Monthly Construction Update

12th March 2019

Department for Business, Energy & Industrial Strategy

Construction Output rose by 2.8% in January 2019 but fell 0.6% in the three months to January

The **Office for National Statistics** published a provisional estimate of construction output for January 2019 this morning:

- Construction output decreased by 0.6% in the three-month on three-month all work series in January 2019; this decrease was driven by a fall of 2.3% in the all repair and maintenance series, which was offset by an increase of 0.3% in the all new work series.

- The fall in the three-month on three-month all repair and maintenance series was driven primarily by non-housing repair and maintenance, which fell by 3.2%, and private housing repair and maintenance, which fell by 2.3%.

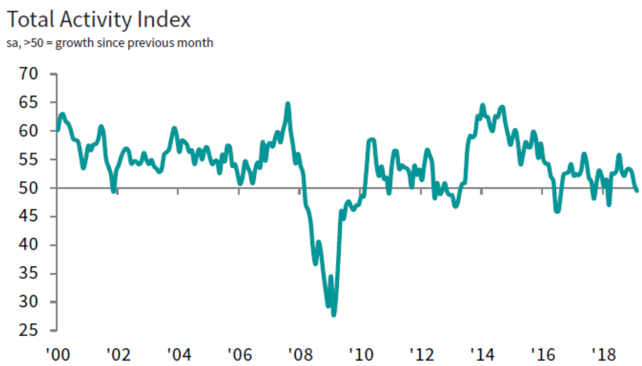
- The all work series grew by 2.8% in January 2019 in the month-on-month series, reversing the 2.8% decline seen in December 2018.

- New orders fell by 1.9% in Quarter 4 (Oct to Dec) 2018 against the previous quarter, with all other work decreasing by 3.8%, more than offsetting the 2.3% growth in all new housing during the same period.

IHS Markit CIP UK Construction Purchasing Managers Index for January 2018

IHS Markit CIPS published their latest construction purchasing managers index for February on 4th March 2019.

- The UK construction sector PMI decreased to 49.5 in February, below the 50.0 no-change threshold and so indicating a decline for the first time since the snow disruption in March 2018.



- Residential work was the best performing sector, and the only sector which recorded expansion, albeit modest. Both civil engineering and commercial activity contracted. Anecdotal evidence suggested that EU exit uncertainty had slowed decision making in commercial projects and led to subdued client demand.

- Business expectations for the year ahead remained positive, but eased to a four-month low, well below the long-run survey average. Delays to client decision-making had slowed progress of new project starts which could create gaps in future workload. Employment growth remains soft, with some companies reporting that voluntary leavers had not been replaced, whereas others reported the recruitment of extra trainees to help alleviate skills shortages.

- Input buying fell for the first time since September 2017, however delivery times lengthened to the greatest extent since August. Some firms noted that stockpiling by UK manufacturers and resulted in shortages of transport availability and led to longer wait-times. Input cost inflation had edged up since January but was still at the second-lowest level since June 2016.

Construction Output Forecasts for 2018, 2019 and 2020

In January 2019, **Experian** published their forecasts for the construction sector:

- Output is expected to increase by 0.8% in 2018, 0.4% in 2019, 2.5% in 2020 and 3.1% in 2021.

- Private housing will slow down but continue to rise steadily through the forecast period. Public housing will fall in 2018 but then recover strongly over the next three years.

- The infrastructure sector is forecast to continue to recover from a 3.4% downturn in 2016, it grew 10.2% in 2017 and is forecast to grow by 5% in 2018, 8% in 2019 and 10% in 2020 and 6% in 2021. The infrastructure work is expected to move from energy and water & sewage, to transport and sewage, led by Highways England's road upgrades and Thames Tideway.

- Private commercial building grew by 7.5% in 2017 but is forecast to decrease by 5% in 2018, 9% in 2019 and 5% in 2020 before the decline in halted in 2021. In total the sector is forecast to fall nearly 18% between 2017 and 2021. This decrease is thought to be due to a more cautious attitude from investors and developers in light of the EU Referendum vote in June 2016.

The **Construction Products Association** published their Winter forecasts for the construction sector in January 2019:

- Overall, construction output is forecast to fall by 0.2% in 2018, downgraded from the Autumn forecast of +0.1%. The demise of Carillion and bad weather in Q1 2018 caused the loss of £1 billion of work. It is estimated that 60% of this work may be recovered, although work on two major Carillion hospital projects is on hold until at least 2019. There have been declines in commercial offices and retail activity which counteracted significant growth in private housebuilding and infrastructure.

- In 2019, construction output is forecast to rise by 0.3%, reduced from 2.3% in the Summer forecast, as infrastructure projects and house building drive industry activity. Infrastructure is expected to reach the highest level on record in 2019 due to HS2, Thames Tideway and Hinkley Point C. Housebuilding activity is also expected to grow, encouraged by the extension of Help to Buy through to 2023.

- In 2020, construction output is forecast to rise by 1.6%. Growth in infrastructure is highly dependent on large projects such as HS2 and Hinkley Point C nuclear power station going ahead as planned, and there are some concerns due to the cancellation of the new nuclear power station at Wylfa and delays to Crossrail.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published by BEIS on 6th March 2019.

- Annual materials price inflation in January 2019 was 3.8%, up slightly from 3.7% in December 2018. This is the second lowest inflation level (after December 2018) since late 2016.
- Brick deliveries in January 2019 fell by 3.3% compared with January 2018, and by 14.9% compared with December 2018. This may reflect higher than normal deliveries in December 2018.
- Concrete block deliveries in January 2019 rose by 16.2% compared with January 2018 and by 17.2% compared with December 2018.
- £18.1bn of building materials were imported into the UK in 2018, compared with £7.6bn exports. Electrical wires were the product with the highest value of both imports and exports.

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