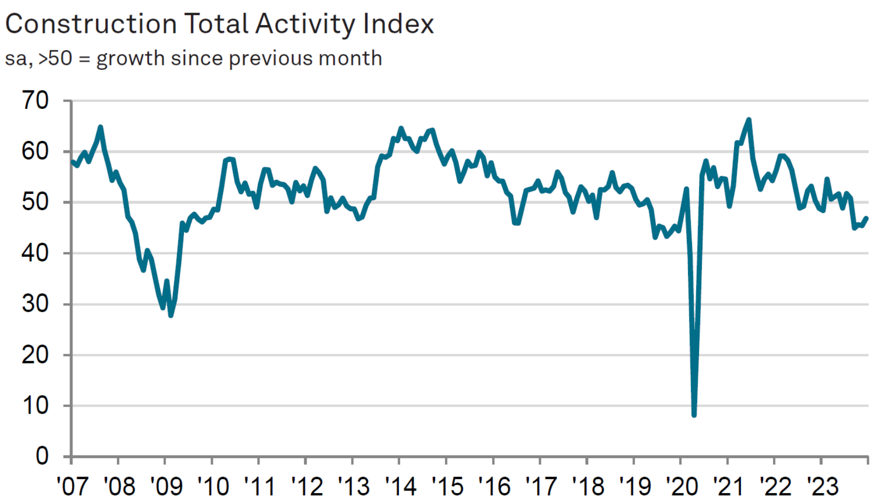
The **Office for National Statistics** published estimates of GDP for November 2023 this morning.

- Monthly Real gross domestic product (GDP) is estimated to have fallen by 0.2% in the three months to November 2023, compared with the three months to August 2023.
- Monthly GDP is estimated to have grown by 0.3% in November 2023, following an unrevised fall of 0.3% in October 2023.
- Services output grew by 0.4% in November 2023 and was the main contributor to the monthly growth in GDP; this follows a fall of 0.1% in October 2023 (revised up from a 0.2% fall in our previous publication).
- Production output grew by 0.3% in November 2023, following a fall of 1.3% in October (revised down from a 0.8% fall in our previous publication).

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

S&P Global CIPS published their latest construction purchasing managers index for December 2023 on 5h January 2024.

- December data indicated another solid fall in UK construction activity, although the rate of decline eased to the slowest since the current phase of decline began last September. A sustained slump in house building was the main factor holding back construction output, which survey respondents linked to elevated interest rates and subdued confidence among clients.



Sources: S&P Global, CIPS.
Data were collected 06-21 December 2023.

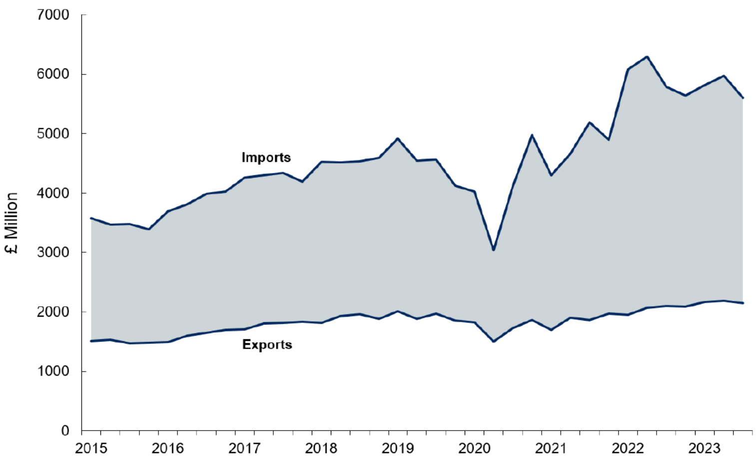
- Improving supply conditions continued in December, with delivery times for construction items shortening for the tenth month in a row. Price discounting among suppliers contributed to a moderate fall in average cost burdens across the construction sector at the end of 2023.
- At 46.8 in December, the headline S&P Global UK Construction Purchasing Managers' Index™ (PMI®) – a seasonally adjusted index tracking changes in total industry activity – was below the neutral 50.0 mark for the fourth month running. However, the index was up from 45.5 in November and the highest for four months.
- House building remained the weakest-performing category of construction work in December (index at 41.1), despite the rate of decline easing to its slowest since July 2023. Civil engineering activity (index at 47.0) also posted a softer pace of contraction at the end of last year.
- Commercial construction meanwhile declined only modestly (index at 47.6), but the speed of the downturn accelerated to its fastest since January 2021. Some firms noted that concerns about the domestic economic outlook, alongside elevated borrowing costs, had led to greater caution among clients.
- Total new work decreased at the slowest pace since the current period of decline began in August 2023. Subdued customer demand across the house building sector was often cited as a factor leading to reduced order books.
- A softer decline in new work and hopes of a turnaround in demand conditions during 2024 contributed to a renewed rise in employment numbers in December. However, the rate of job creation was only marginal.
- Mirroring the trend for construction output, latest data indicated the slowest fall in purchasing activity for four months. Where a decline in input buying was reported, this often reflected a lack of new work to replace completed projects.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 10th January 2024.

- **Imports** of construction materials **decreased** by £370 million in Quarter 3 2023 compared to the previous quarter, a **decrease** of 6.2%.
- **Exports** of construction materials **decreased** by £45 million in Quarter 3 2023 compared to the previous quarter, a **decrease** of 2.1%.
- The material price index for **'All Work' decreased by 2.3%** in November 2023 compared to the same month the previous year.

Chart 1: Quarterly Exports and Imports of Construction Materials, UK
Value in pounds sterling



Source: Monthly Statistics of Building Materials and Components, Table 14

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 11 January 2024, summarising information on the overall UK business population. The survey was live from 27 to 7 January 2024.

- In In December 2023, 69% of trading businesses reported that they were able to get the materials, goods or services they needed from within the UK, up two percentage points from November 2023; in contrast, 3% were unable to get the materials, goods or services they needed from within the UK, broadly stable over the same period.
- The percentage of businesses with 10 or more employees that reported global supply chain disruption in December 2023 remained broadly stable from November 2023, at around 5%.
- One in five (20%) businesses reported they are using or intending to use increased home working as a permanent business model; more than half (54%) of those businesses reported this is for improved staff wellbeing.
- Fewer than 1 in 10 (7%) businesses experienced worker shortages in late December 2023; this is down one percentage point from mid-December and down from the 12% reported in late December 2022.
- More than 1 in 10 (11%) businesses reported that employee hourly wages had increased in December 2023 compared with November 2023.

Construction Output Forecasts

Experian published their Winter 2023 forecasts for the construction sector in December 2023.

- Total construction output rose by 6.5% in real terms in 2022, its second consecutive year of good growth after the pandemic-induced contraction in 2020. However, in 2023, we estimate growth to have flatlined, notably held back by the residential sector. Since 2021, the retail and maintenance sector has been the shining performer, registering solid growth. However, the new work stream has had a far more mixed performance. In 2023 significant weakness in the residential sector has offset positive growth across the other sub-sectors. Moving into 2024, the outlook remains challenged. The economic backdrop will remain fragile, and uncertainty plagues the outlook. While a recession does not feature in our baseline view, GDP growth is likely to be tepid. As such, total construction output is projected to grow by just 0.3% in 2024 before picking up the pace to 2.8% in 2025. We expect the retail and maintenance sector to continue its upward trajectory and outpace the new work sector in 2024 and 2025.

- The fortunes of the housebuilding sector have waned as the post-pandemic rebound fizzled out. The headwinds presented by a lethargic economy, persistent inflationary pressures and elevated mortgage rates have halted the impressive growth momentum seen in 2021 and early 2022. Since then, both demand and supply side influences have held back housebuilding. Falling house prices and weak buyer interest alongside elevated materials' costs, labour shortages and the dismantling of government support such as the Help to Buy have dampened activity. As a result, total housing output is expected to experience a double-digit decline in output growth in 2023 to £40.1bn, 13% lower than its level in 2019.
- The Repair, Maintenance & Improvement (RM&I) sector performed better than expected in the first three quarters of 2023 so the overall growth outturn of 2.4% is stronger than previously anticipated. Although the headwinds faced by the sector in the form of inflationary pressures and falling house prices have eased, these remain enough of a challenge to lead to a small fall in output in 2024. The decline is primarily seen on the private side with the public sector supported by the urgent need to address building safety concerns. Stronger growth of about 3% per annum is seen over 2025-26.
- Infrastructure was the sector least impacted by the COVID-19 pandemic in 2020 and was the strongest sector in 2021, growing by 27.4% to a new record of £27.8bn. Output was steady in 2022, falling by just 0.6% to £27.6bn. In the four quarters ending September 2023 output totalled £29.2bn, 6.7% above the previous four quarters and by October 2023 annual growth had increased to 7.6%. Output for calendar year 2023 is estimated to have grown by 5.9%. Looking forward, the growth in output stalls in 2024, falling by a nominal -0.3%, before returning to moderate growth of 2% each of 2025 and 2026 to further record high levels. The forecast is summarised in the chart below and the table opposite.
- 2023 looks to have been a good year for the public non-residential sector after a long period of decline, with output up by 9% three-quarters on three quarters. If output in Q4 comes in a around the quarterly average for 2023then growth of between 6%-7% in real terms is on the cards. This increase has been driven in no small part by very robust expansion in the agriculture & miscellaneous sector, believed to be down to defence and prisons work.
- It was almost inevitable that the industrial construction sector would not be able to reproduce its stellar growth in 2022 in the following year. From a peak in the first quarter of 2023 output has subsided in the following two and the level of new orders is 15% down on an annualised basis. Thus, it is estimated that output in the sector will be flat in 2023, with very weak GDP growth in 2023 and 2024 pushing the sector into decline in the latter year. Marginal expansion should return in 2025, strengthening in 2026, largely on the back of good growth in the factory sub-sector.

- After five consecutive years of output decline in the commercial sector, we estimate 2023 will mark a year of long overdue positive growth. Challenges in this sector predate the pandemic and therefore the output expansion expected in 2023 is a welcomed reprieve from the steady decline. Aside from the education and retail sub-sectors, the rest of the commercial sub-sectors are likely to see positive 2023 readings.

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 December 2023.

- The mean GDP forecast for 2024 is 0.2%, down from 0.3% in the previous month's forecast.
- The mean GDP forecast for 2025 is 1.0%, unchanged from the previous month's forecast.

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 14 December 2023, covering intelligence gathered in the five weeks to mid-November 2023.

- Construction output volumes continue to fall. Some of the slack from lower new housing and commercial development is being taken up by repair and maintenance. Order books continue to weaken but contacts expect this to stabilise during 2024.
- Private and social house-building activity has slowed over the last year, by up to 30% in some locations. Higher price units in the South were impacted the most by increased mortgage costs. Social landlords carried out more remedial work and some private landlords invested to achieve higher rents.
- Commercial development has continued to slow due to current yields being too low. But cash-funded and pre-let projects continued. Existing large infrastructure projects remain one area of strength, with energy, water and defence contracts growing. Contacts cite planning and utility connections as key constraints.
- There is growing evidence of construction firms failing, causing delays.
- Commercial development is likely to contract further until confidence increases and rates of return improve. House builders expect current build rates to continue through 2024. The outlook for repair and maintenance work remains stable.

Builders Merchant Building Index

The Builders Merchant Building Index for September 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:*
December 2023	15th February 2024
January 2024	13th March 2024
February 2024	12th April 2024

Business Statistics team | Analysis Directorate | Department for Business and Trade
materialstats@beis.gov.uk