

Monthly Construction Update

Business Statistics Team

13th May 2020

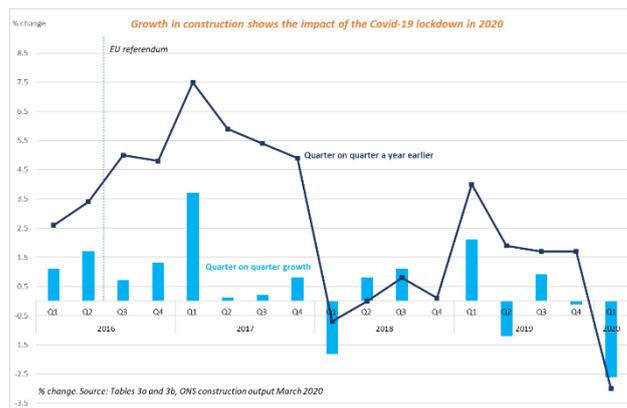


Department for
Business, Energy
& Industrial Strategy

Construction Output fell by 2.6% in the first quarter of 2020 and by 5.9% in March 2020

The **Office for National Statistics** published a provisional estimate of [construction output](#) for March 2020 and Q1 2020 this morning:

- Construction output fell by 5.9% in the month-on-month all work series in March 2020; this was driven by a 6.2% decrease in new work and a 5.1% decrease in repair and maintenance; all of these decreases were the largest monthly falls on record since the monthly records began in January 2010.
- The decrease in new work (6.2%) in March 2020 was because of falls in all new work sectors; private new housing and private commercial were the largest contributors, falling by 6.4% and 7.1% respectively.
- The decrease in repair and maintenance (5.1%) in March 2020 was because of falls in all repair and maintenance sectors; the largest contributor was private housing repair and maintenance, which fell by 8.6%, the largest month-on-month fall on record.
- Construction output fell by 2.6% in Quarter 1 (Jan to Mar) 2020, compared with Quarter 4 (Oct to Dec) 2019; this was driven by a 2.1% decrease in new work and a 3.5% decrease in repair and maintenance.
- New orders grew by 11.8% in Quarter 1 2020 compared with Quarter 4 2019; this rise was because of increases in both all other work and new housing, which rose 11.5% and 12.5% respectively.



Gross Domestic Product fell 2.0% in the first quarter of 2020 and 5.8% in March 2020

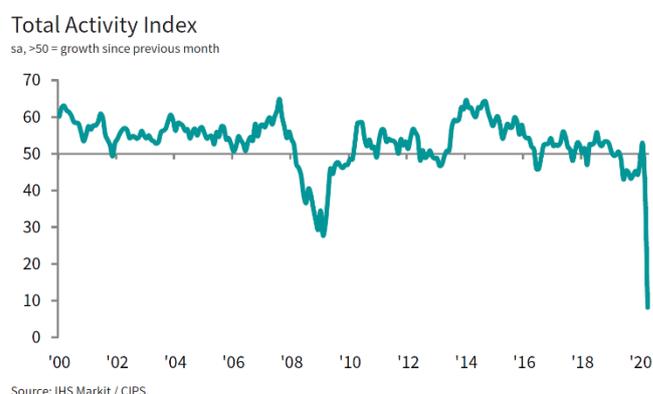
The **Office for National Statistics** also published their estimate of [GDP](#) for March 2020 and Q1 2020 this morning:

- GDP fell by 2.0% in Q1 2020, following no growth in Q4 2019. The services sector fell by 1.9% in Q1 2020. Production fell by 2.1% and construction fell by 2.6% in the same period.
- GDP fell by 5.8% in March 2020 compared with February 2020, the biggest monthly fall since the series began in 1997. Services fell by 6.2% in March; production fell by 4.2% and construction fell by 5.9%.
- Commenting on today's GDP figures, Jonathan Athow, Deputy National Statistician for Economic Statistics, said: "With the arrival of the pandemic nearly every aspect of the economy was hit in March, dragging growth to a record monthly fall. Services and construction saw record declines on the month with education, car sales and restaurants all falling substantially."

IHS Markit CIP UK Construction Purchasing Managers Index for April 2020

IHS Markit CIPS published their latest [construction purchasing managers index](#) for April on 6th May 2020

- April data pointed to the fastest decline in UK construction output since the survey began 23 years ago. The headline Construction Total Activity Index dropped to 8.2 in April from 39.3 in March, the lowest since data were first collected in April 1997.
- All three broad categories of work experienced a survey-record fall in April, with declines in housebuilding (7.3) and commercial activity (7.7) exceeding that for civil engineering (14.6).
- Respondents reported that staffing had dropped sharply in April, with employees often placed on furlough until work on site could recommence with social distancing measures. The latest survey also indicated the steepest decline in sub-contractor usage in survey history.
- Closures at builders' merchants and stoppages of manufacturing production led to widespread supply shortages. The latest lengthening of average lead times for the delivery of construction products and materials was by far the steepest since the survey began in April 1997. Around three-quarters of the survey panel reported longer delivery times from suppliers during April, with a lack of availability for safety products also frequently reported.



Covid-19 Intelligence

ONS published further information from their fortnightly [Business Impact of Coronavirus Survey](#) (BICS) relating to 6th April – 19th April:

- 26.1% of construction firms said they had temporarily closed or paused trading, compared with an all industry average of 22.8%.
- 45.4% of construction firms still trading said their turnover had decreased by more than 50%. A further 22.5% said turnover had decreased by between 20% and 50%, and 13.1% said it had decreased by up to 20%.
- 59.1% of construction firms said that they were laying off staff in the short term and 39.9% said they were decreasing working hours. 80.9% said they had applied for the Coronavirus Job Retention Scheme (furlough) and 59.9% had applied to defer VAT payments.

The Federation of Master Builders published the [results](#) of a survey of members which took place between 23rd and 29th April:

- 96% of members have stopped all or some of their work on site. The top three reasons given were supply chain issues (67%), not possible to work safely on site (57%), and clients requesting work to stop (40%). The top three materials identified as hard to source were plasterboard, PPE, and timber.

Construction Output Forecasts for 2020, 2021 and 2022

Experian published their Spring 2020 [forecasts](#) for the construction sector in April 2020:

- Output is expected to fall by 25.3% in 2020, due to the impact of Covid-19. It will then grow by 14.8% in 2021 and 4.0% in 2022 to around the level seen in 2015.
- The worst hit sector is private commercial new construction which is forecast to fall by 34% in 2020, followed by growth of 18% and 3% in 2021 and 2022 respectively. Private industrial new construction is forecast to fall 31% in 2020, before growth of 16% in 2021 and 4% in 2022. Public non-housing new construction is forecast to fall by 19% in 2020, followed by growth of 12% in 2021 and 3% in 2022.
- Infrastructure new construction is forecast to fall by 18% in 2020, before recovering with growth of 18% in 2021 and 6% in 2022. The forecast was made before the recent announcement that HS2 work could restart on site.
- Private new housebuilding is forecast to fall by 30% in 2020 before growth of 18% in 2021 and 5% in 2022. Public new housebuilding is forecast to fall by 26% in 2020 before growth of 14% in 2021 and 6% in 2022.

The **Construction Products Association** have produced draft scenarios for construction as part of their analysis of the [market impact](#), with the main scenario including a relaxation of social distancing restrictions from mid-May and a recovery from construction activity from June:

- Overall, construction output is anticipated to fall by 25% in 2020. This is seen across all sectors, with private new housing the worst hit with a fall of 42%. Private new commercial is expected to fall by 36%. The least affected new work sectors are infrastructure (-9%) and public non-housing (-6%).

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [forecast survey](#) (which uses an average of private sector forecasts) results were published in April 2020.

- The mean GDP growth forecast for 2020 is -5.4%, down from 0.8% in the previous month's survey.
- The mean GDP growth forecast for 2021 is 4.7%, up from 1.3% in the previous month's survey.

The **OECD** estimated the potential initial impact of partial or complete shutdowns on activity in the G7 economies in a [policy response](#) published on 14th April 2020.

- The estimated negative impact to UK GDP is around 26%, similar to France and Italy. Canada has the lowest estimated impact, estimated at around -23%, and Japan the highest at around -30%.

The Office for Budget Responsibility published a [scenario](#) on 14th April that assesses the potential impact of the coronavirus on the economy and public finances:

- GDP will fall by 12.8% in 2020. This reflects a fall of 35% in Q2 2020 and a recovery of 27% in Q3 2020.
- This is the impact of a three-month lockdown scenario where economic activity would gradually return to normal over the subsequent three months.

Bank of England Summary of Business Conditions

The **Bank of England** published its latest update to the [Agents' Summary of Business Conditions](#) on 26th March 2020, covering intelligence gathered in the first few weeks of March 2020 in order to reflect the latest conditions due to the Covid-19 pandemic. Prior to that point, companies had generally reported some modest improvement in some parts of the economy and the outlook during January and February 2020.

- Construction project postponements and staff absences due to self-isolation or illness are expected to weigh on output in the near future. There has been some evidence of projects being postponed, either due to economic uncertainty or because of delays caused by planning office closures. Some contacts reported delays on construction sites due to staff absence. This meant that some projects might take longer to complete. There were also some concerns that a deterioration in housing market activity would weigh on housebuilding. By contrast, there was some evidence of strong activity in office construction.
- There has been a marked deterioration in housing market sentiment in recent weeks. Contacts said that the economic uncertainty as a result of the pandemic had deterred buyers and sellers, bringing transactions to a halt. Developers said that sentiment in the market for new homes has also cooled. The number of visitors to show homes and marketing suites has fallen over the past two weeks.
- Up until the middle of March, contacts had been reporting strong investor and occupier demand for office space in the larger UK cities. Demand from investors and occupiers for distribution and warehousing premises was also robust. However, there was growing evidence that uncertainty about the outlook, difficulties with valuations and travel restrictions relating to the Covid-19 virus had led to some transactions stalling. Commercial landlords reported that tenants were requesting rent holidays.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 6th May 2020.

- Brick deliveries in March 2020 fell by 29.9% compared with March 2019 and by 20.8% compared with February 2020. The month-on-month fall of 20.8% was the largest single month-on-month fall since December 2010, which was exceptionally cold and snowy.
- Concrete block deliveries in March 2020 fell by 15.3% compared with March 2019 and by 16% compared with February 2020. The month-on-month fall of 16% was the largest single month-on-month fall since February 2012, which also saw significant snow fall across much of the UK.
- Annual materials price inflation in March 2020 was -1.0%, up from -1.4% in February. Annual materials price inflation for different types of construction varied from -1.9% for repair and maintenance to -1.1% for new housing. The biggest price increase was for pipes and fittings (flexible) which rose by 7.8% compared with March 2019. The biggest decrease was for imported sawn or planed wood which fell by 12.7% over the same period.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for February 2020 was published by the **Builders Merchants Federation** and **GfK** in April 2020.

- Total Builders' Merchant sales in February were down 1.3% compared with February 2019. Three categories were weaker: Timber & Joinery Products (-6.9%); Tools (-4.0%) and Heavy Building Materials (-1.9%). Among the seven categories that sold more this year, Workwear & Safetywear showed strong growth (+30.8%) driven by higher demand for protective equipment (including masks, goggles, and gloves). Landscaping sold 7.4% more and Kitchens & Bathrooms grew by 3.5%.
- Compared with January, sales in February were 2.2% higher despite having two less trading days. Eight categories sold more, led by Landscaping (+16.5%) –despite it being the wettest February on record. Kitchens & Bathrooms (+7.8%) and Workwear & Safetywear (+6.8%) also did well. Four categories sold less, including Timber & Joinery Products (-2.2%) and Plumbing Heating & Electrical (-1.5%). Average sales a day (which takes trading day differences into account) were 12.4% higher than in January and all categories increased.
- Sales in the three months December 2019 to February 2020 were 1.2% lower than in the same period a year earlier. Nine categories did better, including Workwear & Safetywear (+14.1%) and Landscaping (+5.3%). However, Timber & Joinery Products (-6.0%) and Tools (-4.8%) were weaker. The 12 months March 2019 to February 2020 were down 0.9% on the same period a year earlier, with one less trading day. Average sales a day in the last 12 months were down 0.5%.

Date of future construction output releases

Please note that these dates have [changed](#) slightly since the previous note.

<i>Release for:</i>	<i>Publication date:</i>
April 2020	12 th June 2020
May 2020	14 th July 2020
June 2020	10 th August 2020