

Monthly Construction Update

Business Statistics Team

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Department for
Business, Energy
& Industrial Strategy

Construction output increased by 3.5% in November 2021

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

- Monthly construction output increased by 3.5% in volume terms in November 2021, which is the largest monthly rise seen in construction output growth since March 2021; anecdotal evidence from survey returns suggested the strong demand for work, in combination with supply chain bottlenecks for certain products easing and the unseasonal mild and dry weather were the main reasons for the increase.

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



Source: Office for National Statistics – Construction Output and

- The increase in monthly **Employment** construction output in November 2021 came solely from an increase in new work (5.7%) as repair and maintenance saw a slight decline of 0.2% on the month.
- Because of the strong November 2021 monthly growth and minimal revisions to previous months, the level of construction output in November 2021 was 1.3% (£197 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; although new work was 1.6% (£148 million) below the February 2020 level, repair and maintenance work was 6.9% (£345 million) above the February 2020 level.
- The recovery to date, since the falls at the start of the pandemic, is mixed at a sector level, with infrastructure 49.3% (£923 million) above and private commercial 28.0% (£698 million) below their respective February 2020 levels in November 2021.
- Alongside the monthly increase, construction output rose 1.6% in the three months to November 2021, the first three-monthly increase since July 2021, with similar increases seen in both new work, and repair and maintenance (1.5% and 1.6% respectively).

Gross Domestic Product grew by 0.9% in November 2021

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

- Gross domestic product (GDP) is estimated to have grown by 0.9% in November 2021 and is above its pre-coronavirus (COVID-19) pandemic level (February 2020) for the first time, by 0.7%.
- Services (0.7%), production (1.0%) and construction (3.5%) output all increased between October and November 2021; this means that services and construction output are both 1.3% above their pre-coronavirus levels while production remains 2.6% below.
- In the latest month, output in consumer-facing services grew by 0.8%, mainly because of a 1.4% increase in retail trade, while all other services rose by 0.6%; consumer-facing services are still 5.0% below their pre-coronavirus levels, while all other services are 2.9% above.
- If there are no other data revisions, quarterly GDP for Quarter 4 (Oct to Dec) 2021 will either reach or surpass its pre-coronavirus level (Quarter 4 2019), provided our monthly December 2021 estimate does not fall by more than 0.2%.

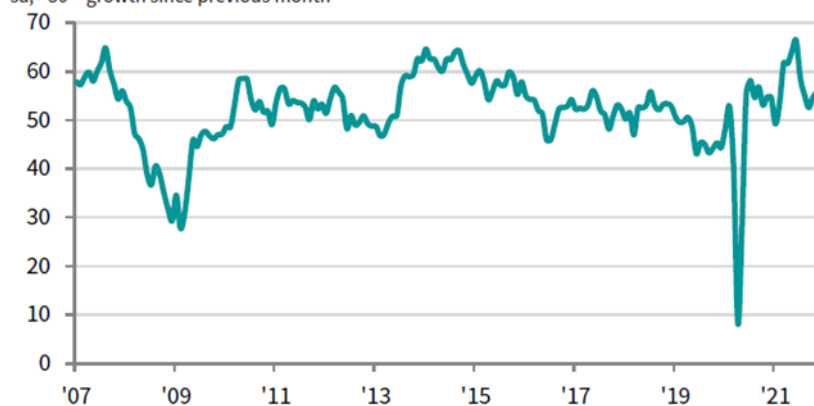
IHS Markit / CIPS UK Construction Purchasing Managers Index for December 2021

IHS Markit CIPS published their latest [construction purchasing managers index](#) for December 2021 on 7th January 2022.

- December PMI data pointed to another solid increase in business activity across the UK construction sector, but the rate of expansion slipped to its lowest since September. On a more positive note, the number of construction firms reporting supplier delays dropped from 47% in November to 34% in December. Meanwhile, around 5% of the survey panel reported shorter lead times among vendors (up from 4%). The resulting index signalled the least marked downturn in supplier performance since November 2020.
- The headline seasonally adjusted IHS Markit/CIPS UK Construction PMI Total Activity Index posted 54.3 in December, to remain above the crucial 50.0 no-change threshold. However, the latest reading was down from 55.5 in November and signalled the weakest rate of expansion for three months. Some survey respondents noted that tighter pandemic restrictions and rising COVID-19 cases had acted as a brake on recovery, especially in the commercial sector.

IHS Markit / CIPS UK Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

- Residential construction activity saw the strongest growth (index at 55.3) and was the only category to gain momentum in December. Commercial building lost its position as the best performing segment, with the recovery easing to its lowest since September (index at 53.6).
- Civil engineering activity decreased slightly at the end of 2021 (index at 49.1), which ended a nine-month period of expansion.
- Customer demand was relatively resilient in December, despite some reports citing delayed decision-making due to the Omicron variant. In fact, the latest rise in overall new order volumes was the strongest since August. Higher levels of new work have now been recorded for 19 consecutive months.
- A sustained rebound in construction orders helped to boost employment numbers during December. The rate of job creation eased only slightly since November. Survey respondents often commented on extra staff hiring as part of new project starts and long-term expansion plans.
- Higher fuel, energy and raw material prices continued to push up average cost burdens across the construction sector in December. However, the overall rate of inflation eased for the fourth month running to its lowest since March.
- An improved alignment between demand and supply helped to soften inflationary pressures at the end of 2021. Purchasing activity increased at the slowest pace for three months, while supplier lead times lengthened to the least marked extent since November 2020. Where longer wait times were reported, this was mostly linked to international shipping delays and shortages of haulage drivers.
- Looking ahead, just over half of the survey panel (51%) forecast a rise in business activity during 2022, while only 9% predict a decline. Although signalling upbeat sentiment for the year ahead, the degree of optimism was the joint-lowest reported since January 2021.

Business Insights and Impact on the UK economy

The Office of National Statistics published [Business insights and impact on the UK economy](#) on 13th January 2022, based on responses from the voluntary fortnightly business survey (BICS).

- Between 29th December 2021 and 9th January 2022, weighted by count, 77.4% of construction firms said they were currently fully trading compared with an all-industry average of 76.7%: some 14.8% of construction firms said they were currently partially trading compared with an all-industry average of 13.9%.
- Between 29th December 2021 and 9th January 2022, weighted by count, 24.7% of construction firms reported turnover had decreased compared to normal expectations for the time of year, whilst 50.4% reported turnover was unaffected and 5.1% reported turnover had increased. The respective all industry averages were 32.4% and 48.8% and 6.8%.
- Between 13th December and 26th December 2021, weighted by count, construction firms reported that 2.9% of their workforce were on sick leave due to COVID-19 symptoms, self-isolation or quarantine, compared to an all-industry average of 2.7%.
- Between 29th December 2021 and 9th January 2022, weighted by count, 18.4% of construction firms that had not permanently stopped trading reported experiencing supply chain disruption being able

to get the goods, materials and services they needed, whilst 32.0% reported no issues with supply chain disruption.

- Between 29th December 2021 and 9th January 2022, weighted by count, 22.0% of construction firms that had not permanently stopped trading reported an increase in cancellations from customers in the last month.
- Between 29th December 2021 and 9th January 2022, weighted by count, around 50% of construction firms that had not permanently stopped trading reported operating costs had increased, whilst around 31% reported they had stayed the same.

HMRC updated experimental statistics about the [Coronavirus Job Retention Scheme](#) on 16th December 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 93,000.
- The total number of employments ever on furlough in the construction sector was 871,000.
- The provisional value of claims between 1st May 2021 and 30th September 2021 was around £499 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 16th December 2021. The scheme ended on 30th September 2021.

- Construction was the sector with the highest number of overall claims across all 5 grants for the SEISS, with just under 1.0 million individuals making 3.5 million claims worth £11.5 billion; an average of £3,300 per claim. This represents around 34% of the total number of claims across the 5 grants.
- The largest group (industrial sub-sector) by number of claims was 'construction of residential and non-residential buildings', with over 1.7 million claims by 470,000 individuals worth £5.5 billion across the 5 grants.
- Individuals working in the construction industry accounted for the highest proportion of claims in every country and region of the UK. London had the highest proportion, with 40% of claims being from those working in construction and Scotland had the lowest with 26%.

Construction Output Forecasts for Winter 2021/2022

Experian published their Winter 2021/2022 [forecasts](#) for the construction sector in January 2022.

- The expectation is that in 2021 the construction industry recovered (+14%) most, but not all, of the contraction seen in 2020. However, there were substantial differences in sector performance, ranging from soaring output levels in the infrastructure sector (+36%) to a further decline in commercial construction (-2%).
- The trend for construction over the 2022 to 2024 period is predicted to be similar to the economy as a whole, although growth is projected to be stronger in the former, driven by strong private housing, investment in rail, health and education stock, and industrial construction in particular. The primary risk

to the forecasts is the rapid spread of the Omicron variant of the Covid 19 virus, which in a worst-case scenario could lead to a fourth national lockdown across the UK.

- Public housing is one of only two sectors, the other being the commercial one, in which output is projected to be still below its pre-pandemic level in 2024. Output in the sector fell by almost a third in 2020 and the recovery last year has been a modest 4%. While growth over the three years to 2024 is expected to average around 5% per annum, in the normal course of events a reasonable level of expansion, it will still not be enough to take output back to 2019 levels.
- New infrastructure output is estimated to have soared in 2021, by well over a third, after only a modest fall of around 5% in the previous year, making the sector by far the best performer during the two years of the pandemic so far. Electricity, roads and rail (notwithstanding issues around the accuracy of ONS sub-sector breakdowns) were the primary drivers of the very strong growth last year. However, having surged so strongly in 2021, infrastructure output is expected to increase only moderately in the three years to 2024.
- The public non-residential building sector struggled to show much growth last year, with output in by far the biggest sub-sector, education, which accounts for nearly 50% of the sector, stagnant. However, the drive to build 500 new schools by 2030, combined with a rise in university work should mean that the period of stagnation is short lived, and expansion returns from 2022 onwards.
- Industrial construction output rose only marginally in 2021, with the warehouse sub-sector experiencing its first contraction for seven years. However, the sector should return to growth this year and over the three-year forecast period is projected to see the strongest rate of expansion of any construction sector, averaging nearly 13% per annum.
- The commercial construction sector suffered one of the biggest contractions in 2020, but it was the only sector to see a fall last year, of an estimated 2%. The big decline in GDP in 2020, substantial changes to office working practices, big drops in footfall and an even faster rise in online retailing, and the complete lockdown of some sectors during the course of the year combined to sharply reduce the demand for new facilities. The problem the sector has moving forward is that a number of the above factors are likely to persist into the medium and long term.
- As is the case across the construction industry, non-residential R&M output is expected to have bounced back strongly in 2021 from its pandemic-induced contraction in 2020. After double-digit growth across the non-residential R&M sub-sectors in 2021, expansion is projected to moderate thereafter

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 January 2022.

- The mean GDP forecast for 2022 is 4.3% growth, down from 4.7% the previous month's survey.
- The mean GDP growth forecast for 2023 is 2.2%.

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 16th December 2021, covering intelligence gathered between mid-October and late November 2021.

- Construction output slowed as materials, labour shortages and cost increases weighed on activity. There were widespread reports of output being constrained by supply-chain issues that affected the availability of materials and labour shortages.
- Demand for new build private housing remained strong and supported activity, though some housebuilders said shortages and planning delays had led to slower build rates.

- Some contacts said that there was caution about committing to new developments due to the uncertainty caused by supply bottlenecks, rising materials and labour costs, lack of availability of land and planning difficulties.
- There were also reports of construction projects being postponed due to higher materials costs, and a few instances of companies going into administration, due to the impact of higher costs on their margins.
- By contrast, some contacts reported positive demand for renovation work for residential and commercial properties. Public infrastructure projects also continued to support construction output, though there were also some reports of slowing demand from this source.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by **BEIS** on 12th January 2021.

- The material price index for 'All Work' increased by 22.7% in November 2021 compared to November 2020 and was unchanged compared to October 2021.
- There was an 11.5% increase in concrete block deliveries in November 2021 compared to November 2020, according to the seasonally adjusted figures. The month-on-month change shows a 5.3% increase in November 2021.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for October 2021 was published by the **Builders Merchants Federation** and **GfK** on 16th December 2021.

- Total sales in October 2021 were 11.1% higher than the same month last year, with one less trading day. Eight of the twelve categories sold more.
- Compared to October 2019, October 2021 total sales were 11.3% higher, with two less trading days. Four categories sold more, with Timber & Joinery products (+34.7%) and Landscaping (+27.6) leading the way
- Total merchants' sales were 5.1% lower in October than in September, with one less trading day.
- Total sales in August to October 2021 were 16.1% higher than in the same period in 2020. Eleven of the twelve categories sold more.
- Total sales in August to October 2021 were 16.1% higher than in the same period in 2019, with one less trading day. Five of the twelve categories sold more.
- Total sales in August to October 2021 were 4.9% lower than the previous three months.
- Total Merchants value sales in January to October 2021 were up 33.1% compared with Covid-affected January to October 2020 and all categories sold more. There were three less trading days this year.
- Total sales in the nine months to October 2021 were up 14.7% on January to October 2019, with three less trading days in 2021.

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

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