Monthly Construction Update

Business Statistics Team

11th March 2022

Department for Business, Energy & Industrial Strategy

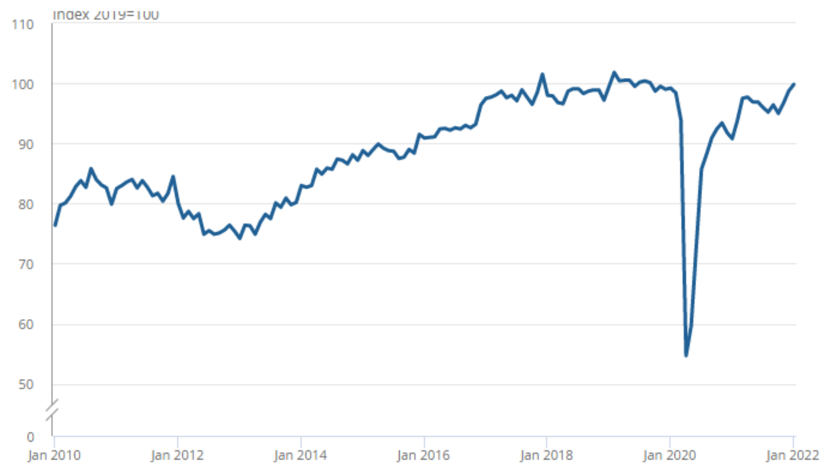
Construction output increased by 1.1% in volume terms in January 2022

The **Office for National Statistics** published estimates of construction output for January 2022 , this morning:

- Monthly construction output increased by 1.1% in volume terms in January 2022 and is now at its highest level since September 2019; this follows an increase of 2.0% in December 2021 and is the third consecutive monthly growth greater than 1.0%.

- The increase in monthly construction output in January 2022 came solely from an increase in repair and maintenance (4.6%) as new work saw a slight decrease of 0.8% on the month.

Monthly all work index, chained volume measure, seasonally adjusted, Great Britain, January 2010 to January 2022



- At the sector level, the main contributors to growth in January 2022 were private housing repair and maintenance and non-housing repair and maintenance, which grew by 5.0% and 5.5%, respectively.

- The level of construction output in January 2022 was 1.4% (£197 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level. New work was 2.8% (£267 million) below the February 2020 level, while repair and maintenance work was 9.3% (£464 million) above the February 2020 level.

- The recovery to date (since the falls at the start of the coronavirus pandemic) is mixed at a sector level, with infrastructure 37.9% (£709 million) above and private commercial 27.8% (£693 million) below their respective February 2020 levels in January 2022.

- Alongside the monthly increase, construction output rose 3.0% in the three months to January 2022; this is the strongest growth in the three-month on three-month series since June 2021 (3.4%), with increases seen in both new work and repair and maintenance (4.0% and 1.4%, respectively).

Gross Domestic Product increased by 0.8% in January 2022

The **Office for National Statistics** published estimates of GDP for January 2022 this morning:

- Gross domestic product (GDP) bounced back in January 2022, increasing by 0.8% after falling by 0.2% in December 2021, when the Omicron variant of the coronavirus (COVID-19) and Plan B restrictions had a more significant impact; GDP is now 0.8% above its pre-coronavirus level (February 2020).

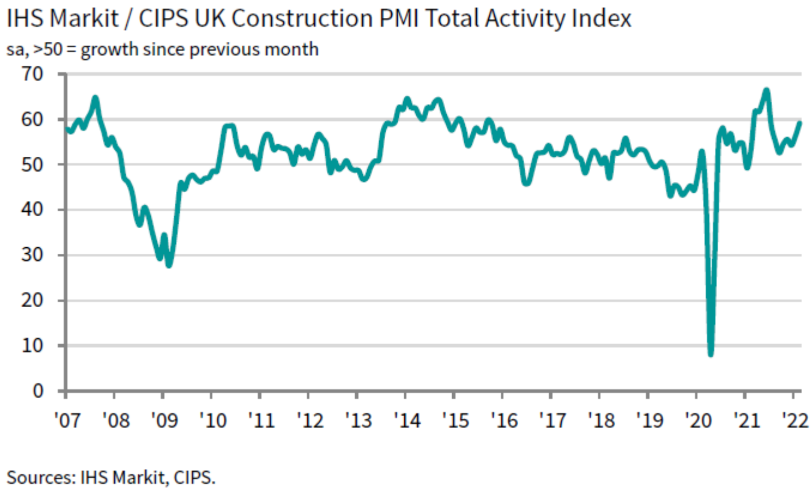
- All sectors grew in January 2022, with services up 0.8%, production up 0.7% and construction up by 1.1%.

- Output in consumer-facing services grew by 1.7% in the month, mainly driven by a 6.8% increase in food and beverage activities, while all other services also saw growth on the month, by 0.6%.

- Services is now 1.3% above its pre-coronavirus (COVID-19) pandemic level, while construction is 1.4% above and production is 2.0% below. Within services, consumer-facing services are now 6.8% below their pre-coronavirus levels, while all other services are 3.4% above.

IHS Markit / CIPS UK Construction Purchasing Managers Index for February 2022

IHS Markit CIPS published their latest construction purchasing managers index for February 2022 on 4th March 2022.



- February PMI data indicated that business activity gained momentum across the UK construction sector. Building companies commented on the strongest rise in output since mid-2021 amid stronger client confidence and work on new projects commencing. Construction companies continued to report widespread supply constraints and rapidly increasing input costs, though the rate of inflation in the latter was the least severe for 11 months. Ongoing disruption dampened the year-ahead outlook for activity, with confidence at the lowest since January 2021.

- The headline seasonally adjusted IHS Markit/CIPS UK Construction PMI® Total Activity Index registered 59.1 in February, up from 56.3 in January to signal a robust and accelerated rise in output volumes. The headline index has now posted above the neutral 50.0 threshold in each of the last 13 months.

- House building (index at 61.5) replaced commercial work (58.4) as the best performing category of construction work in February. The latest increase in residential work was the strongest for eight months. Commercial construction also expanded at a quicker pace than in January, with the rate of growth the sharpest since last July. Meanwhile, civil engineering activity (index at 57.5) increased at an accelerated pace, the strongest since June 2021.

- New order growth accelerated for the fourth month running in the latest survey period to extend the current sequence of expansion to 21 months. The rate of growth was the fastest since August 2021.

- Resilient pipelines of new work were highlighted by a steep rise in input buying across the construction sector during February. The latest expansion was the fastest for seven months.

- Around 36% of the survey panel reported longer delivery times among suppliers in February, while only 4% saw an improvement. Delays were overwhelmingly linked to driver and material shortages, as well as international shipping delays.

- Latest data signalled another rapid rise in input prices, though the rate of inflation eased to an 11-month low. The increase in purchase prices was often attributed to rising raw material and commodity prices amid supply shortages, alongside a lack of transport capacity.

- The near-term outlook for construction activity remained positive in February. Just under half of the survey panel (48%) forecast an increase in output during the year ahead, while only 9% predicted a fall. That said, the overall degree of optimism eased to the softest since January 2021.

Business Insights and Impact on the UK economy

The Office of National Statistics published Business insights and impact on the UK economy on 10th March 2022, based on responses from the voluntary fortnightly business survey (BICS).

- Between 21st February 2022 and 6th March 2022, weighted by count, 88.5% of construction firms said they were currently fully trading compared with an all-industry average of 83.9%. Some 7.7% of construction firms said they were currently partially trading compared with an all-industry average of 10.3%.

- Between 7th February 2022 and 20th February 2022, weighted by count, 22.9% of construction firms reported turnover had decreased compared to normal expectations for the time of year, whilst 61.2% reported turnover was unaffected and 4.1% reported turnover had increased. The respective all industry averages were 26.5%, 55.5% and 6.3%.

- Between 7th February 2022 and 6th March 2022, weighted by count, 13.9% of construction firms reported hourly wages were higher than normal for existing employees in the last month, whilst 46.4% reported wages had not been affected. The respective all industry averages were 11.5% and 47.5%.

- Between 7th February 2022 and 6th March 2022, weighted by count 18.9% of construction firms that had not permanently stopped trading reported experiencing global supply chain disruption. Some 33.8% reported not experiencing such disruption. The respective all industry averages were 15.5% and 33.5%.

Construction Output Forecasts for Winter 2021/2022

Experian published their Winter 2021/2022 forecasts for the construction sector in January 2022.

- The expectation is that in 2021 the construction industry recovered (+14%) most, but not all, of the contraction seen in 2020. However, there were substantial differences in sector performance, ranging from soaring output levels in the infrastructure sector (+36%) to a further decline in commercial construction (-2%).

- The trend for construction over the 2022 to 2024 period is predicted to be similar to the economy as a whole, although growth is projected to be stronger in the former, driven by strong private housing, investment in rail, health and education stock, and industrial construction in particular. The primary risk to the forecasts is the rapid spread of the Omicron variant of the Covid 19 virus, which in a worst-case scenario could lead to a fourth national lockdown across the UK.

- Public housing is one of only two sectors, the other being the commercial one, in which output is projected to be still below its pre-pandemic level in 2024. Output in the sector fell by almost a third in 2020 and the recovery last year has been a modest 4%. While growth over the three years to 2024 is expected to average around 5% per annum, in the normal course of events a reasonable level of expansion, it will still not be enough to take output back to 2019 levels.

- New infrastructure output is estimated to have soared in 2021, by well over a third, after only a modest fall of around 5% in the previous year, making the sector by far the best performer during the two years of the pandemic so far. Electricity, roads and rail (notwithstanding issues around the accuracy of ONS sub-sector breakdowns) were the primary drivers of the very strong growth last year. However, having surged so strongly in 2021, infrastructure output is expected to increase only moderately in the three years to 2024.

- The public non-residential building sector struggled to show much growth last year, with output in by far the biggest sub-sector, education, which accounts for nearly 50% of the sector, stagnant. However, the drive to build 500 new schools by 2030, combined with a rise in university work should mean that the period of stagnation is short lived, and expansion returns from 2022 onwards.

- Industrial construction output rose only marginally in 2021, with the warehouse sub-sector experiencing its first contraction for seven years. However, the sector should return to growth this year and over the three-year forecast period is projected to see the strongest rate of expansion of any construction sector, averaging nearly 13% per annum.

- The commercial construction sector suffered one of the biggest contractions in 2020, but it was the only sector to see a fall last year, of an estimated 2%. The big decline in GDP in 2020, substantial changes to office working practices, big drops in footfall and an even faster rise in online retailing, and the complete lockdown of some sectors during the course of the year combined to sharply reduce the demand for new facilities. The problem the sector has moving forward is that a number of the above factors are likely to persist into the medium and long term.

- As is the case across the construction industry, non-residential R&M output is expected to have bounced back strongly in 2021 from its pandemic-induced contraction in 2020. After double-digit growth across the non-residential R&M sub-sectors in 2021, expansion is projected to moderate thereafter.

The **Construction Products Association** (CPA) published scenarios for construction as part of their analysis of the market impact in January 2022.

- The CPA forecasts that output in the industry will grow by 4.3% in 2022, slowing to 2.5% in 2023 compared to the 13.3% seen in 2021. This demonstrates the resilience of the sector to the initial Covid-19 lockdown and the end of the Brexit transition period in 2020.

- Housebuilding, the largest sector within the UK construction industry, is expected to remain buoyant while infrastructure will be the major driver for growth.

- Product supply issues, a major challenge in 2021, have eased recently, but may still cause problems, particularly in the spring period and particularly for smaller building companies.

- Continuing to benefit from the 'race for space', output in private housing is forecast to rise by 3.0% in both 2022 and 2023 following 17.0% growth in 2021. The CPA suggests that the double-digit inflation in house prices will fall as the impact of the end of the stamp duty holiday and the further restriction of the Help to Buy scheme feeds through. The outlook for volume remains positive, with most major house builders reporting strong near-term demand and healthy profit margins fuelled by demand for housing in affordable areas of the UK.

- Also benefiting from the 'race for space' in the near-term is the private housing rm&i sector. Here the CPA forecasts output to remain flat at the historically high level reached with 17.0% growth last year. Rising renovation project costs and higher inflation rates are expected to slow down consumer spending on larger projects. UK households have benefited from building up over £200 billion of savings from the past two years but rising costs are spelling caution for spending compared to 2021.

- The CPA forecast indicates the infrastructure sector will remain the main driver for growth in 2022. Key projects include the Thames Tideway Tunnel, Hinkley Point C and HS2. At least two of these projects report delays due to supply constraints, and this could result in further work being pushed into 2023. Taking this into account, the sector is still expected to rise by 9.7% in 2022 and 1.1% in 2023, taking the sector to a new all-time high.

- While supply issues have eased off over the past six months, the CPA still considers these to be the biggest challenges to overall growth. These challenges are not spread equally across the sector, with smaller specialist sub-contractors feeling the pressure more.

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Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 16th December 2021, covering intelligence gathered between mid-October and late November 2021.

- Construction output slowed as materials, labour shortages and cost increases weighed on activity. There were widespread reports of output being constrained by supply-chain issues that affected the availability of materials and labour shortages.

- Demand for new build private housing remained strong and supported activity, though some housebuilders said shortages and planning delays had led to slower build rates.

- Some contacts said that there was caution about committing to new developments due to the uncertainty caused by supply bottlenecks, rising materials and labour costs, lack of availability of land and planning difficulties.

- There were also reports of construction projects being postponed due to higher materials costs, and a few instances of companies going into administration, due to the impact of higher costs on their margins.

- By contrast, some contacts reported positive demand for renovation work for residential and commercial properties. Public infrastructure projects also continued to support construction output, though there were also some reports of slowing demand from this source.

Building Materials

The latest [Monthly Statistics of Building Materials and Components] were published by **BEIS** on 2nd March 2022.

- Over the whole of 2021, imports of construction materials increased by 26.7% compared to 2020, from £16,144 million to £20,451 million.

- In the same period exports increased by 6.0%, from £6,916 million to £7,332 million.

- In 2021, the annual trade deficit widened by £3,891 million to £13,119 million, an increase of 42.0%.

Builders Merchant Building Index

The [Builders Merchant Building Index] for Quarter 4 2021 and for December 2021 was published by the **Builders Merchants Federation** and **GfK** on 22nd February 2022.

- Total Builders Merchants sales were up 16.3% in December compared with the same month last year, with no difference in trading days. All categories sold more.
- Compared with two years ago, Total Merchants sales were up 26.5% in December 2021, helped by two more trading days this year. All categories sold more.
- Total sales in December were 33.0% lower than in November, with five fewer trading days this month and all categories sold less. This decline in sales between November and December is in line with previous years.
- Total Merchants sales in the fourth quarter (October to December 2021) were 14.7% higher than in Q4 last year, with no difference in trading days. All categories sold more.
- Total Builders Merchants sales in October to December 2021 were 21.0 higher than in Q4 2019, with one more trading day this year. Nine of the twelve categories sold more.
- Overall sales in the 12 months January to December 2021 were 30.5% higher than in the same 12 months a year earlier, with two less trading days this year. All categories sold more.
- Sales in 2021 were 16.4% up on 2019.

Expected dates for future construction output releases	
Release for:	*Publication date:*
February 2022	11th April 2022
March 2022	12th May 2022
April 2022	13th June 2022