Monthly Construction Update

Business Statistics Team

12th May 2023

Department for Business & Trade

Construction output increased by 0.2% in volume terms in March 2023

The **Office for National Statistics** published estimates of construction output for [March 2023] this morning.

- Monthly construction output is estimated to have increased 0.2% in volume terms in March 2023; this came from an increase in new work (0.7%), partially offset by a decrease in repair and maintenance (0.6% fall) on the month.
- This followed a growth in construction output of 2.6% in February 2023 (revised up from a 2.4% growth in ther previous publication).
- At the sector level, four out of the nine sectors saw a rise in March 2023, with the main contributors to the monthly increase seen in infrastructure new work and public other new work, which increased 2.2% (£51 million) and 6.5% (£48 million), respectively.
- Quarterly construction output increased 0.7% in Quarter 1 (Jan to Mar) 2023 compared with Quarter 4 (Oct to Dec) 2022; the increase came solely from a rise in repair and maintenance (4.9%), as new work saw a decrease of 1.9%.
- Total construction new orders decreased 12.4% (£1,571 million) in Quarter 1 2023 compared with Quarter 4 2022; this quarterly fall came mainly from private commercial and private housing new orders, which fell 22.3% (£773 million) and 18.4% (£607 million), respectively.
- The annual rate of construction output price growth was 8.5% in the 12 months to March 2023; this has slowed slightly from the record annual price growth found in May and June 2022 (10.4%).

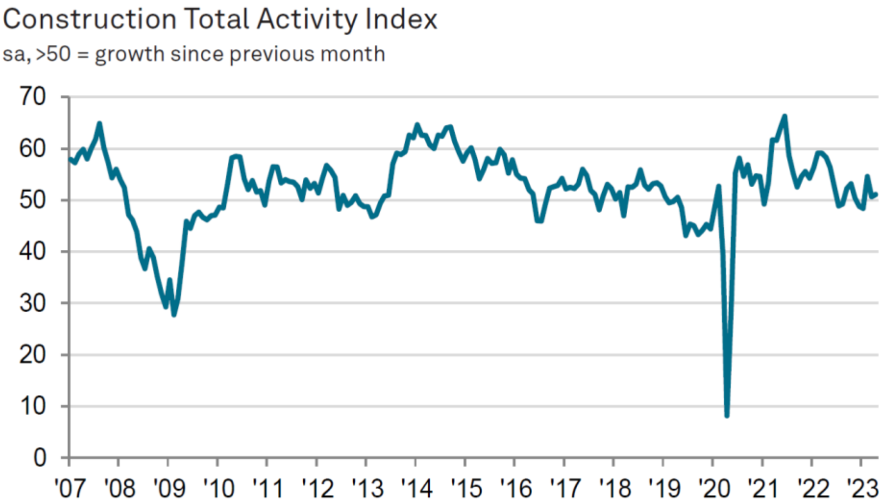
Gross Domestic Product decreased by 0.3% in March 2023

The **Office for National Statistics** published estimates of GDP for [March 2023] this morning.

- Monthly real gross domestic product (GDP) is estimated to have fallen by 0.3% in March 2023, after showing no growth in February 2023 (unrevised from the previous publication).
- Looking at the broader picture, GDP grew by 0.1% in the three months to March 2023.
- The services sector fell by 0.5% in March 2023, after an unrevised fall of 0.1% in February 2023, and was the main contributor to the fall in monthly GDP.
- Output in consumer facing services fell by 0.8% in March 2023, after unrevised growth of 0.4% in February.
- Production output grew by 0.7% in March 2023, which was its strongest monthly growth since May 2021, following a fall of 0.1% in February 2023 (revised up from a 0.2% fall in the last publication).

S&P Global / CIPS UK Construction Purchasing Managers Index for April 2023

S&P Global CIPS published their latest construction purchasing managers index for April 2023 on 5th May 2023.



Sources: S&P Global, CIPS.
Data were collected 12-27 April 2023.

- UK construction companies remained in expansion mode during April, but the latest survey data indicated uneven growth across the sector. Rising volumes of commercial work and civil engineering activity helped to offset the steepest decline in residential construction output since May 2020.

- Meanwhile, supply conditions improved to the greatest extent since September 2009, reflecting an upturn in materials availability and fewer instances of transport delays. Input price pressures also eased in April, with the rate of cost inflation the lowest for almost two-and-a-half years.

- At 51.1 in April, 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 up slightly from 50.7 in March and above the neutral 50.0 value for the third month in a row. However, the latest reading signalled only a marginal overall expansion of construction activity.

- Commercial building was the fastest-growing area of the construction sector in April (index at 53.9), with improving economic conditions helping to boost clients' willingness to spend. The rate of expansion was the second-strongest since October 2022, although survey respondents again cited a growth headwind from squeezed client budgets and elevated cost inflation.

- Civil engineering activity (index at 52.0) also picked up in April, supported by resilient pipelines of work on infrastructure projects.

- House building was by far the weakest-performing segment in April (index at 43.0). The rate of decline for total residential work was the steepest for nearly three years. Survey respondents commented on delays to new house building projects, alongside constraints on demand from softer market conditions and higher borrowing costs.

- New orders received by construction companies increased for the third consecutive month in April. The rate of expansion accelerated slightly since March and remained faster than seen on average in the second half of 2022. Higher levels of new work were attributed to resilient client demand, especially for commercial building.

Building Materials

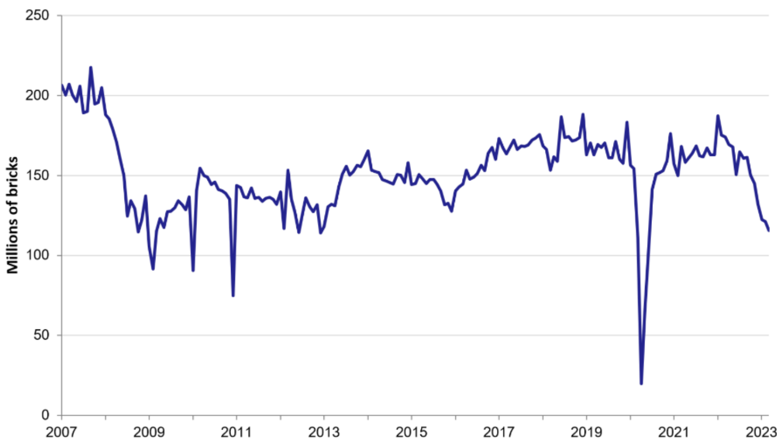
The latest Monthly Statistics of Building Materials and Components were published on 3rd May 2023.

- There was a **33.5% decrease** in brick deliveries in March 2023 compared to March 2022, according to the seasonally adjusted figures.

- There was a **23.9% decrease** in concrete block deliveries in March 2023 compared to March 2022, according to the seasonally adjusted figures.

- The material price index for **'All Work' increased by 8.7%** in March 2023 compared to the same month the previous year. This followed an increase of 10.6% in February 2023 compared to February 2022.

Chart 1: Seasonally Adjusted Deliveries of Bricks, GB
Number of bricks



Source: Monthly Statistics of Building Materials and Components, Table 9

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 4 May 2023, this release is in headline-only format, summarising information on overall UK businesses. The survey was live from 17 March to 30 April 2023.

- Latest results suggest business conditions continue to remain challenging, but estimates show small signs of positive improvement for some measures; examples include a stable proportion of businesses reporting they were able to get materials, goods and services from within the UK, and more businesses reported having fewer concerns for their business.

- Nearly two-thirds (65%) of trading businesses reported that they were able to get the materials, goods or services they needed from within the UK in March 2023, broadly stable with February 2023.

- Looking ahead to May 2023, 7 in 10 (71%) businesses reported some form of concern for their business, down from 72% for April 2023; the top two concerns continued to be energy prices (18%) and inflation of goods and services prices (16%).

- Almost a third (31%) of businesses with 10 or more employees were experiencing worker shortages in late April, up two percentage points from late March 2023; more than half (53%) of those affected indicated that their employees were working increased hours as a consequence.

- Around one in seven (14%) businesses reported that their employees' hourly wages had increased in March 2023 compared with February 2023; this was 23% for businesses with 10 or more employees.

- Less than one in ten (9%) businesses were directly or indirectly affected by industrial action in March 2023, down three percentage points from February 2023; almost a quarter (24%) of those businesses reported that their workforce had to change their working location.

Construction Output Forecasts

Experian published their Spring 2023 forecasts for the construction sector in May 2023.

- Construction output is set to decline by 1.3% in 2023 as weakness in the housing sector, both in terms of new work and RM&I, dampen the outlook. While headwinds in the form of elevated inflationary pressures, a cost-of-living crisis, rising interest rates and economic uncertainty continue to collectively weigh on construction going forward, the UK backdrop has brightened compared with the previous forecast and it is largely the fate of the residential sector which is hampering prospects. As the UK economic landscape continues to improve and the housing market recovers towards the end of the year there is a return to construction output growth of 1.0% and 2.6% in 2024 and 2025 respectively.

- The housing sector is expected to decline by 7.1% in 2023, then increase by 2.5% in 2024 and 4.8% in 2025. The near-term outlook for housebuilding is undeniably weak. The driver of growth in the overall sector – private housebuilding – is under renewed pressure. At the same time, no compensating momentum is forthcoming from the public side. On the private sector side, the cost-of-living crisis, rising interest rates, economic uncertainty and the rolling back of supportive schemes are weighing on buyer demand. As a result, buyer enquiries and house prices have both fallen for several consecutive months. In this backdrop, there is little incentive for private housebuilders to undertake new work. On the public sector side, local authorities face the double whammy of ongoing budgetary constraints and further funding cuts as well as heightened pressure to redirect existing funding from new construction towards RM&I.

- Housing Repair Maintenance & Improvement (RM&I) is forecast to decline by 1.9% in 2023, stay flat (0.0%) in 2024 and grow by 1.0% in 2025. The public and private Repair Maintenance & Improvement (RM&I) sectors have had notably divergent experiences in the recovery from the pandemic. While private housing RM&I enjoyed a swift bounce back from a sharp decline to hit a record high of £28.7bn in 2022, up 12.9% year over year, growth in public housing RM&I failed to establish momentum and fell back once again in 2022 as output shrank to £7bn marking.

- The new infrastructure sector is expected to grow by 2.4% in 2023, 1.8% 2024 and 2.6% in 2025. Infrastructure output fell by 4.8% in 2020 weighed down by pandemic related disruption but saw a strong rebound of 28% in 2021. While momentum has faltered, with the sector experiencing a marginal decline of 0.6% in 2022, the recent PMI data points towards a relative outperformance this year. Forecasts for 2025 will also see a new record high for infrastructure at £29.7bn.

- The private industrial sector is expected to grow by 2.1% in 2023, decline by 0.5% in 2023 and rise by 2.2% in 2025. The industrial construction sector was the star performer of the construction industry in 2022, posting growth of 42%, taking output up to £6.75bn (2019 prices), its highest level since 2007. The weaker economic prognosis for the economy is expected to impact manufacturing output negatively and consequently the demand for manufacturing facilities.

- The Public Non-residential sector is forecast to grow by 1.7% in 2023, 1.6% in 2024 and 3.1% in 2025. The public non-residential sector experienced its sixth consecutive year of decline in 2022, with output falling by over 9% in 2022. There were multiple announcements in the Spring 2023 Budget which should benefit the public non-residential sector, including £200m for local regeneration projects in England, a further £161m for mayoral combined authorities and Greater London, £400m for new ‘levelling up partnerships’, and another £11bn added to the defence budget over the next five years, some of which will be construction related. It remains the case that the strongest growth over the next three years is likely to be in the agriculture & miscellaneous sector, driven by work on the Defence Estate and the prison building programme.

The **Construction Products Association** (CPA) published their autumn construction industry forecast as part of their analysis of the market impact in May 2023.

- Construction output is forecast to fall from a record-high level and contract by 6.4% in 2023 according to the CPA's Spring Forecasts. This is a downgrade from a fall of 4.7% expected in the Winter, driven primarily by sharp falls in the two largest construction sectors – private new housing and private housing repair, maintenance and improvement (rm&i) – together with recent government announcements of delays to major infrastructure projects.

- Private housing new build, and private housing rm&i account for around 40% of total construction output and are forecast to be the sectors in which demand is most affected by a macroeconomic backdrop of falling household incomes and higher interest rates. In infrastructure, the third-largest sector, growth is expected but has been downgraded from the Winter Forecasts owing to government delaying HS2 work at Euston station and work on major road schemes. A wider recovery in economic growth in 2024 is expected to boost demand for both new build housing and rm&i activity and total construction output is forecast to return to growth, rising by 1.1%.

- Private housing is the sector forecast to experience the sharpest contraction in 2023, with a 17.0% fall in output in 2023. Following the government's disastrous Mini Budget last Autumn which directly led to interest rates rising to a 14-year high, the resulting higher mortgage rates combined with broader cost of living increases and falling real incomes led to a significant weakening in homebuyer sentiment and a sharp drop in demand heading into this year. Continued pressure on household budgets and the absence of stimulus for homebuying in the Budget, particularly first-time buyers, means that demand from a key segment of the market will remain subdued. The forecast assumes a pickup beginning in the traditional Spring selling season with mortgage interest rates settling at current levels – lower than at the end of 2022 but still significantly higher than 12 months ago and the ultra-low rates of the last decade. However, a gradual improvement in demand will need to be maintained throughout the Summer and beyond to shore up house builder confidence to start new developments and drive the recovery in building activity in 2024.

- Private housing rm&i is similarly exposed to the fall in real incomes but is also experiencing slower demand. This is due to the fading impact of the one-off boost to activity during and immediately after the pandemic, when increased working from home, a 'race for space', and accumulated savings and housing wealth saw households investing in large improvements projects. A drop in planning applications in the second half of 2022 and the return of competing spending decisions such as overseas holidays point to a reduced pipeline of improvements work and discretionary r&m projects for this year. As a result, output is forecast to fall 9.0% in 2023, which is partly offset by strong activity on energy efficiency retrofit and solar/PV work, before a broader economic recovery that drives output growth of 2.0% in 2024.

- In infrastructure, forecast growth rates have been downgraded in the Spring Forecasts to 0.7% for 2023 and 1.2% for 2024, from 2.4% and 2.5% respectively in Winter. Activity on regulated frameworks in water & sewerage, road and rail provides sizeable activity, but growth in the sector tends to be driven by large projects, most recently by HS2, the Thames Tideway Tunnel and Hinkley Point C. Nonetheless, in the space of six months the UK government has gone from announcing it would bring forward 138 infrastructure projects to start by the end of this year to cancelling this and delaying HS2 Phase 2a and Euston station, the Lower Thames Crossing and other roads projects by two years in an attempt to reduce government spending near-term. HS2 Phase 2a is beyond the scope of the forecasts and previous forecasts had factored in delays and cost overruns on current phases, but the pause of work at Euston, for which preparatory work had begun, will adversely affect activity during the forecast period.

- CPA Head of Construction Research Rebecca Larkin: "Despite the improvement in the outlook for the UK economy compared to six months ago, the headwinds of falling real incomes and interest rate rises remain. For construction, the most acute effects of this will be felt in the two largest sectors of activity and those that are most exposed to a slowdown in discretionary household spending: private housing and private housing rm&i. The sharp falls that are forecast for housing in 2023 mean that overall, a construction recession will be unavoidable. However, it is important to emphasise that the starting point is a record-high level of activity and the 6.4% contraction expected is smaller than during the construction recessions of 2008/09, 2012 and 2020.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** Forecast Survey (which uses an average of private sector forecasts) results were published in April 2023.

- The mean GDP forecast for 2023 is -0.2% up from -0.5% from the previous month's survey.
- The mean GDP forecast for 2024 is 0.8%, up from 0.7% from the previous month's survey.

The **OECD** published their latest Economic Outlook in March 2023:

- UK GDP is projected to decline by 0.2% this year, up respectively from the -0.4% forecasted in November, and to grow by 0.9% in 2024.
- Global GDP growth is projected to increase by 2.6% this year, up from the 2.2% forecasted in November, then increase by 2.9% in 2024.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 23 March 2023, covering intelligence gathered mostly between mid-January and early March 2023.

- Construction output volumes contracted further, driven by softer demand for housing and as higher costs continued to weigh on activity. The fall in output volumes compared with a year ago came as larger house builders slowed build rates in response to weaker demand. Construction of social housing also weakened.

- Contacts said rising costs and delays relating to planning and utility connection continued to constrain output. And spending on home improvements also fell, reflecting squeezed household incomes.

- Construction of office and commercial property continued to be weak, though demand for office refurbishment remained good. And most public infrastructure projects were reported to be going ahead as planned.

Builders Merchant Building Index

The Builders Merchant Building Index for February 2023 was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 21st April 2023.

February 2023:

- Total Builders Merchants value sales were up +0.8% in February 2023 compared with the same month last year. Volume sales were -12.2% lower with price up +14.9%. There was no difference in trading days. Nine of the twelve categories sold more, including Renewables & Water Saving (+58.9%), Decorating (+15.0%), Plumbing, Heating & Electrical (+13.3%), Workwear & Safetywear (+10.1%) and Ironmongery (+8.5%). Services (-2.1%), Landscaping (-12.5%) and Timber & Joinery Products (-13.9%) sold less.
- Total Merchants sales were 8.2% higher in February 2023 than in January 2023. Volume sales were 13.4% higher with price down -4.6%. With one less trading day this month, like-for-like sales (which take trading day differences into account) were +13.6% higher. Landscaping (+27.6%) was up the most, followed by Heavy Building Materials (+10.9%). Workwear and Safetywear (-6.5%) was weakest.
- Total sales in December 2022 to February 2023 were 0.1% lower than in December 2021 to February 2022, with price inflation of +17.9%, and volume down -15.3%. There was no difference in trading days. Nine of the twelve categories sold more. Renewables & Water Saving (+49.7%), Plumbing, Heating & Electrical (+16.4%) and Decorating (+16.1%) did best. Timber & Joinery Products (-14.5%) was weakest.
- February's overall BMBI index was 135.5, helped by Plumbing, Heating & Electrical (156.8). With one less trading day, the like-for-like index was 140.6. All categories exceeded 100, with Kitchens & Bathrooms (143.3), Timber & Joinery Products (139.4) and Ironmongery (135.9) ahead the most. Tools (106.7) was weakest.

Expected dates for future construction output releases	
Release for:	*Publication date:*
April 2023	14th June 2023
May 2023	13th July 2023
June 2023	11th August 2023