Monthly Construction Update

Business Statistics Team

13th March 2024

Department for Business & Trade

Construction output increased by 1.1% in volume terms in January 2024

The **Office for National Statistics** published estimates of construction output for January 2024 this morning.

- Construction output is estimated to have decreased 0.9% in the three months to January 2024; this came solely from a decrease in new work (4.5% fall), as repair and maintenance increased by 4.0%.
- The decrease over the three months came from infrastructure new work and private housing new work, which fell 9.3% and 5.2%, respectively; with the main positive contributions coming from non-housing repair and maintenance, and private housing repair and maintenance, which increased 3.2% and 3.3%, respectively.
- Monthly construction output is estimated to have increased 1.1% in volume terms in January 2024; this follows three consecutive monthly falls, with the monthly value in levels terms at £15,422 million in January 2024.
- The increase in monthly output came from increases in both new work (1.1%) and repair and maintenance (1.2%).
- At the sector level, six out of the nine sectors saw a rise in January 2024; the main contributors to the monthly increase were private new housing, and non-housing repair and maintenance, which increased 2.6% and 1.9%, respectively.

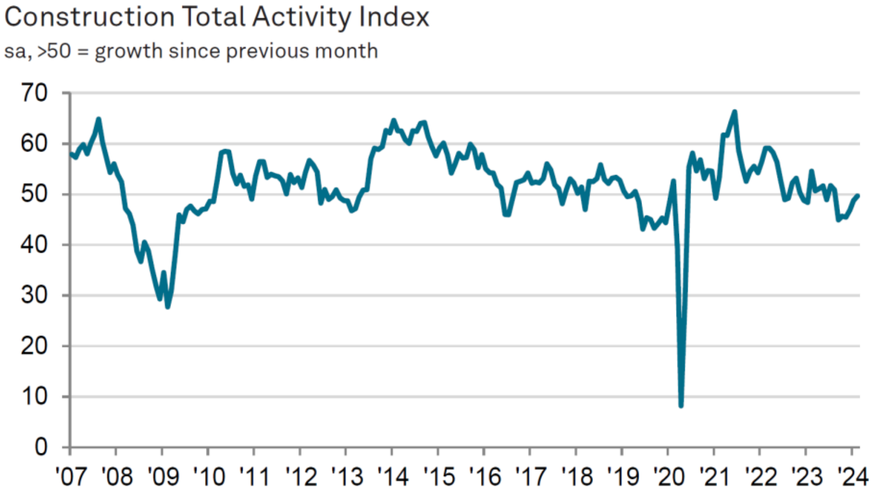
Gross Domestic Product increased by 0.2% in January 2024

The **Office for National Statistics** published estimates of GDP for January 2024 this morning.

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in January 2024, following a fall of 0.1% in December 2023.
- Real GDP is estimated to have fallen by 0.1% in the three months to January 2024, compared with the three months to October 2023.
- Services output grew by 0.2% in January 2024 and was the largest contributor to the rise in GDP, but in the three months to January 2024 services output showed no growth.
- Production output fell by 0.2% in January 2024, and in the three months to January 2024 production output also fell by 0.2%.

S&P Global / CIPS UK Construction Purchasing Managers Index for February 2024

S&P Global CIPS published their latest construction purchasing managers index for February 2024 on 6th March 2024.



Sources: S&P Global, CIPS.
Data were collected 12-28 February 2024.

- February data pointed to improved demand conditions across the UK construction sector. Although only marginal, the rate of new business growth was the fastest since May 2023. A turnaround in construction order books contributed to a near-stabilisation of overall output levels in the latest survey period.
- Business optimism improved for the third time in the past four months and was the highest since January 2022. Construction companies often cited hopes of a sustained upturn in customer demand as well as more favourable economic and financial conditions over the course of 2024.
- All three main categories of construction activity saw a near-stabilisation of business activity in February. House building saw the biggest turnaround since January, with the respective index at 49.8, up from 44.2 and the highest level since November 2022. Survey respondents suggested that improving market conditions had gradually contributed to a stabilisation of residential construction work. In contrast, the commercial segment saw a more subdued performance than in January, with construction companies typically citing hesitancy among clients and constrained budget setting.
- Total new work increased marginally in February, thereby ending a six-month period of decline. This appeared to reflect a turnaround in tender opportunities and greater client confidence, especially in the house building segment.
- Employment was a weak spot in February, despite positive trends for order books and sales pipelines. Staffing numbers decreased for the second month running and, although only moderate, the rate of job shedding was the fastest since November 2020. Comments from panel members suggested that a recent soft patch for work on site, alongside strong wage pressures, had led to cost cutting measures including the non-replacement of voluntary leavers.
- More than half of the survey panel (51%) anticipate a rise in business activity over the year ahead, while only 6% forecast a reduction. This pointed to the strongest degree of business optimism for just over two years in February. Construction companies mostly noted new project starts and positive signals for customer demand, partly linked to expected interest rate cuts.

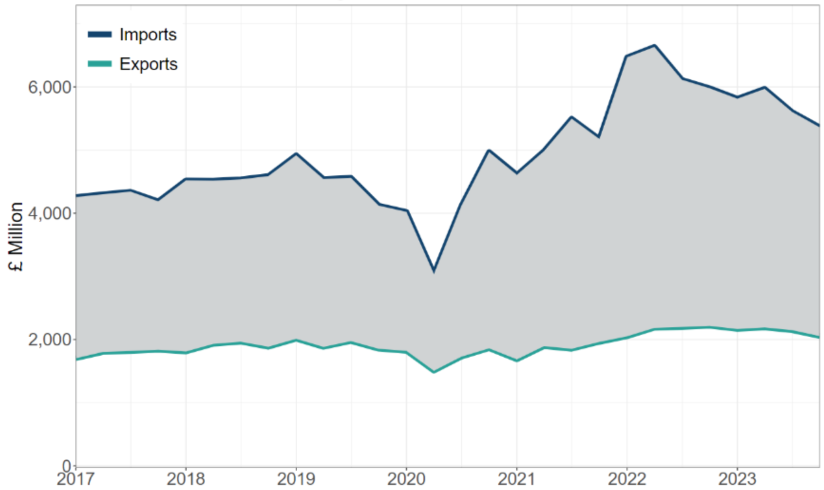
Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 6th March 2024.

Headline findings:

- Exports of construction materials decreased by £92 million in Quarter 4 2023 compared to Quarter 3 2023, from £2,147 million to £2,055 million, a decrease of 4.3%.
- Imports of construction materials decreased by £245 million in Quarter 4 2023 compared to Quarter 3 2023, from £5,604 million to £5,359 million, a decrease of 4.4%.
- The material price index for 'All Work' decreased by 1.6% in January 2024 compared to January 2023.

Figure 1: Quarterly Exports and Imports of Construction Materials, UK
Nominal value in Pound Sterling



Source: Monthly Statistics of Building Materials and Components, Table 13

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 March 2024, summarising information on the overall UK business population. The survey was live from 19 February to 3 March 2024.

- In late February 2024, one in five (20%) businesses reported they are either using or intending to use increased home working as a permanent business model going forward; of these businesses, 53% reported reduced overheads as a reason for doing so.
- Fewer than 1 in 10 (9%) businesses reported an increase in their employees' hourly wages in January 2024 compared with December 2023; this is a three percentage point increase when comparing December 2023 with November 2023.
- In late February 2024, one in five (20%) businesses reported an increase in staffing costs (including wages, allowances and bonuses, national insurance and pension contributions) over the last three months, broadly stable with early January 2024.
- In late February 2024, a quarter (25%) of businesses expect staffing costs to increase over the next three months, rising to 51% for businesses with 10 or more employees; these percentages were three and four percentage points higher than early January 2024, respectively.
- Approximately 4% of businesses were affected by industrial action in January 2024, broadly stable with December 2023; of those who were affected, 34% reported that their business was unable to operate fully as a result.

Construction Output Forecasts

Experian published their Winter 2023 forecasts for the construction sector in December 2023.

- Total construction output rose by 6.5% in real terms in 2022, its second consecutive year of good growth after the pandemic-induced contraction in 2020. However, in 2023, we estimate growth to have flatlined, notably held back by the residential sector. Since 2021, the retail and maintenance sector has been the shining performer, registering solid growth. However, the new work stream has had a far more mixed performance. In 2023 significant weakness in the residential sector has offset positive growth across the other sub-sectors. Moving into 2024, the outlook remains challenged. The economic backdrop will remain fragile, and uncertainty plagues the outlook. While a recession does not feature in our baseline view, GDP growth is likely to be tepid. As such, total construction output is projected to grow by just 0.3% in 2024 before picking up the pace to 2.8% in 2025. We expect the retail and maintenance sector to continue its upward trajectory and outpace the new work sector in 2024 and 2025.

- The fortunes of the housebuilding sector have waned as the post-pandemic rebound fizzled out. The headwinds presented by a lethargic economy, persistent inflationary pressures and elevated mortgage rates have halted the impressive growth momentum seen in 2021 and early 2022. Since then, both demand and supply side influences have held back housebuilding. Falling house prices and weak buyer interest alongside elevated materials' costs, labour shortages and the dismantling of government support such as the Help to Buy have dampened activity. As a result, total housing output is expected to experience a double-digit decline in output growth in 2023 to £40.1bn, 13% lower than its level in 2019.

- The Repair, Maintenance & Improvement (RM&I) sector performed better than expected in the first three quarters of 2023 so the overall growth outturn of 2.4% is stronger than previously anticipated. Although the headwinds faced by the sector in the form of inflationary pressures and falling house prices have eased, these remain enough of a challenge to lead to a small fall in output in 2024. The decline is primarily seen on the private side with the public sector supported by the urgent need to address building safety concerns. Stronger growth of about 3% per annum is seen over 2025-26.

- Infrastructure was the sector least impacted by the COVID-19 pandemic in 2020 and was the strongest sector in 2021, growing by 27.4% to a new record of £27.8bn. Output was steady in 2022, falling by just 0.6% to £27.6bn. In the four quarters ending September 2023 output totalled £29.2bn, 6.7% above the previous four quarters and by October 2023 annual growth had increased to 7.6%. Output for calendar year 2023 is estimated to have grown by 5.9%. Looking forward, the growth in output stalls in 2024, falling by a nominal -0.3%, before returning to moderate growth of 2% each of 2025 and 2026 to further record high levels. The forecast is summarised in the chart below and the table opposite.

- 2023 looks to have been a good year for the public non-residential sector after a long period of decline, with output up by 9% three-quarters on three quarters. If output in Q4 comes in a around the quarterly average for 2023then growth of between 6%-7% in real terms is on the cards. This increase has been driven in no small part by very robust expansion in the agriculture & miscellaneous sector, believed to be down to defence and prisons work.

- It was almost inevitable that the industrial construction sector would not be able to reproduce its stellar growth in 2022 in the following year. From a peak in the first quarter of 2023 output has subsided in the following two and the level of new orders is 15% down on an annualised basis. Thus, it is estimated that output in the sector will be flat in 2023, with very weak GDP growth in 2023 and 2024 pushing the sector into decline in the latter year. Marginal expansion should return in 2025, strengthening in 2026, largely on the back of good growth in the factory sub-sector.

- After five consecutive years of output decline in the commercial sector, we estimate 2023 will mark a year of long overdue positive growth. Challenges in this sector predate the pandemic and therefore the output expansion expected in 2023 is a welcomed reprieve from the steady decline. Aside from the education and retail sub-sectors, the rest of the commercial sub-sectors are likely to see positive 2023 readings.

The **Construction Products Association** (CPA) published their Winter construction industry forecast as part of their analysis of the market impact in January 2024.

- According to the Construction Products Association's Winter Forecasts, published on 29 January 2024, construction output is forecast to fall by 2.1% this year due to falls in private housing new build and repair, maintenance and improvement (rm&i) - the two largest construction sectors. The CPA forecasts that construction output will rise by 2.0% in 2025 in line with falling interest rates and a general economic recovery, which, in turn, could ease challenges in the housing and rm&i sectors. Recent disruptions in the Red Sea, however, have been identified as a key risk to the forecasts, potentially leading to supply issues such as delays and accelerating cost inflation.
- Private housing - the largest construction sector - suffered a double-digit fall last year after a spike in mortgage rates hit housing market demand. Consequently, many house builders have reported a fall of around 25-35% in demand, in addition to the regulatory issues that smaller house builders continue to face in particular around planning, as well as water and nutrient neutrality. The lagged effect of higher mortgage rates is likely to continue to weigh upon property transactions this year with private housing output expected to fall by a further 4.0%. Looking to next year, a gradual fall in interest rates should boost demand with private housing output expected to rise by 4.0%. This doesn't imply a speedy recovery however, as interest and mortgage rates are not expected to return to the record lows seen as recently as 2021 anytime soon. The lack of a government policy stimulus to help overcome high deposit and mortgage payment requirements, also means the recent peaks in housebuilding from 2022 are unlikely to be seen again until at least the end of the decade.
- Private housing rm&i is the second-largest construction sector and activity continues to be on a general downward trend. The rising cost of living has hit discretionary household improvements spending. In addition, fewer property transactions last year led to a decline in refurbishment activity from new homeowners who typically make cosmetic improvements within the first 6-9 months of moving in. Smaller project work is likely to continue to remain flat in the first half of this year as household spending remains tight, whilst the continued fall in property transactions in the first half of this year is likely to hit larger project work for the remainder of 2024. This is likely to be partially offset though by strong activity on energy-efficiency retrofit such as insulation and solar photovoltaic work. Overall, private housing rm&i output is expected to fall by 4.0% in 2024 before growth of 3.0% in 2025.
- In infrastructure, which is the third-largest construction sector, activity remains strong down on the ground. Work continues apace on HS2 Phase One despite the most recent cost increases, as well as on Hinkley Point C and the Thames Tideway Tunnel. Frameworks activity in the regulated sectors of roads, rail, water and electricity provides sustained levels of activity in the infrastructure sector too. Concerns remain, however, over pauses and delays to National Highways projects, as well as increasing uncertainty on the deliverability of plans in the water sector to deal with water quality issues through increased capital expenditure. Furthermore, at a local level, councils continue to face financial constraints and despite government announcing £8.3 billion of funding for potholes, resurfacing and roads projects to 2034, there is little evidence to suggest that this will lead to any uplift over the forecast period. As a result, overall,

infrastructure output is expected to fall by 0.5% in 2024, a third successive marginal fall in output, before rising by 1.2% in 2025.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** Forecast Survey (which uses an average of private sector forecasts) results were published in February 2024.

- The mean GDP forecast for 2024 is 0.3%, up from 0.2% in the previous month's forecast.
- The mean GDP forecast for 2025 is 1.1%, up from 1.0% in the previous month's forecast.

The **OECD** published their latest Economic Outlook in February 2024:

- UK GDP is projected to grow by 0.7% this year, up from the 0.3% in the previous forecast in October, and to grow by 1.2% in 2025, up from 0.8% forecasted in October.
- Global GDP growth is projected to increase by 2.9% this year, down from the 3.0% forecasted in October, and to increase by 3.0% in 2025, up from the 2.7% forecasted in October.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 14 December 2023, covering intelligence gathered in the five weeks to mid-November 2023.

- Construction output volumes continue to fall. Some of the slack from lower new housing and commercial development is being taken up by repair and maintenance. Order books continue to weaken but contacts expect this to stabilise during 2024.
- Private and social house-building activity has slowed over the last year, by up to 30% in some locations. Higher price units in the South were impacted the most by increased mortgage costs. Social landlords carried out more remedial work and some private landlords invested to achieve higher rents.
- Commercial development has continued to slow due to current yields being too low. But cash-funded and pre-let projects continued. Existing large infrastructure projects remain one area of strength, with energy, water and defence contracts growing. Contacts cite planning and utility connections as key constraints.
- There is growing evidence of construction firms failing, causing delays.
- Commercial development is likely to contract further until confidence increases and rates of return improve. House builders expect current build rates to continue through 2024. The outlook for repair and maintenance work remains stable.

Builders Merchant Building Index

The Builders Merchant Building Index for December was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 5th March 2024.

December 2023:

- Total Builders Merchants value sales in December 2023 were -8.4% lower than December 2022. Volume sales were -12.6% down, and prices were up +4.8%. Just four of the twelve categories sold more year-on-year, including Workwear & Safetywear (+4.8%), Decorating (+4.1%) and Ironmongery (+0.4%). The four largest categories sold less: Landscaping (-6.2%), Plumbing Heating & Electrical (-6.4%), Timber & Joinery Products (-10.4%) and Heavy Building Materials (-11.0%).

- Total Merchants sales were -37.5% lower in December 2023 than in November 2023, with volume sales down -39.8% and prices only edging up +3.8%. But with six less trading days in December, like-for-like sales were -14.1% lower. All categories sold less.

Quarter 4 2023

- Total Builders Merchants value sales in Q4 2023 were -5.7% down compared to Q4 2022, with volume sales falling -12.0% and prices rising +7.1%. With one more trading day in Q4 2023, like-for-like sales (which take the number of trading days into account) were -7.3% down. Six the twelve categories sold more in Q4 including Workwear & Safetywear (+8.6%) and Decorating (+7.1%). However, the three largest categories all sold less: Landscaping (-6.7%), Heavy Building Materials (-7.3%) and Timber & Joinery Products (-10.3%).
- Total Builders Merchants value sales for Q4 were down -15.7% compared to Q3. Volume sales fell-19.8% while prices rose +5.1%. With four less trading days in the most recent period, like-for-like sales were -10.1% lower. Workwear & Safetywear (+17.0%) and Plumbing Heating & Electrical (+4.4%) were the only two categories to sell more.

Expected dates for future construction output releases	
Release for:	*Publication date:*
February 2024	12th April 2024
March 2024	10th May 2024
April 2024	12th June 2024

Business Statistics team | Analysis Directorate | Department for Business and Trade