

Monthly Construction Update

Business Statistics Team

12th December 2022



Department for
Business, Energy
& Industrial Strategy

Construction output increased by 0.8% in volume terms in October 2022

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

- Monthly construction output is estimated to have increased 0.8% in volume terms in October 2022; this is the fourth consecutive monthly growth, with October 2022 being the highest level of construction output (£15,248 million) since records began in January 2010.
- Anecdotal evidence continues the narrative around the increased prices for certain construction products, however annual price growth is starting to ease from the high level in mid-2022; despite the current high prices, the construction industry is maintaining growth, and new orders books remain strong (see detail about these data in Section 2: Construction in Great Britain data)
- The increase in monthly construction output in October 2022 came from increases in both new work (0.5%) and repair and maintenance (1.3%) on the month.
- At the sector level, five out of the nine sectors saw a rise in October 2022, with the main contributors to the monthly increase seen in private new housing, and non-housing repair and maintenance, which increased 2.9% and 1.7%, respectively.
- The level of construction output in October 2022 was 4.8% (£698 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was 0.2% (£21 million) above its February 2020 level, while repair and maintenance work was 13.5% (£677 million) above the February 2020 level.
- Alongside the monthly increase, construction output saw an increase of 1.1% in the three months to October 2022; this is the twelfth consecutive period of growth in the three-month-on-three-month series, and the increase came solely from growth in new work (3.1%) as repair and maintenance saw a decrease (2.1% fall).

Gross Domestic Product grew by 0.5% in October 2022

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

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.5% in October 2022, following a fall of 0.6% in September 2022, which was affected by the additional bank holiday for the State Funeral of HM Queen Elizabeth II.
- Looking at the broader picture, GDP fell by 0.3% in the three months to October 2022 compared with the three months to July 2022.

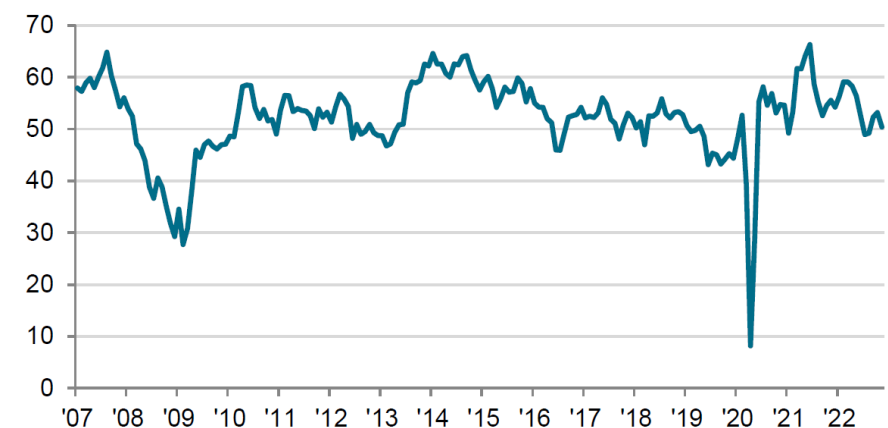
- The services sector grew by 0.6% in October 2022, after falling by 0.8% in September 2022; the largest contribution to the growth came from wholesale and retail trade; repair of motor vehicles and motorcycles, which rose by 1.9% in the month.
- Output in consumer-facing services grew by 1.2% in October 2022, after falls of 1.7% in September 2022 and 1.6% in August 2022.
- Production remained broadly flat in October 2022, after growth of 0.2% in September 2022; manufacturing was the only sub-sector to contribute positively to production in October 2022, offset by negative contributions from electricity, gas, steam and air conditioning supply, and water supply, sewerage, waste management and remediation activities.

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

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

- UK construction companies signalled a renewed slowdown in business activity, reflecting subdued demand and reduced risk appetite among clients.
- Moreover, expectations for business activity growth during the year ahead continued to slide in November, with optimism the lowest for two-and-a-half years. Aside from the levels seen at the start of the pandemic, the degree of positive sentiment was the joint-weakest since December 2008.

Construction Total Activity Index
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.
Data were collected 11-29 November 2022.

- At 50.4 in November, 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 mark for the third month running. However, the index was down from 53.2 in October and pointed to the weakest performance since August.
- Commercial work was the only segment to register an overall rise in business activity in November (index at 51.1). House building activity meanwhile stalled (index at 50.0), which ended at three-month period of marginal expansion. Construction companies often noted higher mortgage rates and falling consumer confidence as factors that had held back residential activity.
- Looking ahead, around 29% of the survey panel anticipates a rise in business activity in 12 months' time, while 26% forecast a decline. The resulting index signalled the lowest degree of confidence since May 2020.

Building Materials

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

- The material price index for 'All Work' increased by 15.5% in October 2022 compared to the same month the previous year.
- Imports of construction materials decreased by £514 million in Quarter 3 2022 compared to the previous quarter, a decrease of 8.2%.
- Exports of construction materials increased by £26 million in Quarter 3 2022 compared to the previous quarter, an increase of 1.2%.

Chart 1: 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 1 December 2022, which was live from 14 November to 27 November 2022.

- Weighted by count, between 1 and 31 October, 12.2% of construction firms not permanently stopped trading reported that the business was affected by industrial action in October 2022, whilst 47.6% reported not being affected. The corresponding all-industry averages were 12.5%, and 46.3%.
- Weighted by count, between 1 and 31 October, 16.6% of construction firms not permanently stopped trading with 10 or more employees reported their employees' hourly wages had increased in October 2022, whilst 77.5% reported that employees' hourly wages stayed the same. The all-industry averages were 17.4% and 75.1% respectively.
- Weighted by count, between 14 and 27 November, 36.3% of construction firms not permanently stopped trading with 10 or more employees reported experiencing a shortage of workers in late November 2022, whilst 52.7% reported not experiencing a shortage of workers. The corresponding all-industry averages were 32.4% and 59.6%.

Construction Output Forecasts

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

- The construction industry got off to a good start in 2022 and output in the first six months of the year, at £88.49bn (2019 prices), was 5.0% up in real terms compared with the same period of 2021. All sectors bar the public non-residential and private commercial ones saw growth in the first half of the year. The expected recession in the second half has led us to almost halve overall output growth for this year, from

the 5.2% put forward in the summer to 2.8% now, and posit a marginal downturn in 2023, with a much more anaemic performance in 2024. If this revised prognosis comes to pass, total construction output will not exceed its pre-pandemic level in 2019 until after 2024.

- Total construction output in 2021 reached £169.6 billion (2019 prices), increasing by 12.9% the previous year, regaining most of the ground lost during the worst of the pandemic. Growth will slow to 2.8% in 2022, turn negative by -0.3% the following year, then increase again by 1.2% in 2024, reaching £175.8 billion (2019 prices).
- The private industrial sector is expected to be the star performer over the forecast period, with growth of 42.7% in 2022, 5.0% in 2023 and 3.4% in 2024. However, this recovery does come after one of the weakest performances during the 2020/21 period.
- The Public Non-residential sector is forecast to be the worst performing sector for the three years to 2024, with output declining by -4.9% in 2022 and -3.9% in 2023, only increasing again by 0.7% in 2024.
- Growth in new work is forecast at 3.7% in 2022, 0.5% in 2023 and 1.8% in 2024 down from 11.3% growth in 2021. The housing sector is forecast to grow by 7.3% in 2022, 0.0% in 2023 and 2.5% the following year. Growth in the non-residential building sector is forecast to be 5.2% in 2022, 1.0% in 2023 and 2.0% in 2024.
- Repair and maintenance (R&M) is forecast to grow by 1.3% in 2022, -1.7% in 2023 and 0.1% in 2024, down from 15.7% in 2021.

The **Construction Products Association** (CPA) published their autumn construction industry forecast as part of their analysis of the [market impact](#) in November 2022

- Construction output is forecast to fall by 3.9% in 2023 following a rise of 2.0% in 2022, as activity currently continues at a high level. The fall for 2023 is a sharp downward revision from -0.4% in the Lower Scenario of the CPA's Summer Forecasts. This is mainly due to the impact of a wider economic recession, exacerbated by the effect of the 'Mini Budget', and the consequent fallout from recent political uncertainty.
- There are still many factors which will adversely affect the construction forecast such as falls in real wages and potential further rises in interest rates, which will likely lead to further falls in consumer spending decisions. On top of these issues, the wider uncertainty around the UK economy means that demand for private housing new build and private housing repair, maintenance, and improvement (rm&i) is expected to fall. Other key construction sectors such as commercial and infrastructure are also expected to be affected by increasing concerns over construction cost inflation, which are likely to hinder project viability.
- With an annual turnover of £37 billion, private housing is the largest sector in the construction industry. Activity is currently strong with most major house builders sold through to 2023 Q1. However, after the 'Mini Budget' announced in October 2022 and the resulting financial market chaos, interest rates are expected to peak at 4%. Activity was already expected to slow due to rising interest rates to 3% but the announcement worsened this forecast. The repercussions of this on mortgage rates will dampen potential demand and house prices for new homeowners. Furthermore, after more than a decade of low mortgage rates, some existing homeowners will be faced with the pressure of increased mortgage repayments and some may be forced sellers, adding further pressure to the housing market. As a result, property

transactions and prices are likely to fall over the next year, with house builders likely to reduce house building targets. After growth of 3.0% in 2022, private housing output is now forecast to fall by 9.0% in 2023 before returning to 1.0% growth in 2024.

- Following a record level of £24 billion last year, private housing output, the third largest construction sector, has been decreasing since March 2022. With a drop in real wages and sharp increases in mortgage payments for many households, there is likely to be a further fall in smaller, discretionary improvements and renovation spending. Output in this sector is expected to decline by 4.0% in 2022 and 9.0% in 2023, before marginal growth of 1.0% in 2024.
- Commercial output is forecast to remain flat in 2022 before a fall of 5.1% in 2023. This comes as buoyant fit-out and refurbishment activity is offset by a hiatus in major new office and mixed-use tower projects, which dominate the sector. With accelerating costs and worsening economic prospects, however, it raises the question of whether those projects will break ground in the near-term or whether they will be paused or even cancelled.
- Infrastructure, the second largest construction sector, should be the least affected by issues of household finances and rising interest rates. Nonetheless, it is not immune to the impacts of both sharp cost rises and government making clear that it will not increase departmental budgets to deal with rising costs. Therefore, we are likely to see the value of activity that we expected previously but not the volume. In the medium-term, projects towards the end of the government's Spending Review will get pushed back into the next review. Overall, after 5.2% growth in 2022, infrastructure output is forecast to rise by 1.6% in 2023 and 2.6% in 2024. This will be driven by larger projects already underway such as HS2, Hinkley Point C and Thames Tideway despite the cost overruns and delays.
- Overall, given that construction output is expected to fall significantly over the next 12 months, it is critical that new government is focused on delivering its targets. Additionally, as part of its movement towards Net Zero, the UK must prioritise the energy-efficiency of its new and existing homes.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2022 is 4.4% up from 4.2% in the previous month's survey.
- The mean GDP forecast for 2023 is -1.0%, down from -0.9% from 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 September 2022 and for Quarter 3 2022 was published by the **Builders Merchants Federation, GfK** and **MRA Research** on 22nd November 2022.

September 2022

- Total value sales were up 3% in September 2022 compared with September 2021. Like-for-like sales (which take trading day differences into account) were 7.9% higher. Nine of the twelve categories sold more and eight of which did better than Merchants overall, but Renewables & Water Saving (+62.6%) and Workwear & Safetywear (+32.5%) grew most.
- Total Merchants sales were 0.5% lower in September 2022 than in August 2022. Workwear & Safetywear (+25.9%) and Renewables & Water Saving (+28.2%) grew most. Seasonal category Landscaping (-9.5%) declined most.
- Total value sales in September 2022 were 28.3% higher than September 2019 (a more normal year pre Covid). Four of the twelve categories outperformed merchants overall. Renewables & Water Saving (+58.0%), Landscaping (+35.4%) and Timber & Joinery Products (+34.3%) increased the most.
- Total Merchants sales in January to September 2022 were 8.1% higher than in the same period a year earlier. Renewables & Water Saving (+26.0%) and Kitchens & Bathrooms (+20.4%) did best.

Quarter 3 2022

- Total sales in Quarter 3 were up 4.3% on the same period last year, driven entirely by higher prices (+14.6%) rather than volume (-9.0%).
- Like for like sales were 5.9% higher in Quarter 3 2022 than in Quarter 3 2021.
- Total sales in Quarter 3 2022 were 2.2% lower than Quarter 2 2022. Renewables & Water Saving did best (+14.5%), while seasonal category Landscaping decline the most (-18.3%).

- Total value sales in Q3 2022 were +23.4% higher than Quarter 3 2019 (pre-pandemic). Three categories grew faster than Total Merchants (pre pandemic): Timber & Joinery Products (+32.3%), Renewables & Water Saving (+30.8%) and Landscaping (+28.6%).

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
November 2022	13 th January 2023
December 2022	10 th February 2023
January 2023	10 th March 2023

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