

# Monthly Construction Update

9<sup>th</sup> August 2019

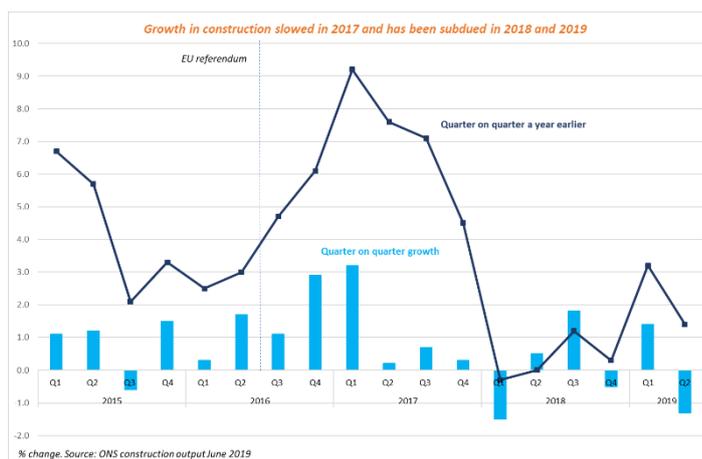


Department for  
Business, Energy  
& Industrial Strategy

**Construction Output fell 1.3% in Quarter 2 2019 and by 0.7% in June 2019**

The **Office for National Statistics** published a provisional estimate of [construction output](#) for June 2019 this morning:

- Construction output decreased by 1.3% in Quarter 2 (Apr to June) 2019 largely reversing the increase of 1.4% in Quarter 1 (Jan to Mar) 2019.
- The decrease was driven by a fall of 2.6% in repair and maintenance in Quarter 2 2019, which was due largely to the 6.0% decline in private housing repair and maintenance, with a smaller contribution from the 0.9% fall in non-housing repair and maintenance.

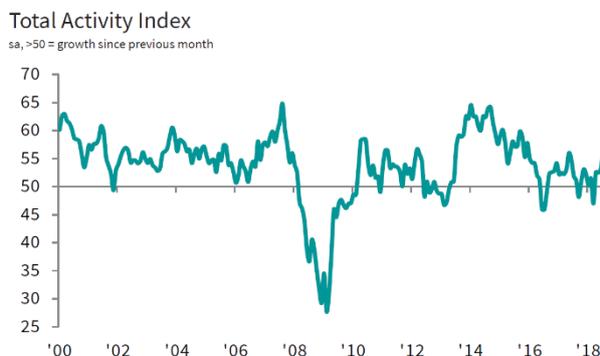


- In new work, the decrease of 0.5% in Quarter 2 2019 was driven by declines in public other new work and private new housing, with public other new work seeing its largest quarter-on-quarter decline since quarterly records began, with a fall of 10.9%. Infrastructure new work also fell slightly but private commercial new work rose, by 2.1%.
- Construction output decreased by 0.7% in the month-on-month all work series in June 2019; this was due to a 2.0% decline in repair and maintenance along with flat growth (0.0%) in new work.

**IHS Markit CIP UK Construction Purchasing Managers Index for July 2018**

IHS Markit CIPS published their latest [construction purchasing managers index](#) for July on 2<sup>nd</sup> August 2019.

- The UK construction sector PMI rose in July to 45.3, up slightly on June's 43.1 but registering below the 50.0 no-change mark for the fifth time in six months. This reading signalled the lowest degree of confidence since November 2012.
- All three broad categories of activity recorded a decline during July. The rate of decline in housebuilding was only modest and eased from the three-year record seen in June.



- Commercial work was the worst performing sector, with anecdotal evidence citing risk aversion among clients in response to EU exit uncertainty. Civil engineering activity also declined in July, with respondents noting that delays to contract awards had acted as a headwind.

- Employment numbers were cut back in response to deteriorating order books, although the rate of job shedding was only modest and largely reflected non-replacement of voluntary leavers. Demand for products and materials continued to soften, alleviating some of the pressure on supplier capacity, but a robust rate of input cost inflation persisted. This reflected rising prices for imported items and for those in short supply such as insulation and plasterboard.

### Construction Output Forecasts for 2019, 2020 and 2021

In July 2019, **Experian** published their Summer 2019 [forecasts](#) for the construction sector:

- Output is expected to increase by 0.9% in 2019, 2.0% in 2020 and 2.8% in 2021.
- Private housing will slow down but continue to rise steadily through the forecast period. Public housing will be flat in 2019 but then recover strongly over the next three years.
- The infrastructure sector is forecast to see strong growth of 10% in 2019 and 9% in 2020, and then slow slightly in 2021 to 5%. Growth in this sector depends on progress on large projects such as Crossrail and Thames Tideway, as well as on new projects such as HS2 and Hinkley Point nuclear power station.
- Private commercial building fell by 6.4% in 2018 and is forecast to continue to fall by 7% in 2019 and 5% in 2020, followed by flat growth in 2021. This decrease seen across the main subsectors of offices, retail, and leisure, and 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 Summer 2019 [forecasts](#) for the construction sector in July 2019:

- Overall, construction output is forecast to fall by 0.3% in 2019, in line with previous projections. Output will then rise by 1.0% in 2020 and by 1.4% in 2021, both revised down since the Spring forecast.
- Private housing starts are forecast to fall by 2.0% in 2019, before growth of 1.0% in 2020. The sharpest falls in housing demand are occurring in London and the South East.
- Infrastructure is identified as the main driver of growth and vital to the fortunes of the industry on the next few years. The sector is expected to rise by 9.3% in 2019, but this highly dependent on the delivery of Thames Tideway, HS2 high speed rail, and the Hinkley Point C nuclear power station.
- The private commercial sector is forecast to fall by 6.9% in 2019, followed by a further 4.7% in 2020. This is due to the impact of EU exit uncertainty on offices construction and the impact of the shift to online consumer spending on retail construction.

### Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 7<sup>th</sup> August 2019.

- Annual materials price inflation in June 2019 was 3.0%. Annual materials price inflation for different types of construction varied from 2.3% for repair and maintenance to 3.3% for other new work. Prices for all types of construction have been increasing steadily since early 2016.

- The biggest price increase was for taps and valves for sanitaryware which rose by 13.5% compared with June 2018. The biggest decrease was for electric water heaters which fell by 16.4% over the same period.
- Brick deliveries in June 2019 fell by 8.5% compared with June 2018 but rose by 0.3% compared with May 2019. Despite monthly volatility in this series, the general trend over the last couple of years is flat.
- Concrete block deliveries in June 2019 fell by 12.0% compared with June 2018 and fell by 7.3% compared with May 2019. This series has been quite volatile in the past few months.
- Cement production fell by 1.7% to 9.2 million tonnes in 2018.

### Builders Merchant Building Index

The latest [Builders Merchant Building Index](#) was published by the **Builders Merchants Federation** and **GfK** in July 2019.

- Total Builders Merchants value sales in May 2019 were flat (+0.0%) compared with May 2018. Following strong growth in the period February to April, sales were somewhat disappointing in May. The strongest category was Workwear & Safetywear, in which sales had increased by 4.2%. Many sectors, including Tools (-5.4%), Decorating (-1.9%), Plumbing, Heating & Electrical (-2.0%) and Kitchens & Bathrooms (-2.3%) reported lower sales in May 2019 compared to last year.
- Total Builders Merchants sales were up 6.0% compared with the previous month. Sectors that performed well on a month-by-month unadjusted basis included Landscaping (up 10.7%), Heavy Building Materials (up 6.7%), Tools (up 5.0%) and Decorating (up 4.9%).
- However, the adjusted May 2019 figures, which take into account the trading day difference, show that on a like for like basis, Total Builders Merchants' sales in May were just 1% higher than April and all categories except Landscaping and Heavy Building Materials had seen a fall in sales compared to April.
- Total sales in 2018 were 3.8% higher than in 2017. Four categories did better, led by Plumbing Heating & Electrical (+7.1%), with Timber & Joinery Products (+7.0%) just behind. Six categories grew more slowly, including Kitchens & Bathrooms (+2.7%) and Heavy Building Materials (+2.5%).

### Date of future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
July 2019	9 <sup>th</sup> September 2019
August 2019	10 <sup>th</sup> October 2019
September 2019	11 <sup>th</sup> November 2019