Monthly Construction Update

Business Statistics Team

11th August 2023

Department for Business & Trade

Construction output increased by 1.6% in volume terms in June 2023

The **Office for National Statistics** published estimates of construction output for June 2023 this morning.

- Monthly construction output is estimated to have increased 1.6% in volume terms in June 2023; this came from increases in both new work (2.0%) and repair and maintenance (1.1%) on the month.
- At the sector level, six out of the nine sectors saw a rise in June 2023, with the main contributors to the monthly increase seen in infrastructure new work and non-housing repair and maintenance, which increased 4.7% and 3.4%, respectively.
- Quarterly construction output increased 0.3% in Quarter 2 (Apr to June) 2023 compared with Quarter 1 (Jan to Mar) 2023; the increase came solely from June 2023, with an increase in repair and maintenance (0.9%), while new work saw a decrease of 0.1%.
- Total construction new orders decreased 7.1% (£786 million) in Quarter 2 2023 compared with Quarter 1 2023; this quarterly fall came mainly from public other new orders and infrastructure new orders, which fell 32.9% (£576 million) and 26.5% (£519 million), respectively.
- The annual rate of construction output price growth was 4.6% in the 12 months to June 2023; this has slowed from the record annual price growth in May 2022 (10.4%).

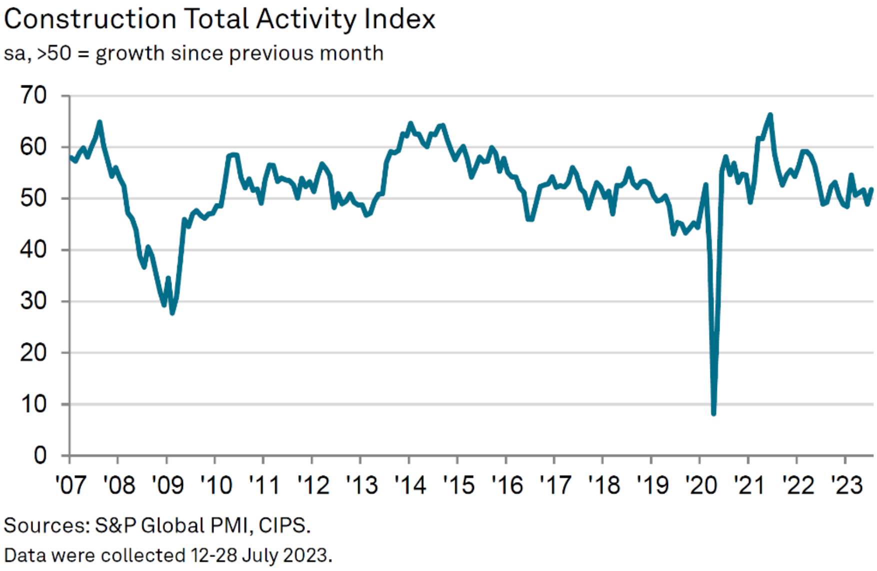
Gross Domestic Product increased by 0.5% in June 2023

The **Office for National Statistics** published estimates of GDP for June 2023 this morning.

- Monthly real gross domestic (GDP) is estimated to have grown by 0.5% in June 2023, following a fall of 0.1% in May 2023 and growth of 0.2% in April 2023, both unrevised from the previous publication.
- A range of businesses cited the additional bank holiday in May as a reason for increased output in June 2023 compared with May 2023.
- Looking at the broader picture, GDP has shown 0.2% growth in the three months to June 2023.
- Production output grew by 1.8% in June 2023 after a fall of 0.6% in May 2023, unrevised from the previous publication; this sector was the main contributor to the growth in monthly GDP in June.
- Services output was up 0.2% in June 2023, after showing no growth in May 2023, unrevised from the previous publication; output in consumer-facing services grew by 0.5% in June 2023, following an unrevised fall of 0.2% in May 2023.

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

S&P Global CIPS published their latest construction purchasing managers index for June 2023 on 4th August 2023.



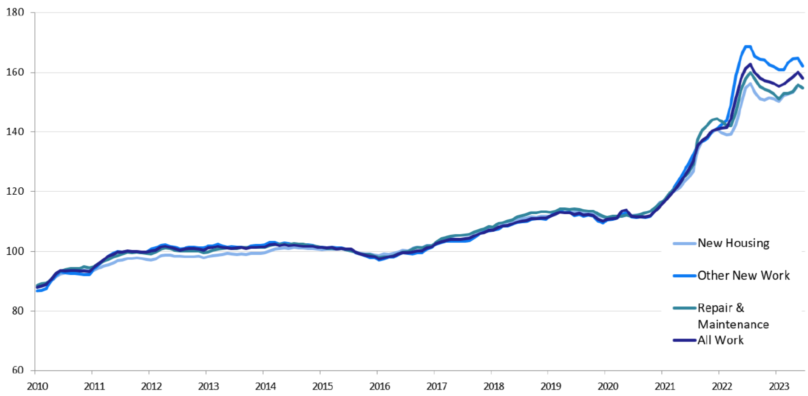
- July data signalled a renewed expansion of overall construction output, following the marginal decline seen during the previous month. This was led by the strongest rise in commercial building since February and another solid contribution to growth from civil engineering activity. Meanwhile, latest data signalled another sharp reduction in residential construction activity.
- Survey respondents widely noted that higher interest rates and the uncertain UK economic outlook had constrained order books in July. Softer demand and fewer supply bottlenecks in turn led to the fastest improvement in vendors' delivery times since March 2009.
- The headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – posted 51.7 in July, up from 48.9 in June and the highest level for five months. However, the latest reading signalled only a moderate rise in overall construction output.
- Robust increases in commercial building (index at 54.4) and civil engineering (53.9) were offset by a steep fall in house building (43.0). Lower volumes of residential work have now been recorded for eight consecutive months, although the rate of decline eased to its least marked since April.
- Construction companies noted that rising borrowing costs had led to fewer sales enquiries and slower decision-making among clients in July. The latest survey pointed to only a marginal rise in total new work and the rate of growth was slower than seen on average in the first half of 2023. Some firms cited solid demand for refurbishment projects and greater opportunities for infrastructure work.
- Staff hiring was a relatively bright spot in July, with the pace of job creation accelerating to its strongest since October 2022. Higher levels of employment have now been recorded in each of the past six months. Some firms noted that improved candidate availability was a factor encouraging them to boost their workforce numbers, while others typically cited long-term business expansion plans.
- July data indicated weaker demand for construction inputs. Purchasing activity has now decreased in each of the past two months, which reflected destocking efforts alongside subdued order books. A combination of lower demand and rising material availability contributed to a sharp improvement in supplier performance. Latest data illustrated that lead times shortened to the greatest extent for nearly fourteen-and-a-half years.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 2nd August 2023.

- The material price index **for 'All Work' decreased by 2.0%** in June 2023 compared to the same month the previous year.
- There was a **14.7% decrease** in brick deliveries in June 2023 compared to June 2022, according to the seasonally adjusted figures.
- Cement production **decreased by 6.8%** to 8.4 million tonnes in 2022, compared to 9.0 million tonnes 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 10 August 2023, this release is in headline-only format, summarising information on the overall UK businesses. The survey was live from 24 July to 6 August 2023.

- In June 2023, nearly three in five (58%) trading businesses reported that they were able to get the materials, goods or services they needed from within the UK without experiencing any issues, broadly stable with May 2023; a further 6% of businesses were able to obtain what they needed but had to find alternative solutions to do so, but 2% reported that they were unable to get what they needed, though this is the lowest proportion since the question was introduced in June 2020.
- In June 2023, 7% of businesses with 10 or more employees experienced global supply chain disruption, down 3 percentage points from May 2023; of those businesses, 30% reported a shortage of materials as the main reason for the disruption.
- In late July 2023, 21% of businesses reported that they were using, or intending to use, increased homeworking as a permanent business model, this has remained broadly stable since late March 2023; reduced overheads were reported as the main reason for using this model, at 51%, followed closely by improved staff well-being (47%).
- Fewer than 1 in 10 (9%) businesses were affected by industrial action in June 2023; of these, 22% reported that their business was unable to operate fully as a consequence.
- In late July 2023, 75% of businesses reported that they had not assessed the risks of any of the specified climate change effects (water scarcity, coastal erosion, increased flooding and temperature increases); of those that had assessed the risks, 28% had not taken any action, 18% did not expect to be impacted, while 18% reported they had been unable to take action either because of costs, or the lack of information or guidance.

Construction Output Forecasts

Experian published their Summer 2023 forecasts for the construction sector in June 2023.

- Total construction output has started reasonably well this year, with construction output up by 0.7% in Q1 compared with the previous quarter. However, the rest of the year is expected to be much more challenging for the industry and especially for the housing sectors, both new and R&M, as further increases in interest rates and continuing elevated inflation impact negatively on demand. Total construction output is projected to decline by 4.4% in 2023, taking it back below 2019's pre-pandemic level, then increase by 1.4% in 2024 and 3.3% in 2025.

- The housing sector is expected to decline by 14.9% in 2023, then increase by 5.5% in 2024 and 7.0% in 2025. Both private and public housing sectors are set to face several headwinds that will heavily impede building activity this year. For the private housing sector there are clear signs that the housing market is cooling as new enquiries ease and house prices fall. Mortgage market disruption continues to play out as the Bank of England continue to promptly respond to stubborn inflationary pressures and further hikes are on the cards. Furthermore, supportive government schemes have been rolled back and economic uncertainty leave private housebuilders with little incentive to undertake new construction with any vigour. Common issues to both private and public housing sectors are escalating materials costs and labour shortages, which are likely to hamper building plans and delay delivery in the near term, even if it is temporary. For the public housing sector, ongoing budgetary constraints remain evident and further funding cuts as well as heightened pressure to redirect existing funding from new construction towards RM&I.

- Housing Repair Maintenance & Improvement (RM&I) is forecast to decline by 6.5% in 2023, then by 1.0% in 2024 and grow by 2.7% in 2025. The Housing Repair Maintenance & Improvement (RM&I) sector had remained somewhat protected from the full impact of the economic stagnation and inflationary pressures that has beleaguered the wider industry but there are signs that this is about to reverse. Looking ahead we expect the sector to shrink performance of the sectors to stay weak in 2023 as private housing RM&I falters in the face of headwinds and public housing RM&I fails to make any notable gains.

- The new infrastructure sector is expected to grow by 1.6% in 2023, 1.1% 2024 and 2.6% in 2025. The infrastructure sector is expected to continue to be the strongest performer in relativity, with output growth driven by transport and energy projects. The roads sub-sector is expected to struggle in the across the forecast period, with the impacts of inflation, delayed approvals and postponed or cancelled schemes leading to a second consecutive year of contraction in 2023. Increased activity on the High.

- The private industrial sector is expected to grow by 2.4% in 2023, decline by 4.0% in 2023 and rise by 1.9% in 2025. Last year's stellar performance in the industrial construction sector is unlikely to be replicated going forward and indeed, the relatively poor economic scenario this year and next is likely to impact negatively on the sector. The weaker economic prognosis for the economy is expected to adversely affect manufacturing output and consequently the demand for manufacturing facilities. Inflation is remaining stubbornly high and is likely to continue to put pressure on household disposable income and thus consumer spending. Nearly seven years on from the referendum and over three years since we finally left the European Union, it is fair to say that the boost in demand for new distribution and logistics facilities is probably coming to an end, thus the prospects for warehouse construction are much more muted than in the recent past. Under this scenario, a further, much more modest, rise in output is expected this year on the back of orders already placed, followed by declines in 2024 and 2025.

- The Public Non-residential sector is forecast to grow by 0.3% in 2023, 1.9% in 2024 and 2.6% in 2025. Little has changed in the view for the public non-residential sector that the long contraction in output seen since 2017 will finally come to an end this year. However, growth in 2023 is now likely to be only marginal. The strongest sub-sector is still expected to be agriculture & miscellaneous, expenditure driven by the Defence Infrastructure Organisation (DIO) and the prison building programme, followed by the health sub-sector and then education. In contrast, offices and entertainment are likely to bear the brunt of any cuts to capital expenditure budgets going forward.

The **Construction Products Association** (CPA) published their summer construction industry forecast as part of their analysis of the market impact in July 2023.

- The construction industry is expected to experience an acute recession this year driven by double-digit falls in the two largest construction sectors: private housing new build and private housing repair, maintenance, and improvement (rm&i). The CPA forecasts construction output to fall by 7.0% in 2023 before recovering slowly in 2024 with growth of just 0.7%.

- Private housing output is worth £41 billion per year to the UK economy and is forecast to be the worst-affected construction sector in 2023. In this sector, activity was already forecast to fall due to the lagged impacts of the government's calamitous Mini Budget and the resultant spike in mortgage rates last year, which led to a 30-40% fall in demand in 2022 Q4. Whilst demand started to recover during the first quarter of this year as mortgage rates fell, this proved to be a mere blip and over the Summer, the Bank of England raised interest rates once again, in turn raising market expectations of peak interest rates beyond 6.0%. Given the impact of this on mortgage rates, demand will be badly affected in both the general housing market and house building sector. private housing starts are forecast to fall by 25.0% in 2023. Completions and output are expected to fall by 19.0% before a recovery starting in the second half of next year, which will see a rise of 2.0% in 2024 overall.

- Private housing rm&i is worth £29 billion each year to the UK economy and activity reached historic highs between 2020 and early 2022 due to increased working from home and a 'race for space'. Since March 2022, however, activity has been falling due to persistent inflation, rising interest and mortgage rates, and falling real wages. Larger home improvements activity remained strong last year but planning applications for new larger home improvements fell by 19.0% in 2022 as a result of homeowners being hit by rising mortgage payments and falling real wages. As a result, this is likely to lead to a fall in activity this year. Overall, private housing rm&i output is forecast to fall by 11.0% this year before growth of 2.0% next year in line with a recovery in household finances.

- Infrastructure activity down on the ground remains strong due to major projects such as HS2, the Thames Tideway Tunnel and Hinkley Point C. These projects are all late and over budget but continue to provide growth to a sector worth £28 billion per year. Higher activity from these projects is likely, however, to be offset by government delays to new roads and rail projects. Higher activity from these projects is likely, however, to be offset by government delays to new roads and rail projects. In addition, budgetary constraints for councils, combined with cost inflation issues, are likely to mean a decline in the volume of local transport work. Infrastructure output is expected to fall, albeit by only 0.5% in 2023, before growth of 1.0% in 2024.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** Forecast Survey (which uses an average of private sector forecasts) results were published in July 2023.

- The mean GDP forecast for 2023 is 0.1% unchanged from the previous month's survey.
- The mean GDP forecast for 2024 is 0.4%, down from the 0.8% in the previous month's survey.

The **OECD** published their latest Economic Outlook in June 2023:

- UK GDP is projected to grow by 0.3% this year, up respectively from the -0.2% forecasted in March, and to grow by 1.0% in 2024, up from 0.9% forecasted in March.
- Global GDP growth is projected to increase by 2.7% this year, up from the 2.6% forecasted in March, then increase by 2.9% in 2024, unchanged from the March forecast.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 22 June 2023, covering intelligence gathered mostly between mid-January and early March 2023.

- Construction output volumes continued to fall, driven by softer demand from the public sector and in housing. Higher costs and planning constraints also affected output.

- The decline in output volumes continued as homebuilders slowed build rates in response to weaker demand. Construction of social housing was also slow owing to the increased cost of upgrading the existing housing stock. Contacts continued to report a fall in home improvement spending reflecting the squeeze on household incomes.

- Construction of office and commercial property remained weak as both high funding and building costs reduced potential returns, even as the demand for office refurbishment remained good. Public sector demand has slowed as project budgets were constrained by higher costs.

Builders Merchant Building Index

The Builders Merchant Building Index for May was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 21st July 2023.

May 2023:

- Total Builders Merchants value sales were down -6.0% in May 2023 compared with the same month last year. Volume sales were -15.1% lower with prices up +10.8%. With one less trading day, like for like sales (which take trading day differences into account) were 1.3% lower. Eight of the twelve categories sold more than in May 2022, led by Renewables & Water Saving (+41.8%), Decorating (+10.2%), and Workwear and Safetywear (+5.9%). Landscaping (-13.4%) and Timber & Joinery Products (-18.2%) were weakest.

- Total Merchants sales were +12.4% higher in May 2023 than April 2023. Volume sales were +14.1% higher with price down -1.5%. With two more trading days this month, like-for-like sales were +1.1% higher. All categories sold more. Landscaping (+18.6%), Heavy Building Materials (+13.3%) and Workwear and Safetywear (+11.3%) grew the most. Tools (+7.2) and Plumbing, Heating & Electrical (+7.1%) grew least.

- May’s overall BMBI index was 152.6. With one less trading day, the like-for-like index was 158.4. All categories exceeded 100, with seasonal category Landscaping (200.8) well out in front, followed by Heavy Building Materials (152.8), Timber & Joinery Products (151.4), Kitchens & Bathrooms (146.4) and Ironmongery (144.6). Tools (108.8) had the lowest index.

Expected dates for future construction output releases	
Release for:	*Publication date:*
July 2023	13th September 2023
August 2023	12th October 2023
September 2023	10th November 2023

Business Statistics team | Analysis Directorate | Department for Business and Trade
materialstats@beis.gov.uk