

Monthly Construction Update

Business Statistics Team

13th July 2022



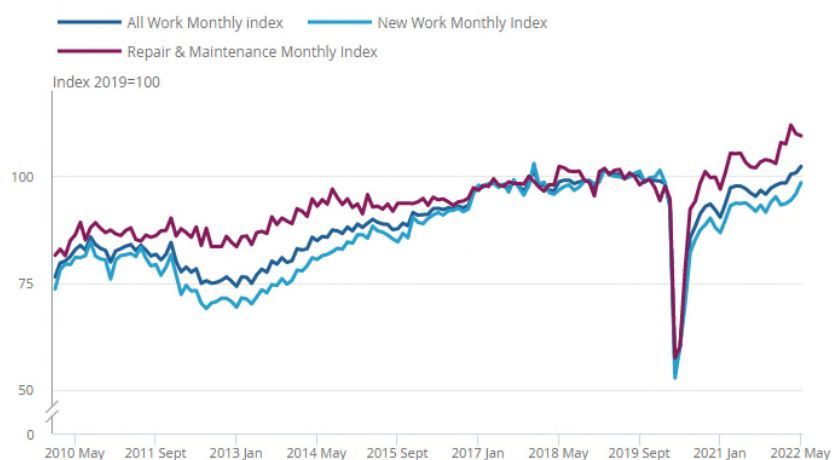
Department for
Business, Energy
& Industrial Strategy

Construction output increased by 1.5% in volume terms in May 2022

The **Office for National Statistics** published estimates of construction output for [May 2022](#), this morning:

- Monthly construction output increased by 1.5% in volume terms in May 2022; this is the seventh consecutive monthly growth following the upwardly revised increase to 0.3% in April 2022; May 2022 is a record high in monthly-level terms (£15,053 million) since records began in January 2010.
- The increase in monthly construction output in May 2022 came solely from an increase in new work (2.8%) as repair and maintenance saw a slight decline, decreasing 0.4% on the month.
- At the sector level, the main contributors to the increase seen in May 2022 were private commercial new work and private new housing, which increased by 12.1% and 7.2% respectively.
- The level of construction output in May 2022 was 4.1% (£598 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was slightly below (£3 million) the February 2020 level, while repair and maintenance work was above (£601 million) the February 2020 level.
- The recovery to date, since the falls at the start of the coronavirus pandemic, is mixed at a sector level, with infrastructure 19.0% (£356 million) above and private commercial 21.2% (£524 million) below their respective February 2020 levels in May 2022.
- Alongside the monthly increase, construction output increased by 3.0% in the three months to May 2022, with increases seen in both new work, and repair and maintenance (2.4% and 4.1% respectively); this is the seventh consecutive growth in the three-month on three-month series, and the largest growth seen since June 2021 (4.0%).
- Revisions in this release are seen back to January 2022 and are consistent with the GDP quarterly national accounts, UK: January to March 2022 bulletin, published on 30 June 2022.

Monthly all work index, chained volume measure, seasonally adjusted,
Great Britain, January 2010 to May 2022



Gross Domestic Product fell by 0.3% in April 2022

The **Office for National Statistics** published estimates of GDP for [May 2022](#) this morning:

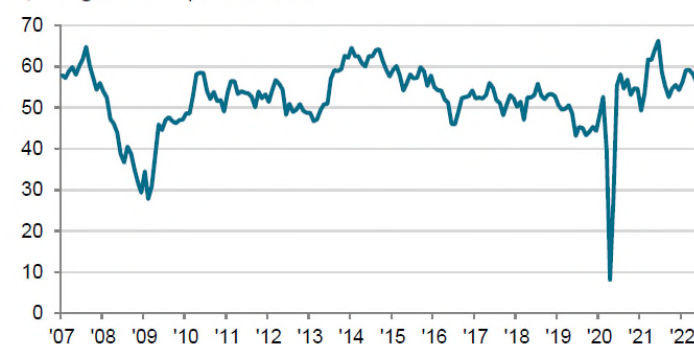
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S&P Global / CIPS UK Construction Purchasing Managers Index for April 2022

S&P Global (formerly IHS Markit) **CIPS** published their latest [construction purchasing managers index](#) for June 2022 on 6th July 2022.

- UK construction companies signalled another loss of momentum in June as total business activity expanded at the weakest pace for nine months and new orders increased to the smallest extent since last October. Worries about the near-term economic outlook led to a sharp decline in business expectations for the year ahead. June data indicated that growth projections are now the least upbeat since July 2020.

Construction Total Activity Index
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 13-29 June 2022.

- At 52.6 in June, down from 56.4 in May, the headline seasonally adjusted S&P Global/CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – registered above the 50.0 no-change mark for the seventeenth consecutive month. The latest reading signalled a moderate increase in construction output and the slowest rate of expansion since September 2021.
- Civil engineering was the most resilient sub-sector in June (index at 54.3, down only slightly from 55.5 in May). A similarly strong increase in business activity was seen in the commercial segment, but the rate of growth eased sharply since May to the slowest so far in 2022 (index at 54.3, down from 59.8).
- House building was the weakest-performing area of construction activity for the fourth month running in June. Moreover, the latest index reading of 49.3 signalled an overall downturn in residential work for the first time since May 2020.
- June data pointed to a solid rise in total new orders, but the rate of expansion softened to its weakest since October 2021.
- Efforts to boost capacity in response to greater overall workloads contributed to another robust rise in staffing numbers during June. Job creation has been recorded in each month since February 2021.
- Input buying meanwhile increased at a much slower pace than in May, with the latest expansion the weakest since the start of 2021.
- Suppliers' delivery times lengthened again in June, but the downturn in performance remained less marked than that seen in the first quarter of 2022.
- Around 71% of the survey panel reported higher purchasing prices in June, while only 1% signalled a reduction. The resulting index signalled a rapid pace of cost inflation that was slightly faster than in May, albeit still below the survey record high seen in June 2021.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 6th July 2022.

- The material price index for 'All Work' increased by 27.2% in May 2022 compared to the same month the previous year.
- There was a 1.8% increase in seasonally adjusted brick deliveries in May 2022 compared to the same month the previous year.
- There was a 1.3% increase in seasonally adjusted block deliveries in May 2022 compared to the same month the previous year.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components, Table 1

Business Insights and Impact on the UK economy

The **Office for National Statistics** published further information from their fortnightly [Business insights and impact on the UK economy](#) publication on 30 June 2022, which was live for the period from 13 June 2022 to 26 June 2022.

- Weighted by count, 62.4% of construction firms who had not permanently stopped trading reported that the price of goods or services bought in May 2022 had increased compared to the previous calendar month. The corresponding all-industry average was 48.5%.
- Weighted by count, 51.3% of construction firms who had not permanently stopped trading reported that raw material prices were a factor causing them to consider raising prices in July 2022. On the same basis, 36.0% of construction firms reported energy prices as a factor. The corresponding all-industry averages were 28.7% of all businesses reporting raw material prices and 41.5% reporting energy prices as factors causing them to consider raising prices.
- Weighted by count, 13.4% of construction firms reported that their business's overall performance had increased in May 2022 compared to the same month the previous year, 58.1% reported their performance stayed the same and 11.8% reported that their performance decreased. The corresponding all-industry averages were 17.4% of all businesses reporting increased performance, 53.0% reporting no change and 17.2% reporting decreased performance.

Construction Output Forecasts

Experian published their Spring 2022 [forecasts](#) for the construction sector in May 2022.

- Total construction output in 2021 reached £169.6 billion (2019 prices), a close to 13% increase on the previous year, regaining most of the ground lost during the worst of the pandemic. The industry started 2022 well, with output up 8% in real terms in the first two months compared with the same period of 2021. Growth will slow, but the prognosis is one of expansion over the forecast period, averaging 3.7% a year. This would take output to £189.4 billion in 2024, over 7% above its pre-pandemic level in 2019.
- All the major construction sectors are projected to experience growth over the 2022 to 2024 period, but a handful are likely to remain smaller in 2024 than in 2019 – generally the public sectors, but also the private commercial one.
- The top-level forecast for all construction work is for growth of 4.3% in 2022, down from 12.9% in 2021, and for growth of 3.8% and 3.1% in 2023 and 2024.
- Growth in new work is forecast at 4.4% in 2022 and 3.6% in 2023, down from 11% growth in 2021. The housing sector is forecast to grow by 4.8% in 2022 and 3.9% the following year. Growth in the non-residential building sector is forecast to be 3.3% in 2022 and 4.5% in 2023. The private commercial sub-sector is expected to grow by 4% and 5% over the same period.
- Repair and maintenance (R&M) is forecast to grow by to be 4.2 in both 2022 and 2023, down from 16% last year.

The **Construction Products Association** (CPA) published scenarios for construction as part of their analysis of the [market impact](#) in May 2022.

- The CPA forecasts that output in the industry will grow by 2.8% in 2022, down from the 4.3% growth forecast three months ago. The downward revision stems from concern around a host of price pressures arising from both local and global issues.
- Demand remains strong across the industry in Q2, and the current project pipeline suggests that this will support activity levels until at least 2022 Q3.
- Prior to the conflict in Ukraine, UK construction was already facing labour and product availability issues and the impact of reverse charge VAT and IR35. Rising energy costs were driving near-record price increases in construction products and the continued conflict exacerbates this issue. The impact of these pressures, and of more general rising costs, on demand will vary considerably by sector. The broad picture is one of positive market conditions in the short term with anticipation of tougher times ahead.
- Private housing repair, maintenance and improvement, SMEs report that demand remains high, but this is the sector arguably most exposed to current price inflation, falls in consumer confidence and pressures on household incomes. Overall, output is expected to fall by 3% in 2022 and 4% next year from current all-time highs.
- Private housing, the largest construction sector, remains strong, with housebuilders reporting resilient demand. Longer-term, are questions over consumer confidence, but output in this sector is forecast to rise by 1% in both 2022 and 2023. This contrasts with the 3% per year growth forecast three months ago.
- The fastest growth is expected in the industrial sector, in which output is forecast to rise by 9.8% in 2022 and 9.3% in 2023, due to a strong pipeline of warehouse projects, resulting from a long-term shift towards online shopping.
- Infrastructure, traditionally less affected by immediate economic conditions, remains positive, with forecast growth of 8.8% in 2022 and 4.6% in 2023.
- On the supply side, the main immediate impact of the war in Ukraine for construction products will be the knock-on from rising energy prices and commodity shortages. Soaring energy costs will have to be passed on and lead to sharp rises in the cost of energy-intensive products. This will affect both imported products such as aluminium and steel and locally sourced products such as bricks and cement. Contractors are likely to feel the pressure first, particularly those working to fixed-price contracts. For future projects, contractors will be forced to re-price, add fluctuation costs and introduce risk-sharing arrangements to deal with the uncertainty over potential cost inflation.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics Forecast Survey** (which uses an average of private sector forecasts) results were published in June 2022.

- The mean GDP forecast for 2022 is 3.5% growth, down from 3.8% in the previous month's survey.
- The mean GDP growth forecast for 2023 is 0.8%, down from 1.0% in the previous month's survey.

The **OECD** published their latest [Economic Outlook](#) in June 2022:

- Global GDP growth is projected to slow sharply this year, to around 3%, and remain at a similar pace in 2023. This is well below the pace of recovery projected last December.
- UK GDP is projected to grow by 3.6% in 2022, down from 4.8% in the December 2021 projection, and 0.0% 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 16 June 2022, covering intelligence gathered mostly between mid-April and late May 2021.

- Construction output growth weakened modestly as rising materials costs and labour shortages caused projects to be delayed or cancelled.
- Delays and cancellations were most commonly reported for commercial projects; contacts said housebuilding activity was also held back by planning delays.
- By contrast, construction of public and private infrastructure, and health and education projects had been less impacted. Demand for the construction or refurbishment of office space also remained robust, supported by demand for premises that meet environmental requirements and are suitable for hybrid working. Construction of warehousing and data centres also remained strong.
- Contacts expected the pipeline of construction projects to slow as cost increases result in more projects being put on hold. And many expected rising costs and squeezed household budgets to weigh on demand for new homes and home improvements this year and next.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for April 2022 was published by the **Builders Merchants Federation** and **GfK** on 22nd June 2022.

- Total Builders Merchants April 2022 value sales were down 0.9% compared with April 2021, with 6 of the 12 categories selling more. Price inflation of +17.0% helped to mitigate April's -15.3% drop in volume sales compared to April 2022.
- Total sales in April 2022 were 21.0% higher than in April 2019, with all categories selling more. Growth was driven more by price inflation (+27.5%) than volume (-5.1%).
- Total sales in April 2022 were 10.5% down on March 2022, with four less trading days. 11 of the 12 categories sold less.
- In the 12 months May 2021 to April 2022, Total Merchants sold 19.3% more than in the same period a year earlier.

| Expected dates for future construction output releases | |
|--|---------------------------------|
| <i>Release for:</i> | <i>Publication date:</i> |
| June 2022 | 12 th August 2022 |
| July 2022 | 12 th September 2022 |
| August 2022 | 12 th October 2022 |

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