

## Monthly Construction Update

Business Statistics Team

10th March 2023



Department for  
Business & Trade

### Construction output decreased by 1.7% in volume terms in January 2023

The **Office for National Statistics** published estimates of construction output for [January 2023](#) this morning.

- Monthly construction output is estimated to have decreased 1.7% in volume terms in January 2023; this is the weakest monthly growth since June 2022 (negative 2.0%) and the lowest monthly value in level terms (£14,841 million) since February 2022 (£14,719 million).
- Anecdotal evidence continued the narrative around economic uncertainty leading to delays, cancellations, and less work being requested by customers; this has particularly contributed to an ongoing slowdown of work in the housing sector.
- The decrease in monthly construction output came from a decrease in new work (4.0% fall), partially offset by an increase in repair and maintenance (2.0%) on the month.
- Further anecdotal evidence highlighted the mixed impact of heavy rainfall in the first two weeks of January, with outdoor work being affected negatively, but repair and maintenance work seeing an increase because of the weather.
- At the sector level, five out of the nine sectors saw a fall in January 2023, with the main contributors to the monthly decrease seen in infrastructure new work and private new housing, which decreased 6.5% and 3.0%, respectively.
- Alongside the monthly decrease, construction output saw a decrease of 0.7% in the three months to January 2023; this follows four periods of consecutive growth in the three-month-on-three-month series; the decrease came solely from a fall in new work (1.2% fall), as repair and maintenance saw an increase (0.3%).

### Gross Domestic Product grew by 0.3% in January 2023

The **Office for National Statistics** published estimates of GDP for [January 2023](#) this morning.

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.3% in January 2023, after falling by 0.5% in December 2022. Monthly GDP is now estimated to be 0.2% below its pre-coronavirus levels (February 2020).
- Looking at the broader picture, GDP was flat in the three months to January 2023.
- The services sector grew by 0.5% in January 2023, after falling by 0.8% in December 2022, with the largest contributions to growth in January 2023 coming from education, transport and storage, human health activities, and arts, entertainment and recreation activities, all of which have rebounded after falls in December 2022.

- Output in consumer-facing services grew by 0.3% in January 2023; this follows a fall of 1.2% in December 2022.
- Production output fell by 0.3% in January 2023, following growth of 0.3% in December 2022.
- There are no revisions to previously published data in this release.

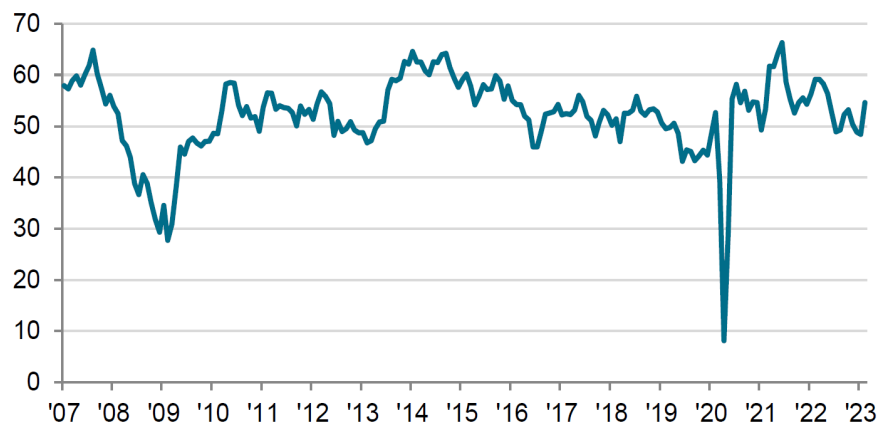
### S&P Global / CIPS UK Construction Purchasing Managers Index for February 2023

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

- Robust increase in overall business activity across the UK construction sector, ending a two-month period of decline. The rate of growth was the strongest since May 2022, supported by a marked rebound in commercial work and a positive contribution from civil engineering activity. In contrast, housing activity decreased for the third month running.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 10-27 February 2023.

- The latest survey pointed to the least widespread supplier delays since January 2020 and a slowdown in input cost inflation. The overall rate of purchase price inflation was the lowest for 27 months in February.
- 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 54.6 in February, up from 48.4 in January and above the neutral 50.0 threshold for the first time in three months. The latest reading was the highest since May 2022.
- Commercial construction was the best-performing area in February (index at 55.3), with the rate of expansion the steepest for nine months. Civil engineering activity also returned to growth in February (index at 52.3), although the rate of expansion was only modest.
- Construction companies noted a fall in residential building work for the third consecutive month in February (index at 47.4). The speed of the downturn eased since January, however. Survey respondents commented on subdued market conditions due to elevated interest rates, alongside cutbacks to new house building projects in anticipation of weaker demand.
- Total new work picked up in February, as signalled by an improvement in order books for the first time since November 2022. Construction companies reported signs of a turnaround in demand for commercial projects due to the improving near-term economic outlook.

- Despite rising demand for construction products and materials, the latest survey indicated that supply pressures continued to ease. The respective index signalled that delays with vendor delivery times were the least widespread for just over three years.

## Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published on 1<sup>st</sup> March 2023.

- The material price index for 'All Work' increased by 10.4% in January 2023 compared to the same month the previous year. This followed an increase of 11.2% in December 2022 compared to December 2021.
- There was a 34.2% decrease in brick deliveries in January 2023 compared to January 2022, 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

- There was a 28.9% decrease in concrete block deliveries in January 2023 compared to January 2022, according to the seasonally adjusted figures.

## 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 9 March 2023, this release is in headline-only format, summarising information on the overall UK businesses. The survey was live from 10 February to 5 March 2023.

- Half (50%) of trading businesses reported that they were able to get the materials, goods or services they needed from within the UK in January 2023 without encountering any supply issues; a further 11% reported that they were able to get the materials, goods or services they needed but had to change suppliers or find alternative solutions to do so, with both percentages broadly stable when compared with December 2022.
- In January 2023, one in eight (12%) businesses with 10 or more employees experienced global supply chain disruption, down 3 percentage points from December 2022; the most commonly reported reason for this disruption was a shortage of materials (35%).
- For March 2023, 7 in 10 (70%) businesses reported some form of concern for their business, broadly stable with the proportion for February 2023 (72%); the top two concerns reported by businesses for March 2023 continued to be energy prices (19%) and inflation of goods and services prices (15%).
- More than 1 in 10 (13%) businesses reported that their employees' hourly wages had increased in January 2023 compared with December 2022; this was 24% for businesses with 10 or more employees.
- More than a quarter (27%) of businesses with 10 or more employees were experiencing worker shortages in late February 2023, broadly stable when compared with early January 2023 (28%).

- In January 2023, 1 in 10 (10%) businesses had been affected as a result of industrial action, with more than a quarter (26%) of those businesses reporting that they were unable to fully operate as a consequence.

### 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.

- 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 February 2023.

- The mean GDP forecast for 2023 is -0.8% up from -1.0% in the previous month's survey.
- The mean GDP forecast for 2024 is 0.7%, up from 0.6% in the previous month's survey.

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

- Following a contraction of 0.4% in 2023, GDP is projected to increase by 0.2% in 2024. Consumer price 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 the minimum wage and the usual uprating of welfare benefits and pensions in April 2023. 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 December 2022 and for quarter 4 2022 was published by the **Builders Merchants Federation, GfK and MRA Research** on 23<sup>rd</sup> February 2023.

#### Quarter 4:

- Total value sales data from Britain's Builders' Merchants shows Q4 2022 recorded +2.9% year-on-year growth, with +16.4% price inflation compensating for volumes which fell -11.6%. With one less trading day this year, like-for-like value sales were +4.6% higher.
- Ten of the 12 categories sold more in Q4 2022 compared to the previous year with Renewables & Water Saving again growing the most (+48.6%). Plumbing, Heating & Electrical (+18.6%) and
- Workwear & Safetywear (+14.8%) both recorded their highest quarterly revenues and were among the nine categories growing faster than Merchants overall. Only Landscaping (-5.9%) and Timber & Joinery Products (-11.5%) sold less.
- Comparing Q4 2022 with Q4 2019, a more normal pre-Covid trading year, sales for October to December 2022 were +24.4% higher than the same months three years ago. Volume sales were -7.6% down and prices were up +34.7%. All categories sold more including significant increases for Renewables & Water Saving (+59.3%), Landscaping (+32.2%), Timber & Joinery Products (+27.9%), and Heavy Building Materials (+25.9%) which all grew faster than total Merchants.
- Quarter-on-quarter, total value sales were -13.9% down in Q4 compared to Q3. Volume sales were -18.3% down while prices were up +5.4%. With five less trading days in the most recent period, overall like-for-like sales were -6.6% lower than Q3. Plumbing, Heating & Electrical (+13.2%) grew the most, followed by Workwear & Safetywear and Renewables & Water Saving (both +7.1%). Seasonal category Landscaping (-33.6%) was the weakest.

*December 2022:*

- Total value sales in December 2022 dipped -1.7% compared to December 2021. Volume sales were down -17.9% and prices were up +19.7%. Taking trading days into account, like-for-like sales were +4.5% higher, with one less trading day. Nine of the twelve categories sold more with Renewables & Water Saving (+42.3%) the strongest performing category. Plumbing, Heating & Electrical (+19.1%), Decorating (+12.1%) and Kitchens & Bathrooms (+10.0%) also did better, while Timber & Joinery Products (-15.4%) and Landscaping (-17.4%) both sold less.
- Total value sales in December 2022 were +24.4% higher than the same month three years ago, with one more trading day this year. Like-for-like sales were +16.6% up. Volume sales were -10.9% lower and prices climbed +39.6%. All categories sold more, again led by Renewables & Water Saving (+60.5%).
- Compared to the previous month, December 2022 total merchant sales were down -35.1% in November 2022. Volume sales were -38.3% lower and prices rose +5.3%. All categories sold less, which is in line with the seasonal trading patterns we would expect in December.

| Expected dates for future construction output releases |                             |
|--|-----------------------------|
| <i>Release for:</i>                                    | <i>Publication date:</i>    |
| February 2023  | 13 <sup>th</sup> April 2023 |
| March 2023   | 11 <sup>th</sup> May 2023   |
| April 2023   | 14 <sup>th</sup> June 2023  |

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