

Monthly Construction Update

Business Statistics Team

12th August 2020



Department for
Business, Energy
& Industrial Strategy

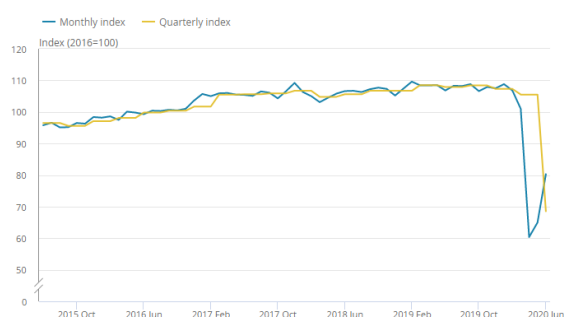
Construction Output grew by 23.5% in June 2020 but fell by 35.0% in Q2 2020

The **Office for National Statistics** published a provisional estimate of [construction output](#) for June 2020 this morning:

- Monthly construction output grew by a record 23.5% in June 2020, substantially higher than the previous record monthly growth of 7.6% in May 2020; despite this strong monthly growth, construction output in June 2020 remains comparatively low at 24.8% below the February 2020 level, which was before the full impact of the coronavirus (COVID-19) pandemic.
- Quarterly construction output fell by a record 35.0% in Quarter 2 (Apr to June) 2020 compared with Quarter 1 (Jan to Mar) 2020; this was driven by record falls of 35.2% in new work and 34.7% in repair and maintenance.
- The decrease in new work (35.2%) in Quarter 2 2020 was because of record quarterly falls in almost every new work sector; the largest contributor was private new housing, which fell by 51.2% in Quarter 2 2020 compared with Quarter 1 2020.
- The decrease in repair and maintenance (34.7%) in Quarter 2 2020 was because of record falls in all repair and maintenance sectors; the largest contributor was private housing repair and maintenance, which fell by 46.5% in Quarter 2 2020 compared with Quarter 1 2020.
- New orders decreased by a record 51.1% in Quarter 2 2020 compared with Quarter 1 2020; this decrease was because of record falls in both all other work and new housing, which declined by 51.9% and 49.0% respectively.

Figure 2: Construction output continues to recover in June 2020, while the quarterly index reflects the substantial loss of construction output across Quarter 2 2020

Quarterly and monthly all work index, chained volume measure, seasonally adjusted, Great Britain, June 2015 to June 2020



Source: Office for National Statistics - Construction Output and Employment

IHS Markit CIP UK Construction Purchasing Managers Index for July 2020

IHS Markit CIPS published their latest [construction purchasing managers index](#) for July on 6th August 2020.

- At 58.1 in July, up from 55.3 in June, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered above the 50.0 no-change threshold for the second consecutive month. The latest reading signalled the steepest expansion of overall construction work since October 2015.
- Residential building was the main growth driver in July, with activity increasing to the greatest extent since September



2014. Commercial work and civil engineering activity both expanded at slightly quicker rates than in June. Growth was often attributed to the catch up of work that had been delayed during the coronavirus disease 2019 (COVID-19) pandemic.

- July data indicated the fastest rise in new orders since February, although the rate of expansion remained softer than that recorded for output levels.
- Worries about the speed of recovery contributed to a sustained decline in staffing numbers during July, however construction firms are optimistic overall about the prospect of a recovery in business activity during the next 12 months.
- Input cost inflation reached its highest level since May 2019. Pressure on costs was partly linked to stretched supply chains.

Covid-19 Intelligence

ONS published further information from their fortnightly [Business Impact of Coronavirus Survey](#) (BICS) on 30th July. Businesses were asked for their experiences for the reference period 29th June to 12th July 2020.

- 4.1% of construction firms said they had temporarily closed or paused trading. By size, 4.9% of construction SMEs and 0.0% of large construction firms had temporarily closed or paused trading. 7.6% of all construction firms said that they had started trading in the last two weeks following a pause in trading.
- 2.9% of construction firms which had not permanently stopped trading said they had no cash reserves. 35.0% said that they had cash reserves, but these would last less than three months.
- 15.7% of construction firms still trading said their turnover had decreased by more than 50%. A further 43.7% said turnover had decreased but by less than 50%.
- The average proportion of the workforce furloughed was 17.0% for construction businesses still trading and 80.7% for businesses which had temporarily paused trading. 85.8% said they had applied for the Coronavirus Job Retention Scheme (furlough) and 49.6% were deferring VAT payments.
- HMRC published experimental statistics about the [Coronavirus Job Retention Scheme](#) in July 2020. Updated information will be published on 21st August:
- By 30th June, 171,400 construction employers (equivalent to a PAYE scheme) had furloughed 752,400 staff (or 59% of those eligible), with the total value of claims at £2.6 billion.

HMRC have also published experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) in July 2020. Updated information will be published on 21st August:

- Construction is the sector with the highest number of potentially eligible individuals (1.1 million).
- By 30th June, self-employed construction workers had made 867,000 claims for SEISS totalling £3.1bn, an average of £3,500 per claimant. This was the second highest average value behind the finance and insurance activities sector at £4,200.

Construction Output Forecasts for 2020, 2021 and 2022

Experian published their Summer 2020 [forecasts](#) for the construction sector in June 2020:

- Output is expected to fall by 24.4% in 2020, due to the impact of Covid-19. It will then grow by 13.9% in 2021 and 8.6% in 2022 to around the level seen in 2016.
- The worst hit sectors are private and public new housing, which are expected to fall by 35% and 38% respectively in 2020. However, both are expected to recover by 25% in 2021 and 10% in 2022. Private commercial new work is forecast to fall by 30% in 2020, with growth of 14% in 2021 and 8% in 2022 only taking the sector back to 2013 levels, due in particular to declines in the retail sector. Private industrial new work is forecast to fall by 16% in 2020, but growth of 13% in 2021 and 5% in 2022 sees the sector returning to 2019 levels.
- Infrastructure new construction is forecast to fall by 14% in 2020, before recovering with growth of 7% in 2021 and 15% in 2022. The strongest driver of growth through the period from 2019 to 2022 is the HS2 project in the rail sector. Public non-housing new work is expected to fall by 19% in 2020, followed by growth of 1% and 6% in 2021 and 2022 respectively, still below the 2019 level.

The **Construction Products Association** have published scenarios for construction as part of their analysis of the [market impact](#) in August 2020, with the main scenario including a relaxation of social distancing restrictions from mid-May and a recovery in construction activity from June:

- Despite activity on site returning slightly quicker than initially expected post-lockdown, the CPA Summer Scenarios still anticipates construction output in 2020 to fall by 20.6%, with the worst affected sectors including private housing (-33%) and commercial (-29%).
- Construction output is anticipated to rise by 18.0% overall in 2021, however this is compared with a low base of activity in 2020 and will still be 6.4% lower than pre-coronavirus levels. The delivery of major infrastructure projects will be crucial to growth in 2021, with activity on site less affected by social distancing and major projects like HS2 driving significant growth for the sector.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 5th August 2020.

- There was a 38% decrease in brick deliveries in June 2020 compared to June 2019, according to the seasonally adjusted figures. The month-on-month change shows a 46% increase in June 2020, as both manufacturing and construction firms continued to reopen. Production also continued to recover but remains 52% lower than in June 2019.
- There was a 15% decrease in concrete block deliveries in June 2020 compared to June 2019, according to the seasonally adjusted figures. The month-on-month change shows a 35% increase in June 2020. Production recovered strongly and is now 20% higher than in June 2019.
- Annual materials price inflation in June 2020 was 1.1%, unchanged from 1.1% in May. Annual materials price inflation for different types of construction varied from -1.9% for repair and maintenance to 0.6% for other new work. The biggest price increase was for pipes and fittings (flexible) which rose by 5.8% compared with June 2019. The biggest decrease was for imported plywood which fell by 10.2% over the same period.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for May 2020 was published by the **Builders Merchants Federation** and **GfK** in July 2020.

- Total Builders Merchants value sales in May were down 39.9% compared with May 2019 (a significant improvement on April, which was -76.3% less than April 2019). All categories sold less, with Tools (-66.1%) and Kitchens & Bathrooms (-62.7%) hit hardest. Workwear & Safetywear (-33.4%) was affected less and Landscaping finished just 12.5% below last May. With May having two less trading days this year, overall average sales a day for the month were 33.6% lower than May 2019.
- Total merchant value sales in May were 171.3% above April 2020, with one less trading day this month. Tools sales rose by 308%, despite it being the weakest category year-on-year. To put this percentage growth into context, Tools revenue in May was four times that of April. Landscaping sold 278.9% more than in April and Kitchens & Bathrooms was up 210.7%. Heavy Building Materials (+157.6%) grew more slowly. Average sales a day in May across all merchants were 185.6% higher than in April.
- Year to date sales in the first five months of 2020 were 29.2% down on January to May 2019, with one less trading day this year. Workwear & Safetywear was down the least (-2.7%), boosted by strong demand for protective equipment. The three weakest categories were Tools (-40.4%), Kitchens & Bathrooms (-33.2%) and Timber & Joinery Products (-31.3%).

Date of future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
July 2020	11 th September 2020
August 2020	9 th October 2020
September 2020	12 th November 2020