

Monthly Construction Update

Business Statistics Team

12th February 2021



Department for
Business, Energy
& Industrial Strategy

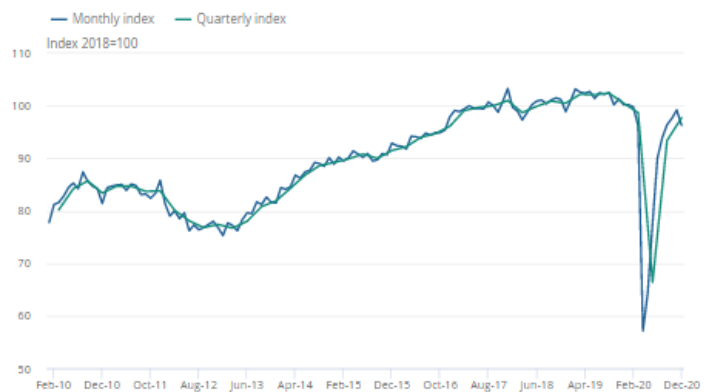
Construction output fell by 2.9% in December 2020 but grew by 4.6% in the Quarter 4 (Oct to Dec) 2020

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

- Construction output fell by 2.9% in the month-on-month all work series in December 2020, because of falls in both new work (3.8%) and repair and maintenance (1.5%); this is the first decline in monthly growth since April 2020 when it fell by a record 40.7%.
- The December 2020 level of output is 3.5% below the pre-coronavirus February 2020 level.
- Quarterly construction output grew by 4.6% in Quarter 4 (Oct to Dec) 2020 compared with Quarter 3 (July to Sept) 2020, driven by quarterly growth in both new work (4.0%) and repair and maintenance (5.5%).
- All work fell by 12.5% in 2020 compared with 2019; this was the largest decline in annual growth since 2009 where output fell 13.2%.

Figure 1: Because of the monthly fall the level of output in December 2020 fell to its lowest level since August 2020, while the quarterly index in Quarter 4 2020 was at its highest level since Quarter 1 2020.

Quarterly and monthly all work index, chained volume measure, seasonally adjusted, Great Britain, January 2010 to December 2020



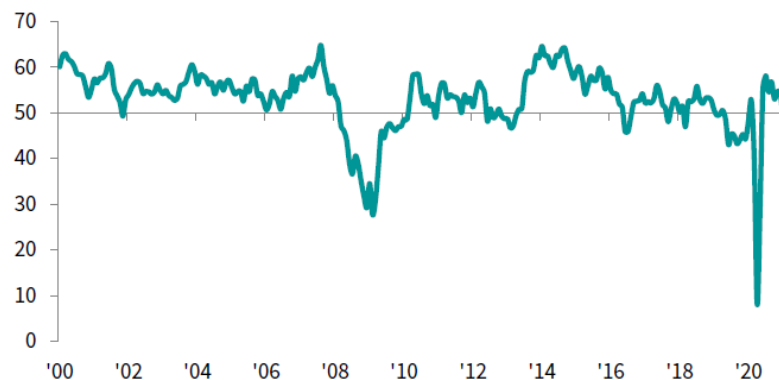
IHS Markit CIP UK Construction Purchasing Managers Index for January 2021

IHS Markit CIPS published their latest [construction purchasing managers index](#) for January 2021 on 4th February 2021.

- There was a marginal decline in UK construction output during January 2021 according to the latest PMI data. The latest survey also signalled a slowdown in new order growth to its weakest since June 2020. Construction companies noted the third national lockdown and concerns about the near-term economic outlook had led to greater hesitancy among clients, especially for new commercial projects. Transport shortages and delays at UK ports resulted in another severe downturn in supplier performance during January.
- At 49.2 in January, down from 54.6 in December, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index signalled a decline in overall construction output for the first time since May 2020. However, the rate of contraction was only marginal.
- A renewed fall in commercial activity (index at 46.2) and another drop in work on civil engineering projects (45.0) stood in contrast with strong growth in the residential category (57.1). Nonetheless, the latest increase in house building was the slowest since the rebound began in June 2020.
- New business volumes rose slightly in January, but the rate of expansion lost considerable momentum since the end of 2020. Survey respondents mostly commented on delayed projects in the commercial segment due to the impact of the pandemic. Some also cited less favourable demand conditions for residential work. Employment numbers dropped in January, reversing the marginal expansion seen during December.
- Purchasing activity increased for the eighth consecutive month in January, though the rate of growth eased further from November's recent peak. Strong demand for construction inputs and ongoing transportation issues resulted in the steepest downturn in supplier performance since May 2020.
- Construction companies continued to experience intense cost pressures, driven by rising prices for plaster, steel and timber. The overall rate of input price inflation accelerated to its highest for just over two and-a-half years.

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit / CIPS.

The Office of National Statistics published [Business insights and impact on the UK economy](#), on 11th February, based on responses from the voluntary fortnightly business survey (BICS). Businesses were asked for their experiences for the reference period 25th January 2021 to 7th February 2021.

- Weighted by count, 7.9% of all construction firms surveyed said they had temporarily closed or paused trading and did not intend to restart in the next two weeks. Some 11.3% had paused trading but intended to re-start in the next two weeks. A further 5.0% said that they had started trading within the last two weeks after a pause in trading.
- Weighted by turnover, 3.4% of construction firms still trading said turnover had decreased by more than 50%. A further 37.5% said turnover had decreased, but by less than 50%.
- Weighted by turnover, 5.0% of construction firms which had not permanently stopped trading said they had no cash reserves. 33.8% said they had cash reserves, but these would last less than three months.
- Weighted by employment, the average proportion of the workforce on partial or furlough leave was 3.9% for construction businesses still trading.
- Weighted by count, 39.0% of construction businesses that had not permanently stopped trading said they were using, or intending to use, the Coronavirus Job Retention Scheme (furlough).
- Weighted by count, 10.7% of construction businesses that had not permanently stopped trading said they had no or low confidence they would survive the next 3 months, whilst 43.6% had moderate confidence.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 28th January 2021.

- In construction, furloughing peaked on 14 April 2020 with 724,000 employments furloughed, falling to 596,000 on 31st May, 404,000 on 30 June, 300,000 on 31st July, 204,000 on 31st August, 163,000 on 30th September, 131,000 on 31st October, 170,000 on 30th November and 193,000 on 31st December. The total value of claims up to 30th October was around £3.8 billion. In November there was an additional £161 million in claims. In December, the equivalent figure was £349 million.

HMRC also published further experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) on 28th January 2021.

- Construction is the sector with the highest number of potentially eligible individuals (1.0 million) for the second SEISS grant.
- By 31st December, self-employed construction workers had made 659,000 claims for the third SEISS grant, totalling £2.3bn, an average of £3,400 per claimant. This was the second highest average value behind the finance and insurance activities sector at £4,000.

Construction Output Forecasts for 2020, 2021 and 2022

Experian published their Winter 2020/21 [forecasts](#) for the construction sector in January 2021:

- All construction sectors are estimated to have seen a decline in output in 2020 as projects struggled to put in place Covid-19 safety protocols, especially during the first national lockdown in the second quarter of the year. However, the falls were by no means uniform, with some sectors faring relatively better than others.
- Construction output is expected to fall by 16.6% in 2020 and then grow by 11.5% in 2021 and 7.6% in 2022.
- Total new work is forecast to fall by 17% in 2020, and then recover by 13% in 2021 and 8% in 2022. Total housing, private industrial and private commercial sub-sectors are all forecast to fall by between 21% and 23% in 2020. Infrastructure is forecast to experience the smallest fall of the subsectors in 2020 (5%).
- Repair and maintenance is forecast to fall by 15% in 2020 before recovering by 9% in 2021 and 6% in 2022.

The **Construction Products Association** published scenarios for construction as part of their analysis of the [market impact](#) in January 2021.

- The CPA's latest Construction Industry Scenarios sees a 'W'-shaped economic recession and recovery as its main assumption, with construction output expected to rise 14% in 2021 and 4.9% in 2022. This takes account of lockdown restrictions over winter 2020/21 before a sustained recovery from 2021 Q2 as vaccines are rolled out and the services-based economy can reopen again.
- With government making it clear that the construction and manufacturing sectors should continue to operate despite Covid-19 restrictions, output has been able to rise and recover relatively rapidly. The 14.0% rise in 2021 follows an estimated contraction of 14.3% overall in 2020 caused by the sharp fall in the first half of last year. Output is only expected to recover to pre-Covid levels in 2022. There is also the risk that once furlough and self-employment support schemes end in April, there may be a sharp rise in unemployment that could potentially dampen this recovery.
- The CPA's Scenarios show that private housing was one of the quickest sectors to recover in 2020, with mortgage lending and property transactions above pre-COVID-19 levels at the end of the year. A slower recovery has been seen in the commercial sector, with store closures and low rent collection in retail and leisure as well as the shift to working from home causing uncertainty for the offices sub-sector. Homeworking has had a positive impact on the private housing RM&I sector, with households investing accumulated savings from lower daily expenditure back into homes.
- when government support measures, such as the temporary reduction in stamp duty and the current form of the Help to Buy scheme, come to an end. And construction of social housing was weaker than for private housing due to the postponement of projects.
- Contacts expressed concerns about the weak pipeline of commercial projects, such as office and retail development, which could weigh on output in 2021. There was also some concern that public projects could be delayed due to budget constraints. However, there were hopes that investment in green projects would support activity further out.

Builders Merchant Building Index

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 3rd February 2021.

- There was a **16.4% decrease** in brick deliveries in December 2020 compared to December 2019, according to the seasonally adjusted figures. The month-on-month change shows a **9.4% decrease** in December 2020.
- In 2020, on the same basis, brick deliveries **decreased** by **23.4%** compared to 2019, the largest annual decrease since 2008.

The [Builders Merchant Building Index](#) for November 2020 was published by the **Builders Merchants Federation** and **GfK** on 21st January 2021.

- Total Builders Merchants November 2020 value sales surged 9.0% ahead of November 2019. This was the largest year-on-year increase since March 2019, despite the second Covid-19 lockdown taking effect from Thursday 5th November, with builders heeding the Government's directive that construction sites should remain open. Four categories sold more, led by strong performances from Landscaping (+29.3%) and Timber & Joinery Products (+16.3%). Heavy Building Materials was 8.7% higher and Ironmongery (+2.4%)

Building Materials

grew more slowly. The other eight categories sold less, with Workwear & Safety wear (-6.0%) and Plumbing Heating & Electrical (-5.8%) weakest.

- Total Merchants November sales were 2.3% lower than in October, with one less trading day this month. Renewables & Water Saving (+4.6%) did best, with Kitchens & Bathrooms (+2.9%) and Workwear & safety wear (+1.2%) the only other categories that sold more. Landscaping (-9.5%) did least well. Ironmongery (-3.5%) and Heavy Building Materials (-2.7%) were also weaker. Average sales a day, which take trading day differences into account, were up 2.3% on October.
- Total sales in the last three months (September to November) were 5.7% higher than the same three months in 2019. Landscaping (+25.6%) was particularly strong, with Timber & Joinery Products (+10.6%) also doing well. Among the eight categories selling less, Plumbing Heating & Electrical (-7.7%) was weakest. Sales were up 3.3% in the last three months compared with the previous three months (June to August) and all but one of the categories sold more. Plumbing Heating & Electrical (+29.9%) had the largest increase, with this category having been hit hard during the spring and summer months. Similarly, Kitchens & Bathrooms sold 17.9% more. Only seasonal category Landscaping (-28.8%) sold less.

Expected dates for future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
January 2021	12 th March 2021
February 2021	13 th April 2021
March 2021	12 th May 2021