

Monthly Construction Update

Business Statistics Team

12th August 2022



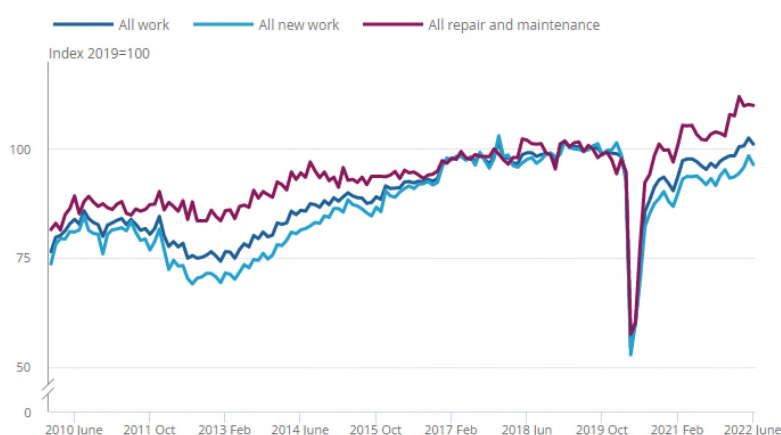
Department for
Business, Energy
& Industrial Strategy

Construction output decreased by 1.4% in volume terms in June 2022

The **Office for National Statistics** published estimates of construction output for [June 2022 and Construction Output Price Indices for Quarter 2 2022](#) this morning:

- Monthly construction output decreased 1.4% in volume terms in June 2022, following an upwardly revised 1.8% increase in May 2022, with both months affected by the timing of the Jubilee bank holiday; this is the first decrease since October 2021 (0.9%) following seven consecutive months of growth.
- The decrease in monthly construction output in June 2022 came from falls in both new work (2.0%) and repair and maintenance (0.2%).

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



Source: Office for National Statistics - Construction Output and Employment

- At the sector level, the main contributors to the decrease in June 2022 were private new housing and private commercial new work, which decreased 6.1% and 4.5%, respectively.
- The level of construction output in June 2022 was 2.9% (£414 million) above the February 2020 pre-coronavirus pandemic level; repair and maintenance work was 12.6% (£626 million) above the February 2020 level while new work was 2.2% (£212 million) below its February 2020 level.
- Despite the monthly decrease, construction output increased 2.3% in Quarter 2 (Apr to June) 2022, with increases seen in both new work and repair and maintenance (3.3% and 0.8%, respectively).
- Total construction new orders decreased 10.4% (£1,355 million) in Quarter 2 2022 compared with Quarter 1 (Jan to Mar) 2022; this is the largest quarterly fall in construction new orders since Quarter 4 (Oct to Dec) 2020 (11.7%).
- The annual rate of construction output price growth was 9.6% in the 12 months to June 2022; this was the strongest annual rate of price growth since records began in 2014.

Gross Domestic Product fell by 0.6% in June 2022 and by 0.1% in Q2 2022

The **Office for National Statistics** published estimates of GDP for [June 2022](#) and for [Quarter 2 2022](#) this morning:

June 2022 GDP

- Gross domestic product (GDP) fell by 0.6% in June 2022, after growth of 0.4% in May 2022 (revised down from 0.5%) and was up 1.9% in the 12 months to June 2022.
- The Platinum Jubilee, and the move of the May bank holiday, led to an additional working day in May 2022 and two fewer working days in June 2022. This should be considered when interpreting the seasonally adjusted movements involving May and June 2022.
- Services fell by 0.5% in June 2022 and was the main driver of the fall in GDP. A decline in human health activities was the largest contributor as test and trace activity reduced further and vaccinations continued to tail off, following the spring booster campaign.
- Production fell by 0.9% in June 2022, following an increase of 1.3% in May. This was mainly because of a fall of 1.6% in manufacturing following strong growth in May 2022.
- Construction also fell by 1.4% in June 2022, following seven consecutive months of growth.

Quarter 2 2022 GDP

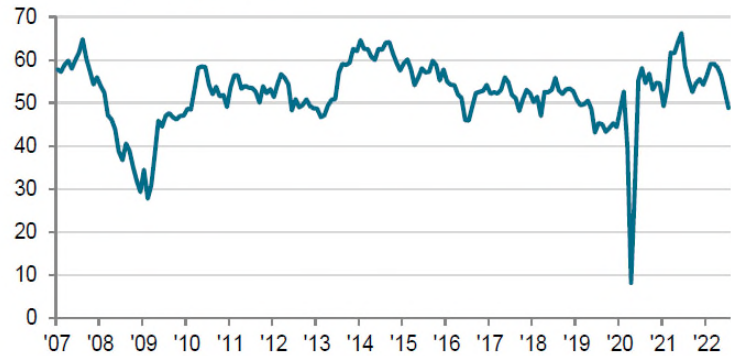
- UK gross domestic product (GDP) is estimated to have fallen by 0.1% in Quarter 2 (Apr to June) 2022, based on the first estimate.
- In output terms, services fell by 0.4% in Quarter 2 2022 with the largest negative contribution from human health and social work activities, reflecting a reduction in coronavirus (COVID-19) activities.
- There were positive contributions from consumer-facing services, such as other service activities (travel agencies and tour operators did particularly well as COVID-19 restrictions eased on the tourism industry), accommodation and food service activities, and arts, entertainment and recreation activities.
- There was a 0.2% decrease in real household consumption in Quarter 2 2022, offset by a positive contribution from net trade; however, we continue to advise caution because of recent changes in data collection affecting the EU trade flows.
- Compared with the same quarter a year ago, the implied GDP deflator rose by 6.0%, primarily reflecting the 7.3% increase in the price of household consumption expenditure, which is the fastest annual household deflator growth rate since 1991.

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

S&P Global (formerly IHS Markit) CIPS published their latest [construction purchasing managers index](#) for July 2022 on 4th August 2022.

- July data pointed to a reduction in UK construction output for the first time in one-and-a-half years. Lower volumes of residential work and civil engineering activity more than offset a sustained expansion in the commercial segment.

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



Sources: S&P Global, CIPS.
Data were collected 12-28 July 2022.

- A strong rate of jobs growth nonetheless continued as construction companies sought to boost capacity and meet increased order intakes. Meanwhile, improvements in the availability of some materials meant that supplier delays were the least widespread since February 2020.
- The headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index (PMI) – which measures month-on-month changes in total industry activity – posted 48.9 in July, down from 52.6 in June and below the 50.0 no-change threshold for the first time since January 2021. Although only marginal, the rate of decline was the fastest since May 2020.
- Civil engineering was the worst-performing segment in July (index at 40.1), with business activity falling to the greatest extent since October 2020. House building declined for the second month running, but the rate of contraction was only slight (index at 49.4). Commercial work bucked the downturn seen elsewhere (52.3 in July), although growth was the weakest for 18 months.
- July data indicated an overall rise in new orders for the twenty-sixth consecutive month. That said, the latest upturn in new business was notably weaker than seen on average in the first half of 2022.
- Employment numbers expanded at a robust and accelerated pace in July. There were again many reports of difficulties filling vacancies and strong wage pressures. Purchase price inflation meanwhile eased considerably (index at 78.1, down from 85.8 in June), with the latest rise in cost burdens the least marked since March 2021. Construction firms noted upward pressure on business expenses from higher energy, fuel and transport costs, but this was partly offset by some easing in commodity prices (especially for metals and timber).
- Around 22% of the survey panel reported longer lead times from suppliers in July, while 7% signalled an improvement. Although still pointing to an overall downturn in vendor performance, the latest survey indicated that supplier delays were the least widespread since February 2020.
- A gradual turnaround in supply conditions and hopes of softer price pressures ahead meant that construction firms tempered their stock building efforts in July. As a result, purchasing activity expanded at the weakest pace since January 2021.

- Business optimism remained subdued across the construction sector in July, with growth expectations well below those seen in the opening months of 2022. That said, the degree of positive sentiment picked up slightly from June's 23-month low.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published by BEIS on 3rd August 2022.

- The material price index for 'All Work' increased by 26.4% in June 2022 compared to the same month the previous year.
- There was an 8.0% decrease in seasonally adjusted brick deliveries in June 2022 compared to the same month the previous year.
- There was a 10.4% decrease in seasonally adjusted block deliveries in June 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 11 August 2022, which was live for the period from 25 July 2022 to 7 August 2022.

- Weighted by count, between 25 July and 7 August, 73.5% of construction firms who had not permanently stopped trading reported being aware that most CE marked products need to be UKCA marked from the start of 2023.
- Weighted by count, between 1 August and 31 August, 46.4% of construction firms who had not permanently stopped trading reported expecting their main business concern for August 2022 to be inflation of goods and services prices, 17% reported energy prices and 10.5% supply chain disruption.
- Weighted by count, between 25 July and 7 August, 18.7% of construction firms who had not permanently stopped trading reported they were experiencing a shortage of workers, whilst 61.3% reported not experiencing a shortage of workers.

Construction Output Forecasts

Experian published their Summer 2022 [forecasts](#) for the construction sector in July 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.
- Total construction output rose by nearly 13% in 2021, recovering most, but not all, of the ground lost during the height of the pandemic in 2020. Expansion has continued into the first four months of this year, with output reaching £59.37bn (2019 prices, seasonally adjusted), 6.5% up on the corresponding period of 2021. The only sectors not to experience growth over this period are the public non-residential and private commercial ones. Expansion is expected to slow somewhat during the remainder of the year but growth for total construction output is still projected to come in at over 5% in 2022.
- Despite anaemic GDP forecasts for 2023 and 2024, construction output is predicted to grow at a reasonable rate, of 3.3% in the former year and 2.7% in the latter one. The only sector not forecast to see expansion over the two-year period is the public housing one. The projections for the whole of the forecast period are similar to those made in the spring, but lower than the winter forecasts, due to unforeseen external factors, such as the conflict in Ukraine.
- Growth in new work is forecast at 6.1% in 2022 and 3.2% in 2023, down from 11.3% growth in 2021. The housing sector is forecast to grow by 3.3% in 2022 and 1.9% the following year. Growth in the non-residential building sector is forecast to be 9.6% in 2022 and 5.3% in 2023.
- Repair and maintenance (R&M) is forecast to grow by 3.7% in 2022 and 3.5% in 2023, down from 15.7% last year.

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

- Construction output is forecast to rise by 2.5% in 2022 and 1.6% in 2023. According to the latest CPA construction forecasts as strong growth in warehouses and infrastructure offsets, a slowdown in private housing and a fall in private housing repair, maintenance and improvement (rm&i) from historic high levels.
- The industrial sector, which covers activity on warehouses and factories, is forecast to be the fastest growing sector in the next two years. Output is forecast to rise by 15.0% in 2022 and 9.8% in 2023, as activity continues to be boosted by the strength of online retailing as well as manufacturers' need for increased stocks given the persistence of supply chain issues over the last two years.
- Infrastructure, the second largest construction sector, will also be a key driver of growth with output expected to rise by 8.5% this year and 3.8% in 2023. Long-term pipelines of work in regulated sectors such as roads, rail, water and electricity will drive growth. This is boosted further by major projects such as HS2, Thames Tideway Tunnel, and Hinkley Point C despite ongoing delays and cost overruns. However,

medium-term, local infrastructure is likely to suffer from councils being financially constrained. Central government projects will also be affected as there will be no further finance beyond November 2021's Spending Review. This is despite an ambitious infrastructure pipeline and strong cost inflation.

- Private housing remains cautiously optimistic as annual house price growth continues at double-digit rates and major house builders continue to stress the strength of the market. However, with the UK economy expected to contract in 2022 Q4, there remains uncertainty regarding how long housing can remain buoyant. The CPA anticipates that UK annual house price inflation will slow to 6.0% later this year and 2.5% in 2023 - as lower housing demand is partially offset by a lower supply of homes on to the market unless unemployment rises significantly and increases the number of forced sellers onto the market, suppressing house prices. Near-term concerns for major house builders focus on mortgage availability after the end of Help to Buy in March 2023. Other key issues for houses include planning and rising costs of materials, labour and meeting the new Building Regulations. Private housing output is forecast to rise by 1.0% in 2022 and remain flat in 2023. However, if house price inflation continues to surprise on the optimistic side and demand is enabled by high mortgage availability, risks may be skewed towards the positive.
- Private housing rm&i - the third largest construction sector - has been a key driver of activity over the last two years due to the 'race for space.' Output is currently 20% higher than pre-pandemic but firms report that smaller, discretionary spending on improvements activity is already falling away, albeit, from a historically high level. Private housing rm&i is the sector most exposed to changes in consumer confidence and real incomes. It is also the sector that is most exposed to materials and products cost inflation, as small contractors are less able to plan and purchase in advance for projects. Overall, output is expected to fall by 3.0% this year and a further 4.0% next year. However, given that activity in the sector reached historic highs in early 2022, the sector has the potential for falling even harder than forecast. This is dependent on the extent to which falling consumer confidence translates into households' reduced investment in their own homes and the risks are to the downside.

Gross Domestic Product Forecasts

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

- The mean GDP forecast for 2022 is 3.4% growth, up from 3.3% in the previous month's survey.
- The mean GDP growth forecast for 2023 is 0.1%, down from 0.5% 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 May 2022 was published by the **Builders Merchants Federation, GfK** and **MRA Research** on 20th July 2022.

- Total sales in the three months, March to May 2022, were +7.8% up on the same period last year, with price inflation of +17.8%, volume down 8.5%, and no difference in trading days. Eleven of the twelve categories sold more.
- Compared with the same months three years ago, sales in March to May 2022 were +26.6% higher than in March to May 2019, driven by price (+27.8%) with volume down (0.9%). There was no difference in trading days. All categories sold more.
- Total Builders Merchants May 2022 value sales were up 14.8% compared with May 2021, with all categories selling more, driven by 17.8% price inflation.
- Total sales in May 2022 were 23.9% higher than in May 2019, with all categories selling more. Growth was driven more by price inflation (+30.0%) than volume (-4.7%).
- Total sales in May 2022 were 8.7% up on April 2022, with one more trading day. All categories sold more.
- Between January 2022 and May 2022, total value sales were 23.8%, more than in the same period in 2019.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
July 2022	12 th September 2022
August 2022	12 th October 2022
September 2022	11 th November 2022

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