Monthly Construction Update

Business Statistics Team

12th October 2023

Department for Business & Trade

Construction output decreased by 0.5% in volume terms in August 2023

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

- The construction sector fell by 0.5% in August 2023 after a fall of 0.4% in July 2023, revised up from a 0.5% fall in our previous publication, with the monthly value in level terms in August 2023 at £15,584 million.
- The decrease in monthly output came solely from a decrease in new work (1.5% fall), partially offset by an increase in repair and maintenance (1.0%) on the month.
- At the sector level, five out of the nine sectors saw a fall in August 2023, with the main contributors to the monthly decrease seen in private commercial and private new housing, which decreased 4.1% and 1.4%, respectively.
- Alongside the monthly decrease, construction output saw an increase of 0.9% in the three months to August 2023; this came from increases in both new work (0.9%), and repair and maintenance (0.9%).
- In line with the National Accounts Revisions Policy, this release gives data for August 2023 for the first time and incorporates revisions for all periods; revisions up to June 2023 are consistent with the Gross domestic product (GDP) quarterly national accounts, UK: April to June 2023 bulletin, published 29 September 2023.

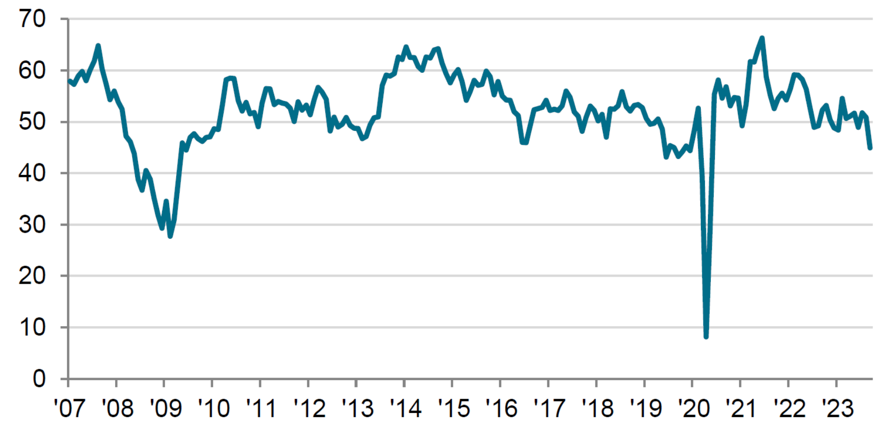
Gross Domestic Product grown by 0.2% in August 2023

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

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in August 2023, following a fall of 0.6% in July 2023, revised down from a 0.5% fall in our previous publication.
- Looking at the broader picture, GDP increased by 0.3% in the three months to August 2023, with growth in all sectors.
- Services output rose by 0.4% in August 2023 and was the main contributor to the growth in GDP.
- Output in consumer-facing services fell by 0.6% in August 2023 after a fall of 0.2% in July 2023, revised down from no growth in our previous publication.
- Production output fell by 0.7% in August 2023 after falling by 1.1% in July 2023, revised down from a 0.7% fall in our previous publication.

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

S&P Global CIPS published their latest construction purchasing managers index for September 2023 on 5th September 2023.



Sources: S&P Global, CIPS.
Data were collected 12-28 September 2023.

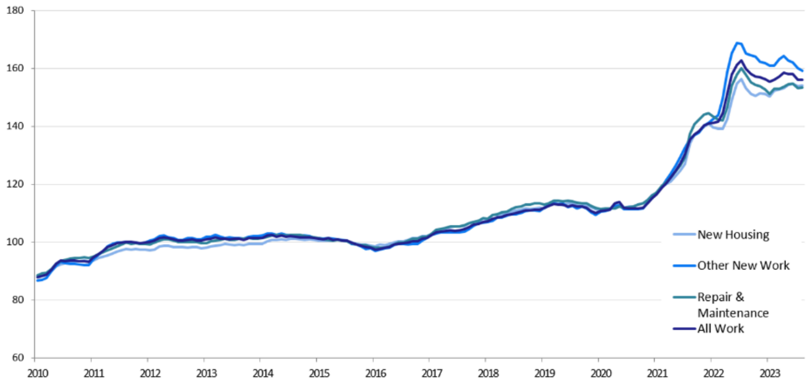
- September PMI® data pointed to a reversal in fortunes for the UK construction sector as total industry activity decreased for the first time in three months and at the fastest pace since May 2020. All three main segments of construction work posted a reduction in business activity, led by a steep and accelerated fall in house building.
- Shrinking order books contributed to another slowdown in employment growth and lower business activity expectations for the year ahead. Moreover, falling workloads led to the fastest rise in sub-contractor availability since July 2009.
- The headline S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – a seasonally adjusted index tracking changes in total industry activity – registered 45.0 in September, down sharply from 50.8 in August and below the neutral 50.0 value for the first time since June.
- Residential work (index at 38.1) was by far the worst-performing area of construction output during September, followed by civil engineering activity (45.7). Aside from the pandemic, the latest fall in housing activity was the steepest since April 2009. Survey respondents widely commented on cutbacks to house building projects amid rising borrowing costs and weak demand conditions.
- Commercial building declined at only a modest pace in September (index at 47.7), but this represented a considerable setback after the solid growth seen throughout the summer. Some firms noted that worries about the economic outlook had dampened client demand and led to a lack of new work to replace completed projects.
- Total new business received by construction companies decreased for the third time in the past four months during September. Moreover, the rate of decline was the steepest seen since May 2020. Construction companies typically cited sluggish demand conditions and a severe drag on new orders from reduced workloads in the residential building sector.
- Lower client meant that construction firms slowed their rate of job creation during the latest survey period. The overall rate of employment growth was the weakest since June and only modest overall. Moreover, sub-contractor usage decreased for the first time since January. A lack of new projects resulted in the steepest rise in sub-contractor availability for over 14 years.
- Meanwhile, purchasing activity decreased at a solid pace in September. This reflected weaker order books and efforts to reduce inventories. Supplier performance once again improved at a robust rate. Delivery times for construction products and materials have now shortened in each of the past seven months.

Building Materials

The latest Monthly Statistics of Building Materials and Components were published on 4th October 2023.

- The material price index for 'All Work' decreased by 2.3% in August 2023 compared to the same month the previous year.
- There was a 30.0% decrease in brick deliveries in August 2023 compared to August 2022, according to the seasonally adjusted figures.
- There was a 16.2% decrease in concrete block deliveries in August 2023 compared to August 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

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 5 October 2023, summarising information on the overall UK businesses. The survey was live from 18 September to 1 October 2023.

- Weighted by count, 83.4% of construction businesses currently trading with 10 or more employees, reported they were able to get the materials, goods or services they needed in August 2023, 8.5% reported they were able to, but the business had to change suppliers or find alternative solutions, whilst 2.7% reported they were not able to. The all industries averages were 71.5%, 8.5% and 3.7% respectively.
- Weighted by count, 11.3% of construction businesses not permanently stopped trading, reported experiencing worker shortages in late September 2023, whilst 70.1% reported no shortages. The all industries averages were 10.4% and 68.3% respectively.

Construction Output Forecasts

Experian published their Autumn 2023 forecasts for the construction sector in October 2023.

- Total construction output rose by 6.2% in real terms in 2022, its second consecutive year of good growth after the pandemic-induced contraction in 2020. Output last year was 2.5% above its pre-pandemic level in 2019. Trends in the first half of 2023 have held up reasonably well, but the rest of the year is expected to be much more challenging for the industry and especially for the housing sectors as the impact of rate rises and elevated inflation negatively affect demand. Furthermore, the economic backdrop remains fragile, and uncertainty plagues the outlook. While a recession does not feature in the baseline view, GDP growth is likely to be tepid. As such, total construction output is projected to decline by 1.4% in 2023and drop by a further 2% in 2024. They do expect some mixed fortunes over the coming 12-18 months across the sub-sectors, with the common theme of the residential sector bearing the brunt of the losses. It will take until 2025 for a meaningful positive position to return.
- The housebuilding sector faces several challenges in the near term, from faltering housing demand, stagnating economy, soaring mortgage rates and stubborn inflationary pressures which are pushing up

building material costs. While total housing output recorded a healthy outturn in 2022 at £46.2bn it had been largely supported by government-backed demand-side initiatives (such as the temporary suspension of Stamp Duty, publicly supported 95% mortgages and the Help to Buy scheme). The dismantling of this support over the last year has had severe consequences for the housebuilding sector.

- We expect the Repair, Maintenance & Improvement (RM&I) sector to stay weak in 2023 as private housing RM&I falters in the face of the economic stagnation and inflationary pressures that has beleaguered the wider housing sector while public housing RM&I fails to make any notable gains.

- Infrastructure was the sector least impacted by the COVID-19 pandemic in 2020 and was the strongest sector in 2021, growing by 28.1% to a new record of £27.9bn. Output was steady in 2022, falling by just 0.6% to £27.8bn. In the four quarters ending June 2023 output totalled £28.6bn, 3% above the previous four quarters. Infrastructure has held up better than expect and as such output is forecast post growth of just over 4% in 2023, but the weight of the economic backdrop will see modest growth of 0.3% in 2024 and just 2.2% in 2025.

- The very strong new orders figures for industrial construction in 2021 and 2022 are still having a positive residual impact on output in the sector this year, although growth will be much more moderate than the stellar 42% seen in 2022. However, weak economic performance this year and next, combined with the end of the Brexit-induced boom in demand for logistics facilities, is likely to lead to a fall in output in the sector in 2024. RICS Commercial Property Monitor supports this view, with the previously very buoyant industrial market weakening in recent months across all indicators. Relatively modest growth is expected to return from 2025 as general economic conditions improve.

- After six consecutive years of contraction, public non-residential output is finally expected to grow this year, by 2.6%. Output in the first seven months of this year was 6% up in real terms on the corresponding period of 2022, with the increase particularly strong in the agriculture & miscellaneous sub-sector.

- 2022 marked a 5th consecutive year of decline of output in the commercial sector, but the woes of this sector predate the pandemic. Indeed, the sector has struggled to recover from the 2008/09 financial crash and output currently stand at £21.8bn (2019 prices) compared with £39.3bn from the 2008 peak. More recently, the downward trend in output has paused, but the rally in indicators such as S&P Global/CIPS UK Construction Purchasing Managers' Index (PMI) has recently stalled. That said, the September PMI survey, commercial construction stood out as a key uplifting segment, with office refurbishments helping prop up the sector. There are concerns this could be hindered by elevated interest rate hikes and surveys suggest a more subdued tone.

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 September 2023.

- The mean GDP forecast for 2023 is 0.3% up 0.1% from the previous month's survey.
- The mean GDP forecast for 2024 is 0.4%, unchanged from the previous month's survey.

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

- UK GDP is projected to grow by 0.3% this year, unchanged from the previous forecast in June, and to grow by 0.8% in 2024, down from 1.0% forecasted in June.
- Global GDP growth is projected to increase by 3.0% this year, up from the 2.7% forecasted in June, then increase by 2.7% in 2024, down from the 2.9% forecasted in March.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the Agents' Summary of Business Conditions on 21 September 2023, covering intelligence gathered mostly between early July and late August2023.

- Construction volumes fell further as demand weakened, costs remained elevated, and the availability of funding reduced.
- Housebuilders reduced openings of new sites and slowed building on existing sites as house sales slowed. Home improvement activity remained subdued.
- Many commercial real estate projects, such as warehousing and data centres, continued. But work on a growing number of projects had been slowed, and new projects were increasingly being postponed.
- There was still a lot of office refurbishment going on to increase energy efficiency and attract staff back to office working.

- Much public infrastructure work continued, but the recently announced delays to HS2 had raised concerns. Some local road and rail infrastructure projects had also been halted or delayed.

Builders Merchant Building Index

The Builders Merchant Building Index for July was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 22nd September 2023.

July 2023:

- Total Builders Merchants value sales were down 0.4% in July 2023 compared with the same month last year. Volume sales were -7.9% lower with prices up +8.1%. There was no difference in trading days. Nine of the twelve categories sod more than in July 2022, led by Renewables & Water Saving (+51.2%). Plumbing, Heating & Electrical (+14.0%), Decorating (+13.6%), Tools (+11.1%) and Kitchens & Bathrooms (+10.1%) also increased with double digit growth. Landscaping (-7.2%) and Timber & Joinery Products (-12.1%) were weakest.

- Total Merchants sales were -5.5% lower in July 2023 than in June 2023. Volume sales were down -7.5% with price up +2.2%. With one less trading day this month, like-for-like sales (which take trading day differences into account) were -1.0% lower. Only three of the twelve categories sold more, led by Renewables & Water Saving (+15.5%). Landscaping (-15.6%) was weakest.

- Total sales in May 2023 to July 2023 were 8.5% higher than in February 2023 to April 2023, with volume up 11.4% and prices down -2.6%. With two more trading days this period, like-for-like sales were +5.0% higher. Ten of the twelve categories sold more. Only Landscaping (+28.7%) and Heavy Building Materials (+9.5%) performed better than Merchants overall. Workwear & Safetywear (-5.0%) and Plumbing, Heating & Electrical (-6.2%) sold less.

- July's overall BMBI index was 150.9. There was no difference in trading days. All categories exceeded 100, with seasonal category Landscaping (181.3) well out in front, followed by Kitchens & Bathrooms (157.6), Heavy Building Materials (150.9), Timber & Joinery Products (150.4) and Ironmongery (148.3). Tools (110.9) increased least.

Expected dates for future construction output releases	
Release for:	*Publication date:*
September 2023	10th November 2023
October 2023	13th December 2023
November 2023	12th January 2024

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