

Monthly Construction Update

Business Statistics Team

11th February 2022



Department for
Business, Energy
& Industrial Strategy

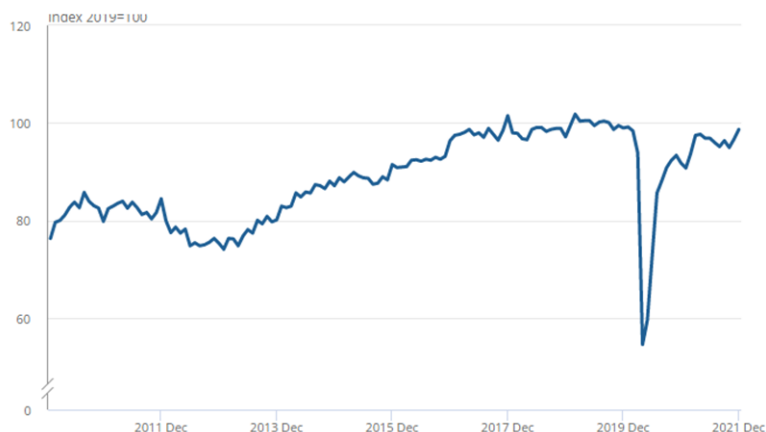
Construction output increased by 2.0% in volume terms in December 2021

The **Office for National Statistics** published [estimates of construction output for December 2021, and new order and construction output price indices between October and December 2021](#), this morning:

- Monthly construction output increased by 2.0% in volume terms in December 2021; this came solely from an increase in new work (3.5%) as repair and maintenance saw a decline of 0.7% on the month.
- The level of construction output in December 2021 was 0.3% (£35 million) above the February 2020 pre-coronavirus (COVID-19) pandemic level; new work was 2.0% (£190 million) below the February 2020 level, while repair and maintenance work was 4.5% (£225 million) above the February 2020 level.

Figure 1: The monthly index shows the level of construction output grew in December 2021 for the second consecutive month

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



- Despite the monthly increase in December 2021, downward revisions, most notably in September and November 2021, mean output has recovered less than previously estimated in November 2021.
- Alongside the monthly growth, quarterly construction output increased 1.0% in Quarter 4 (Oct to Dec) 2021 compared with Quarter 3 (Jul to Sept) 2021; both new work (1.1%) and repair and maintenance (0.8%) saw increases.
- Annual construction output increased by a record 12.7% in 2021 compared with 2020, mainly as a result of the coronavirus pandemic contributing to a very weak 2020, which saw the record largest decline in annual growth (fall of 14.9%).
- Total construction new orders increased by 9.2% (£1,121 million) in Quarter 4 2021 compared with Quarter 3 2021; total new orders are now at their highest level (£13,326 million) since Quarter 3 2017, which was affected by large value orders for High Speed 2 (HS2).
- The annual rate of construction output price growth was 6.2% in the 12 months to December 2021; this was the strongest annual rate since records began in 2014.
- At the type of work level, the annual rate of price growth in the 12 months to December 2021 was at its strongest in new housing (9.9%), which is the strongest growth since records began in 2014.

Gross Domestic Product fell by 0.2% in December 2021

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

- Gross domestic product (GDP) fell by 0.2% in December 2021 to equal its pre-coronavirus (COVID-19) pandemic level (February 2020); while the Quarter 4 (Oct to Dec) 2021 estimate was still 0.4% below its pre-coronavirus level (Quarter 4 2019).
- Services output was down 0.5% in December 2021, while production rose 0.3% and construction increased by 2.0%; services and construction were both above pre-coronavirus levels, by 0.5% and 0.3% respectively, while production remained 2.6% below.
- Output in consumer-facing services fell by 3.0% in the month, mainly driven by a 3.7% fall in retail trade, while all other services rose by 0.1%; consumer-facing services were 8.4% below their pre-coronavirus levels, while all other services were 2.8% above.
- In the previous GDP monthly bulletin, we said that quarterly GDP for Quarter 4 2021 would either match or surpass its pre-coronavirus level (Quarter 4 2019) provided the monthly December 2021 estimate did not fall by more than by 0.2% and there were no other data revisions; while December 2021 fell by 0.2%, revisions to 2021 data - in line with the National Accounts Revisions Policy - saw Quarter 4 2021 remain below its pre-coronavirus level.

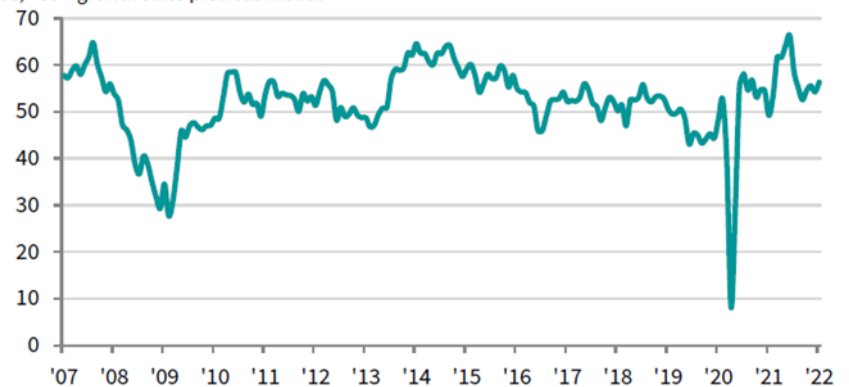
IHS Markit / CIPS UK Construction Purchasing Managers Index for February 2022

IHS Markit CIPS published their latest [construction purchasing managers index](#) for January 2022 on 4th February 2022.

- Business activity in the UK construction sector increased for the twelfth consecutive month in January and growth picked up since December, according to the latest PMI data compiled by IHS Markit and CIPS. There were also encouraging signs for the near-term outlook as new orders rose at the fastest pace since August 2021 and input buying was the strongest for six months.

IHS Markit / CIPS UK Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

- Supplier lead times continued to lengthen in January as staff shortages and a lack of haulage availability hindered deliveries. However, the peak phase of supply chain difficulties appears to have passed as the latest downturn in vendor performance was the smallest since September 2020.

- At 56.3 in January, up from 54.3 in December, the headline seasonally adjusted IHS Markit/CIPS UK Construction PMI Total Activity Index registered above the crucial 50.0 nochange mark for the twelfth month in a row. The latest reading signalled the strongest rate of output expansion since July 2021.
- Commercial work was by far the best-performing category (57.6), with growth accelerating to a six-month high amid a boost to client demand from recovering UK economic conditions. Survey respondents often noted that optimism about the roll back of pandemic restrictions had led to greater spending on commercial construction projects.
- Civil engineering returned to growth in January (53.2), although the rebound was softer than seen in other parts of the construction sector. House building activity meanwhile increased at the slowest pace for four months (54.3).
- January data illustrated a robust and accelerated rise in new work received by construction companies. The rate of growth was the fastest since August 2021, which survey respondents often attributed to rising confidence among clients. Strong pipelines of new work encouraged additional staff hiring in January. Latest data pointed to the best month for job creation since last October.
- Input buying picked up at the start of 2022, reflecting new project starts and stock building efforts. Despite another rise in demand for construction products and materials, the latest survey pointed to a turnaround in supply pressures. Construction firms recorded the least widespread delays for almost one-and-a-half years.
- Rapid rises in raw material prices, energy costs and transportation bills continued push up business expenses in the construction sector. The overall rate of inflation nonetheless eased to its lowest for 10 months in January.
- The latest survey indicated that construction companies remained highly upbeat about the business outlook. More than half of the survey panel (53%) forecast a rise in output during the year ahead, while only 5% predict a decline. Optimism was the strongest since May 2021 and largely reflected increasing tender opportunities and expectations of a swift recovery for the UK economy in 2022.

Business Insights and Impact on the UK economy

The Office of National Statistics published [Business insights and impact on the UK economy](#) on 10th February 2022, based on responses from the voluntary fortnightly business survey (BICS).

- Between 24th January 2022 and 6th February 2022, weighted by count, 87.4% of construction firms said they were currently fully trading compared with an all-industry average of 81.9%: some 5.8% of construction firms said they were currently partially trading compared with an all-industry average of 10.9%.
- Between 10th January 2022 and 23rd January 2022, weighted by count, 21.6% of construction firms reported turnover had decreased compared to normal expectations for the time of year, whilst 56.4% reported turnover was unaffected and 7.2% reported turnover had increased. The respective all industry averages were 30.5% and 51.1% and 6.3%.

- Between 10th January 2022 and 23rd January 2022, weighted by count, construction firms reported that 2.0% of their workforce were on sick leave due to COVID-19 symptoms.
- Between 10th January 2022 and 6th February 2022, weighted by count, 10.6% of construction firms reported hourly wages were higher than normal for existing employees in the last month, whilst 52.0% reported wages had not been affected. The respective all industry averages were 8.5% and 51.1%.
- Between 10th January 2022 and 6th February 2022, weighted by count, 7.5% of construction firms that had not permanently stopped trading reported an increase in cancellations from customers in the last month. The all industry average was 14.6%.

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** (CPA) published scenarios for construction as part of their analysis of the [market impact](#) in January 2022.

- The CPA forecasts that output in the industry will grow by 4.3% in 2022, slowing to 2.5% in 2023 compared to the 13.3% seen in 2021. This demonstrates the resilience of the sector to the initial Covid-19 lockdown and the end of the Brexit transition period in 2020.
- Housebuilding, the largest sector within the UK construction industry, is expected to remain buoyant while infrastructure will be the major driver for growth.
- Product supply issues, a major challenge in 2021, have eased recently, but may still cause problems, particularly in the spring period and particularly for smaller building companies.
- Continuing to benefit from the 'race for space', output in private housing is forecast to rise by 3.0% in both 2022 and 2023 following 17.0% growth in 2021. The CPA suggests that the double-digit inflation in house prices will fall as the impact of the end of the stamp duty holiday and the further restriction of the Help to Buy scheme feeds through. The outlook for volume remains positive, with most major house builders reporting strong near-term demand and healthy profit margins fuelled by demand for housing in affordable areas of the UK.
- Also benefiting from the 'race for space' in the near-term is the private housing rm&i sector. Here the CPA forecasts output to remain flat at the historically high level reached with 17.0% growth last year. Rising renovation project costs and higher inflation rates are expected to slow down consumer spending on larger projects. UK households have benefited from building up over £200 billion of savings from the past two years but rising costs are spelling caution for spending compared to 2021.
- The CPA forecast indicates the infrastructure sector will remain the main driver for growth in 2022. Key projects include the Thames Tideway Tunnel, Hinkley Point C and HS2. At least two of these projects report delays due to supply constraints and this could result in further work being pushed into 2023. Taking this into account, the sector is still expected to rise by 9.7% in 2022 and 1.1% in 2023, taking the sector to a new all-time high.

- While supply issues have eased off over the past six months, the CPA still considers these to be the biggest challenges to overall growth. These challenges are not spread equally across the sector, with smaller specialist sub-contractors feeling the pressure more.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [forecast survey](#) (which uses an average of private sector forecasts) results were published in February 2022.

- The mean GDP forecast for 2022 is 4.3% growth, unchanged from the previous month's survey.
- The mean GDP growth forecast for 2023 is 2.0%.

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 2nd February 2022.

- The material price index for 'All Work' increased by 21.5% in December 2021 compared to December 2020 and by 0.4% in December 2021 compared to the previous month.
- There was a 13.3% decrease in brick deliveries in December 2021 compared to December 2020, according to the seasonally adjusted figures. The month-on-month change shows a 9.2% decrease in December 2021. The annual total for 2021 showed a 24.9% increase compared to the annual total for 2020.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for November 2021 was published by the **Builders Merchants Federation** and **GfK** on 10th January 2022.

- Total Builders Merchants November 2021 value sales were up 17.4% compared with November 2020, with all categories selling more.
- Total sales in November 2021 were 28.0% higher than in November 2019, with 11 of 12 categories selling more. Growth was primarily driven by Landscaping and Timber & Joinery.
- Total Merchants sales in November were 3.2% higher, with one more trading day. Again, 11 of 12 categories sold more.
- Total sales in September - November 2021 were 14.5% up on the same three months in 2020. Timber & Joinery (+32.4%) continued to out-perform the market.
- Across all merchants, sales in September - November 2021 were 20.9% higher than in September - November 2019, with one more trading day.
- In the eleven months January to November 2021, Total Merchants sales were 15.9% higher than the same period last year, with two less trading days in 2021. Nine of twelve categories sold more.
- In the 12 months December 2020 to November 2021, Total Merchants sold 30.1% more than in the same period a year earlier.

Expected dates for future construction output releases

<i>Release for:</i>	<i>Publication date:</i>
January 2022	11 th March 2022
February 2022	11 th April 2022
March 2022	12 th May 2022