

Monthly Construction Update

Business Statistics Team

10th December 2020



Department for
Business, Energy
& Industrial Strategy

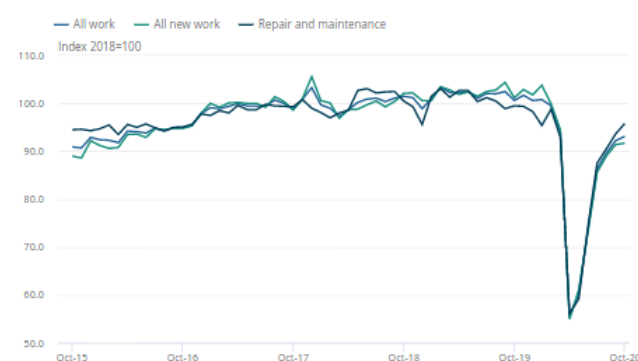
Construction Output grew by 1.0% in October 2020 and by 24.9% in the three months to October 2020

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

- Construction output grew by 1.0% in the month-on-month all work series in October 2020, because of increases in both new work (0.3%) and repair and maintenance (2.3%); this is the sixth consecutive month of growth but the smallest monthly increase in that time.
- Monthly growth in October 2020 (1.0%) was because of increases in all sectors, apart from private new housing and private commercial new work.
- The level of construction output in October 2020 was 6.4% below February 2020, with only infrastructure having recovered above this pre-lockdown level of output.
- Construction output grew by 24.9% in the three months to October 2020 compared with the previous three-month period, because of growth in both new work (23.8%) and repair and maintenance (26.8%).

Figure 2: The level of repair and maintenance output in October 2020 was closer to its February 2020 pre-pandemic level of output than new work

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



Source: Office for National Statistics - Construction Output and Employment

Gross Domestic Product grew by 0.4% in October 2020, but remains 7.9% lower than in February 2020

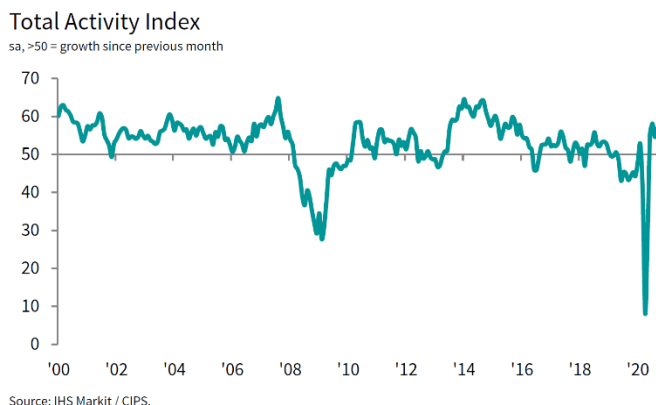
The **Office for National Statistics** also published their estimate of [GDP](#) for October 2020 this morning:

- GDP grew by 0.4% in October 2020. The services sector grew by 0.2%, production grew by 1.3% and construction grew by 1.0% in the same period.
- The increase in October is the sixth consecutive monthly increase in GDP following a record fall of 19.5% in April 2020. October 2020 GDP is now 23.4% higher than its April 2020 low. However, it remains 7.9% below the levels seen in February 2020, before the full impact of the coronavirus (COVID-19) pandemic.

IHS Markit CIP UK Construction Purchasing Managers Index for November 2020

IHS Markit CIPS published their latest [construction purchasing managers index](#) for November on 4th December 2020.

- November PMI data indicated a sustained recovery in UK construction output, with the rate of expansion accelerating from the previous month. There were also positive signals for the near-term outlook as new order volumes expanded at the quickest pace for just over six years. However, employment trends remained relatively weak across the construction sector and stretched supply chains resulted in a sharp increase in average cost burdens.



- At 54.7 in November, up from 53.1 in October, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered above the 50.0 no-change value for the sixth consecutive month. The latest reading pointed to a solid increase in total construction output, although the rate of growth remained softer than the peak seen in July.
- All three broad categories of activity saw higher output in November. Construction companies indicated that house building was the best-performing area in November (index at 59.2), despite the rate of growth easing since October. Civil engineering returned to growth in November (52.3), while commercial work increased only marginally (51.9) and at the slowest rate for six months.
- New business volumes expanded at a robust and accelerated pace in November. The latest improvement in construction order books was the steepest since October 2014, which survey respondents attributed to a recovery in tender opportunities and improving confidence among clients. Greater workloads also contributed to a strong increase in purchasing activity during November, with the growth rate reaching its highest for just over six years.
- Rising demand for construction products and materials placed additional pressure on supply chains in November. This was signalled by another sharp lengthening of lead-times among vendors. Survey respondents often commented on transport delays and stock shortages. Meanwhile, input costs increased at the fastest rate since April 2019 amid stretched supply across the sector, with construction firms commenting on particularly sharp rises in timber prices.

Business Insights and Impact on the UK economy

The Office of National Statistics published further information from their fortnightly [Business Impact of Coronavirus Survey \(BICS\)](#) in [Business insights and impact on the UK economy](#), on 3rd December. Businesses were asked for their experiences for the reference period 16th November to 29th November 2020.

- Weighted by count, 9.7% of all construction firms surveyed said they had temporarily closed or paused trading and did not intend to restart in the next two weeks. Some 6.6% had paused trading but intended to re-start in the next two weeks. A further 3.4% said that they had started trading within the last two weeks after a pause in trading
- Weighted by turnover, 5.7% of construction firms still trading said turnover had decreased by more than 50%. A further 31.5% said turnover had decreased, but by less than 50%.
- Weighted by turnover, 6.9% of construction firms which had not permanently stopped trading said they had no cash reserves. 32.5% said they had cash reserves, but these would last less than three months.
- Weighted by employment, the average proportion of the workforce on partial or furlough leave was 2.7% for construction businesses still trading.
- Weighted by count, 28.2% of construction businesses who had not permanently stopped trading said they were using, or intending to use, the Coronavirus Job Retention Scheme (furlough).
- Weighted by count, 11.0% of construction businesses who had not permanently stopped trading said they had no or low confidence they would survive the next 3 months, whilst 43.8 had moderate confidence.
- Weighted by count, 5.5% of currently trading construction businesses said they were not prepared for the end of the EU transition period, 10% said they were somewhat prepared, 7.2% said they were fully prepared, 68.8% said it was not relevant for their business. Of businesses where preparation for the end of the transition period was relevant, the construction industry along with transportation and storage, had the highest percentages of businesses that said they were not prepared for the end of the EU transition period, at 18%.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 25th November 2020.

- In construction, furloughing peaked on 14 April with 724,000 employments furloughed, falling to 569,000 on 31st May, 404,000 on 30 June, 296,000 on 31st July, 196,000 on 31st August and 147,000 on 30th September. The total value of claims up to 31st September was £3.7 billion.

HMRC also published further experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) on 25th November 2020.

- Construction is the sector with the highest number of potentially eligible individuals (1.1 million) for the second SEISS grant.
- By 31st October, self-employed construction workers had made 800,000 claims for the second SEISS grant, totalling £2.4bn, an average of £3,100 per claimant. This was the second highest average value behind the finance and insurance activities sector at £3,600.

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 and 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. 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 October 2020.

- The CPA main scenario for construction output in 2020 anticipates a 14.5% fall as the construction industry shows promising signs of recovery from the coronavirus pandemic. Demand for new private housing and private housing repair, maintenance and improvement (rm&i), as well as strong growth in the infrastructure sector, are expected to support recovery for the industry towards the end of this year and into the next following historic falls in output during lockdown.
- The prospects, however, of both a deterioration in labour market conditions along with a potential 'No Deal' Brexit deal at the end of December mean that the upcoming winter will be decisive for how far such a recovery can be sustained.
- Construction output is anticipated to rise by 13.5% in 2021 following the sharpest fall on record in 2020.

Gross Domestic Product Forecasts

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

- The mean GDP growth forecast for 2020 is -11.0%, down from -10.1% in the previous month's survey.
- The mean GDP growth forecast for 2021 is 4.7%, down from 5.7% growth in the previous month's survey.

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

- UK GDP is projected to fall by 11.2% in 2020 and grow by 4.2% in 2021.
- After a strong decline this year, global GDP is projected to rise by around 4.25% in 2021, and a further 3.75% in 2022. Overall, by the end of 2021, global GDP would be at pre-crisis levels, helped by the strong recovery in China, but performance would differ markedly across the main economies.

Bank of England Summary of Business Conditions

The **Bank of England** published its latest update to the [Agents' Summary of Business Conditions](#) on 17th September 2020, covering intelligence gathered between mid-July and late August 2020.

- Contacts reported strong demand in public sector work, in part supported by a government scheme to fund infrastructure projects, which resulted in some projects being brought forward. Housebuilding activity was reported to have picked up, though mostly to complete projects, rather than start new ones. While housing market activity had recently picked up, contacts were uncertain about how long that upturn would be sustained and were cautious about the outlook for housebuilding.
- Smaller builders said there had been an increase in home maintenance and improvement work, as households reassessed their living and working space during lockdown. By contrast, demand for office-related work was muted as companies considered the return to onsite working and their need for office space in future.
- Many contacts said that they were operating at near full capacity in order to catch up on time lost during the pandemic and complete projects. They reported taking a variety of measures to maintain operating capacity while observing social distancing requirements, such as extending site working hours and providing personal protective equipment. Nonetheless, turnover this year was still likely to be lower compared with a year ago.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 4th December 2020.

- There was a 4.3% decrease in brick deliveries in October 2020 compared to October 2019, according to the seasonally adjusted figures. The month-on-month change shows a 3.7% increase in October 2020.
- Imports of construction materials increased by £1,046 million in Q3 2020 compared to the previous quarter, an increase of 35.1%. Exports of construction materials increased by £212 million in Q3 2020 compared to the previous quarter, an increase of 14.2%. As a result, between Q2 2020 and Q3 2020, the quarterly trade deficit widened by £833 million to £2,319 million, an increase of 56.1%.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for quarter 3 2020 was published by the **Builders Merchants Federation** and **GfK** on 23rd November 2020.

- Total Builders' Merchants' sales up by 63.2% in Quarter 3 2020 compared to Quarter 2 2020 (+53.2% when adjusted for trading days in each quarter). September 2020 sales increased by 8.3% compared to September 2019, albeit with one extra trading day.
- Total Builders' Merchants' sales in Q3 2020 saw growth of 1.0% compared to Q3 2019. Of the two largest categories, Timber & Joinery grew by 3.5% in value from Q3 2019, while Heavy Building Materials saw a decrease of 1.0%.
- Landscaping was the big winner with year-on-year sales growth of 24.2% in value, with performance driven by Decking, Garden Walling / Paving and Fencing & Gates, which all saw substantial growth from last year. Timber was the key driver in Timber & Joinery growth, with Cladding also contributing. Heavy

Building Materials' small decline was due to a mix of single digit increases and decreases across the board, with Aggregates, Bricks, Cement and Roofing Products the best performing subcategories.

- Year on year sales declined in some categories, with both Plumbing, Heating & Electrical (-11.9%) and Kitchens & Bathrooms (-7.1%) down on Q3 2019.

Date of future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
November 2020	15 th January 2021
December 2020	10 th February 2021
January 2021	12 th March 2021

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