# Monthly Construction Update

**Business Statistics Team**

**12th November 2020**

Department for Business, Energy & Industrial Strategy

## Construction Output grew by 2.9% in September 2020 and by 41.7% in Q3 2020

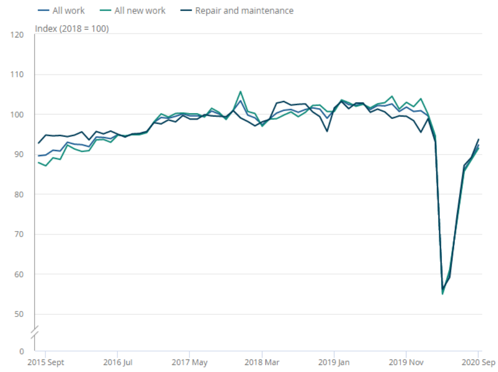
The **Office for National Statistics** published a provisional estimate of construction output for September 2020 this morning:

- Construction output grew by 2.9% in the month-on-month all work series in September 2020, driven by increases in both new work (2.7%) and repair and maintenance (3.4%); this is the fifth consecutive month of growth but the lowest rise in that time.

- The level of construction output in September 2020 was 7.3% below that in February 2020, with only infrastructure and private new housing having returned to above their pre-pandemic levels of output; all other types of work in September 2020 have yet to recover, with public new housing the furthest below its February 2020 level at 29.4%.

**Figure 3: Repair and maintenance output in September 2020 was the highest level since March 2020, though both new work and repair and maintenance remain below their February 2020 level**

**Monthly index, chained volume measure, seasonally adjusted, Great Britain, September 2015 to September 2020**




**Source: Office for National Statistics – Construction Output and Employment**

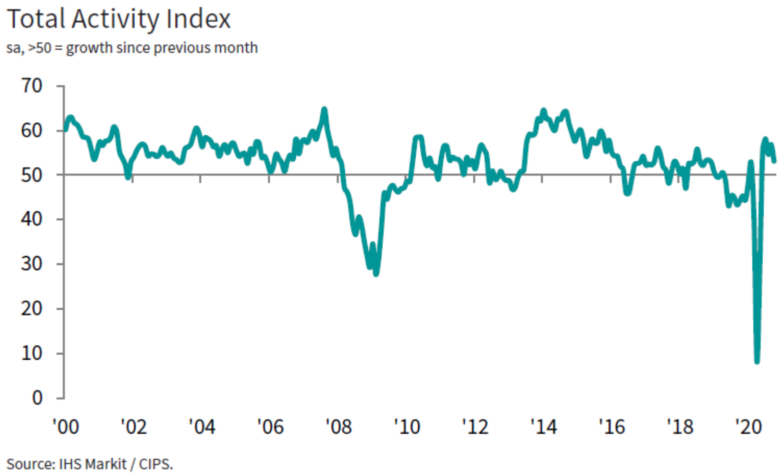
- Quarterly construction output grew by a record 41.7% in Quarter 3 (July to Sept) 2020 compared with Quarter 2 (Apr to June) 2020; this was driven by record quarterly growth in both new work (40.8%) and repair and maintenance (43.4%).

- The increase in new work (40.8%) in Quarter 3 2020 was because of record quarterly growth in all new work sectors; the largest contributor was private new housing, which grew by 84.4% in Quarter 3 2020 compared with Quarter 2 2020.

- The increase in repair and maintenance (43.4%) in Quarter 3 2020 was because of record growth in all repair and maintenance sectors; the largest contributor was private housing repair and maintenance, which grew by 70.9% in Quarter 3 2020 compared with Quarter 2 2020.

## IHS Markit CIP UK Construction Purchasing Managers Index for October 2020

**IHS Markit CIPS** published their latest construction purchasing managers index for October on 5th November 2020.




- The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered 53.1 in October, down from 56.8 in September. Any figure above 50.0 indicates growth of total construction output. The index has registered above the 50.0 no-change mark in each month since June. Underlying data revealed varied results across the three monitored sub-sectors. By far the best performing category was house building (index at 62.4).

- Higher levels of overall construction work also reflected another rise in commercial activity (index at 52.1), although the latest expansion was the weakest for five months. Meanwhile, civil engineering activity (index at 36.4) dropped for the third month running and the rate of decline accelerated to its fastest since May.

- October data indicated a robust increase in new work received by construction companies. The latest improvement in new order books was the strongest since December 2015. Higher levels of new business were mostly attributed to the start of projects that had been delayed earlier in the coronavirus disease 2019 (COVID-19) pandemic and a continued upturn in demand for residential building work. In line with the rise in new work, UK construction firms recorded another marked increase in purchasing activity at the end of third quarter. The rate of growth accelerated to the fastest since October 2015.

- The rebound in construction activity after the shutdowns seen during the initial lockdown period continued to put pressure on supply chain capacity in October. This was signalled by another sharp lengthening of delivery times for construction products and materials, with the latest deterioration in supplier performance the steepest since June.

- Construction firms often noted that demand for building materials had outstripped supply in October, which resulted in higher average cost burdens. The rate of input price inflation accelerated to its fastest since April 2019. Meanwhile, efforts to reduce overheads and ongoing economic uncertainty contributed to a further decline in staffing numbers across the construction sector. The rate of job shedding was nonetheless much slower than seen in the second quarter of 2020.

## Covid-19 Intelligence

ONS published further information from their fortnightly [Business Impact of Coronavirus Survey]() (BICS) on 5th November. Businesses were asked for their experiences for the reference period 5th October to 18th October 2020.

- Weighted by count, 8.3% of all construction firms surveyed said they had temporarily closed or paused trading. 3.0% said that they had started trading within the last two weeks after a pause in trading. 6.7% had paused trading but intended to re-start in the next two weeks.

- Weighted by turnover, 2.7% of construction firms still trading said their turnover had decreased by more than 50%. A further 33.5% said turnover had decreased but by less than 50%.

- Weighted by turnover, 3.2% of construction firms which had not permanently stopped trading said they had no cash reserves. 32.7% said they had cash reserves, but these would last less than three months.

- Weighted by employment, for businesses that had not permanently stopped trading, the average proportion of the workforce on partial or furlough leave was 2.5% for construction businesses still trading.

- Weighted by count, 44.7% of construction businesses who had not permanently stopped trading said they had applied for the Coronavirus Job Retention Scheme (furlough) and 19.2% were deferring VAT payments.

HMRC published experimental statistics about the Coronavirus Job Retention Scheme on 22nd October 2020.

- In construction, furloughing peaked on 14 April with 724,000 employments furloughed, falling to 404,000 employments on 30 June. Preliminary figures for the sector show 291,000 employments furloughed on 31st July and 186,000 on 31st August. This was the third largest proportionate decrease from the peak to 31 August across all sectors (74%) except for energy production and supply and mining and quarrying, but these sectors had far fewer employments furloughed. The total value of claims up to 31st August was £3.5 billion.

HMRC also published further experimental statistics on the Self-Employment Income Support Scheme (SEISS) on 22nd October 2020.

- Construction is the sector with the highest number of potentially eligible individuals (1.2 million) for the second SEISS grant.

- By 30th September, self-employed construction workers had made 772,000 claims for the second SEISS grant, totalling £2.4bn, an average of £3,100 per claimant. This was the second highest average value behind the finance and insurance activities sector at £3,600.

## 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%).

## Building Materials

- 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.

The latest Monthly Statistics of Building Materials and Components were published by **BEIS** on 4th November 2020.

- There was a 15.0% decrease in brick deliveries in September 2020 compared to September 2019, according to the seasonally adjusted figures. The month-on-month change shows a 1.8% decrease in September 2020.

- Sales of sand and gravel increased by 37.3% in Quarter 3 2020 compared to Quarter 2 2020, following a decrease of 36.5% in Quarter 2 2020, according to the seasonally adjusted data. Comparing Quarter 3 2020 to the same quarter in the previous year, sales have decreased by 16.8%.

- Annual materials price inflation in September 2020 was 0.3%, down from 0.5% in august. Annual materials price inflation for different types of construction varied from 0.7% for new housing to -0.2% for repair and maintenance. The largest price increase was for imported plywood which rose by 7.1% compared with September 2019. The biggest decrease was for concrete reinforcing bars which fell by 5.3% over the same period.

## Builders Merchant Building Index

The Builders Merchant Building Index for August 2020 was published by the **Builders Merchants Federation** and **GfK** on 20th October 2020.

- Total Builders Merchants value sales were 3.9% lower in August than in August 2019, with one less trading day this year. Three categories did better, with Landscaping (+16.3%) the top performer. Workwear & Safetywear (+1.8%) was the only other category to exceed last year, while Timber & Joinery Products sold 2.0% less. The remaining nine categories were weaker. These included largest category Heavy Building Materials (-5.8%), Decorating (-10.8%) and Plumbing Heating & Electrical (-13.7%). Average sales a day, which takes trading day differences into account, were 0.9% up on August 2019.

- Total Merchants August sales were 14.2% lower than in July, which had three more trading days. All categories sold less. Kitchens & Bathrooms (-4.3%) did best, followed by Plumbing Heating & Electrical (-7.6%). Heavy Building Materials (-13.5%) performed a little better than merchants generally. The two weakest categories were Workwear & Safetywear (-25.3%) and Landscaping (-24.5%). Average sales a day were 1.3% lower in August than July.

- Sales in the last three months (June to August) were down 1.0% overall compared with the same three months in 2019, with one more trading day this year. Season-category Landscaping (+30.9%) was strongest. Workwear & Safetywear(+7.9%) and Timber & Joinery Products (+0.4%) were the only other categories that sold more. The nine selling less included Plumbing Heating & Electrical (-17.3%), Kitchens & Bathrooms (-14.4%) and Tools (-10.4%). Average sales a day across the three months were 2.5% lower than last year.

| Date of future construction output releases | |
|---|---|
| *Release for:* | *Publication date:* |
| October 2020 | 10th December 2020 |
| November 2020 | 15th January 2021 |
| December 2020 | 10th February 2021 |

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