Monthly Construction Update

Business Statistics Team

10th November 2023

Department for Business & Trade

Construction output increased by 0.4% in volume terms in September 2023

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

- Monthly construction output is estimated to have increased 0.4% in volume terms in September 2023; this came solely from an increase in repair and maintenance (2.1%), partially offset by a decrease in new work (0.8% fall) on the month.
- At the sector level, three out of the nine sectors saw a rise in September 2023, with the main contributor to the monthly increase seen in private housing repair and maintenance, which increased 3.0%.
- Quarterly construction output increased 0.1% in Quarter 3 (July to Sept) 2023 compared with Quarter 2 (Apr to June) 2023, this came solely from growth in September 2023 after two months of falls; the quarterly increase was because of repair and maintenance (0.7%), while new work saw a decrease of 0.3%.
- Total construction new orders increased 3.9% (£393 million) in Quarter 3 2023 compared with Quarter 2 2023; this quarterly rise came mainly from public other new orders and infrastructure new orders, which increased 23.7% (£265 million) and 14.3% (204 million), respectively.
- The annual rate of construction output price growth was 3.9% in the 12 months to September 2023; this has slowed from the record annual price growth in May 2022 (10.4%).

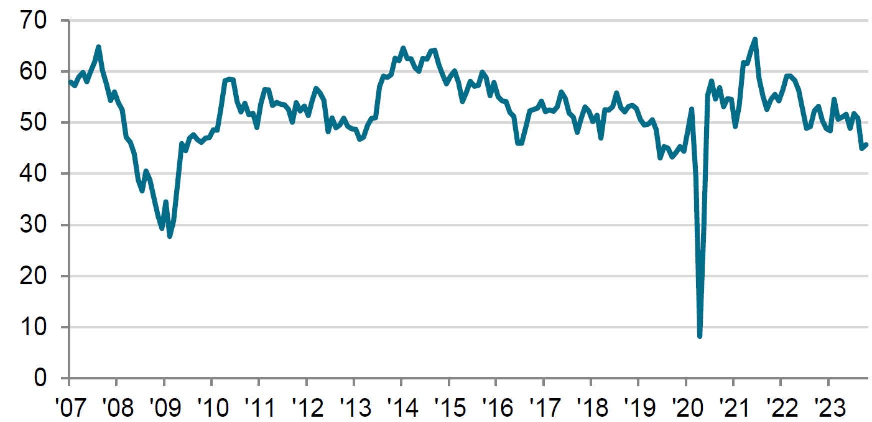
Gross Domestic Product grown by 0.2% in September 2023 but was flat (0.0%) in quarter 3

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

- Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in September 2023, following growth of 0.1% in August 2023, revised down from growth of 0.2% in our previous publication.
- Looking at the broader picture, GDP showed no growth in the three months to September 2023.
- Services output rose by 0.2% in September 2023, driven by growth in professional, scientific and technical activities, and human health and social work activities, and was the main contributor to the growth in GDP; this follows growth of 0.3% in services output in August 2023, revised down from growth of 0.4% in our previous publication.
- Output in consumer facing services fell by 0.2% in September 2023 after a fall of 0.7% in August 2023, revised down from a fall of 0.6% in our previous publication.
- Production output showed no growth in September 2023 after falling by 0.5% in August 2023, revised up from a fall of 0.7% in our previous publication.

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

S&P Global CIPS published their latest construction purchasing managers index for September 2023 on 6h November 2023.



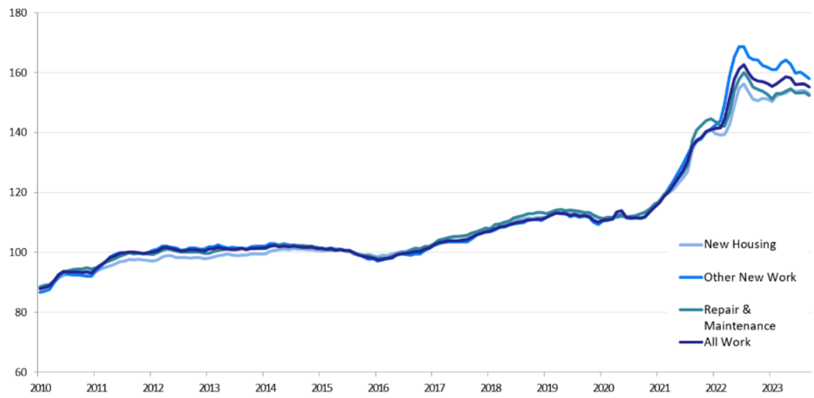
Sources: S&P Global, CIPS.
Data were collected 12-30 October 2023.

- UK construction companies indicated that challenging business conditions persisted during October, with business activity falling for the second month running amid a lack of new work to replace completed projects. Fragile client confidence and elevated borrowing costs were often cited as reasons for weaker sales.
- Improving supply conditions and falling demand contributed to a renewed decline in purchasing prices. Moreover, the latest decline in input costs was the steepest since August 2009. Reduced workloads also led to a decline in subcontractor charges for the first time in over three years.
- At 45.6 in October, the headline S&P Global / CIPS UK Construction Purchasing Managers' Index™ (PMI®) – a seasonally adjusted index tracking changes in total industry activity – was up slightly from 45.0 in September. However, it was still the second-lowest reading since May 2020 and signalled a marked decline in total construction activity.
- House building decreased for the eleventh successive month in October and at a much steeper pace than elsewhere in the construction sector (index at 38.5). Falling work on residential construction projects was widely linked to a lack of demand and subsequent cutbacks to new projects.
- Civil engineering activity also decreased sharply in October (index at 43.7) and the rate of decline was the fastest since July 2022. Meanwhile, there were signs of stabilisation in the commercial; building segment, with activity falling only marginally and at a slower pace than in September (index at 49.5).
- Total new work fell for the third month running in October and the rate of contraction was the joint-sharpest since May 2020. Survey respondents widely commented on a lack of tender opportunities and lengthier decision-making among clients due to concerns about the broader economic outlook.
- Worries about shrinking pipelines of construction work contributed to a moderation in business confidence for the third successive month in October. Around 37% of the survey panel forecast a rise in business activity during the year ahead, while 19% predict a decline. The degree of optimism signalled by the survey in October was the lowest so far this year. A number of firms commented on particular weakness in the house building sector and an ongoing headwind from higher interest rates.
- October data also pointed to a slowdown in job creation to its weakest since June, alongside another decline in purchasing activity, which mostly reflected a downturn in forthcoming projects starts.

Building Materials

The latest [Monthly Statistics of Building Materials and Components] were published on 1st November2023.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Monthly Statistics of Building Materials and Components, Table 1

- The material price index for **'All Work' decreased by 1.8%** in September 2023 compared to the same month the previous year.
- There was a **32.8% decrease** in brick deliveries in September 2023 compared to September 2022, according to the seasonally adjusted figures.
- There was a **19.5% decrease** in concrete block deliveries in September 2023 compared to September 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 2 November 2023, summarising information on the overall UK businesses. The survey was live from 16 October to 29 October 2023.

- Nearly two-thirds (63%) of businesses reported some form of concern for their business when looking ahead to November 2023; this is broadly stable with October 2023 and remains the lowest percentage reported since the question was introduced in February 2022.
- More than four in five (81%) trading businesses with 10 or more employees reported that they were able to get the goods they needed from within the UK in September 2023.
- In September 2023, 5% of businesses with 10 or more employees experienced global supply chain disruption; this has slowly fallen from 20% in September 2022, and is the lowest percentage reported since this question was introduced in December 2021.
- The proportion of businesses that reported experiencing worker shortages in late October 2023 remained unchanged from late September 2023, at 10%; however, this has slowly fallen from the 13% of businesses experiencing worker shortages in late May 2023.
- Less than 1 in 10 (9%) businesses reported that their employees' hourly wages had increased in September 2023 compared with August 2023; this has also slowly fallen from the 13% reported in May 2023.
- A higher proportion of businesses were affected by industrial action in September 2023 compared with August 2023; 7% of businesses were affected, up from the 5% reported in August 2023.

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 October 2023.

- According to the CPA's Autumn Forecasts, published today, construction output is expected to fall by 6.8% in 2023, similar to the 7.0% contraction forecast three months ago, before a further marginal fall of 0.3% in 2024. This is a revision down from the 0.7% growth forecast in the summer publication due to a weaker economic backdrop. Although UK interest rates are now likely to have reached a peak that is lower than previous expectations, it is now anticipated that they will remain at this level for longer, until 2025, due to stubborn inflation. Consequently, the UK economy is expected to flatline throughout 2024, holding back the recovery in major sectors of construction activity such as new build housing and repair, maintenance and improvement (rm&i) to 2025. Even in infrastructure, output is now expected to fall marginally as more roads projects appear likely to be pushed back or cancelled than anticipated only three months ago. Nevertheless, activity will remain near the current high levels due to work continuing on major projects already down on the ground.

- Private housing is both the largest construction sector and the sector forecast to be the worst affected by prevailing economic conditions this year. The sharp increase in mortgage rates since the end of last year has led to house builders reporting a 30-40% fall in demand and it has remained weak throughout Summer and early Autumn. Interest rates and mortgage rates are expected to remain high for longer and adversely affect demand throughout next year. As a result, after a 19.0% fall in completions and output this year, completions are forecast to remain flat in 2024 with no growth until 2025. Whilst the balance of risks to private housing clearly remains on the downside, a positive policy stimulus in the Chancellor's Autumn Statement would help demand to start to recover next year.
- Private housing rm&i is the second-largest construction sector and activity continues to be on a general downward trend after the 'race for space' spike between 2020 and 2022. Output is forecast to fall 11.0% this year. As with new build housing, the weak economic backdrop in 2024 will limit the pace of recovery, with a weaker housing market reducing transactions-related improvements and a notable fall in new planning applications for larger improvements work. This will keep construction output flat in 2024, which is a downgrade from the 2.0% growth expected in the Summer Forecasts. Energy-efficiency retrofit – primarily insulation and solar photovoltaic work – continues to remain strong; however, whilst there are government programmes such as ECO4, the Great British Insulation Scheme and the Boiler Upgrade Scheme in place, there are still questions over their delivery.
- In the third-largest sector, infrastructure activity remains strong down on the ground due to work continuing on major projects such as HS2 between Old Oak Common and Birmingham, the Thames Tideway Tunnel and Hinkley Point C. Unfortunately however, following on from earlier announcements of delays to major road and rail schemes, it appears that more roads projects are being pushed back or cancelled than anticipated in the forecasts in Summer, whilst new projects continue to be delayed due to strong cost escalation and viability concerns. The impact of the government's decision to cancel HS2 between Birmingham and Manchester is limited as the majority of this work was planned to occur beyond the forecast period. Similarly, the £36 billion of local and regional projects around the country announced by the Prime Minister are unlikely to start before 2029. Infrastructure output is expected to fall by 0.5% in 2023, from its current high level, before remaining broadly flat (-0.1%) 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 October 2023.

- The mean GDP forecast for 2023 is 0.4% up 0.1% from the previous month's survey.
- The mean GDP forecast for 2024 is 0.3%, down 0.1% 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 August was published by the **Builders Merchants Federation**, **GfK** and **MRA Research** on 26th October 2023.

August 2023:

- Total Builders Merchants value sales were down -3.3% in August 2023 compared with the same month last year. Volume sales were -10.5% lower with prices up +8.0%. There was no difference in trading days. Eight of the twelve categories sold more than in August 2022, led by Renewables & Water Saving (+37.6%), Workwear & Safetywear (+11.6%), Plumbing, Heating & Electrical (+10.8%) and Decorating (+10.8%). Landscaping (-7.0%) and Timber & Joinery Products (-13.2%) were weakest.
- Total Merchants sales were -1.9% lower in August 2023 than in July 2023. Volume sales were down -3.2% with price up +1.4%. With one more trading day this month, like-for-like sales were -6.3% lower. Five of the twelve categories sold more led by Workwear &Safetywear (+7.5%). Renewables & Water Saving (-9.6%) was weakest.
- Total sales in June 2023 to August 2023 were +3.3% higher than in March 2023 to May 2023, with volume up +5.3% and prices down -2.0%. With four more trading days this period, like-for-like sales (which take trading day differences into account) were -3.1% lower. Nine of the twelve categories sold more. Landscaping (+6.1%), Kitchens & Bathrooms (+5.5%), Decorating (+5.2%), Ironmongery (+4.2%) and Heavy Building Materials (+4.0%) did best. Renewables & Water Saving (-2.5%), Workwear & Safetywear (-2.9%) and Plumbing, Heating & Electrical (-3.1%) sold less.
- August's overall BMBI index was 148.1. With one more trading day, like-for-like Index was 139.6. All categories exceeded 100, with seasonal category Landscaping (170.6) heading the field, followed by Kitchens & Bathrooms (154.9), Timber & Joinery Products (149.6) and Heavy Building Materials (147.4). Tools (111.2) had the lowest index.

Expected dates for future construction output releases	
Release for:	*Publication date:*
October 2023	13th December 2023
November 2023	12th January 2024
December 2024	15th February 2024

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