

Monthly Construction Update

Business Statistics Team

12th September 2022



Department for
Business, Energy
& Industrial Strategy

Construction output decreased by 0.8% in volume terms in July 2022

The **Office for National Statistics** published estimates of construction output for [July 2022 this morning](#).

- Following the 1.4% decrease in June 2022, monthly construction output decreased 0.8% in volume terms in July 2022; this is the second consecutive decrease in monthly construction output after seven consecutive months of growth.

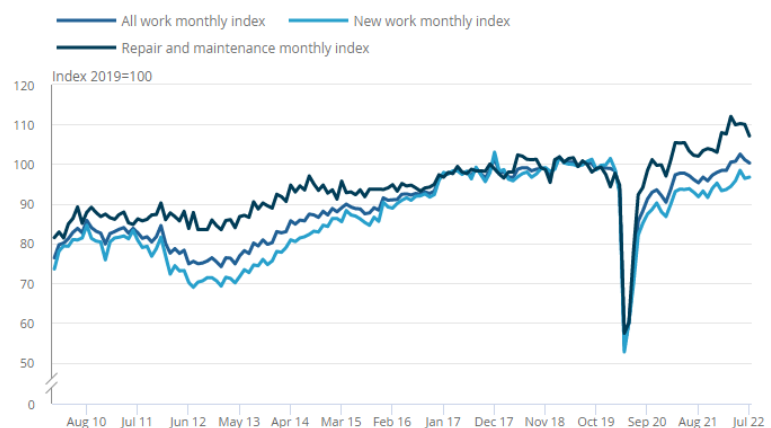
- The decrease in monthly construction output in July 2022 came solely from a decrease in repair and maintenance (2.6%) as new work saw a slight increase (0.3%) in the month.

- At the sector level, the main contributors to the decrease seen in July 2022 were public housing new work, and public and private housing repair and maintenance, which decreased 13.1%, 8.0% and 2.6%, respectively.

- The level of construction output in July 2022 was 2.1% (£300 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was below at 1.9% (£181 million) its February 2020 level, while repair and maintenance work was 9.7% (£481 million) above the February 2020 level.

- Despite the monthly decrease, construction output increased 1.4% in the three months to July 2022; this came solely from an increase seen in new work (2.7%) as repair and maintenance saw a slight decrease (0.7%); this is the ninth consecutive period of growth in the three-month-on-three-month series, but the slowest rate of growth since the three months to December 2021 (1.0%).

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



Source: Office for National Statistics – Construction Output and Employment

Gross Domestic Product grew by 0.2% in July 2022

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

- Gross domestic product (GDP) is estimated to have grown by 0.2% in July 2022 following a fall of 0.6% in June 2022; for more information on June 2022, please see the GDP monthly estimate, UK: [June 2022](#) bulletin.

- Looking at the broader picture, GDP was flat in the three months to July compared with the previous three months.
- Services grew by 0.4% in July 2022, after a fall of 0.5% in June 2022, and was the main driver to the rise in GDP; information and communication grew by 1.5% and was the largest contributor to the services growth in July.
- Production fell by 0.3% after a fall of 0.9% in June 2022; mainly because of a fall of 3.4% in electricity, gas, steam, and air conditioning supply.
- Construction also fell in July 2022 by 0.8%, after a fall of 1.4% in June 2022; the decrease in monthly construction output in July 2022 came solely from repair and maintenance, which fell 2.6%.
- Output in consumer-facing services grew by 0.6% in July 2022, following flat growth in June 2022; consumer-facing services remained 4.3% below their pre-coronavirus (COVID-19) levels (February 2022) in July 2022.

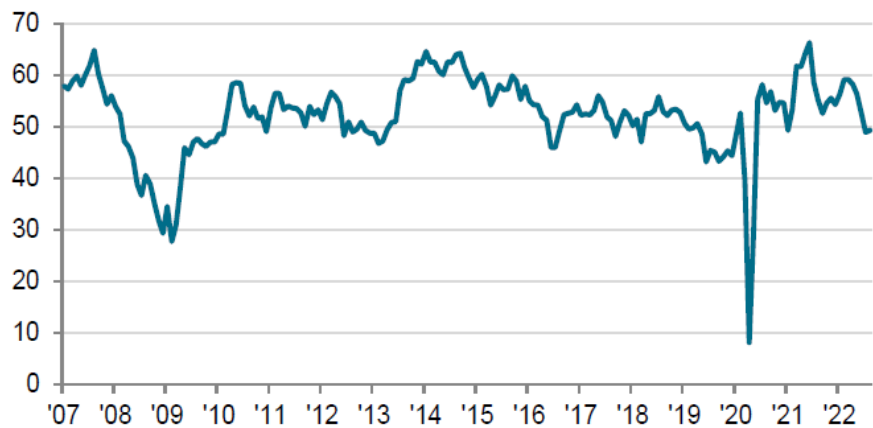
S&P Global / CIPS UK Construction Purchasing Managers Index for August 2022

S&P Global (formerly IHS Markit) **CIPS** published their latest [construction purchasing managers index](#) for August 2022 on 6th September 2022.

- Construction activity in the UK dipped for the second successive month in August as customer demand moved closer to stagnation amid cost pressures and economic uncertainty. Concerns about wider economic prospects led to a drop in business confidence and slower job creation, while firms' purchasing activity declined.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-30 August 2022.

- The headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – was at 49.2 in August, up fractionally from 48.9 in July but still below the 50.0 no-change mark, thus signalling a reduction in construction activity over the month. Activity has now decreased in two consecutive months.
- As in July, civil engineering posted the sharpest decline in activity of the three monitored categories, seeing output fall markedly over the month. Commercial activity also declined, thereby ending a period of growth stretching back for a year-and-a-half.

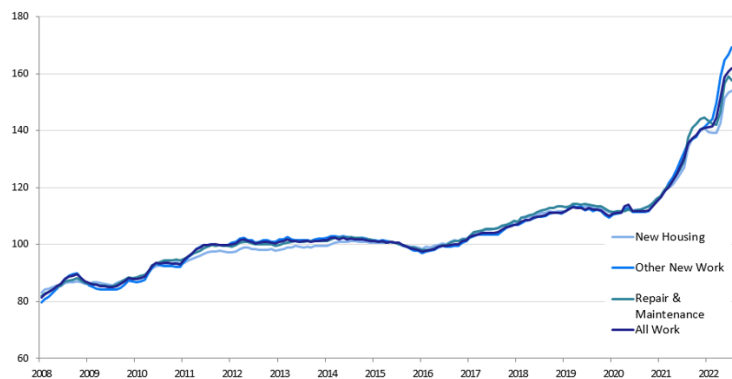
- New orders increased marginally in August, and to the least extent since June 2020. Some respondents indicated that customers were holding back on committing to new orders amid cost pressures.
- Alongside inflationary pressures, concerns around the potential for a wider economic downturn also impacted the sector in August. Business confidence dropped in July and was well below the series average.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 7th September 2022.

- The material price index for 'All Work' increased by 24.1% in July 2022 compared to the same month the previous year.
- Imports of construction materials increased by £211 million in Quarter 2 2022 compared to the previous quarter, an increase of 3.5%.
- Exports of construction materials increased by £110 million in Quarter 2 2022 compared to the previous quarter, an increase of 5.6%.

Construction Material Price Indices, UK (Index, 2015 = 100)



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

Business Insights and Impact on the UK economy

The **Office for National Statistics** published further information from their fortnightly [Business insights and impact on the UK economy](#) publication on 8 September 2022, which was live from 22 August 2022 to 4 September 2022.

- Weighted by count, between 1 August and 31 August, 18.7% of construction firms with more than 10 employees that had not permanently stopped trading reported experiencing global supply chain disruption. The all-industry average for businesses with more than 10 employees was 20.5%.
- Weighted by count, between 1 August and 31 August, 59.8% of construction firms that had not permanently stopped trading reported being able to get the materials, goods or services they needed from within the UK, whilst 19.8% reported being able to get the materials, goods or services they needed from within the UK but having to change suppliers or find alternative solutions. 5.6% of business reported not being able to get the materials, goods or services they needed. Corresponding all industry averages were 48.5%, 13.8% and 4.7%.
- Weighted by count, between 22 August and 4 September, 36.6% of construction firms with more than 10 employees who had not permanently stopped trading reported they were experiencing a shortage of workers, whilst 53.0% reported not experiencing a shortage of workers. Corresponding all industry averages for all businesses with more than 10 employees were 35.8%, and 55.7%.

Construction Output Forecasts

Experian published their Summer 2022 [forecasts](#) for the construction sector in July 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.
- Total construction output rose by nearly 13% in 2021, recovering most, but not all, of the ground lost during the height of the pandemic in 2020. Expansion has continued into the first four months of this year, with output reaching £59.37bn (2019 prices, seasonally adjusted), 6.5% up on the corresponding period of 2021. The only sectors not to experience growth over this period are the public non-residential and private commercial ones. Expansion is expected to slow somewhat during the remainder of the year but growth for total construction output is still projected to come in at over 5% in 2022.
- Despite anaemic GDP forecasts for 2023 and 2024, construction output is predicted to grow at a reasonable rate, of 3.3% in the former year and 2.7% in the latter one. The only sector not forecast to see expansion over the two-year period is the public housing one. The projections for the whole of the forecast period are similar to those made in the spring, but lower than the winter forecasts, due to unforeseen external factors, such as the conflict in Ukraine.
- Growth in new work is forecast at 6.1% in 2022 and 3.2% in 2023, down from 11.3% growth in 2021. The housing sector is forecast to grow by 3.3% in 2022 and 1.9% in 2023. Growth in the non-residential building sector is forecast to be 9.6% in 2022 and 5.3% in 2023.
- Repair and maintenance (R&M) is forecast to grow by 3.7 in 2022 and 3.5% in 2023, down from 15.7% last year.

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

- Construction output is forecast to rise by 2.5% in 2022 and 1.6% in 2023. According to the latest CPA construction forecasts strong growth in warehouses and infrastructure offsets, a slowdown in private housing and a fall in private housing repair, maintenance and improvement (rm&i) from historic high levels.
- The industrial sector, which covers activity on warehouses and factories, is forecast to be the fastest growing sector in the next two years. Output is forecast to rise by 15.0% in 2022 and 9.8% in 2023, as activity continues to be boosted by the strength of online retailing as well as manufacturers' need for increased stocks given the persistence of supply chain issues over the last two years.
- Infrastructure, the second largest construction sector, will also be a key driver of growth with output expected to rise by 8.5% this year and 3.8% in 2023. Long-term pipelines of work in regulated sectors such as roads, rail, water and electricity will drive growth. This is boosted further by major projects such as HS2, Thames Tideway Tunnel, and Hinkley Point C despite ongoing delays and cost overruns. However,

medium-term, local infrastructure is likely to suffer from councils being financially constrained. Central government projects will also be affected as there will be no further finance beyond November 2021's Spending Review. This is despite an ambitious infrastructure pipeline and strong cost inflation.

- Private housing remains cautiously optimistic as annual house price growth continues at double-digit rates and major house builders continue to stress the strength of the market. However, with the UK economy expected to contract in 2022 Q4, there remains uncertainty regarding how long housing can remain buoyant. The CPA anticipates that UK annual house price inflation will slow to 6.0% later this year and 2.5% in 2023 - as lower housing demand is partially offset by a lower supply of homes on to the market unless unemployment rises significantly and increases the number of forced sellers onto the market, suppressing house prices. Near-term concerns for major house builders focus on mortgage availability after the end of Help to Buy in March 2023. Other key issues for houses include planning and rising costs of materials, labour and meeting the new Building Regulations. Private housing output is forecast to rise by 1.0% in 2022 and remain flat in 2023. However, if house price inflation continues to surprise on the optimistic side and demand is enabled by high mortgage availability, risks may be skewed towards the positive.
- Private housing rm&i - the third largest construction sector - has been a key driver of activity over the last two years due to the 'race for space.' Output is currently 20% higher than pre-pandemic levels but firms report that smaller, discretionary spending on improvements activity is already falling away, albeit, from a historically high level. Private housing rm&i is the sector most exposed to changes in consumer confidence and real incomes. It is also the sector that is most exposed to materials and products cost inflation, as small contractors are less able to plan and purchase in advance for projects. Overall, output is expected to fall by 3.0% this year and a further 4.0% next year. However, given that activity in the sector reached historic highs in early 2022, the sector has the potential for falling even harder than forecast. This is dependent on the extent to which falling consumer confidence translates into households' reduced investment in their own homes and the risks are to the downside.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for August 2022 is 3.4% growth, up from 3.3% in the previous month's survey.
- The mean GDP growth forecast for 2023 is 0.1%, down from 0.5% 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 16 June 2022, covering intelligence gathered mostly between mid-April and late May 2021.

- Construction output growth weakened modestly as rising materials costs and labour shortages caused projects to be delayed or cancelled.
- Delays and cancellations were most commonly reported for commercial projects; contacts said housebuilding activity was also held back by planning delays.
- By contrast, construction of public and private infrastructure, and health and education projects had been less impacted. Demand for the construction or refurbishment of office space also remained robust, supported by demand for premises that meet environmental requirements and are suitable for hybrid working. Construction of warehousing and data centres also remained strong.
- Contacts expected the pipeline of construction projects to slow as cost increases result in more projects being put on hold. And many expected rising costs and squeezed household budgets to weigh on demand for new homes and home improvements this year and next.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for June 2022 and for Quarter 2 2022 was published by the **Builders Merchants Federation, GfK and MRA Research** on 22nd August 2022.

June 2022

- Total sales in June were 1.0% lower than in June 2021, not helped by two less trading days. Like-for-like sales (which take trading day differences into account) were 8.9% higher. Like-for-like sales were 5.8% higher in Quarter 2 2022 than in Quarter 2 2021.
- All categories sold more in June 2022 than the same month three years ago: two categories were particularly higher: Landscaping (44.5%) and Timber & Joinery Products (40.3%).
- Total Merchants value sales in January to June 2022 were 10.1% higher than in the same period a year earlier. All categories sold more. Kitchens & Bathrooms, and Renewables & Water Saving were higher than other categories.
- Total Merchants value sales in January to June 2022 were 25.0% higher than in the same months in 2019. All categories sold more.
- Workwear & Safetywear (4.2%) was the only category to sell more in June compared with May.
- Total Merchants sales in July 2021 to June 2022 were 12.9% higher than in the same 12 months a year earlier. Timber & Joinery Products (20.3%) and Kitchens & Bathrooms (16.7%) grew more than other categories.
- Looking back three years, sales in the twelve months to June 2022 were 20.7% higher than three years ago (pre-pandemic). Timber & Joinery Products and Landscaping were particularly strong.

Quarter 2 2022

- Total sales were 4.0% higher in Quarter 2 2022 than in Quarter 2 2021, driven entirely by higher prices (+17.3%) rather than volume (-11.3%).
- Like-for-like sales were 5.8% higher in Quarter 2 2022 than in Quarter 2 2021.
- Total sales in Quarter 2 2022 were 9.7% higher than in Quarter 1 2022, led by Landscaping.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
August 2022	12 th October 2022
September 2022	11 th November 2022
October 2022	12 th December 2022

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