Monthly Construction Update

Business Statistics Team

13th July 2023

Department for Business & Trade

Construction output decreased by 0.2% in volume terms in May 2023

The **Office for National Statistics** published estimates of construction output for May 2023 this morning.

- Monthly construction output is estimated to have decreased 0.2% in volume terms in May 2023; this is the third consecutive fall in the month-on-month series, with the monthly value in level terms at £15,360 million.
- The decrease in monthly output came solely from a decrease in new work (0.4% fall), with repair and maintenance being flat (0.0%) on the month.
- At the sector level, four out of the nine sectors saw a fall in May 2023, with the main contributors to the monthly decrease seen in non-housing repair and maintenance and private housing new work, which decreased 2.5% and 1.7%, respectively.
- Anecdotal evidence continued to indicate a slow-down in private housing, referencing customers' economic worries; however, some businesses across other sectors continued to report an easing in inflation.
- An additional bank holiday was held for the coronation of King Charles III on 8th May 2023; while adjustments are made for regular calendar effects, there was no explicit adjustment for this ad hoc event; the timing of the bank holiday indirectly affects the number of trading days, which could affect construction monthly estimates.
- Alongside the monthly decrease, construction output saw an increase of 0.2% in the three months to May 2023; this is the ninth period of consecutive growth in the three-month-on-three-month series; however, this is the weakest growth since the decrease in the three months to August 2022 (0.1% fall).
- The increase in the three-month-on-three-month series came solely from a rise in repair and maintenance (2.5%), as new work saw a decrease of 1.3%; despite the increase, total repair and maintenance has weakened compared with the strength at the start of the year; the largest positive contributor was private housing repair and maintenance (3.9%); non-housing repair and maintenance (1.6%) was the other main contributor to the three-month-on-three-month increase, despite the decrease on the month.

Gross Domestic Product decreased by 0.1% in May 2023

The **Office for National Statistics** published estimates of GDP for May 2023 this morning.

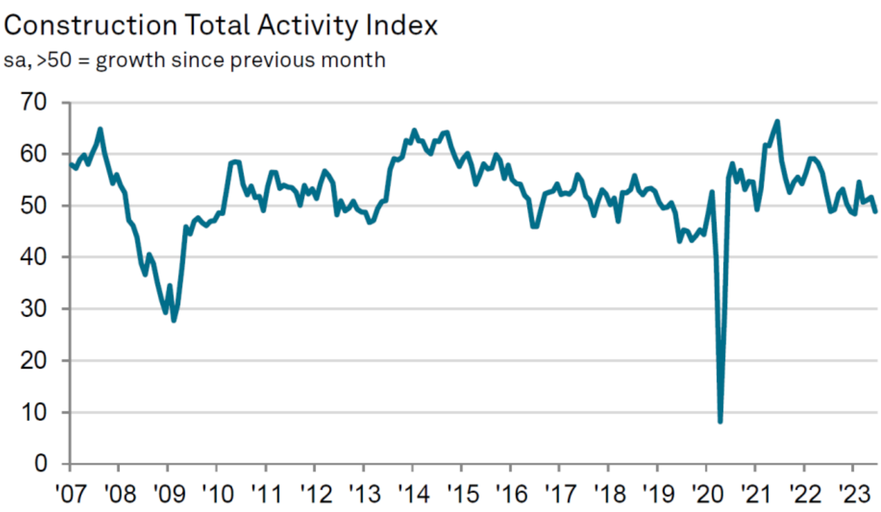
- Monthly real gross domestic product (GDP) is estimated to have fallen by 0.1% in May 2023 after growth of 0.2% in April 2023, which is unrevised from the previous publication.
- Looking at the broader picture, GDP has shown no growth in the three months to May 2023.

- Production output fell by 0.6% in May 2023 after a fall of 0.2% in April 2023, revised up from a fall of 0.3% in the previous publication; this sector was the main contributor to the fall in monthly GDP in May.
- Services output showed no growth in May 2023 following growth of 0.3% in April 2023, unrevised from the previous publication.
- Output in consumer-facing services fell by 0.2% in May 2023 following growth of 1.1% in April 2023, revised up from growth of 1.0% in the previous publication.
- Revisions for the period January to April 2023 are included in this publication.

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

S&P Global CIPS published their latest construction purchasing managers index for June 2023 on 6th July 2023.

- UK construction companies signalled a renewed decline in business activity during June as a steep and accelerated downturn in house building weighed on overall workloads. Latest data also highlighted a reduction in new orders for the first time since January.



Sources: S&P Global PMI, CIPS.
Data were collected 12-29 June 2023.

- On a more positive note, softer demand and fewer supply bottlenecks resulted in the sharpest improvement in delivery times for construction inputs since July 2009. This also contributed to an outright decline in purchasing prices for the first time in thirteen-and-a-half years.
- At 48.9 in June, down from 51.6 in May, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – registered below the neutral 50.0 threshold for the first time in five months.
- The reduction in output levels was marginal overall, but this masked divergent trends across the three major categories of construction activity monitored by the survey.
- Residential work (index at 39.6) decreased at the steepest pace since May 2020. Aside from the lockdown-related fall in house building, the rate of contraction was the fastest since April 2009. Survey respondents widely commented on weaker demand due to rising borrowing costs and a subdued outlook for the housing market.
- Civil engineering was the best-performing segment (index at 53.1), with business activity rising at the second-fastest pace since June 2022. Construction companies mostly noted increasing work on infrastructure projects.

- Commercial building also expanded at a solid pace in June (index at 53.0), although the rate of growth slipped to a three-month low. Rising demand for refurbishment projects was cited in June, but some firms reported more cautious decision-making by clients.

- New order volumes decreased for the first time since January, although the pace of decline was only marginal overall. Subdued demand was mostly linked to the impact of rising interest rates on house building projects, alongside concerns among clients about the general economic outlook.

- Construction companies sought to reduce their inventories and cut back on purchases of products and materials in June. Mirroring the trend for new orders, the reduction in input buying was the first for five months.

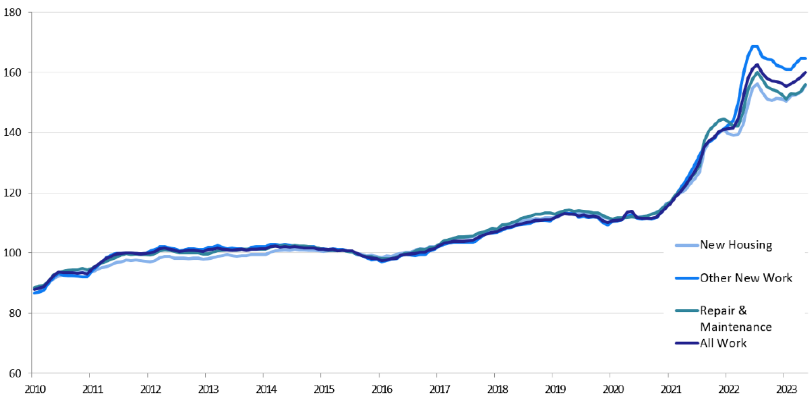
Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 5th July 2023.

- The material price index for **'All Work' increased by 1.5%** in May 2023 compared to the same month the previous year.
- There was a **29.7% decrease** in brick deliveries in May 2023 compared to May 2022, according to the seasonally adjusted figures.

- There was a **20.0% decrease** in concrete block deliveries in May 2023 compared to May 2022, according to the seasonally adjusted figures.

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 13 July 2023. The survey was live from 26 June to 9 July 2023.

- Weighted by count, 16.4% of construction businesses currently trading reported lower turnover in June 2023 compared with May 2023, 61.4% reported their turnover stayed the same, while 11.8% reported their turnover increased.

- Weighted by count, 14.7% of construction businesses currently trading expect turnover to increase in August 2023, 62.3% expect their turnover to stay the same, while 4.8% expect their turnover to decrease.

- Weighted by count, 17.8% of construction businesses currently trading expect to raise the prices of goods or services they sell in August 2023, 51.6% expect their prices to stay the same, while 1.1% expect their prices to decrease.

- Weighted by count, 14.3% of construction businesses that had not permanently stopped trading reported a decrease in domestic demand compared with the previous month, 55.9% reported their domestic demand stayed the same, while 8.9% reported an increase in domestic demand.

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 June 2023.

- The mean GDP forecast for 2023 is -0.1% up from -0.2% from the previous month's survey.
- The mean GDP forecast for 2024 is 0.8%, unchanged from the previous month's survey.

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

- UK GDP is projected to grow by 0.3% this year, up respectively from the -0.2% forecasted in March, and to grow by 1.0% in 2024, up from 0.9% forecasted in March.
- Global GDP growth is projected to increase by 2.7% this year, up from the 2.6% forecasted in March, then increase by 2.9% in 2024, unchanged from the March forecast.

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 June 2023, covering intelligence gathered mostly between mid-January and early March 2023.

- Construction output volumes continued to fall, driven by softer demand from the public sector and in housing. Higher costs and planning constraints also affected output.

- The decline in output volumes continued as homebuilders slowed build rates in response to weaker demand. Construction of social housing was also slow owing to the increased cost of upgrading the existing housing stock. Contacts continued to report a fall in home improvement spending reflecting the squeeze on household incomes.

- Construction of office and commercial property remained weak as both high funding and building costs reduced potential returns, even as the demand for office refurbishment remained good. Public sector demand has slowed as project budgets were constrained by higher costs.

Builders Merchant Building Index

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

April 2023:

- Total Builders Merchants value sales were down -9.0% in April 2023 compared with the same month last year. Volume sales were 20.2% lower with prices up +14.0%. With one less trading day, like for like sales (which take trading day differences into account) were 4.0% lower. Seven of the twelve categories sold more than in April 2022, led by Renewables & Water Saving (+55.4%), Decorating (+8.3%), and Plumbing, Heating & Electrical (+5.3%). Timber & Joinery Products 20.6%) and Landscaping (-23.3%) were weakest.

- Total Merchants sales were -12.7% lower in April 2023 than March 2023. Volume sales were -11.9% lower with price down -0.9%. With five less trading days this month, like-for-like sales were +11.6% higher. Landscaping (+3.3%) was the only category to sell more. Plumbing, Heating & Electrical (-22.6%) and Workwear and Safetywear (-26.7%) were weakest.

- April's overall BMBI index was 135.8. With three less trading days, the like-for-like index was 156.6. All categories exceeded 100, with seasonal category Landscaping (169.2) out in front, followed by Timber & Joinery Products (136.9), Heavy Building Materials (134.9), Kitchens & Bathrooms (134.6), Plumbing, Heating & Electrical (133.8) and Ironmongery (131.1) ahead the most. Tools (101.5) increased marginally.

Expected dates for future construction output releases	
Release for:	*Publication date:*
June 2023	11th August 2023
July 2023	13th September 2023
August 2023	12th October 2023