

Monthly Construction Update

Business Statistics Team

10th December 2021



Department for
Business, Energy
& Industrial Strategy

Construction output fell by 1.8% in October 2021

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

- Construction output fell 1.8% in volume terms in October 2021, this is the largest monthly decline since April 2020 when output fell by 41.7%; new work fell (2.8%) from September to October 2021 while repair and maintenance remained unchanged (0.0%).
- Like recent months, anecdotal evidence in October 2021 from businesses continues to suggest that product shortages caused by supply chain issues leading to subsequent price rises in raw materials such as steel, concrete, timber and glass, were an important reason for the decline.
- At the sector level, the main contributors to the decline in monthly output in October 2021 were infrastructure and private new housing, which decreased 7.1% and 4.4% respectively; these decreases were partially offset by increases in private industrial and public other new work of 8.8% and 7.0% respectively.
- The level of construction output in October 2021 was 2.8% (£400 million) below the February 2020, pre-coronavirus level; new work was 6.2% (£592 million) below the February 2020 level, while repair and maintenance work was 3.9% (£193 million) above the February 2020 level.
- The extent of recovery to date, since the falls at the start of the coronavirus pandemic, has been mixed at a sector level, illustrated with infrastructure performing strongly above (36.7% or £688 million) while private commercial was still some way below (26.9% or £670 million) its February 2020 level in October 2021.
- In line with the monthly fall, construction output fell by 1.2% in the three months to October 2021; this was because of a 1.5% fall in repair and maintenance (mainly because of a 3.5% fall in non-housing repair and maintenance) and a fall of 1.0% in new work (with new housing (both public and private), public other new work, and private commercial new work all falling).

Gross Domestic Product grew by 0.1% in October 2021

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

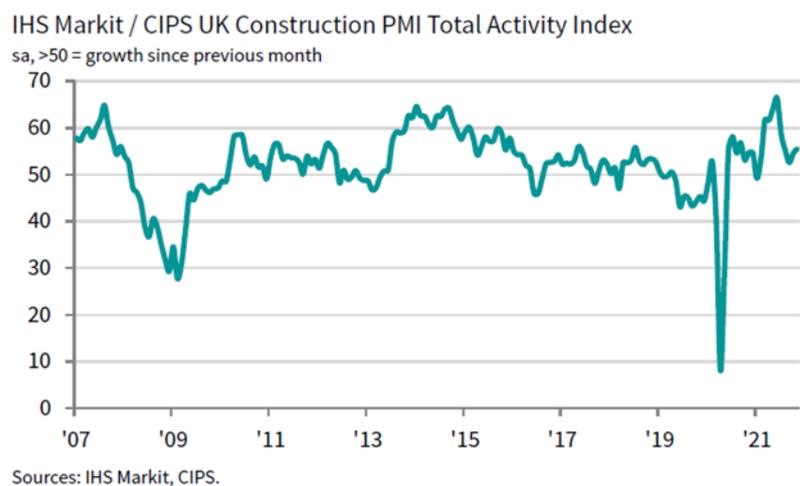
- Gross domestic product (GDP) is estimated to have grown by 0.1% in October 2021 and is 0.5% below its pre-coronavirus (COVID-19) pandemic level (February 2020).
- Services output grew by 0.4% in October 2021, with the most significant contribution coming from human health activities, which grew by 3.5%, mainly because of a continued rise in face-to-face appointments at GP surgeries in England.

- Services output overall has now reached its pre-coronavirus pandemic level (February 2020); consumer-facing services are 5.2% below their pre-pandemic levels, while all other services are 1.4% above.
- Output in consumer-facing services grew by 0.3% on the month mainly because of an 8.1% increase in the wholesale and retail trade and repair of motor vehicles and motorcycles sector, while all other services rose by 0.4%.
- Production output decreased by 0.6% in October 2021, with electricity and gas down by 2.9%, and mining and quarrying down by 5.0%.
- Construction contracted, with output down by 1.8% in October 2021, the largest fall since April 2020; the sector is now 2.8% below its pre-pandemic level.

IHS Markit / CIPS UK Construction Purchasing Managers Index for November 2021

IHS Markit CIPS published their latest [construction purchasing managers index](#) for November 2021 on 6th December 2021.

- UK construction companies indicated a sharp increase in business activity during November, led by the fastest upturn in commercial work since July as clients continued to boost spending in response to the reopening of the UK economy.
- At 55.5 in November, up from 54.6 in October, the headline seasonally adjusted IHS Markit/CIPS UK Construction PMI Total Activity Index signalled a robust and accelerated expansion of overall construction activity. The index has now posted above the 50.0 no-change value for ten consecutive months and the latest reading pointed to the strongest rate of expansion since July.



- A steeper rise in commercial construction (index at 56.5) helped offset a slight slowdown in house building growth (54.7, down from 55.4). Civil engineering was the weakest performing area in November (53.9), although the latest rise in activity was the largest since August.
- There were signs that the worst phase of supplier delays may have passed, with the portion of survey respondents citing longer delivery times falling to 47% in November (compared with a peak of 77% in June). Rapid input price inflation persisted and haulage driver shortages added to cost pressures, but the latest overall rise in operating expenses was the least marked for seven months.
- November data pointed to another robust rise in demand for construction products and materials. Higher levels of input buying reflected a combination of increased workloads and efforts to build inventories due to supplier delays.

- The index measuring overall supplier performance reached its highest level since April but remained well inside negative territory. Around 47% of the survey panel reported longer lead times in November, while only 4% reported an improvement. Port delays and a lack of haulage driver shortages continued to hold back supplier performance, although firms noted an improvement in the availability of specific items (especially timber).
- Around 72% of the survey panel reported an increase in purchase prices in November, while only 3% reported a decline. That said, the resulting index signalled the least marked rate of cost inflation since April. Rapid price pressures and supply shortages were a factor dampening business optimism in November. Latest data signalled the weakest output growth projections for four months.

Business Insights and Impact on the UK economy

The Office of National Statistics published [Business insights and impact on the UK economy](#) on 2nd December 2021, based on responses from the voluntary fortnightly business survey (BICS).

- Between 15th November and 28th November 2021, weighted by count, 5.2% of all construction firms surveyed said they had paused trading and did not intend to restart in the next two weeks, 9.4% reported they were currently partially trading and 82.9% reported they were fully trading.
- Between 1st November and 28th November 2021, weighted by count, 54.5% of construction firms currently trading said that prices of materials, goods or services had increased more than normal over the previous month, compared to an all industry average of 38.2%. The construction industry has shown a steady increase in prices of materials, goods and services bought since May 2021.
- Between 15th November and 28th November 2021, of construction businesses currently trading, 6.4% reported stockpiling goods or materials.
- Between 15th November and 28th November 2021, of construction businesses that had not permanently stopped trading, 13.5% reported having to pause trading, either partly or entirely due to worker shortages, compared to an all industry average of 28.6%.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 4th November 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 141,000 on 31st May. On 30th September 2021, when the scheme ended, the figure was 92,000.
- The provisional value of claims between 1st May 2021 and 30th September 2021 was around £498 million, with a provisional take-up rate of 7% in the construction sector on 30th September 2021.

HMRC published further experimental statistics on the [Self-Employment Income Support Scheme](#) (SEISS) on 4th November 2021. The scheme ended on 30th September 2021.

- Construction is the sector with the highest number of potentially eligible individuals (1.2 million) for the fifth SEISS grant.

- By 7th October 2021, self-employed construction workers had made 427,000 claims for the fifth SEISS grant, totalling £1.1 billion, an average of £2,500 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 2021 Q1 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 2020 Q2, 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 to 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, 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 2021 Q2 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 October 2021.

- Construction output growth up is forecast to rise by 14.3% in 2021, up from 13.7% in the previous forecast, and by 4.8% in 2022, down from 6.3% in the previous forecast.
- With more buoyant demand so far in 2021, supply chain constraints are expected to hinder growth over the remainder of the year and into 2022. There is doubt as to whether there is sufficient capacity in the whole construction supply chain to enable demand. Skills shortages, product availability and cost inflation, HGV driver shortages, the impacts of energy cost rises, and delays at ports are all expected to make up an unprecedented number of constraints on growth for the months ahead.
- Infrastructure is forecast to be the key driver of construction growth for the year ahead. Less affected by supply-side issues than other areas of construction, the main activity in the sector is due to work on five-year spending plans within the regulated sectors of rail, water, roads and energy.
- Output in private housing, the largest construction sector, is forecast to rise by 17.0% in 2021 and by 6.0% in 2022 with house builders confident regarding demand at the end of this year and in the first half of 2022. The private housing forecast for next year is a downward revision from 8.0% forecast in the Summer, reflecting concerns about affordability and the sustainability of double-digit house price growth.
- In the private housing rm&i sector, output is forecast to rise by 20.0% this year but remain flat at a historically high level, in 2022. According to the Bank of England, households have accumulated £200 billion of savings over the past 18 months. Most small contractors have renovation projects lined up for the next six months, but their capacity is being tested by skills and products shortages. Impacts of rising costs over the next six months may lead to more subdued consumer confidence and spending on renovation projects later next year.
- In the commercial sector, activity on the fit-out and finishing of new and existing offices, retail and leisure buildings, plus changes in use of existing commercial developments into residential and warehouses, remains strong. However, firms in these areas report that skills shortages remain key constraints. While demand for new high-profile, grade A office space appears to be robust, new investment is lacking in mid-range office space and in retail.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2021 is 7.0% growth, up from 6.9% the previous month's survey.
- The mean GDP growth forecast for 2022 is 4.7%, unchanged from the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in December 2021:

- UK GDP is projected to grow by 6.9% in 2021, by 4.7% in 2022 and 2.1% in 2023.
- Global GDP is projected to grow by 5.6% in 2021, by 4.5% in 2022 and by 3.25% in 2023.

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 1st December 2021.

- The material price index for 'All Work' increased by 24.5% in October 2021 compared to October 2020 and by 1.0% compared to September 2021.
- Imports of construction materials increased by £532 million in Q3 2021 compared to the previous quarter, an increase of 10.7%.
- The quarterly trade deficit widened by £567 million to £3,687 million in Q3 2021 compared to the previous quarter, an increase of 18.2%.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for Quarter 3 2021 and for September 2021 was published by the **Builders Merchants Federation** and **GfK** on 23rd November 2021.

- Total sales in September 2021 were 14.9% higher than the same month last year, with no difference in trading days. Ten of the twelve categories sold more.
- Compared to 2019, September 2021 total sales were 24.5% higher, and nine categories sold more.

- Total merchants' sales were 6.2% higher in September than in August, with one more trading day.
- The third quarter's total sales were 17.2% up on Q3 2020, with eleven categories selling more.
- Total sales in Q3 were 18.4% higher than Q3 2019, with one less trading day.
- Year-to-date vs 2020: Total merchants' sales from January to September 2021 were 36.2% up on the same period last year, and all categories sold more.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
November 2021	14 th January 2022
December 2021	11 th February 2022
January 2022	11 th March 2022

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