Monthly Construction Update

Business Statistics Team

11th September 2020

Department for Business, Energy & Industrial Strategy

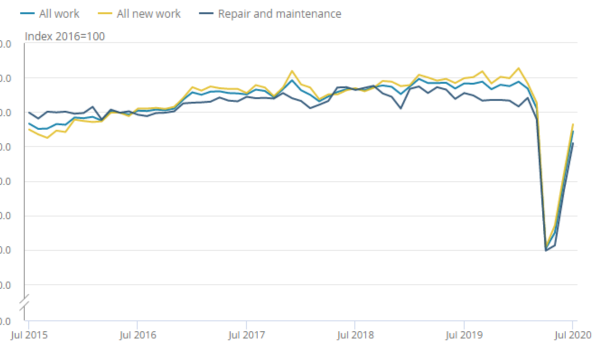
Construction Output grew by 17.6% in July 2020 but fell by 10.6% in the three months to July 2020

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

- Monthly construction output grew by 17.6% in July 2020, following the record monthly growth of 23.5% in June 2020; the level of construction output in July 2020 was 11.6% below the February 2020 level.
- Construction output fell by 10.6% in the three months to July 2020, compared with the previous three-month period; this was driven by falls in both new work (9.7%) and repair and maintenance (12.4%).
- The decrease in new work (9.7%) in the three months to July 2020 was because of falls in every new work sector, apart from infrastructure, which grew by 6.0%; the largest negative contributor was private new housing, which fell by 17.0%.

Figure 2: Both new work, and repair and maintenance continued to rebound in July 2020, though the level of output remains lower than periods prior to the coronavirus pandemic

Monthly index, chained volume measure, seasonally adjusted, Great Britain, July 2015 to July 2020



Source: Office for National Statistics – Construction Output and Employment

- The decrease in repair and maintenance (12.4%) in the three months to July 2020 was because of falls in all repair and maintenance sectors; the largest contributor was private housing repair and maintenance, which fell by 17.9%.

Gross Domestic Product grew by 6.6% in July 2020 but fell by 7.6% in the three months to July 2020

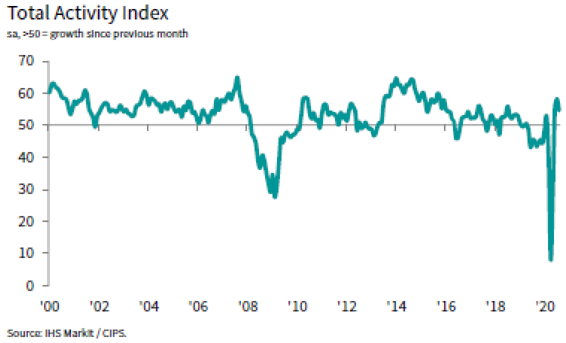
The **Office for National Statistics** also published their estimate of [GDP](#) for July 2020 this morning:

- GDP fell by 7.6% in the three months to July 2020. The services sector fell by 8.1% in the three months to July 2020, production fell by 3.5% and construction fell by 10.6% in the same period.
- GDP grew by 6.6% in July 2020 compared with June 2020, following growth of 8.7% in June 2020. Despite this, the level of output did not fully recover from the record falls seen across March and April 2020, and has reduced by 11.7% compared with February 2020, before the full impact of the coronavirus pandemic. Services grew by 6.1% in July, production grew by 5.2% and construction grew by 17.6%.

IHS Markit CIP UK Construction Purchasing Managers Index for July 2020

IHS Markit CIPS published their latest construction purchasing managers index for August on 4th September 2020.

- The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered 54.6 in August, down from 58.1 in July. Any figure above 50.0 indicates growth of total construction output. Higher levels of activity have been recorded in each of the past three months, but the latest expansion was the weakest over this period. All three broad categories of construction provided a weaker contribution to the headline index in comparison to those seen in July.



- House building has registered the strongest rebound since the stoppages of work on site in late-March due to the coronavirus disease 2019 (COVID-19) pandemic. This trend continued in August, with the seasonally adjusted Housing Activity Index posting well inside expansion territory (60.7). The equivalent figures for commercial work (52.5) and civil engineering activity (46.6) were notably weaker than the headline index in August.

- Total new business volumes increased for the third month running during August, but the rate of expansion remained only modest and slowed since July. Construction companies noted that economic uncertainty and a wait-and-see approach among clients had limited their opportunities to secure new work.

- Supply chain disruption persisted across the construction sector, which led to another sharp downturn in vendor performance. Stock shortages and an imbalance of supply and demand for construction inputs contributed to higher purchasing costs. The overall rate of input price inflation was the highest since April 2019.

- Despite reporting subdued new business intakes since the start of the pandemic, construction companies reported an improvement in their business expectations for the year ahead. More than twice as many survey respondents (43%) expect a rise in construction output over the next 12 months as those that anticipate a fall (19%). This was often linked to hopes of a boost from major infrastructure projects and resilient public sector construction spending. However, an expected rise in business activity could not prevent a further drop in staffing numbers.

Covid-19 Intelligence

ONS published further information from their fortnightly Business Impact of Coronavirus Survey (BICS) on 10th September. Businesses were asked for their experiences for the reference period 10th August to 23rd August 2020.

- 1.5% of construction firms said they had temporarily closed or paused trading. By size, 1.9% of construction SMEs and 0.0% of large construction firms had temporarily closed or paused trading. 1.8% of all construction firms said that they had started trading in the last two weeks following a pause in trading.

- 5.2% of construction firms still trading said their turnover had decreased by more than 50%. A further 38.8% said turnover had decreased but by less than 50%.

- 6.2% of construction firms which had not permanently stopped trading said they had no cash reserves. 32.1% said that they had cash reserves, but these would last less than three months.

- The average proportion of the workforce on partial or furlough leave was 11.5% for construction businesses still trading. 82.5% of construction businesses who had not permanently stopped trading said they had applied for the Coronavirus Job Retention Scheme (furlough) and 46.1% were deferring VAT payments.

  HMRC published experimental statistics about the Coronavirus Job Retention Scheme on 21st August 2020. Updated information will be published on 22nd September:

- By 31st July, 174,000 construction employers (equivalent to a PAYE scheme) had furloughed 769,300 staff (or 60% of those eligible), with the total value of claims at £2.9 billion.

  HMRC have also published experimental statistics on the Self-Employment Income Support Scheme (SEISS) on 21st August 2020. Updated information will be published on 22nd September:

- Construction is the sector with the highest number of potentially eligible individuals (1.1 million).

- By 31st July, self-employed construction workers had made 884,000 claims for SEISS totalling £3.1bn, an average of £3,500 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 in August 2020, with the main scenario including a relaxation of social distancing restrictions from mid-May and a recovery in construction activity from June:

- Despite activity on site returning slightly quicker than initially expected post-lockdown, the CPA Summer Scenarios still anticipates construction output in 2020 to fall by 20.6%, with the worst affected sectors including private housing (-33%) and commercial (-29%).

- Construction output is anticipated to rise by 18.0% overall in 2021, however this is compared with a low base of activity in 2020 and will still be 6.4% lower than pre-coronavirus levels. The delivery of major infrastructure projects will be crucial to growth in 2021, with activity on site less affected by social distancing and major projects like HS2 driving significant growth for the sector.

Gross Domestic Product Forecasts

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

- The mean GDP growth forecast for 2020 is -9.9%, down from -9.2% in the previous month's survey.

- The mean GDP growth forecast for 2021 is 6.4%, up from 5.9% growth in 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 2nd September 2020.

- There was a 12% decrease in brick deliveries in July 2020 compared to July 2019, according to the seasonally adjusted figures. The month-on-month change shows a 33% increase in July 2020, as both manufacturing and construction firms continued to reopen. Production also continued to recover but remains 26% lower than in July 2019.

- There was a 2% decrease in concrete block deliveries in July 2020 compared to July 2019, according to the seasonally adjusted figures. The month-on-month change shows an 18% increase in July 2020. Production recovered strongly and is now 5% higher than in July 2019.

- Annual materials price inflation in July 2020 was 0.1%, down from 1.1% in June. Annual materials price inflation for different types of construction varied from -1.5% for repair and maintenance to 0.0% for other new work. The biggest price increase was for pipes and fittings (flexible) which rose by 5.8% compared with July 2019. The biggest decrease was for concrete reinforcing bars which fell by 9.7% over the same period.

Builders Merchant Building Index

The Builders Merchant Building Index for Q2 2020 was published by the **Builders Merchants Federation** and **GfK** on 25th August 2020.

- At the end of Q1 the sector was down by -6.7% in value, with Q2 down by -38.6%. Individually, April, May and June showed great contrast. April, with almost a full lockdown, saw a year on year decline of -76.5% as most merchants only provided essential deliveries to active trade account holders. May recovered to -39.9% as restrictions were relaxed, while June grew 2.2% thanks to a combination of relaxed restrictions, good weather and a booming Landscaping category.

- Landscaping surged with a growth of 50.3% from June 2019 to June 2020, while the other core categories of Heavy Building Materials and Timber & Joinery saw increases of 0.2% and 1.4% respectively. Landscaping growth was driven by Garden Walling / Paving, Fencing & Gates, and Decking, which more than doubled in value from June 2019 to June 2020.

- Year to date (January to June 2020) Heavy Building Materials and Timber & Joinery decreased -23.9% and -25.9% respectively against the same period in 2019. The former's June recovery was driven by strong Cement, Aggregates and Roofing performance, while the latter had a strong Timber performance in June.

Date of future construction output releases	
Release for:	*Publication date:*
August 2020	9th October 2020
September 2020	12th November 2020
October 2020	10th December 2020

Business Statistics team | Analysis Directorate | Department for Business, Energy and Industrial Strategy
materialstats@beis.gov.uk