Monthly Construction Update

Business Statistics Team

13th October 2021

Department for Business, Energy & Industrial Strategy

Construction output fell by 0.2% in August 2021

The **Office for National Statistics** published a provisional estimate of construction output for August 2021 this morning:

- Monthly construction output fell 0.2% in volume terms in August 2021 with the level of output now 1.5% below its pre-coronavirus (COVID-19) pandemic (February 2020) level. New work remained flat this month (0.0%) with repair and maintenance falling (0.6%) on the month; anecdotal evidence from businesses continued to suggest that product shortages caused by supply chain issues and subsequent price rises were the main reasons for the decline.

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

Source: Office for National Statistics - Construction Output and Employment

- The level of construction output in August 2021 was 1.5% (£214 million) below the February 2020 pre-pandemic level; new work was 3.7% (£348 million) below the February 2020 level, while repair and maintenance work was 2.7% (£135 million) above the February 2020 level.

- The recovery to date, since the start of the pandemic, is mixed at a sector level, shown with infrastructure 45.4% (£852 million) above and private commercial 26.3% (£656 million) below their respective February 2020 levels in August 2021.

- Alongside the monthly fall in August, construction output fell 1.2% in the three months to August 2021, the first three-monthly fall since July 2020, driven by a fall in repair and maintenance of 4.7%.

- In the latest release, the earliest period open to revision is January 2011, and is the first time the monthly path has been published that is consistent with the Quarter 2 2021 Quarterly National Accounts published on 30 September 2021.

Gross Domestic Product grew by 0.4% in August 2021

The **Office for National Statistics** published their estimates of GDP for August 2021 this morning:

- GDP is estimated to have grown by 0.4% in August 2021 and remains 0.8% below the pre-coronavirus (COVID-19) level (February 2020).

- Services output grew by 0.3% in August 2021 with output in consumer-facing services increasing by 1.2%, while all other services rose by 0.1%; all other services are now 0.4% above their pre-pandemic levels, while consumer-facing services remain 4.7% below.

- Accommodation and food service activities, and arts, entertainment and recreation contributed most positively to services growth in August 2021, partially offset by falls in health output and retail trade.

- Production output increased by 0.8% in August 2021, mainly because of the continued increase in the extraction of crude petroleum and natural gas following the recent temporary closure of oil field production sites for planned maintenance.

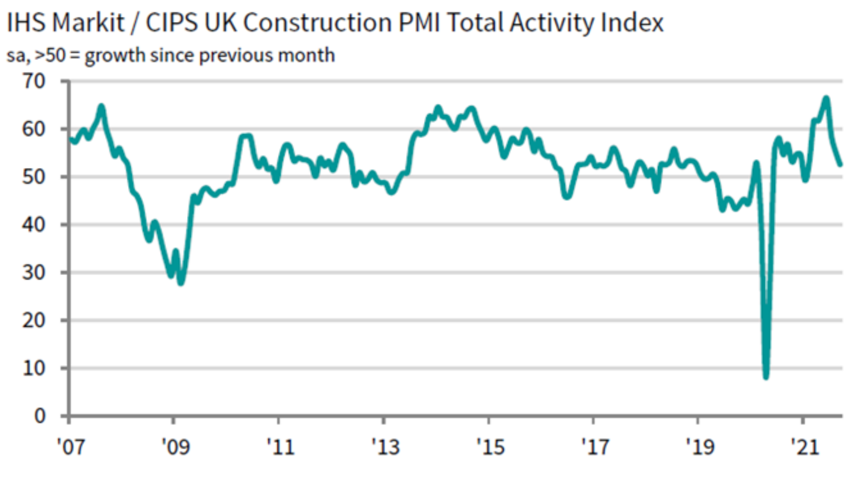
- Construction contracted, with output down by 0.2% in August 2021; the sector is now 1.5% below its pre-pandemic level.

- GDP growth for July 2021 has been revised from 0.1% growth to a 0.1% fall; mainly because of downwardly revised data for the manufacture of motor vehicles, oil and gas, and improvements to how health output is measured.

IHS Markit CIP UK Construction Purchasing Managers Index for September 2021

IHS Markit CIPS published their latest construction purchasing managers index for September 2021 on 6th October 2021.

- September data revealed another growth slowdown in the construction sector, with output volumes rising to the smallest extent for eight months. This partly reflected softer demand conditions than the peak seen earlier in the summer. Survey respondents also cited disruptions on site from unavailable transport, a severe lack of materials and continued staff shortages.



Sources: IHS Markit, CIPS.

- At 52.6 in September, down from 55.2 in August, the headline seasonally adjusted IHS Markit/CIPS UK Construction PMI Total Activity Index dropped further below the 24-year high seen in June (66.3). The latest reading signalled only a moderate expansion of total construction output and the weakest speed of recovery for eight months.

- All three broad categories of construction activity saw a loss of momentum in September, with the biggest slowdown seen in civil engineering (51.0, down from 54.8 in August).

- House building also decelerated in September, with the latest expansion the weakest since the recovery began in June 2020 (52.8). This left the commercial segment (53.6) as the best performing category during September.
- Construction companies recorded a moderate increase in new work during September, with the rate of growth easing sharply to its weakest since the start of 2021.
- September data indicated another strong rise in employment numbers across the construction sector, driven by greater workloads and stretched business capacity. However, the latest rise in staffing levels was the least marked since April, which partly reflected long wait times to fill vacancies.
- Purchase prices increased rapidly in September, although the rate of inflation eased further from June's all-time peak.
- The latest survey illustrated that construction firms remained highly upbeat about the business outlook. Just over half (51%) forecast rising output, while only 8% anticipate a decline. However, the degree of confidence was weaker than August.

Business Insights and Impact on the UK economy

The Office of National Statistics published Business insights and impact on the UK economy on 7th October 2021, based on responses from the voluntary fortnightly business survey (BICS).

- Between 20th September and 3rd October 2021, weighted by count, 7.0% of all construction firms surveyed said they had paused trading and did not intend to restart in the next two weeks.
- Between 6th September and 19th September 2021, weighted by count, 25.5% of construction firms currently trading said turnover had decreased compared with normal expectations. A further 47.2% of construction firms reported turnover had not been affected, whilst 3.8% said turnover had increased.
- Between 6th September and 19th September 2021, weighted by count, 51.6.% of construction firms currently trading said that prices of materials, goods or services had increased more than normal. The construction industry has shown a steady increase in prices of materials, goods and services bought since May 2021.
- Between 6th September and 19th September 2021, weighted by employment, the average proportion of the workforce on partial or furlough leave was 7.4% for construction businesses that had not permanently stopped trading. This compares with a figure of 5.3% for all industries.

HMRC updated experimental statistics about the Coronavirus Job Retention Scheme on 7th October 2021. The scheme ended on 30th September 2021.

- In construction, furloughing peaked on 14 April 2020 with 724,000 employments furloughed, falling to 131,000 on 31st October, before rising to 246,000 on 31st January 2021. On 28th February 2021 there were 231,000 furloughed employments, falling to 140,500 on 31st May. The latest published figure is 100,700 on 31st August 2021, the lowest level since the scheme began.
- The provisional value of claims between 1st May 2021 and 31st August 2021 was around £432 million, with a provisional take-up rate of 8% in the construction sector.

HMRC published further experimental statistics on the Self-Employment Income Support Scheme (SEISS) on 7th October 2021. The scheme ended on 30th September 2021.

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

- By 15th September 2021, self-employed construction workers had made 370,000 claims for the fifth SEISS grant, totalling £966 million, an average of £2,600 per claimant. This was the second highest average value behind the finance and insurance activities sector at £2,900.

Construction Output Forecasts for 2021 and 2022

Experian published their Autumn 2021 forecasts for the construction sector in October 2021:

- Construction output is expected to bounce back strongly this year, regaining most of the ground lost in 2020. Quarterly data supports this scenario, with output up 2% q-on-q in 2021Q1 and by 3% in Q2. Recent monthly data paints a somewhat weaker picture, with output falling m-on-m since April, at an increasing rate. Nevertheless, given this year's starting point compared with the nadir of output in 2020Q2, it is almost inevitable that strong growth will be posted in 2021. Expansion is predicted to slow in 2022 but remain relatively robust, before a return to more normal rates of increase in 2023.

- All the major construction sectors are projected to experience growth over the 2021-2023 period, but a handful are likely to remain smaller in 2023 compared with their pre-pandemic levels in 2019 due to the depth of the decline in 2020 and/or the strength of recovery.

- The prospects for public housing have not changed substantively since the summer forecasts, with the recovery in the sector not strong enough to return it to pre-pandemic output levels by the end of the current forecast period. Output in the first half of this year has been 19% higher than in the corresponding period of 2020, but the differential is likely to narrow sharply in the second half.

- In purely growth terms, forecasts for private housing over the next three years are not much stronger than those for the public housing sector, but as the former saw a much shallower decline in 2020, it is expected to exceed its pre-pandemic output level by next year.

- The infrastructure sector saw the shallowest fall in output (5%) of any of the new work sectors in 2020 and with growth of 19% expected this year, it should exceed its pre-pandemic level and set a record high.

- Little has changed in forecasts for the public non-residential sector since the summer, except for a small uplift in the projected growth rate in 2022, with the level of new orders improving markedly in 2021Q2 on a four-quarter moving total basis. While growth in the sector over the next three years is expected to be at the lower end of the range across construction sectors, public non-residential output held up relatively well in 2020 and is predicted to exceed pre-pandemic levels in 2022.

- Overall, growth in commercial construction over the next three years is expected to be slightly stronger than predicted in the summer, with a slightly worse 2021 but a better 2022. However, the sector is still one of two, the other being public housing, where output in 2023 is projected to remain under 2019's level.

- There is not a great deal of difference between the expected performance of the repair & maintenance (R&M) and new work sectors over the next three years (annual average growth of 7.4% vs. 7.8%). However, the former experienced a significantly smaller fall in output in 2020 than the latter (10% vs.16%).

The **Construction Products Association** published scenarios for construction as part of their analysis of the market impact in July 2021.

- Construction output is buoyant and is forecast to rise by 13.7% in 2021 and 6.3% in 2022. The positive outlook comes despite the constraints of shortages and cost rises in imported construction products and skilled labour over the next 12 months. Infrastructure and private housebuilding are expected to be key drivers of construction growth in 2021 and 2022, while the outlook for the commercial sector remains subdued.

- Major projects such as the nuclear power station Hinkley Point C, the Thames Tideway tunnel and the High Speed 2 (HS2) rail project are central to strong output in the infrastructure sector. While the CPA has revised down its infrastructure forecast for 2021 to 23.4%, it has upwardly raised its forecast for 2022 to 9.7% for 2022 owing to further delays and cost overruns on major projects.

- Major house builders report that demand in the housing market and house price inflation continues to be robust. The CPA forecasts house building starts to rise by 20.9% in 2021 and a further 9.0% in 2022. This is despite the government's stamp duty holiday and Help to Buy schemes continuing currently in a restricted form.

- Changes to the way people work as a result of the coronavirus pandemic have also positively impacted on private housing repair, maintenance and improvements (rm&i), which has been the quickest construction sector to recover since the initial national lockdown.

- In the commercial sector, the beginning of the year saw a rise in activity owing to fit-out work remodelling offices for staff to return in a socially distant manner. This was also the case in retail and leisure where refurbishing, reusing and repurposing helped prepare for reopening as social distancing restrictions eased.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2021 is 6.7% growth, down from 6.8% the previous month's survey.

- The mean GDP growth forecast for 2022 is 5.4%, unchanged from the previous month's survey.

The **OECD** updated their Economic Outlook in September 2021:

- UK GDP is projected to grow by 6.7% in 2021 and grow by 5.2% in 2022.

- Global GDP is projected to grow by 5.7% in 2021 and 4.5% in 2022. A strong rebound in Europe, the likelihood of additional fiscal support in the United States next year and lowering household saving will boost growth prospects in advanced countries.

- Global GDP has now surpassed its pre-pandemic level, but output and employment gaps remain in many countries, particularly in emerging-market and developing economies where vaccination rates are low.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 23rd September 2021, covering intelligence gathered between mid-July and early September 2021.

- Contacts said activity was above pre-pandemic levels but was curtailed by supply-chain issues that affected the availability of materials and, to a lesser extent, by labour shortages. As a result, there were some reports of companies having to turn down work.
- Construction of private housing remained strong, with home improvement and repair and maintenance activity also supporting output. However, contacts said that materials shortages were causing delays to projects being started and completed.
- Private commercial development activity was mixed: demand was weak among sectors that had been adversely affected by the pandemic, such as retail, hospitality and higher education, where construction activity was mostly focused on essential repair and maintenance work. By contrast, construction activity was strong in logistics and warehousing and IT-related sectors. There were some signs of demand increasing for office refurbishments.
- Public infrastructure projects continued to support construction output, but there were reports of some delays in contracts being awarded, while budget constraints weighed on demand from local authorities.
- Contacts said that order books in general were strong, but uncertainty over materials costs and shortages were deterring some construction firms and clients from competing for tenders or from putting out contracts to tender, which could weigh on future output.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published by **BEIS** on 6th October 2021.

- The material price index for 'All Work' increased by 23.5% in August 2021 compared to August 2020 and by 2.8% compared to July 2021.
- There was a 6.2% increase in brick deliveries in August 2021 compared to August 2020, according to the seasonally adjusted figures.
- There was a 6.5% increase in concrete block deliveries in August 2021 compared to August 2020, according to the seasonally adjusted figures.

Builders Merchant Building Index

The Builders Merchant Building Index for Quarter 2 2021 was published by the **Builders Merchants Federation** and **GfK** on 20th September 2021.

- Year-on-Year v 2019: Total Merchants value sales were up 13.1% in July 2021 with two less trading days. This growth was driven primarily by strong figures in Timber & Joinery Products (+44.6%) and Landscaping at +23.4%.
- Month-on-month 2021: Total July sales were 3.8% lower than June, with one less trading day. Kitchens & Bathrooms (+1.1%) was strongest along with minor categories Miscellaneous and Service, both up 1.1%. Timber & Joinery was flat at +0.1% with all other categories selling less.
- Last 3 months year-on-year v 2020: May to July saw sales up 35.4% on the same period last year. All categories sold more, with Timber & Joinery leading the field (+64.8%) and Kitchens & Bathrooms at +50.0%.
- Last 3 months year-on-year v 2019: The most recent three-month period was up 17.3% on the equivalent period in 2019 with two categories performing particularly well; Timber & Joinery (+43.7%) and Landscaping (+35.0%).
- Year-to-date sales: Comparing to 2020, sales from January to July were up 42.4% again with Timber & Joinery performing strongest at +67.7%. When comparing to 2019 for pre-covid figures, Jan-Jul 2021 sales were up 13.5%, dominated by Landscaping (+38.7%) and Timber & Joinery (+31.4%).

Expected dates for future construction output releases

Release for:	*Publication date:*
September 2021	11th November 2021
October 2021	10th December 2021
November 2021	14th January 2022

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