

Monthly Construction Update

Business Statistics Team

14th July 2020



Department for
Business, Energy
& Industrial Strategy

Construction Output grew by 8.2% in May 2020 but fell by 29.8% in the three months to May 2020

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

- Construction output grew by a record 8.2% in the month-on-month all work series in May 2020 following the record decline of 40.2% in April 2020; the level of construction output is now down 38.8% on February 2020 before the impact of the coronavirus (COVID-19) pandemic.
- Construction output fell by a record 29.8% in the three months to May 2020, compared with the previous three-month period; this was driven by record falls of 30.3% in new work and 28.9% in repair and maintenance.
- The decrease in new work (30.3%) in the three months to May 2020 was because of record falls in most of the new work sectors; private new housing and private commercial were the largest contributors, falling by 42.5% and 29.5% respectively.
- The decrease in repair and maintenance (28.9%) in the three months to May 2020 was because of record falls in all repair and maintenance sectors; the largest contributor was private housing repair and maintenance, which fell by 39.8%.

Figure 1: Monthly construction output saw a partial rebound in May 2020 after the large record monthly decrease in April 2020

Quarterly and monthly all work index, chained volume measure, seasonally adjusted, Great Britain, January 2010 to May 2020



Source: Office for National Statistics – Construction Output and Employment

Gross Domestic Product grew by 1.8% in May 2020 but fell by 19.1% in the three months to May 2020

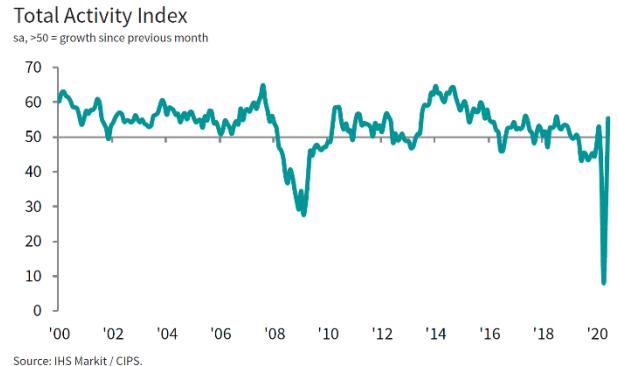
The **Office for National Statistics** also published their estimate of [GDP](#) for May 2020 this morning:

- GDP fell by 19.1% in the three months to May 2020. The services sector fell by 18.9% in the three months to May, production fell by 15.5% and construction fell by 29.8% in the same period.
- GDP grew by 1.8% in May 2020 compared with April 2020. Despite this, the level of output did not recover from the record falls seen in March and April 2020 and has reduced by 24.5% compared with February 2020, before the full impact of coronavirus. Services grew by 0.9% in May, production grew by 6.0% and construction grew by 8.2%.

IHS Markit CIP UK Construction Purchasing Managers Index for June 2020

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

- The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index jumped to 55.3 in June, from 28.9 in May, to signal a strong increase in total construction output. Moreover, the latest reading signalled the steepest pace of expansion since July 2018. Higher levels of business activity were overwhelmingly linked to the reopening of the UK construction supply chain following stoppages and business closures during the early stages of the coronavirus disease 2019 (COVID-19) pandemic.
- Residential work was the best performing area of construction activity in June, experiencing the steepest expansion for just under 5 years. Commercial work and civil engineering also returned to growth in June, although the rates of expansion were softer than seen for house building.
- Employment numbers fell at the end of the second quarter, with panel members reporting that worries about the longer-term demand outlook had led to cautious hiring policies and, in some cases, redundancies alongside furlough arrangements in June.
- Severe supply chain disruptions continued in June, reflecting stronger demand for inputs and reports of constrained materials availability. This resulted in another rise to purchasing costs.



Covid-19 Intelligence

ONS published further information from their fortnightly [Business Impact of Coronavirus Survey](#) (BICS). Businesses were asked for their experiences for the reference period 1st June to 14th June 2020, but for questions regarding expectations in the next two weeks businesses may respond from the point of completion of the questionnaire (any time during 15th June to 28th June 2020):

- 12% of construction firms said they had temporarily closed or paused trading, including 14% of SMEs and 4% of large firms. 15% of firms said that they had started trading in the last two weeks following a pause in trading.
- 3% of construction firms which had not permanently stopped trading said they had no cash reserves. 36% said that they had cash reserves, but these would last less than three months.
- 32% of construction firms still trading said their turnover had decreased by more than 50%. A further 41% said turnover had decreased but by less than 50%.
- The average proportion of the workforce furloughed was 26% for construction businesses still trading and 68% for businesses which had temporarily paused trading. 90% said they had applied for the Coronavirus Job Retention Scheme (furlough) and 52% were deferring VAT payments.

HMRC published experimental statistics about the [Coronavirus Job Retention Scheme](#) in June 2020. Updated information will be published on 15th July:

- By 31st May 145,400 construction employers (equivalent to a PAYE scheme) had furloughed 679,600 staff, with the total value of claims at £1.8 billion.

HMRC have also published experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) in June 2020. Updated information will be published on 15th July:

- Construction is the sector with the highest number of potentially eligible individuals (1.1million) and the highest proportion of claims (75%).
- By 31st May self-employed construction workers had made 800,000 claims for SEISS totalling £2.9bn, an average of £3,600 per claimant. This was the second highest average value behind the finance and insurance activities sector at £4,200.

Construction Output Forecasts for 2020, 2021 and 2022

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

- Output is expected to fall by 24.4% in 2020, due to the impact of Covid-19. It will then grow by 13.9% in 2021 and 8.6% in 2022 to around the level seen in 2016.
- The worst hit sectors are private and public new housing, which are expected to fall by 35% and 38% respectively in 2020. However, both are expected to recover by 25% in 2021 and 10% in 2022. Private commercial new work is forecast to fall by 30% in 2020, with growth of 14% in 2021 and 8% in 2022 only taking the sector back to 2013 levels, due in particular to declines in the retail sector. Private industrial new work is forecast to fall by 16% in 2020, but growth of 13% in 2021 and 5% in 2022 sees the sector returning to 2019 levels.
- Infrastructure new construction is forecast to fall by 14% in 2020, before recovering with growth of 7% in 2021 and 15% in 2022. The strongest driver of growth through the period from 2019 to 2022 is the HS2 project in the rail sector. Public non-housing new work is expected to fall by 19% in 2020, followed by growth of 1% and 6% in 2021 and 2022 respectively, still below the 2019 level.

The **Construction Products Association** have published 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 in 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%).
- In 2021, construction output is expected to rise by 26%. All sectors are expected to rise with infrastructure seeing the biggest increase of 40% due to HS2 works gaining notice to proceed. Private new housing is expected to see the second biggest increase of 36%, due to improving economic conditions and government stimulus through the extension of Help to Buy and incentives for affordable housing. Despite this recovery, output in 2021 is expected to be 6% lower than in 2019.

Gross Domestic Product Forecasts

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

- The mean GDP growth forecast for 2020 is -9.0%, down from -7.9% in the previous month's survey.
- The mean GDP growth forecast for 2021 is 6.1%, unchanged from the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in June 2020:

- UK GDP is projected to fall by 14% in 2020 if there is a second virus outbreak later in the year (the double-hit scenario). An equally likely single-hit scenario would still see GDP fall sharply by 11.5%.
- Under the single hit scenario, the UK experiences the biggest fall in GDP in the G7, albeit very close to France and Italy. Under the double hit scenario, France experiences the biggest fall in GDP in the G7, at 14.1%, with the UK a close second.

Bank of England Summary of Business Conditions

The **Bank of England** published its latest update to the [Agents' Summary of Business Conditions](#) on 18th June 2020, covering intelligence gathered between mid-May and mid-June 2020.

- **Construction sites are reopening in some parts of the UK, but output is still significantly lower than a year ago due to weak private sector demand.** Construction activity resumed on a phased basis in May and June, though mainly on sites where building had already started or was close to completion. Contacts reported that activity was being constrained by social distancing measures as well as by shortages of materials as more sites reopen. Contacts were concerned about the outlook for commercial work over the next two years as enquiries and orders have collapsed. However, public sector projects were holding up and housebuilding activity was resuming slowly.
- **Estate agent contacts in England reported strong demand from buyers and a modest increase in instructions to sell.** Agents around the country noted an increase in interest from buyers looking to move out of London, and in properties that are more suitable for home working. However, there was uncertainty whether the increase in demand would be sustained as the Coronavirus Job Retention Scheme (furlough) is phased out, and contacts were concerned that a rise in unemployment could hamper a recovery in the market. Prices on the secondary market and for new build homes were reported to be broadly unchanged compared with before the pandemic.
- **Investor demand for commercial real estate remains subdued overall,** but there are some signs of activity picking up for distribution, industrial sites, and data centres. By contrast, uncertainty about the rental outlook is deterring investment in office and non-food retail premises. Contacts were concerned about a significant fall in rental income on retail premises when quarterly payments fall due in June, and about the possibility of evictions over the coming months. Rental returns on office space are also below normal, and contacts continue to report that they will need less office space in future. Both factors are adding to uncertainty about valuations of secondary office space.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 1st July 2020.

- There was a 57% decrease in brick deliveries in May 2020 compared to May 2019, according to the seasonally adjusted figures. The month-on-month change shows a 214% increase in May 2020, as both manufacturing and construction firms started to reopen. Production also started to recover but remains 86% lower than in May 2019.
- There was a 40% decrease in concrete block deliveries in May 2020 compared to May 2019, according to the seasonally adjusted figures. The month-on-month change shows a 214% increase in May 2020. Production also started to recover but remains 63% lower than in May 2019.
- Annual materials price inflation in May 2020 was 1.1%, up from -1.0% in April. Annual materials price inflation for different types of construction varied from -1.6% for repair and maintenance to -0.1% for other new work. The biggest price increase was for pipes and fittings (flexible) which rose by 5.7% compared with May 2019. The biggest decrease was for concrete reinforcing bars which fell by 11.0% over the same period.

Builders Merchant Building Index

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

- Total Builders Merchants value sales in April were down 76.3% compared with April 2019. All categories saw heavy falls, with Workwear & Safetywear least affected (-60.2%), and Tools (-90.0%) hit hardest. Kitchens & Bathrooms (-86.8%) and Decorating (-81.6%) were also particularly weak.
- Total merchant value sales in April were 72.1% below March 2020, with two less trading days this month. All categories were severely hit with Services (-59.0%) and Landscaping (-64.5%) the least affected. Tools (-87.4%) and Kitchens & Bathrooms (-85.3%) were weakest. Average sales a day, which removes trading day differences, were 69.3% lower overall than in March.
- Sales in the first four months of 2020 were 25.2% lower than in January to April 2019, with one more trading day this year. Workwear & Safetywear (+4.4%) was the only category that sold more, due to a significant uplift in March. The two weakest categories were Tools (-31.5%) and Timber & Joinery Products (-28.7%). Average sales a day in the first four months were 26.0% lower than last year.

Date of future construction output releases	
Release for:	Publication date:
June 2020	12 th August 2020
July 2020	11 th September 2020
August 2020	9 th October 2020