Monthly Construction Update

Business Statistics Team

13th September 2023

Department for Business & Trade

Construction output decreased by 0.5% in volume terms in July 2023

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

- Monthly construction output is estimated to have decreased 0.5% in volume terms in July 2023; this follows a 1.6% increase in June 2023, with the monthly value in level terms in July 2023 at £15,546 million.
- The decrease in monthly output came solely from a 1.3% decrease in repair and maintenance, with new work increasing 0.1% on the month.
- At the sector level, five out of the nine sectors saw a fall in July 2023, with the main contributors to the monthly decrease being private housing repair and maintenance, and private housing new work, which decreased 3.9% and 2.2%, respectively.
- Anecdotal evidence suggested the effect of heavy rainfall and lower-than-average temperatures in July 2023 leading to delays in planned work; additional evidence indicated a continued slowdown in the housing sector.
- Alongside the monthly decrease, construction output was flat in the three months to July 2023; this came from a 0.3% increase in new work, offset by a 0.4% decrease in repair and maintenance.

Gross Domestic Product decreased by 0.5% in July 2023

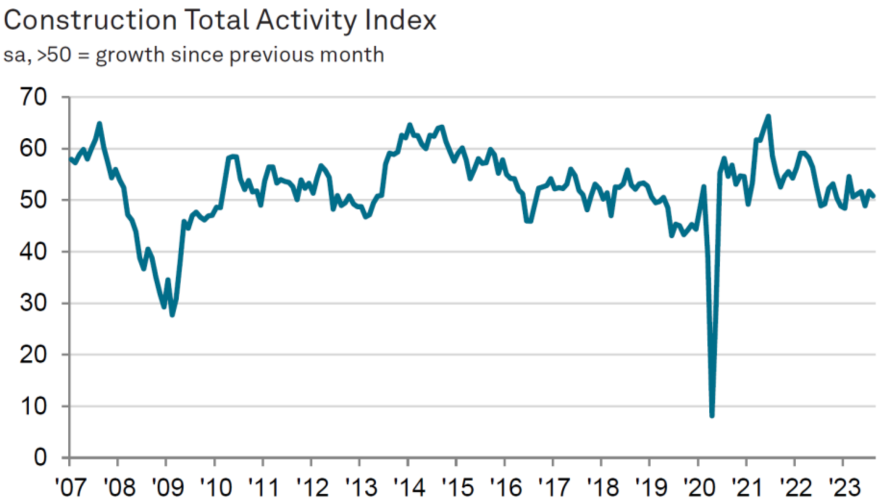
The **Office for National Statistics** published estimates of GDP for July 2023 this morning.

- There are no revisions to previously published data in this monthly release because of the regular National Accounts revision policy; we will see the data revisions from our pre-announced changes highlighted in our Impact of Blue Book 2023 article in the Quarterly National Accounts release (to be published on 29 September), and also in the next monthly GDP release (published on 12 October).
- For July 2023, monthly real gross domestic product (GDP) is estimated to have fallen by 0.5%, with falls in all three main sectors, following growth of 0.5% in June 2023.
- Looking at the broader picture, GDP increased by 0.2% in the three months to July 2023, with growth in all three main sectors.
- Services output was down 0.5% in July 2023, after growth of 0.2% in June 2023, and was the main contributor to the fall in GDP in July.
- Output in consumer-facing services showed no growth in July 2023, following growth of 0.5% in June 2023.
- Production output fell by 0.7% in July 2023, after growth of 1.8% in June 2023.
- The construction sector fell by 0.5% in July 2023, after growth of 1.6% in June 2023.

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

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

- UK construction companies recorded a marginal increase in total business activity during August. Growth in the commercial and civil engineering segments helped to offset a slump in house building.



Sources: S&P Global, CIPS.
Data were collected 11-30 August 2023.

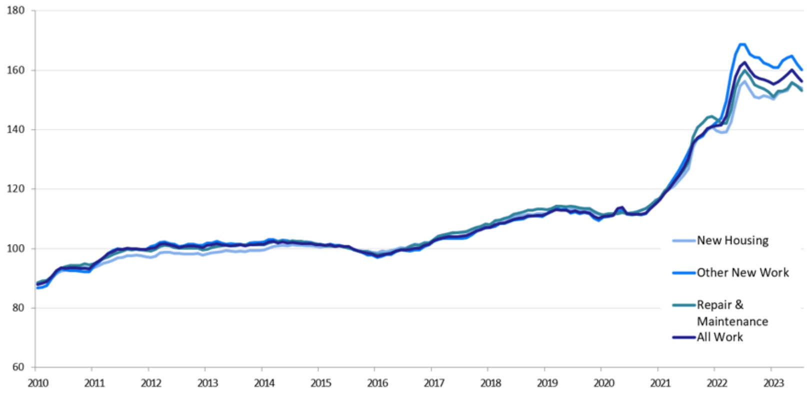
- However, business activity forecasts for the year ahead were the weakest since January and job creation lost momentum since the previous month. This was largely due to falling sales volumes across the construction sector, as signalled by the fastest decline in new orders for just over three years.
- At 50.8 in August, down from 51.7 in July, the headline S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – a seasonally adjusted index tracking changes in total industry activity – signalled only a slight increase in overall construction output.
- There were divergent trends across the three main categories of construction activity monitored by the survey in August. Commercial building continued to expand at a robust pace (index at 54.2), with the rate of growth holding close to July's five-month high. Civil engineering activity (52.4) also increased, but the speed of growth slipped to its lowest since April.
- House building remained the weakest-performing part of the construction sector (40.7), with the downturn the second-fastest since May 2020. Survey respondents widely commented on subdued market conditions and a headwind to activity from cutbacks to new build projects.
- August data signalled a decline in total new order volumes for the second time in the past three months, which contrasted with solid growth in the spring. Although only modest, the downturn in order books was the steepest since May 2020. Construction companies noted that rising interest rates and concerns about the near-term economic outlook had led to more cautious spending among clients, especially in the residential building segment.
- Employment numbers increased for the seventh month running, but the rate of growth weakened since July and was only modest. The upturn in sub-contractor usage also softened in August, which contributed to the sharpest rise in availability since January 2010.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 6th September 2023.

- The material price index for **'All Work' decreased by 4.0%** in July 2023 compared to the same month the previous year.
- **Imports** of construction materials **increased** by £155 million in Quarter 2 2023 compared to the previous quarter, **an increase** of 2.8%.
- **Exports** of construction materials **increased** by £16 million in Quarter 2 2023 compared to the previous quarter, **an increase** of 0.8%.

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 7 September 2023, this release is in headline-only format, summarising information on the overall UK businesses. The survey was live from 21 August to 3 September 2023.

- In July 2023, 67% of trading businesses with 10 or more employees reported that they were able to get the materials, goods or services they needed from within the UK without experiencing supply issues; this rises to 78% when including businesses that had to change suppliers or find alternative solutions to do so.
- In July 2023, 7% of businesses with 10 or more employees experienced global supply chain disruption, broadly stable with June 2023; however, this is the lowest proportion reported since the question was introduced in December 2021.
- Two-thirds (66%) of businesses reported some form of concern for their business for September 2023; this has slowly fallen over time and is the lowest percentage reported since a peak of 76% in November 2022.
- Fewer than 1 in 10 (7%) businesses were affected by industrial action in July 2023; the professional, scientific and technical activities industry reported the highest proportion of businesses directly or indirectly affected, at 10%.
- Approximately 1 in 10 (11%) businesses reported that their employees' hourly wages had increased in July 2023 compared with June 2023; this was 19% for businesses with 10 or more employees.
- Approximately 1 in 10 (11%) businesses were experiencing worker shortages in late August 2023, this is down 2 percentage points from mid-July 2023; 45% of those businesses reported they were unable to meet demands because of the shortages.

Construction Output Forecasts

Experian published their Summer 2023 forecasts for the construction sector in June 2023.

- Total construction output has started reasonably well this year, with construction output up by 0.7% in Q1 compared with the previous quarter. However, the rest of the year is expected to be much more challenging for the industry and especially for the housing sectors, both new and R&M, as further increases in interest rates and continuing elevated inflation impact negatively on demand. Total construction output is projected to decline by 4.4% in 2023, taking it back below 2019's pre-pandemic level, then increase by 1.4% in 2024 and 3.3% in 2025.

- The housing sector is expected to decline by 14.9% in 2023, then increase by 5.5% in 2024 and 7.0% in 2025. Both private and public housing sectors are set to face several headwinds that will heavily impede building activity this year. For the private housing sector there are clear signs that the housing market is cooling as new enquiries ease and house prices fall. Mortgage market disruption continues to play out as the Bank of England continue to promptly respond to stubborn inflationary pressures and further hikes are on the cards. Furthermore, supportive government schemes have been rolled back and economic uncertainty leave private housebuilders with little incentive to undertake new construction with any vigour. Common issues to both private and public housing sectors are escalating materials costs and labour shortages, which are likely to hamper building plans and delay delivery in the near term, even if it is temporary. For the public housing sector, ongoing budgetary constraints remain evident 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 6.5% in 2023, then by 1.0% in 2024 and grow by 2.7% in 2025. The Housing Repair Maintenance & Improvement (RM&I) sector had remained somewhat protected from the full impact of the economic stagnation and inflationary pressures that has beleaguered the wider industry but there are signs that this is about to reverse. Looking ahead we expect the sector to shrink performance of the sectors to stay weak in 2023 as private housing RM&I falters in the face of headwinds and public housing RM&I fails to make any notable gains.

- The new infrastructure sector is expected to grow by 1.6% in 2023, 1.1% 2024 and 2.6% in 2025. The infrastructure sector is expected to continue to be the strongest performer in relativity, with output growth driven by transport and energy projects. The roads sub-sector is expected to struggle in the across the forecast period, with the impacts of inflation, delayed approvals and postponed or cancelled schemes leading to a second consecutive year of contraction in 2023. Increased activity on the High.

- The private industrial sector is expected to grow by 2.4% in 2023, decline by 4.0% in 2023 and rise by 1.9% in 2025. Last year's stellar performance in the industrial construction sector is unlikely to be replicated going forward and indeed, the relatively poor economic scenario this year and next is likely to impact negatively on the sector. The weaker economic prognosis for the economy is expected to adversely affect manufacturing output and consequently the demand for manufacturing facilities. Inflation is remaining stubbornly high and is likely to continue to put pressure on household disposable income and thus consumer spending. Nearly seven years on from the referendum and over three years since we finally left the European Union, it is fair to say that the boost in demand for new distribution and logistics facilities is probably coming to an end, thus the prospects for warehouse construction are much more muted than in the recent past. Under this scenario, a further, much more modest, rise in output is expected this year on the back of orders already placed, followed by declines in 2024 and 2025.

- The Public Non-residential sector is forecast to grow by 0.3% in 2023, 1.9% in 2024 and 2.6% in 2025. Little has changed in the view for the public non-residential sector that the long contraction in output seen since 2017 will finally come to an end this year. However, growth in 2023 is now likely to be only marginal. The strongest sub-sector is still expected to be agriculture & miscellaneous, expenditure driven by the Defence Infrastructure Organisation (DIO) and the prison building programme, followed by the health sub-sector and then education. In contrast, offices and entertainment are likely to bear the brunt of any cuts to capital expenditure budgets going forward.

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

- The construction industry is expected to experience an acute recession this year driven by double-digit falls in the two largest construction sectors: private housing new build and private housing repair, maintenance, and improvement (rm&i). The CPA forecasts construction output to fall by 7.0% in 2023 before recovering slowly in 2024 with growth of just 0.7%.

- Private housing output is worth £41 billion per year to the UK economy and is forecast to be the worst-affected construction sector in 2023. In this sector, activity was already forecast to fall due to the lagged impacts of the government's calamitous Mini Budget and the resultant spike in mortgage rates last year, which led to a 30-40% fall in demand in 2022 Q4. Whilst demand started to recover during the first quarter of this year as mortgage rates fell, this proved to be a mere blip and over the Summer, the Bank of England raised interest rates once again, in turn raising market expectations of peak interest rates beyond 6.0%. Given the impact of this on mortgage rates, demand will be badly affected in both the general housing market and house building sector. private housing starts are forecast to fall by 25.0% in 2023. Completions and output are expected to fall by 19.0% before a recovery starting in the second half of next year, which will see a rise of 2.0% in 2024 overall.

- Private housing rm&i is worth £29 billion each year to the UK economy and activity reached historic highs between 2020 and early 2022 due to increased working from home and a 'race for space'. Since March 2022, however, activity has been falling due to persistent inflation, rising interest and mortgage rates, and falling real wages. Larger home improvements activity remained strong last year but planning applications for new larger home improvements fell by 19.0% in 2022 as a result of homeowners being hit by rising mortgage payments and falling real wages. As a result, this is likely to lead to a fall in activity this year. Overall, private housing rm&i output is forecast to fall by 11.0% this year before growth of 2.0% next year in line with a recovery in household finances.

- Infrastructure activity down on the ground remains strong due to major projects such as HS2, the Thames Tideway Tunnel and Hinkley Point C. These projects are all late and over budget but continue to provide growth to a sector worth £28 billion per year. Higher activity from these projects is likely, however, to be offset by government delays to new roads and rail projects. Higher activity from these projects is likely, however, to be offset by government delays to new roads and rail projects. In addition, budgetary constraints for councils, combined with cost inflation issues, are likely to mean a decline in the volume of local transport work. Infrastructure output is expected to fall, albeit by only 0.5% in 2023, before growth of 1.0% in 2024.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2023 is 0.1% unchanged from the previous month's survey.
- The mean GDP forecast for 2024 is 0.4%, down from the 0.8% in 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 June was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 22nd August 2023.

June 2023:

- Total Builders Merchants value sales were +2.6% higher in June 2023 than the same month last year. Volume sales were down -5.4% with prices up +8.4%. Like-for-like value sales, which take trading day differences into account, were -2.2% lower. Nine of the twelve categories performed better than Merchants overall, led by Renewables & Water Saving (+37.2%).

- Total Builders Merchants value sales in June 2023 were up +4.6% higher than in May 2023, with two more trading days this month. Like-for-like sales were -5.0% lower. Nine categories had higher sales, with Ironmongery (+7.1%) and Landscaping (+6.9%) at the top.

Quarter 2 2023:

- Total Builders Merchants value sales were +7.6% higher in Quarter 2 2023 compared to the quarter. Like-for-like value sales, which take trading day differences into account, were 14.8% higher. Two of the twelve categories performed better than Merchants overall, led by the seasonal category Landscaping (+47.3%).

- Total value sales in Quarter 2 2023 were down -4.1% compared to Quarter 2 2022. Volume sales were -13.5% lower with prices up +10.9%. Nine categories outperform Building Merchants overall, with Renewables & Water Saving (+44.4%), Decorating (+12.3%) and Plumbing, Heating & Electrical (+9.1%) at the top.

Expected dates for future construction output releases	
Release for:	*Publication date:*
August 2023	12th October 2023
September 2023	10th November 2023
October 2023	13th December 2023

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