

Monthly Construction Update

Business Statistics Team

10th February 2023



Department for
Business, Energy
& Industrial Strategy

Construction output was unchanged (0.0%) in volume terms in December 2022

The **Office for National Statistics** published estimates of construction output for [December 2022](#) this morning.

- Monthly construction output is estimated to be flat (0.0% growth) in volume terms in December 2022; this came from an increase in new work (0.5%), offset by a decrease in repair and maintenance (0.7% fall) on the month. This follows a fall of 0.5% (revised down from being flat) in November 2022.
- At the sector level, the main positive contributors were seen in non-housing repair and maintenance, and infrastructure new work, which increased 5.4% and 3.7%, respectively; the main negative contributors were seen in private housing repair and maintenance, and private new housing, falling 8.5% and 2.3%, respectively.
- Quarterly construction output increased 0.3% in Quarter 4 (Oct to Dec) 2022 compared with Quarter 3 (July to Sept) 2022; the increase came from growth in both new work (0.4%) and repair and maintenance (0.1%).
- Annual construction output increased by 5.6% in 2022 compared with 2021, which follows a record increase in 2021 of 12.8%.
- Total construction new orders decreased 1.8% (£242 million) in Quarter 4 2022 compared with Quarter 3 2022; this quarterly fall came mainly from private commercial new orders and infrastructure, which fell 9.6% (£380 million) and 11.8% (£305 million), respectively.
- The annual rate of construction output price growth was 9.7% in the 12 months to December 2022; this has slowed slightly from the record annual price growth in May 2022 (10.5%).

Gross Domestic Product grew by 0.5% in December 2022

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

- Monthly real gross domestic product (GDP) is estimated to have fallen by 0.5% in December 2022, following an unrevised growth of 0.1% in November 2022.
- Looking at the broader picture, GDP was flat in the three months to December 2022, and annual GDP output is estimated to have grown by 4.1% in 2022, following growth of 7.4% in 2021.
- The services sector fell by 0.8% in December 2022, after unrevised growth of 0.2% in November 2022; the largest contributions to this fall came from human health activities, education, arts, entertainment and recreation activities, and transport and storage.

- Output in consumer-facing services fell by 1.2% in December 2022, following growth of 0.4% in November 2022 (revised up from 0.2%).
- Production output grew by 0.3% in December 2022, following growth of 0.1% (revised up from a 0.2% fall) in November 2022. The main contributor to this growth was electricity, gas, steam and air conditioning supply.

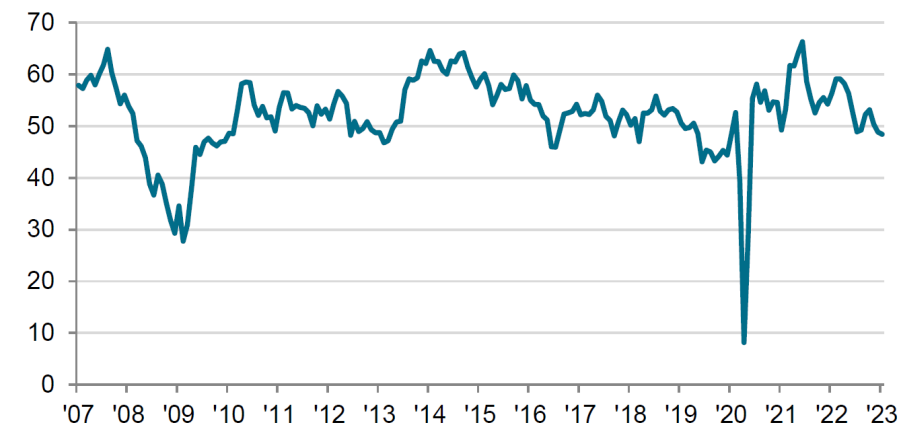
S&P Global / CIPS UK Construction Purchasing Managers Index for January 2023

S&P Global CIPS published their latest [construction purchasing managers index](#) for January 2023 on 6th February 2023.

- UK construction companies reported another downturn in business activity during January, largely reflecting weaker client demand and fewer new projects starts in recent months.
- In contrast, business expectations regarding the year ahead rebounded considerably since December 2022, with confidence reaching its highest level for six months.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-30 January 2023.

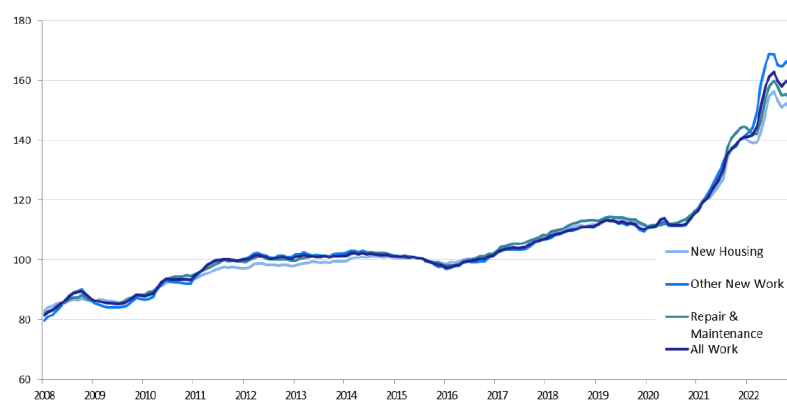
- At 48.4 in January, down from 48.8 in December, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – posted below the neutral 50.0 threshold for the second month running.
- House building (index at 44.8) was the weakest-performing category of construction output in January, with the rate of contraction the steepest since May 2020. Lower volumes of residential work were attributed to rising borrowing costs, unfavourable market conditions and greater caution among clients.
- Commercial activity (48.2) decreased for the first time in five months during January, reflecting softer demand and delayed-decision making on new projects. Meanwhile, civil engineering activity (49.7) was close to stabilisation, with the latest reading the highest seen since June 2022.
- Total new work decreased for the third time in the past four months, albeit at only a modest pace. Survey respondents cited particularly weak demand in the house building sector.
- Employment numbers decreased for the second consecutive month in January. The rate of job shedding was the fastest for two years, with construction companies often commenting on hiring freezes and the non-replacement of voluntary leavers due to softer demand.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published on 8th February 2023.

- The material price index for 'All Work' increased by 11.2% in December 2022 compared to the same month the previous year. This followed an increase of 12.7% in November 2022 compared to November 2021.
- There was a 16.1% decrease in brick deliveries in December 2022 compared to December 2021, according to the seasonally adjusted figures.
- There was a 18.3% decrease in concrete block deliveries in December 2022 compared to December 2021, according to the seasonally adjusted figures.

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 26 January 2023, the survey was live from 9 January to 22 January 2023.

- In December 2022, 22.8% of construction businesses currently trading reported their turnover was lower compared with November 2022, 53.6% reported their turnover stayed the same, while 6.8% reported their turnover was higher. Respectively, all industry averages were 30.2%, 45.4% and 13.2%.
- In mid-January 2023, 9.7% of construction businesses currently trading reported they expect turnover to decrease in February 2023 compared with business expectation in January 2023, 58.5% expect their turnover to stay the same, whilst 10.9% expect their turnover to increase. The all industry averages were 17.1%, 53.0% and 13.7%.
- In mid-January 2023, 49.1% of construction businesses currently trading reported the prices of goods or services bought had increased, 19.4% reported the price of good or services sold had increased. Respectively all industry averages were 40.7% and 17.4%.
- Between 9 January and 22 January 2023, 35.0% of construction businesses currently trading reported expecting the prices of the goods or services they sell to increase in February 2023, 38.2% expect the prices to stay the same and 3.2% expect their prices to decrease. Respectively, all industry averages were 26.0%, 50.1% and 1.3%.
- In mid-January 2023, 28.5% of construction businesses not permanently stopped trading reported their production and/or suppliers had been affected by the recent increase in energy prices, whilst 29.3% reported had not been affected. All industry averages were 34.6% and 24.0%.

- In mid-January 2023, 25.0% of construction businesses not permanently stopped trading reported their staffing costs had increased over the last three months, 48.9% reported had stayed the same and 4.6% reported had decreased. Respectively all industry averages were 25.1%, 49.6% and 2.3%.
- In mid-January 2023, 14.5% of construction businesses currently trading reported their performance decreased in December 2022 compared with December 2021, 60.7% reported their performance stayed the same and 10.2% reported their performance increased. Respectively, the all industry averages were 22.4%, 48.8% and 16.2%.

Construction Output Forecasts

Experian published their Winter 2022 [forecasts](#) for the construction sector in January 2023.

- The construction sector ended 2022 on a low note, with the PMI business activity index slipping into decline. New orders have been flagging and mounting headwinds in the form of elevated cost pressures, rising interest rates, intensifying budgetary constraints and an uncertain economic backdrop are weighing down on the sector. As such, the forecast for construction output in 2023 has been downgraded.
- Construction output is set to decline by 1.7% in 2023 and downside risks loom. Headwinds in the form of elevated inflationary pressures, a cost of living crisis, rising interest rates and economic uncertainty will collectively weigh on construction going forward and this has prompted a downgrade to the forecast. Our assumption is that current crises will ease by 2024 and their impacts will fade over the remainder of the forecast period. Hence, we expect a return to positive growth of 1.1% and 2.8% in 2024 and 2025 respectively.
- The private industrial sector is expected to growth by 49.8% in 2022, 0.6% in 2023 and -0.5% in 2024. Almost inevitably, after a year of very strong expansion, the prospects for industrial construction going forward are much more muted. The factory sub-sector has performed above expectations, but the weaker economic prognosis is likely to hit manufacturing output, with a consequent knock-on impact on demand for new facilities.
- The Public Non-residential sector is forecast to decline by -5.2% in 2022 and 1.6% in 2023 and 1.7% in 2024. The backlog of new orders suggests that output should be on a rising trend, at least in 2023. However, the issue is likely to be how much feeds into output given the budgetary constraints both central and local government are under, compounded by fast rising costs.
- The housing sector is forecast to grow by 9.3% in 2022, -6.6% in 2023 and 2.8% the following year. Growth in the non-residential building sector is forecast to be 4.8% in 2022, 1.0% in 2023 and 0.9% in 2024. Growth in new work is forecast at 4.9% in 2022, -2.4% in 2023 and 1.9% in 2024 down from 10.6% growth in 2021.
- Repair and maintenance (R&M) is forecast to grow by 6.0% in 2022, -0.7% in 2023 and -0.2% in 2024, down from 16.8% in 2021.

The **Construction Products Association** (CPA) published their autumn construction industry forecast as part of their analysis of the [market impact](#) in January 2023. Repair and maintenance (R&M) is forecast to grow by 6.0% in 2022, -0.7% in 2023 and -0.2% in 2024, down from 16.8% in 2021. The construction industry is expected to endure a recession this year after two strong years for the industry. According to the Construction Products Association's Winter Forecasts, construction output is expected to fall by 4.7% in 2023 before recovering slowly in 2024 with growth of just 0.6%.

- The construction industry is not immune to the impacts of a wider UK economic recession, rising interest rates and inflation. Private housing new build, the largest construction sector, and private housing repair, maintenance, and improvement (rm&i), the third largest sector, are forecast to be the worst affected sectors this year. Falls in activity in these areas are expected to be partially offset by continued growth in infrastructure, the second largest sector, which is already at historic high levels of activity. Even here, however, there are growing concerns over the impacts of double-digit construction cost inflation. Given financial constraints for government, this means that we are likely to see the value of activity expected previously but not the volume.
- Private housing is forecast to be the sector most affected by the downturn and fortunes for the sector over the next 12-18 months are likely to go one of two ways. The main forecast anticipates a soft landing for the housing market, which involves a sharp decline in demand during 2022 Q4 and 2023 Q1 before a recovery in demand this Spring. Even still, private housing output in 2023 is forecast to experience an 11.0% fall as housebuilders focus on completing existing developments rather than starting new sites. This fall is primarily due to rising mortgage rates, falling real wages and poor consumer confidence. The largest impact of the decline in demand is likely to be on property transactions, which are anticipated to fall in 2023 by around 20% whilst house prices are anticipated to decline by 8% -10%.
- Private housing rm&i output was driven to historic high levels in 2021 due to increased working from home and a 'race for space'. Given further expected falls in real wages and increases in mortgage payments for many households this year, a further decline in private housing rm&i output of 9.0% is forecast in 2023. This will focus on a fall in larger improvements activity, before slow growth of 1.0% in 2024 as activity recovers in line with the wider UK economy. Unsurprisingly, however, one area of private housing rm&i that continues to remain strong is energy-efficiency retrofit; given homeowner concerns over energy prices, insulation and solar panel installations activity is currently buoyant.
- Infrastructure continues to go from strength to strength, reaching historic high levels in 2022 as it benefitted from multi-billion pound projects such as HS2, the Thames Tideway Tunnel and Hinkley Point C as well as long-term frameworks activity in sub-sectors such as rail, roads and energy. Going forward, further growth in infrastructure output is expected but it is likely to be slower than in previous years due to cost inflation and financial constraints. After 4.9% growth in 2022, infrastructure output is forecast to rise by 2.4% in 2023 and 2.5% in 2024.
- CPA Economics Director Noble Francis said "The construction industry has enjoyed a buoyant two years since the first national lockdown largely shuttered the industry back in Spring 2020. Overall, however, construction output is forecast to fall by 4.7% this year. It is worth keeping in mind the broader context that this is not 2008 and the decline is nowhere near the fall in output that occurred in the last recession. Looking back 15 years ago, construction output fell by 15.3% over two years during the global financial crisis."

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 2023 is -1.0% on the same level as the previous month's survey.
- The mean GDP forecast for 2024 is 0.6%, down from 0.7% from the previous month's survey.

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

- Following a 4.4% expansion in 2022, GDP is projected to contract by 0.4% in 2023, and rise by just 0.2% in 2024. Inflation will remain above 9% into early 2023 before slowly falling to 4.5% by the end of 2023 and to 2.7% by the end of 2024.
- Private consumption is expected to slow owing to rising living costs, but will be aided by a 9.7% increase in minimum wage and the uprating of welfare benefits and pensions in April 2023. Business investment will remain subdued over the projection period due to a higher cost of capital and lingering uncertainty. Public investment is set to rebound in 2023 and 2024 as supply bottlenecks ease, in line with government plans. The unemployment rate is expected to rise to 5% by the end of 2024.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the [Agents' Summary of Business Conditions](#) on 15 December 2022, covering intelligence gathered mostly between mid-October and late November 2022.

- Construction output fell as home renovations declined sharply and commercial development weakened.
- Contacts said housing renovation continued to fall as households completed catch-up work following the pandemic and reined in spending due to cost of living concerns. Large housebuilders said output was being supported by strong order books, though smaller developers reported slowing activity.
- Construction of industrial and office premises continued to weaken as rising cost inflation increased the risks around returns for developers. Contacts reported delays to public sector infrastructure projects as contractors sought to renegotiate pricing to cover rising costs.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for November 2022 was published by the **Builders Merchants Federation, GfK** and **MRA Research** on 24th January 2023.

- Total value sales were up +1.4% in November 2022 compared with the same month last year. Volume sales were -3.6% lower with price up +17.3%, with no difference in trading days this year. Nine of the twelve categories sold more, with the top three being: Renewables & Water Saving (+37.9%), Plumbing, Heating & Electrical (+17.5%), Workwear & Safetywear (+16.6%). Timber & Joinery Products 12.0%) was weakest.
- Total Merchants sales were -2.6% lower in November 2022 than in October 2022. Volume sales were -7.2% lower with price up +4.9%, with one more trading day this month, like for like sales were -7.0% lower.

Workwear & Safetywear (+11.2%) was up the most, followed by Kitchens & Bathrooms (+10.0%). Seasonal category Landscaping (13.1%) was weakest.

- Total value sales in November 2022 were +29.8% higher than the same month three years ago (a more normal pre-Covid year). Volume sales fell by -4.1%, while prices were up +35.3%. With one more trading day this year, like for like sales (which take trading day differences into account) were +23.9% higher. All categories sold more. Four of the twelve categories performed better than Merchants overall. Renewables & Water Saving (+58.1%) was strongest. Landscaping (+39.7%), Timber & Joinery Products (+33.2%) and Heavy Building Materials (+ 31. 1%) also grew more.
- The current year to date, January to November 2022 was +7.4% higher than in the previous period, January to November 2021. Volume sales were -7.4% lower with price up +16.0%. With two less trading days this year, like for like sales were +8.4% higher. Eleven categories sold more. Renewables & Water Saving (+30.7%) and Kitchens & Bathrooms (+19.5%) were strongest. Timber & Joinery Products sold less 1.3%.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
January 2023	10 th March 2023
February 2023	13 th April 2023
March 2023	11 th May 2023

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