

Monthly Construction Update

Business Statistics Team

12th October 2022



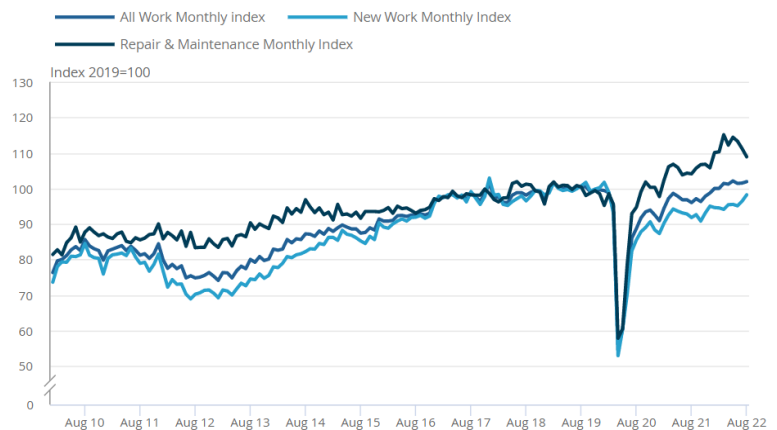
Department for
Business, Energy
& Industrial Strategy

Construction output increased by 0.4% in volume terms in August 2022

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

- Monthly construction output increased by 0.4% in volume terms in August 2022, which is the second consecutive monthly growth following the upwardly revised increase to 0.1% in July 2022; August 2022 is the second highest monthly value in level terms (£15,011 million), with May 2022 remaining at the highest level since records began in January 2010 (£15,035 million).

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



Source: Office for National Statistics – Construction Output and
Employment

- The increase in monthly construction output in August 2022 came solely from an increase in new work (1.9%), as repair and maintenance saw a decrease (2.0%) on the month.
- At the sector level, the main contributors to the increase seen in August 2022 were infrastructure, private industrial and private housing new work, which increased 5.3%, 4.3% and 1.7%, respectively.
- The level of construction output in August 2022 was 3.2% (£461 million) above the February 2020 pre-coronavirus (COVID-19) level; new work was 0.7% (£69 million) below its February 2020 level, while repair and maintenance work was 10.6% (£530 million) above the February 2020 level.
- Alongside the monthly increase, construction output saw a slight increase of 0.1% in the three months to August 2022; this came solely from an increase seen in new work (1.6%) as repair and maintenance saw a decrease (2.4%), this is the tenth consecutive period of growth in the three month on three month series, however it is the slowest rate of growth since the three months to October 2021 that saw a fall of 0.7%.
- In this month's release, the earliest period open to revision is January 2011, and this is the first time the monthly path has been published that is consistent with the Quarter 2 (Apr to June) 2022 quarterly national accounts published on 30 September 2022.

Gross Domestic Product fell by 0.3% in August 2022

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

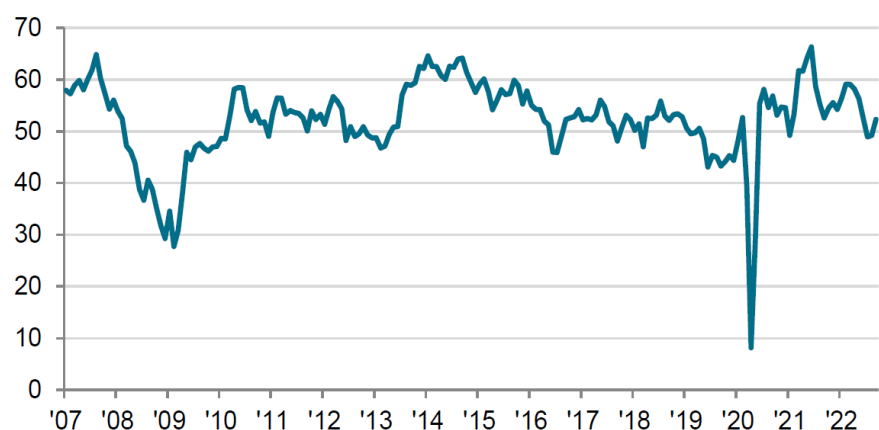
- Gross domestic product (GDP) is estimated to have fallen by 0.3% in August 2022, after growth of 0.1% in July 2022 (revised down from a growth of 0.2% in our previous publication).
- There has been a continued slowing in the underlying three-month on three-month growth, where GDP also fell by 0.3% in the three months to August compared with the three months to May 2022.
- Production fell by 1.8% in August 2022 after a fall of 1.1% in July 2022 (revised down from a fall of 0.3% in our previous publication) and was the main contributor to the fall in GDP; this fall was mainly because of a decrease of 1.6% in manufacturing.
- Services fell by 0.1% in August 2022, after growth of 0.3% in July 2022 (revised down from a 0.4% growth in our previous publication); human health and social work activities, and arts, entertainment and recreation activities fell by 1.3% and 5.0% respectively and were the largest contributors to the small fall in services in August, partially offset by growth of 1.2% in professional, scientific and technical activities.
- Construction grew by 0.4% in August 2022, after growth of 0.1% in July 2022 (revised up from a fall of 0.8% in our previous publication); the increase in monthly construction output in August came solely from a 1.9% increase in new work, as repair and maintenance saw a decrease of 2.0% on the month.
- Output in consumer-facing services fell by 1.8% in August 2022, after growth of 0.7% in July 2022 (revised up from growth of 0.6% in our previous publication).

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 September 2022 on 6th October 2022.

- UK construction companies signalled a modest increase in business activity during September, which represented a return to growth after two months of falling output. However, subdued demand persisted, as signalled by the weakest trend for new orders since the recovery began in June 2020.

S&P Global / CIPS UK Construction PMI Total Activity Index
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.
Data were collected 12-29 September 2022.

- The degree of confidence towards the business outlook dropped to its lowest for over two years in September, mostly reflecting concerns about higher interest rates and a downturn in the wider UK economy. On a more positive note, supply shortages eased in September, with delivery delays the least widespread since February 2020.

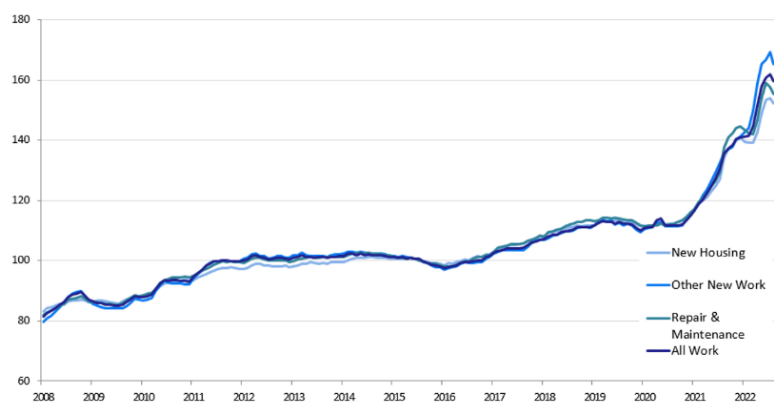
- At 52.3 in September, up from 49.2 in August, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – registered above the 50.0 no-change value for the first time since June. The latest reading was the highest for three months and signalled a modest overall increase in construction output. Survey respondents commented on a boost to activity from work on previously delayed projects.
- House building was the best-performing category in September (index at 52.9), with growth reaching a five-month high. Commercial work increased only marginally (51.0), while civil engineering activity (49.6) fell for the third month in a row.
- Survey respondents often commented on a strong pipeline of outstanding work, but incoming new orders remained relative scarce in September. Latest data signalled that new business volumes were broadly unchanged overall, which represented the worst month for new orders for almost two-and-a-half years.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 5th October 2022

- The material price index for **'All Work'** increased by **17.8%** in August 2022 compared to the same month the previous year.
- There was a 0.4% increase in brick deliveries in August 2022 compared to August 2021, according to the seasonally adjusted figures.
- There was a 3.8% decrease in concrete block deliveries in August 2022 compared to August 2021, according to the seasonally adjusted figures.

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 6 October 2022, which was live from 20 September to 2 October 2022.

- Weighted by count, between 20 September and 2 October 2022, 33.7% of construction firms that had not permanently stopped trading reported having passed on 50% or more of their higher costs to customers, 8.8% passed through less than 50% of their higher costs, whilst 31.9% reported they had not passed through any of their higher costs. The all-industry averages for businesses with more than 10 employees were 26.6%, 10.5% and 41.7% respectively.
- Weighted by count, between 20 September and 2 October 2022, 47.4% of construction firms that had not permanently stopped trading were not concerned about the impact climate change may have on them, while 32.4% were somewhat concerned and 6.9% were very concerned. Corresponding all industry averages were 46.4%, 26.2% and 10.5%.

- Weighted by count, between 1 August and 31 August 2022, 55% of construction firms with 10 or more employees that had not permanently stopped trading reported not experiencing supply chain disruption in August 2022; 12.3% reported experiencing supply chain disruption in the same period. The averages for all business with more than 10 employees were 47.8%, and 17.6% respectively.

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 September 2022.

- The mean GDP forecast for 2022 is 3.4% unchanged from the previous month's survey.
- The mean GDP growth forecast for 2023 is -0.3%, down from 0.1% in the previous month's survey.

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

- Global GDP stagnated in the second quarter of 2022 and output declined in the G20 economies. Global growth is projected to remain subdued in the second half of 2022, before slowing further in 2023 to an annual growth of just 2.2%.
- UK GDP is projected to grow by 3.4% 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 22 September 2022, covering intelligence gathered mostly between mid-July and late August 2021.

- Construction output growth weakened as high materials costs, labour shortages and economic uncertainty weighed on activity.
- Contacts in residential construction said that planning delays and concerns about rising build costs had slowed the pace of new projects starting. Growth in domestic home improvements and maintenance had also eased. In social housing, new construction had been held back by budget constraints and commitments to refurbish existing properties.
- By contrast, commercial construction activity remained strong, in particular for office developments in prime locations. Demand for warehouse and data centre premises also remained robust, but demand for retail and leisure premises weakened further.

Builders Merchant Building Index

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

- Total Builders Merchants value sales were flat (+0.2%) in July 2022 compared July 2021. Volume sales were -12.8% lower with prices up +15.0% (there was no difference in trading days). Nine categories performed better than Merchants overall, in particular Renewables & Water Saving (+25.5%) and Workwear & Safetywear (+20.2%). Timber & Joinery Products (-14.4%) sold significantly less.
- Total value sales in July 2022 were +13.3% up on the same month three years ago (a more normal year pre Covid). Volume sales fell -13.9%, prices rose +31.6%. With two less trading days this year, like-for-like sales (which take trading day differences into account) were up +24.1%. Timber & Joinery Products (+23.8%), Renewables & Water Saving (+18.6%) and Landscaping (+17.7%) did better than overall merchant.
- Total Merchants sales were -2.6% lower in July 2022 than in June 2022. Volume sales were -5.2% down with price up +2.7%. With one more trading day like-for-like sales were -7.3% down this month.
- Value sales from January to July 2022 were +8.6% higher than January to July 2021. Volume sales were -0.7% lower with price up +16.3%. With one less trading day this year like-for-like sales were +9.3% higher. All categories sold more. Kitchens & Bathrooms (+20.8%) was strongest followed by Renewables & Water Saving (+20.7%).
- Sales in the current year to date, January to July 2022 were +23.1% ahead of three years ago. Price inflation was +26.7%, and volume was down -2.8%. All categories sold more. Landscaping (+39.4%), Timber & Joinery Products (+36.4%) and Renewables & Water Saving (+28.4%) performed better than Merchants overall.

Expected dates for future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
September 2022	11 th November 2022
October 2022	12 th December 2022
November 2022	13 th January 2023