

Monthly Construction Update

Business Statistics Team

13th June 2022



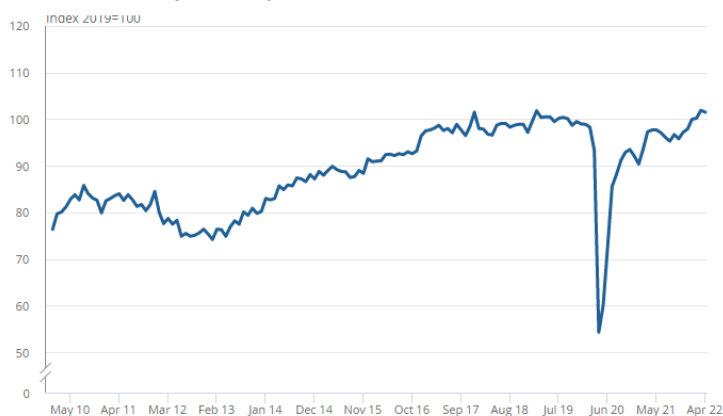
Department for
Business, Energy
& Industrial Strategy

Construction output decreased by 0.4% in volume terms in April 2022

The **Office for National Statistics** published estimates of construction output for [April 2022](#), this morning:

- Monthly construction output decreased by 0.4% in volume terms in April 2022; this is the first monthly decline seen since October 2021.
- The decrease in monthly construction output in April 2022 came from a fall in repair and maintenance (2.4%), which was offset slightly by a rise in new work (0.9%); the fall is partly a by-product of the growth (3.0%) in March 2022, because of the demand caused by the repair work resulting from storms in February 2022.
- At the sector level, the main contributors to the decline in April 2022 were private housing repair and maintenance, and private commercial new work, which decreased by 6.5% and 3.8%, respectively.
- Despite the monthly fall, the level of construction output in April 2022 was 3.3% (£481 million) above the February 2020 pre-coronavirus (COVID-19) level; new work was 0.7% (£68 million) below, while repair and maintenance work was 11.0% (£549 million) above.
- The recovery to date, since the falls at the start of the coronavirus pandemic, is mixed at a sector level, with infrastructure 35.6% (£669 million) above and private commercial 27.2% (£676 million) below their respective February 2020 levels in April 2022.
- Despite the monthly decrease, construction output increased 2.9% in the three months to April 2022; this is the sixth consecutive growth in the three-month on three-month series, with increases seen in both new work and repair and maintenance (2.2% and 4.0%, respectively).

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



Source: Office for National Statistics - Construction Output and
Employment

Gross Domestic Product fell by 0.3% in April 2022

The **Office for National Statistics** published estimates of GDP for [April 2022](#) this morning:

- Gross domestic product (GDP) fell by 0.3% in April 2022, after a decline of 0.1% in March 2022; UK GDP increased by 0.2% in the three months to April 2022.
- Services fell by 0.3% in April 2022 and these were the main contributors to April's fall in GDP, reflecting a large decrease (5.6%) in human health and social work, where there was a significant reduction in NHS Test and Trace activity.
- Production fell by 0.6% in April 2022, driven by a fall in manufacturing of 1.0% on the month, as businesses continue to report the impact of price increases and supply chain shortages.
- Construction also fell by 0.4% in April 2022, following strong growth in March 2022 when there was significant repair and maintenance activity following the storms experienced in the latter half of February 2022.
- This is the first time that all main sectors have contributed negatively to a monthly GDP estimate since January 2021.

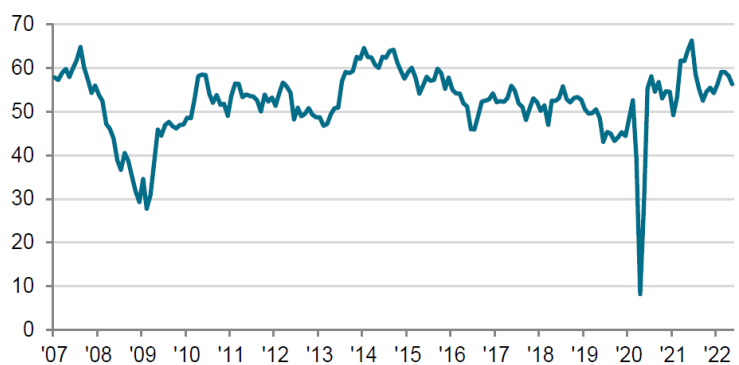
S&P Global / CIPS UK Construction Purchasing Managers Index for April 2022

S&P Global (formerly IHS Markit) **CIPS** published their latest [construction purchasing managers index](#) for March 2022 on 8th June 2022.

- The S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – registered 56.4 in May, down from 58.2 in April and the lowest reading for four months.
- May PMI data signalled another growth slowdown in the construction sector amid a loss of momentum for the residential category. The latest rise in housing activity was the weakest since the recovery began two years ago. Survey respondents suggested the subdued consumer confidence and worries about the economic outlook had constrained demand.
- Higher borrowing costs and intense inflationary pressures were also cited as factors likely to hold back growth over the next 12 months. The latest survey data indicated that business activity expectations at construction companies were the least upbeat since August 2020.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-30 May 2022.

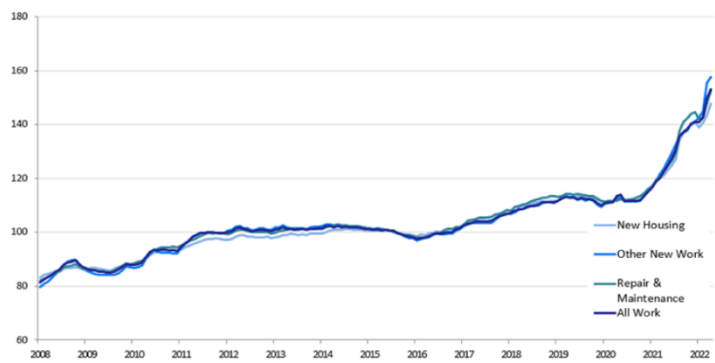
- Weaker trends in the house building sub-sector were the main brake on growth, with this index falling to 50.7 from 53.8 in April. Moreover, the latest reading signalled the worst performance for residential work since May 2020.
- Commercial building was the fastest-growing segment in May (index at 59.8), with the speed of expansion easing only slightly since April. Construction companies noted strong demand for commercial work, despite a degree of hesitancy due to the uncertain economic outlook.
- Job creation accelerated slightly in May and was the strongest for four months. Survey respondents typically cited efforts to boost capacity and meet rising customer demand. There were again widespread reports citing recruitment difficulties due to shortages of suitably skilled candidates.
- May data highlighted strong demand for construction products and materials, as signalled by a steep and accelerated rise in total purchasing volumes. Efforts to replenish stocks and pre-purchase ahead of price rises also contributed to higher purchasing activity in May, according to survey respondents.
- There were positive signals for supplier performance in May, as delays were the least widespread since February 2020. Some firms noted an improvement in the availability of construction items, despite ongoing challenges including logistics bottlenecks, Brexit trade frictions and supplier staff shortages.
- Rapid cost inflation persisted in May, with the vast majority of survey respondents (73%) reporting a rise in purchasing prices. This was linked to rising fuel, energy and raw material costs. That said, the overall rate of inflation eased to a three-month low.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 4th June 2022.

- The material price index for 'All Work' increased by 25.2% in April 2022 compared to the same month the previous year.
- There was a 3.4% increase in seasonally adjusted brick deliveries in April 2022 compared to the same month the previous year.
- There was a 1.0% decrease in seasonally adjusted block deliveries in April 2022 compared to the same month the previous year.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components, Table 1

The Office for National Statistics published [Business insights and impact on the UK economy](#) on 1st June 2022, based on responses from the voluntary fortnightly business survey (BICS) which was live between 16th May and 29th May 2022.

- Between 16 and 29 May 2022, weighted by count, 88.5% of construction businesses reported they were currently trading, 8.5% reported having they were partially trading and 2.5% reported having permanently ceased trading. Equivalent all industry averages were, respectively; 85.5%, 8.4% and 2.6%.
- Around 4.7% of construction businesses currently trading reported expecting turnover to increase in June 2022, 59.9% reported expecting turnover to remain the same and 14.4% expected turnover to decrease. Respective all industry averages were 13.5%, 57.2% and 15.6%.
- In April 2022, weighted by count, 56.2% of construction businesses that had not permanently stopped trading reported an increase in the price of materials, goods or services bought compared to the previous month, whilst 24.5% of construction reported no change in the price of materials, goods or services sold. The respective all-industry averages were 47.2% and 29.9%.
- In April 2022, weighted by count, 26.7% of construction businesses that had not permanently stopped trading reported an increase in the price of materials, goods or services sold compared to the previous month, whilst 49.8% of construction reported no change in the price of materials, goods or services sold. The respective all-industry averages were 22.7% and 55.3%.
- Around 34.2% of construction businesses that had not permanently stopped trading reported expecting the price of goods or services sold in June 2022 to increase, 36.8% expected them to stay the same and 1.6% expected them to decrease. The respective all-industry averages were 28.9%, 46.8% and 1.8%.
- Weighted by count, 34.2% of construction businesses that had not permanently stopped trading reported energy prices to be a factor causing them to consider raising prices in June 2022, 9.2% cited finance costs, 29.6% labour costs and 51.1% raw material prices.
- Around 9.2% of construction businesses, weighted by count, reported domestic demand had increased in April 2022 compared to the previous month, 52.1% reported demand had stayed the same and 8.8% reported demand had decreased. The respective all-industry averages were 9.0%, 45.6% and 16.9%.
- Between 16 and 29 May 2022, weighted by count, 4.5% of construction businesses reported increases in energy prices had affected production, 16.3% reported it had affected supplies and 8.7% reported energy price rises had affected both production and supplies. The respective all-industry averages were 6.1%, 12.8% and 14.3%.
- Between 16 and 29 May 2022, weighted by count, 3.8% of construction businesses reported having discontinued lines of sale due to price rises, 37.3% reporting having to absorb costs, 18.6% reported having to change suppliers, 1.7% reported having had to make redundancies and 34.1% reported having passed price increases on to customers.

Construction Output Forecasts

Experian published their Spring 2022 [forecasts](#) for the construction sector in May 2022.

- Total construction output in 2021 reached £169.6 billion (2019 prices), a close to 13% increase on the previous year, regaining most of the ground lost during the worst of the pandemic. The industry started 2022 well, with output up 8% in real terms in the first two months compared with the same period of 2021. Growth will slow, but the prognosis is one of expansion over the forecast period, averaging 3.7% a year. This would take output to £189.4 billion in 2024, over 7% above its pre-pandemic level in 2019.
- All the major construction sectors are projected to experience growth over the 2022 to 2024 period, but a handful are likely to remain smaller in 2024 than in 2019 – generally the public sectors, but also the private commercial one.
- The top-level forecast for all construction work is for growth of 4.3% in 2022, down from 12.9% in 2021, and for growth of 3.8% and 3.1% in 2023 and 2024.
- Growth in new work is forecast at 4.4% in 2022 and 3.6% in 2023, down from 11% growth in 2021. The housing sector is forecast to grow by 4.8% in 2022 and 3.9% the following year. Growth in the non-residential building sector is forecast to be 3.3% in 2022 and 4.5% in 2023. The private commercial sub-sector is expected to grow by 4% and 5% over the same period.
- Repair and maintenance (R&M) is forecast to grow by to be 4.2 in both 2022 and 2023, down from 16% last year.

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

- The CPA forecasts that output in the industry will grow by 2.8% in 2022, down from the 4.3% growth forecast three months ago. The downward revision stems from concern around a host of price pressures arising from both local and global issues.
- Demand remains strong across the industry in Q2, and the current project pipeline suggests that this will support activity levels until at least 2022 Q3.
- Prior to the conflict in Ukraine, UK construction was already facing labour and product availability issues and the impact of reverse charge VAT and IR35. Rising energy costs were driving near-record price increases in construction products and the continued conflict exacerbates this issue. The impact of these pressures, and of more general rising costs, on demand will vary considerably by sector. The broad picture is one of positive market conditions in the short term with anticipation of tougher times ahead.
- Private housing repair, maintenance and improvement, SMEs report that demand remains high, but this is the sector arguably most exposed to current price inflation, falls in consumer confidence and pressures on household incomes. Overall, output is expected to fall by 3% in 2022 and 4% next year from current all-time highs.

- Private housing, the largest construction sector, remains strong, with housebuilders reporting resilient demand. Longer-term, are questions over consumer confidence, but output in this sector is forecast to rise by 1% in both 2022 and 2023. This contrasts with the 3% per year growth forecast three months ago.
- The fastest growth is expected in the industrial sector, in which output is forecast to rise by 9.8% in 2022 and 9.3% in 2023, due to a strong pipeline of warehouse projects, resulting from a long-term shift towards online shopping.
- Infrastructure, traditionally less affected by immediate economic conditions, remains positive, with forecast growth of 8.8% in 2022 and 4.6% in 2023.
- On the supply side, the main immediate impact of the war in Ukraine for construction products will be the knock-on from rising energy prices and commodity shortages. Soaring energy costs will have to be passed on and lead to sharp rises in the cost of energy-intensive products. This will affect both imported products such as aluminium and steel and locally sourced products such as bricks and cement. Contractors are likely to feel the pressure first, particularly those working to fixed-price contracts. For future projects, contractors will be forced to re-price, add fluctuation costs and introduce risk-sharing arrangements to deal with the uncertainty over potential cost inflation.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics Forecast Survey** (which uses an average of private sector forecasts) results were published in May 2022.

- The mean GDP forecast for 2022 is 3.8% growth, down from 3.9% in the previous month's survey.
- The mean GDP growth forecast for 2023 is 1.0%, down from 1.4% in the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in June 2022:

- Global GDP growth is projected to slow sharply this year, to around 3%, and remain at a similar pace in 2023. This is well below the pace of recovery projected last December.
- UK GDP is projected to grow by 3.6% in 2022, down from 4.8% in the December 2021 projection, and 0.0% in 2023.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the [Agents' Summary of Business Conditions](#) on 17th March 2022, covering intelligence gathered mostly between mid-January and late February 2022.

- Construction output growth remained modest as rising costs, and materials and labour shortages continued to weigh on activity, though order books remained strong.
- Contacts said that rising material and labour costs had caused delays to some projects as customers waited for costs to come down or had made some projects unviable.
- Lead times for many materials continued to be long, though availability had improved since Summer 2021, when shortages were at their most severe. Companies reported placing orders early and buying

larger quantities of materials to limit the effect of shortages, though this was easier for larger firms than for smaller companies, because larger firms have more buying power with suppliers and generally have stronger financial positions.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for Quarter 1 2022 was published by the **Builders Merchants Federation** and **GfK** on 18th May 2022.

- Total Builders Merchants Quarter 1 2022 value sales were up 17.7% compared with Quarter 1 2021, with 11 of the 12 categories selling more; only Workwear & Safety Wear didn't, remaining flat at -0.1%.
- Total sales in Quarter 1 2022 were 24.7% higher than in Quarter 1 2019, with all categories selling more. Growth was driven largely by two categories: Landscaping (+51.4%) and Timber & Joinery Products (+40.6%).
- Total sales in March 2022 were 9.8% higher than March 2021, with no difference in trading days. 11 of the 12 categories sold more.
- Across all merchants, sales in March 2022 were 35.0% higher than in March 2019, with two more trading days.
- Rolling 12 months: In the 12 months Apr 2021 to Mar 2022, Total Merchants sold 30.6% more than in the same period a year earlier.

Expected dates for future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
May 2022	13 th July 2022
June 2022	12 th August 2022
July 2022	12 th September 2022