

Monthly Construction Update

Business Statistics Team

12th March 2021



Department for
Business, Energy
& Industrial Strategy

Construction output grew by 0.9% in January 2021

The **Office for National Statistics** published a provisional estimate of [construction output](#) for January 2021 this morning:

- Construction output grew by 0.9% in the month-on-month all work series in January 2021; this return to growth follows the 2.9% decline in December 2020.

- The level of output in January 2021 was 2.6% below the February 2020 level; the level of new work was 6.4% below this level, while repair and maintenance work was 4.5% above this level despite a monthly fall.

- New work increased by 1.7% in January 2021 and was driven by private commercial and infrastructure, which grew by 4.5% and 3.1% respectively.

- Repair and maintenance decreased by 0.4% in January 2021 because of a 4.7% fall in private housing repair and maintenance, despite growth of 5.0% in public housing and 1.3% in non-housing repair and maintenance.

- Construction output grew by 1.7% in the three months to January 2021 compared with the previous three-month period, because of growth in both new work (2.2%) and repair and maintenance (0.8%).

Figure 1: The monthly index shows that the level of construction output in January 2021 still remains below the February 2020 level

Monthly all work index, chained volume measure, seasonally adjusted, Great Britain, January 2010 to January 2021



Gross Domestic Product fell by 2.9% in January 2021

The **Office for National Statistics** also published their estimates of GDP for [January 2021](#) this morning:

- GDP is estimated to have fallen by 2.9% in January 2021, after growing by 1.2% in December 2020.
- The services sector fell by 3.5% and production fell by 1.5% in January 2021, whilst construction grew by 0.9% in the same period.
- January's GDP was 9.0% below the levels seen in February 2020, compared with 4.0% below October 2020 (the initial recovery peak)

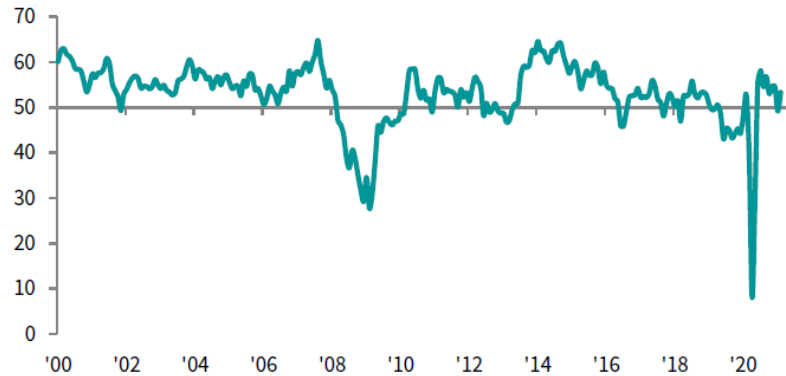
IHS Markit CIP UK Construction Purchasing Managers Index for January 2021

IHS Markit CIPS published their latest [construction purchasing managers index](#) for February 2021 on 4th March 2021.

- UK construction companies experienced a return to growth in February after a setback at the start of 2021, according to the latest PMI data. New orders regained momentum as project starts increased in anticipation of improving UK economic conditions. Extended supplier lead times persisted in February as vendors struggled with transport delays and stronger demand conditions. Stretched global supply chains, greater shipping charges and rising commodity prices contributed to the sharpest increase in average cost burdens across the sector since August 2008.

UK Construction PMI® Total Activity Index

sa, >50 = growth since previous month

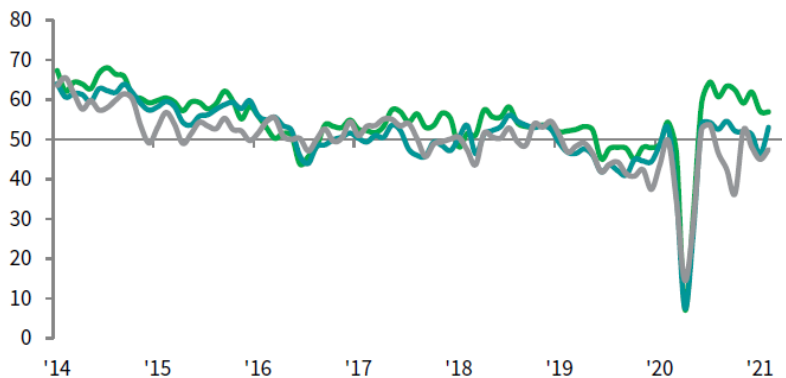


Source: IHS Markit / CIPS.

UK Construction PMI® Total Activity Index by category

Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



Source: IHS Markit / CIPS.

- At 53.3 in February, up from 49.2 in January, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index signalled a solid increase on overall construction output. The index has registered above the 50.0 no-change mark in eight of the past nine months.

- Residential work remained the strongest area of growth in February, although the speed of recovery eased slightly since January. There were some reports citing temporary delays on site arising from adverse weather and supply chain issues (especially for timber).
- The slowdown in house building was more than offset by the sharpest rise in commercial work since last September and a slower fall in civil engineering activity. Survey respondents commented on contract awards for commercial building that had been delayed earlier in the pandemic and some reported a boost from infrastructure work related to major transport projects.
- New order volumes increased for the ninth consecutive month in February and the rate of expansion accelerated from the subdued pace seen at the start of the year. Construction companies cited improving demand across a range of sources, including residential development, new opportunities in the commercial segment and public sector infrastructure spending.

- Greater workloads encouraged additional staff recruitment. Although only modest, the rate of job creation was the fastest since March 2019. Similarly, input buying picked up as construction firms prepared for new project starts. Improving order books and early signs that the vaccine rollout will release pent up demand also led to the strongest degree of construction sector optimism for over five years. Meanwhile, purchasing prices increased at a rapid pace in February. Survey respondents cited an imbalance of demand and supply, alongside inflationary pressures from the pass through of higher transportation costs.

Business Insights and Impact on the UK economy

The Office of National Statistics published [Business insights and impact on the UK economy](#), on 11th March, based on responses from the voluntary fortnightly business survey (BICS). Businesses were asked for their experiences for the reference period 22nd February 2021 to 7th March 2021.

- Weighted by count, 11.0% of all construction firms surveyed said they had paused trading and did not intend to restart in the next two weeks. Some 7.2% had paused trading but intended to re-start in the next two weeks. A further 1.9% said that they had started trading within the last two weeks after a pause in trading.
- Weighted by turnover, 3.8% of construction firms still trading said turnover had decreased by more than 50%. A further 34.8% said turnover had decreased, but by less than 50%.
- Weighted by turnover, 5.2% of construction firms which had not permanently stopped trading said they had no cash reserves. 34.2% 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 4.6% for construction businesses that had not permanently stopped trading.
- Weighted by count, 37.0% of construction businesses that had not permanently stopped trading said they were using, or intending to use, the Coronavirus Job Retention Scheme (furlough).
- Weighted by count, 8.8% of construction businesses that had not permanently stopped trading said they had no or low confidence they would survive the next 3 months, whilst 43.6% had moderate confidence.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 25th January 2021.

- In construction, furloughing peaked on 14 April 2020 with 724,000 employments furloughed, falling to 596,000 on 31st May, 404,000 on 30 June, 300,000 on 31st July, 204,000 on 31st August, 163,000 on 30th September, 131,000 on 31st October, 170,000 on 30th November, 193,000 on 31st December and 244,000 on 31st January. The total value of claims up to 30th October was around £3.8 billion.
- Between 1st November 2020 and 31st December 2020 there were an additional £353 million in claims. The provisional value of claims made between 1st November 2020 and 31st January 2021 was £595 million.

HMRC also published further experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) on 25th February 2021.

- Construction is the sector with the highest number of potentially eligible individuals (1.0 million) for the third SEISS grant.

- By 31st January 2021, self-employed construction workers had made 747,000 claims for the third SEISS grant, totalling £2.6bn, an average of £3,500 per claimant. This was the second highest average value behind the finance and insurance activities sector at £4,000.

Construction Output Forecasts for 2020, 2021 and 2022

Experian published their Winter 2020/21 [forecasts](#) for the construction sector in January 2021:

- All construction sectors are estimated to have seen a decline in output in 2020 as projects struggled to put in place Covid-19 safety protocols, especially during the first national lockdown in the second quarter of the year. However, the falls were by no means uniform, with some sectors faring relatively better than others.
- Construction output is expected to fall by 16.6% in 2020 and then grow by 11.5% in 2021 and 7.6% in 2022.
- Total new work is forecast to fall by 17% in 2020, and then recover by 13% in 2021 and 8% in 2022. Total housing, private industrial and private commercial sub-sectors are all forecast to fall by between 21% and 23% in 2020. Infrastructure is forecast to experience the smallest fall of the subsectors in 2020 (5%).
- Repair and maintenance is forecast to fall by 15% in 2020 before recovering by 9% in 2021 and 6% in 2022.

The **Construction Products Association** published scenarios for construction as part of their analysis of the [market impact](#) in January 2021.

- The CPA's latest Construction Industry Scenarios sees a 'W'-shaped economic recession and recovery as its main assumption, with construction output expected to rise 14% in 2021 and 4.9% in 2022. This takes account of lockdown restrictions over winter 2020/21 before a sustained recovery from 2021 Q2 as vaccines are rolled out and the services-based economy can reopen again.
- With government making it clear that the construction and manufacturing sectors should continue to operate despite Covid-19 restrictions, output has been able to rise and recover relatively rapidly. The 14.0% rise in 2021 follows an estimated contraction of 14.3% overall in 2020 caused by the sharp fall in the first half of last year. Output is only expected to recover to pre-Covid levels in 2022. There is also the risk that once furlough and self-employment support schemes end in April, there may be a sharp rise in unemployment that could potentially dampen this recovery.
- The CPA's Scenarios show that private housing was one of the quickest sectors to recover in 2020, with mortgage lending and property transactions above pre-COVID-19 levels at the end of the year. A slower recovery has been seen in the commercial sector, with store closures and low rent collection in retail and leisure as well as the shift to working from home causing uncertainty for the offices sub-sector. Homeworking has had a positive impact on the private housing RM&I sector, with households investing accumulated savings from lower daily expenditure back into homes.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [forecast survey](#) (which uses an average of private sector forecasts) results were published in March 2021.

- The mean GDP forecast for 2021 is 4.6% growth, up from 4.2% growth in the previous month's survey.
- The mean GDP growth forecast for 2022 is 5.8%, up from 5.6% in the previous month's survey.

The **OECD** updated their [Economic Outlook](#) in March 2021:

- UK GDP was projected to fall by 9.9% in 2020 and grow by 5.1% in 2021.
- Global GDP was projected to rise by around 5.5% in 2021, and a further 4.0% in 2022. But despite the improved global outlook output and incomes in many countries at the end of 2022 will remain below the level expected prior to the pandemic.

Bank of England Summary of Business Conditions

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

- Activity picked up in most areas except for commercial development, with output mostly supported by infrastructure projects. Contacts reported that public sector repair and maintenance work was holding up, and demand for household repair and maintenance work was strong. This had resulted in shortages of some materials, constraining output.
- Construction of private new build housing was reported to be close to normal levels, driven in part by strong consumer demand. However, contacts said they expected demand to slow in the coming months when government support measures, such as the temporary reduction in stamp duty and the current form of the Help to Buy scheme, come to an end. And construction of social housing was weaker than for private housing due to the postponement of projects.
- Contacts expressed concerns about the weak pipeline of commercial projects, such as office and retail development, which could weigh on output in 2021. There was also some concern that public projects could be delayed due to budget constraints. However, there were hopes that investment in green projects would support activity further.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 3rd March 2021.

- In 2020, imports of construction materials decreased by 12.8% compared to 2019, from £18,144 million to £15,823 million.
- In the same period exports decreased by 10.8%, from £7,723 million to £6,887 million.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for Q4 2020 was published by the **Builders Merchants Federation** and **GfK** on 25th February 2021.

- Total builders' merchants' sales in quarter 4 were up 5.4% on Q4 2019, helped by one more trading day this year. Growth was driven by three main categories; Landscaping (+22.9%), Timber & Joinery (+12.7%) and Heavy Building Materials (+4.3%). The Plumbing Heating & Electrical (-6.0%) category did least well.
- In December merchants' value sales were up 8.8% on December 2019, helped by two more trading days this year. Eight categories sold more, led by Landscaping (+25.1%) and Timber & Joinery Products (+20.3%). Of the main categories, Decorating (-4.7%) was weakest.
- Looking at 2020 as a whole, total sales value was down by -10.7% on 2019. Given the public's focus on their gardens during the first lockdown, it is no surprise that landscaping was the only category to show an annual increase in sales value compared to 2019 (+5.4%).

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
February 2021	13 th April 2021
March 2021	12 th May 2021
April 2021	11 th June 2021

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