

Monthly Construction Update

Business Statistics Team

15th February 2024



Department for
Business & Trade

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

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

- Quarterly construction output saw a decrease of 1.3% in Quarter 4 (Oct to Dec) 2023 compared with Quarter 3 (July to Sept) 2023; this came solely from a decrease in new work (5.0% fall), as repair and maintenance increased by 4.0%.
- Monthly construction output is estimated to have decreased 0.5% in volume terms in December 2023; this came solely from a decrease in new work (1.1% fall), as repair and maintenance increased 0.4% on the month.
- At the sector level, three out of the nine sectors saw a fall in December 2023, with the main contributors to the monthly decrease seen in infrastructure new work, and private housing repair and maintenance, which decreased 6.4% and 1.1%, respectively.
- Annual construction output increased by 2.0% in 2023 compared with 2022; this is the third consecutive year of annual growth.
- Total construction new orders decreased 13.1% (£1,361 million) in Quarter 4 2023 compared with Quarter 3 2023; this quarterly fall came mainly from the private commercial and industrial sectors, which decreased 18.1% (£542 million) and 27.6% (£320 million), respectively.
- The annual rate of construction output price growth was 3.1% in the 12 months to December 2023; this has slowed from the record annual price growth in May 2022 and June 2022 (10.7%).

Gross Domestic Product increased by 0.3% in November 2023

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

- Real gross domestic product (GDP) is estimated to have fallen by 0.3% in the three months to December 2023, compared with the three months to September 2023.
- On a quarterly basis, this gives two consecutive falls in GDP, with a fall of 0.3% in Quarter 4 (Oct to Dec) 2023 following an unrevised fall of 0.1% in Quarter 3 (July to Sept) 2023. For further details, see our [GDP first quarterly estimate: October to December 2023 bulletin](#).
- Monthly GDP is estimated to have fallen by 0.1% in December 2023, following a growth of 0.2% in November (revised down from 0.3% growth) and a fall of 0.5% in October (revised down from a 0.3% fall).
- Services output fell by 0.1% in December 2023, and in the three months to December 2023 services output fell by 0.2%.
- Production output grew by 0.6% in December 2023, but in the three months to December 2023 production output fell by 1.0%.
- Output GDP is estimated to have annual growth of 0.4% in 2023 compared with 2022; this figure is measured differently to the 0.1% annual growth in 2023 in our GDP first quarterly estimate for October to December 2023, which uses average GDP.

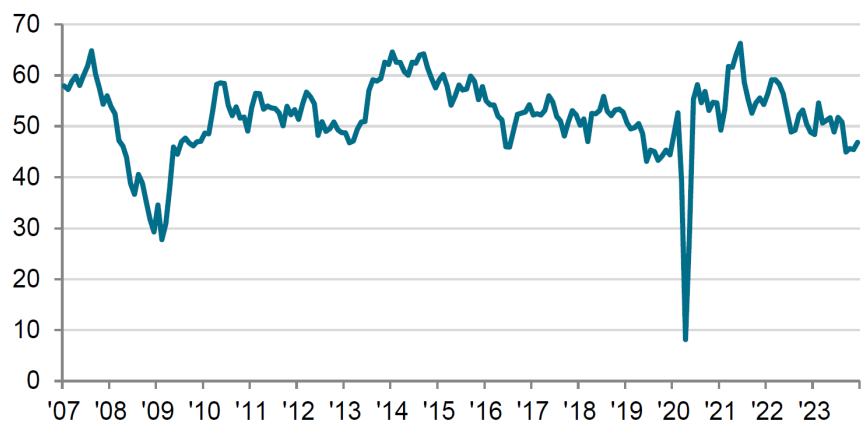
S&P Global / CIPS UK Construction Purchasing Managers Index for December 2023

S&P Global CIPS published their latest [construction purchasing managers index](#) for January 2024 on 6th February 2024.

- UK construction companies indicated a strong improvement in business activity expectations in January, with optimism reaching its highest level for two years. This was despite an ongoing decline in current output levels and a marginal fall in incoming new work. Survey respondents often cited hopes of a turnaround in client demand due to looser financial conditions and more favourable underlying economic prospects.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 06-21 December 2023.

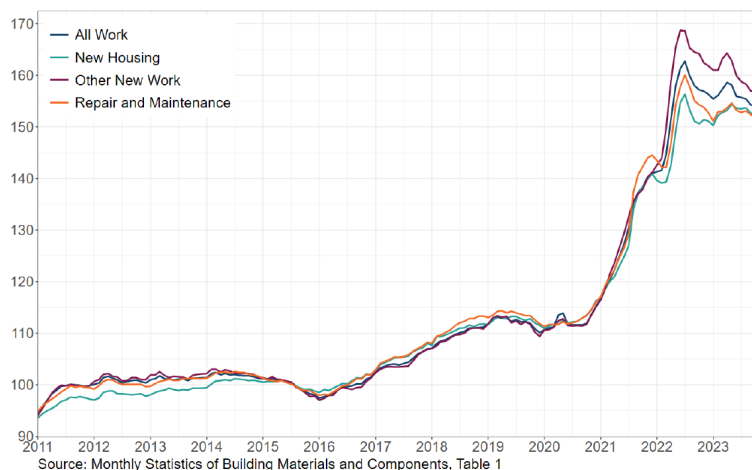
- The headline S&P Global UK Construction Purchasing Managers' Index™ (PMI®) – a seasonally adjusted index tracking changes in total industry activity – registered 48.8 in January, up from 46.8 in December and the highest reading since August 2023. That said, the index remained below the crucial 50.0 no-change threshold for the fifth month running and signalled a moderate decline in total industry activity.
- Civil engineering was the best-performing segment in January (index at 49.8), with output levels close to stabilisation. Commercial activity also showed some resilience, with the respective index pointing to only a marginal rate of decline (49.1).
- Meanwhile, house building continued to fall sharply at the start of 2024 (index at 44.2). Survey respondents noted subdued demand conditions and a lack of work to replace completed projects. The rate of contraction for residential activity nonetheless eased to the least marked since March 2023.
- January data indicated a reduction in total new work for the sixth consecutive month, but the pace of decline was only marginal and the weakest seen over this period. Companies reporting a fall in new business generally cited delayed decision-making among clients and subdued market conditions, especially in the house building segment.
- Despite subdued order books, latest data signalled a sharp upturn in business activity expectations. Around 51% of the survey panel forecast a rise in business activity during the year ahead, while only 12% predict a decline. This pointed to the highest level of business optimism since January 2022. Lower borrowing costs and higher consumer confidence were cited as factors likely to boost construction activity over the course of 2024.
- Construction companies remained cautious about staff hiring in January. Total employment numbers fell fractionally, while sub-contractor usage was broadly unchanged since the previous month. Rates charged by sub-contractors increased at the fastest pace since September 2023, despite a robust and accelerated improvement in availability.

Building Materials

The latest [Monthly Statistics of Building Materials and Components](#) were published on 7th February 2024.

- The material price index for **'All Work'** decreased by **2.0%** in December 2023 compared to the same month the previous year.
- There was a **decrease of 32.5%** in **brick deliveries** in December 2023 compared to December 2022, according to the seasonally adjusted figures.
- There was a **decrease of 41.6%** in **blocks deliveries** in December 2023 compared to December 2022, according to the seasonally adjusted figures.

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



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 8 February 2024, summarising information on the overall UK business population. The survey was live from 22 January to 4 February 2024.

- Weighted by count, 20.7% of construction businesses not permanently stopped trading with 10 or more employees reported worker shortages in late January 2024 whilst 73.2% reported no worker shortage. The all industries averages were 19.2% and 72.6%, respectively.
- Fewer than 1 in 10 (7%) businesses with 10 or more employees experienced global supply chain disruption in December 2023; this is broadly stable with previous months.
- Nearly two-thirds (62%) of trading businesses reported that they were able to get the goods they needed from within the UK in December 2023 without any disruption, broadly stable with November 2023.
- The proportion of trading businesses with 10 or more employees that reported they were either importing less compared with the same calendar month a year ago, or were unable to import, rose from 18% in November 2023 to 21% in December 2023.

Construction Output Forecasts

Experian published their Winter 2023 [forecasts](#) for the construction sector in December 2023.

- Total construction output rose by 6.5% in real terms in 2022, its second consecutive year of good growth after the pandemic-induced contraction in 2020. However, in 2023, we estimate growth to have flatlined, notably held back by the residential sector. Since 2021, the retail and maintenance sector has been the shining performer, registering solid growth. However, the new work stream has had a far more mixed performance. In 2023 significant weakness in the residential sector has offset positive growth across the other sub-sectors. Moving into 2024, the outlook remains challenged. The economic backdrop will remain fragile, and uncertainty plagues the outlook. While a recession does not feature in our baseline view, GDP growth is likely to be tepid. As such, total construction output is projected to grow by just 0.3% in 2024

before picking up the pace to 2.8% in 2025. We expect the retail and maintenance sector to continue its upward trajectory and outpace the new work sector in 2024 and 2025.

- The fortunes of the housebuilding sector have waned as the post-pandemic rebound fizzled out. The headwinds presented by a lethargic economy, persistent inflationary pressures and elevated mortgage rates have halted the impressive growth momentum seen in 2021 and early 2022. Since then, both demand and supply side influences have held back housebuilding. Falling house prices and weak buyer interest alongside elevated materials' costs, labour shortages and the dismantling of government support such as the Help to Buy have dampened activity. As a result, total housing output is expected to experience a double-digit decline in output growth in 2023 to £40.1bn, 13% lower than its level in 2019.
- The Repair, Maintenance & Improvement (RM&I) sector performed better than expected in the first three quarters of 2023 so the overall growth outturn of 2.4% is stronger than previously anticipated. Although the headwinds faced by the sector in the form of inflationary pressures and falling house prices have eased, these remain enough of a challenge to lead to a small fall in output in 2024. The decline is primarily seen on the private side with the public sector supported by the urgent need to address building safety concerns. Stronger growth of about 3% per annum is seen over 2025-26.
- Infrastructure was the sector least impacted by the COVID-19 pandemic in 2020 and was the strongest sector in 2021, growing by 27.4% to a new record of £27.8bn. Output was steady in 2022, falling by just 0.6% to £27.6bn. In the four quarters ending September 2023 output totalled £29.2bn, 6.7% above the previous four quarters and by October 2023 annual growth had increased to 7.6%. Output for calendar year 2023 is estimated to have grown by 5.9%. Looking forward, the growth in output stalls in 2024, falling by a nominal -0.3%, before returning to moderate growth of 2% each of 2025 and 2026 to further record high levels. The forecast is summarised in the chart below and the table opposite.
- 2023 looks to have been a good year for the public non-residential sector after a long period of decline, with output up by 9% three-quarters on three quarters. If output in Q4 comes in around the quarterly average for 2023 then growth of between 6%-7% in real terms is on the cards. This increase has been driven in no small part by very robust expansion in the agriculture & miscellaneous sector, believed to be down to defence and prisons work.
- It was almost inevitable that the industrial construction sector would not be able to reproduce its stellar growth in 2022 in the following year. From a peak in the first quarter of 2023 output has subsided in the following two and the level of new orders is 15% down on an annualised basis. Thus, it is estimated that output in the sector will be flat in 2023, with very weak GDP growth in 2023 and 2024 pushing the sector into decline in the latter year. Marginal expansion should return in 2025, strengthening in 2026, largely on the back of good growth in the factory sub-sector.
- After five consecutive years of output decline in the commercial sector, we estimate 2023 will mark a year of long overdue positive growth. Challenges in this sector predate the pandemic and therefore the output expansion expected in 2023 is a welcomed reprieve from the steady decline. Aside from the education and retail sub-sectors, the rest of the commercial sub-sectors are likely to see positive 2023 readings.

The **Construction Products Association** (CPA) published their Winter construction industry forecast as part of their analysis of the [market impact](#) in January 2024.

- According to the Construction Products Association's Winter Forecasts, published on 29 January 2024, construction output is forecast to fall by 2.1% this year due to falls in private housing new build and repair, maintenance and improvement (rm&i) - the two largest construction sectors. The CPA forecasts that construction output will rise by 2.0% in 2025 in line with falling interest rates and a general economic recovery, which, in turn, could ease challenges in the housing and rm&i sectors. Recent disruptions in the

Red Sea, however, have been identified as a key risk to the forecasts, potentially leading to supply issues such as delays and accelerating cost inflation.

- Private housing - the largest construction sector - suffered a double-digit fall last year after a spike in mortgage rates hit housing market demand. Consequently, many house builders have reported a fall of around 25-35% in demand, in addition to the regulatory issues that smaller house builders continue to face in particular around planning, as well as water and nutrient neutrality. The lagged effect of higher mortgage rates is likely to continue to weigh upon property transactions this year with private housing output expected to fall by a further 4.0%. Looking to next year, a gradual fall in interest rates should boost demand with private housing output expected to rise by 4.0%. This doesn't imply a speedy recovery however, as interest and mortgage rates are not expected to return to the record lows seen as recently as 2021 anytime soon. The lack of a government policy stimulus to help overcome high deposit and mortgage payment requirements, also means the recent peaks in housebuilding from 2022 are unlikely to be seen again until at least the end of the decade.
- Private housing rm&i is the second-largest construction sector and activity continues to be on a general downward trend. The rising cost of living has hit discretionary household improvements spending. In addition, fewer property transactions last year led to a decline in refurbishment activity from new homeowners who typically make cosmetic improvements within the first 6-9 months of moving in. Smaller project work is likely to continue to remain flat in the first half of this year as household spending remains tight, whilst the continued fall in property transactions in the first half of this year is likely to hit larger project work for the remainder of 2024. This is likely to be partially offset though by strong activity on energy-efficiency retrofit such as insulation and solar photovoltaic work. Overall, private housing rm&i output is expected to fall by 4.0% in 2024 before growth of 3.0% in 2025.
- In infrastructure, which is the third-largest construction sector, activity remains strong down on the ground. Work continues apace on HS2 Phase One despite the most recent cost increases, as well as on Hinkley Point C and the Thames Tideway Tunnel. Frameworks activity in the regulated sectors of roads, rail, water and electricity provides sustained levels of activity in the infrastructure sector too. Concerns remain, however, over pauses and delays to National Highways projects, as well as increasing uncertainty on the deliverability of plans in the water sector to deal with water quality issues through increased capital expenditure. Furthermore, at a local level, councils continue to face financial constraints and despite government announcing £8.3 billion of funding for potholes, resurfacing and roads projects to 2034, there is little evidence to suggest that this will lead to any uplift over the forecast period. As a result, overall, infrastructure output is expected to fall by 0.5% in 2024, a third successive marginal fall in output, before rising by 1.2% in 2025.

Gross Domestic Product Forecasts

The latest monthly **Consensus Economics** [Forecast Survey](#) (which uses an average of private sector forecasts) results were published in January 2024.

- The mean GDP forecast for 2024 is 0.2%, down from 0.3% in the previous month's forecast.
- The mean GDP forecast for 2025 is 1.0%, unchanged from the previous month's forecast.

The **OECD** published their latest [Economic Outlook](#) in February 2024:

- UK GDP is projected to grow by 0.7% this year, up from the 0.3% in the previous forecast in October, and to grow by 1.2% in 2025, up from 0.8% forecasted in October.
- Global GDP growth is projected to increase by 2.9% this year, down from the 3.0% forecasted in October, and to increase by 3.0% in 2025, up from the 2.7% forecasted in October.

Bank of England Summary of Business Conditions

The **Bank of England** published its most recent update to the [Agents' Summary of Business Conditions](#) on 14 December 2023, covering intelligence gathered in the five weeks to mid-November 2023.

- Construction output volumes continue to fall. Some of the slack from lower new housing and commercial development is being taken up by repair and maintenance. Order books continue to weaken but contacts expect this to stabilise during 2024.
- Private and social house-building activity has slowed over the last year, by up to 30% in some locations. Higher price units in the South were impacted the most by increased mortgage costs. Social landlords carried out more remedial work and some private landlords invested to achieve higher rents.
- Commercial development has continued to slow due to current yields being too low. But cash-funded and pre-let projects continued. Existing large infrastructure projects remain one area of strength, with energy, water and defence contracts growing. Contacts cite planning and utility connections as key constraints.
- There is growing evidence of construction firms failing, causing delays.
- Commercial development is likely to contract further until confidence increases and rates of return improve. House builders expect current build rates to continue through 2024. The outlook for repair and maintenance work remains stable.

Builders Merchant Building Index

The [Builders Merchant Building Index](#) for November was published by the **Builders Merchants Federation, GfK and MRA Research** on 26^h January 2024.

November 2024:

- Total Builders Merchants value sales were down -5.7% in November 2023 compared with the same month last year. There was no difference in trading days. Nine of the twelve categories sold more than Builders Merchants, led by Miscellaneous (+10.1%) and Workwear & Safetywear (+9.6%). The three largest categories, Heavy Building Materials (-7.0%), Landscaping (-7.4%) and Timber & Joinery Products (-10.9%) sold less.
- Total Merchants sales were -3.4% lower in November 2023 than in October 2023. There was no difference in trading days. Nine of the twelve categories sold more than Builders Merchants led by Workwear & Safetywear (+10.9%), Kitchens & Bathrooms (+7.4%) and Plumbing, Heating & Electrical (+4.0%). Heavy Building Materials (-5.5%) and Landscaping (-14.2%) were weakest.
- Total sales in September to November 2023 were -6.1% than the same period last year, with volume down -12.7% and prices up +7.5%. With one more trading day this year, like-for-like sales were down -7.6%. Nine of the twelve categories sold more than Builders Merchants led by Miscellaneous (+8.4%) and Decorating (+5.6%). The three largest categories, Heavy Building Materials (-8.6%), Landscaping (-9.2%) and Timber & Joinery Products (-13.1%) sold less.

Expected dates for future construction output releases	
<i>Release for:</i>	<i>Publication date:</i>
January 2024	13 th March 2024
February 2024	12 th April 2024
March 2024	10 th May 2024

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