

MEDIA RELEASE

Uncertainty Caused by Cost-of-Living Crisis, Inflation and Supply Chain Issues Impacting Construction Industry

LONDON, UK, JUL 11, 2022 – The Construction Industry in the UK is being adversely affected by the uncertainty caused by the cost-of-living crisis, inflation, which is running at 25% for building materials, and the continued disruption caused to supply chains by the conflict in Ukraine and ongoing pandemic issues, says leading construction industry intelligence provider, Barbour ABI in its latest monthly Snap Analysis report.

The report compiles data from each sector of the construction industry in the UK and from each stage of the construction pipeline, from planning application to contract award, and is therefore able to provide a holistic picture of the industry in the short-, medium- and longer term.

Tom Hall, Chief Economist at Barbour ABI, said: “June was a good month in terms of the value of contracts awarded with a 15% increase on May’s value to £6.4bn. However, the levels seen in Q2 are well below the record levels seen in Q1 and could reflect the uncertainty caused by the cost-of-living crisis, inflation of 25% in the cost of materials and disrupted supply chains.”

Contract Awards

The best indicator of the short-term health of the construction industry is the level of contracts being awarded. Overall, the level in June was positive with £6.8bn worth of contracts awarded. This took the Q2 value to an average of £5.9bn, which is largely in line with the recent average and indicates that new projects are moving forward but at a slower rate than in recent times.

June’s figure is largely driven by £2.3bn worth of infrastructure contract awards. There were two prison contracts awarded in addition to the £1.25bn contract for the A303 Stonehenge tunnel.

Industrial construction contract awards fell back to £600m in June, but the Q2 average is a very strong £900m, thanks to £2bn worth of contracts awarded in Apr and May.

There was a 37% increase in contract awards in the Commercial sector to £600m, but the increase was from a very low base in Apr and May and the sector is still performing way below the long-range average.

The value of Healthcare construction contracts awarded remained steady at £300m in June, which is consistent with the relatively high levels of activity being seen recently.

Despite a 35% increase in the value of contracts awarded in the Education sector, June was still well below the historical average and meant the sector recorded a weak Q2.

The big faller in terms of the value of contract awards was the Hotel & Leisure sector, in which there were just £200m worth of contracts awarded.

Planning Approvals

The level of planning applications receiving approval is the best indicator of the medium-term health of the industry. June recorded the lowest value of planning approvals since February at just £5.4bn overall.

Residential (-24%) and Infrastructure (-50%) both experienced significant drops but the Q2 figures remain positive due to the high value of planning approvals received in April and May.

Commercial, Hotel & Leisure, Healthcare and Education sectors all recorded weak levels of planning approvals, in every case being well below 2021 levels.

The only bright spot in terms of planning approvals was the Industrial sector, which delivered planning approvals worth £1.1bn in June.

Planning Applications

Planning applications provide the best outlook for the long term for the Construction Industry and May's figures reveal a very mixed picture. Overall, planning applications were down by 12% to below average levels for this first time this year.

Residential construction saw just £3.5bn worth of planning applications being lodged; the lowest monthly value since June 2020. Hotel & Leisure and Education also experienced poor months with just £300m worth of planning applications submitted in sector.

The Infrastructure sector showed the most optimism with £3.5bn worth of planning applications lodged in May. As has been the pattern in recent months, this level was largely driven by new power generation projects, with a £600m hydro power expansion and a £473m wind farm in Scotland.

Some major mixed commercial developments accounted for planning applications to the value of £800m being submitted in May. This is a 17% increase on April's figure but is still below the long-term average.

Hotel & Leisure, Education and Healthcare all recorded planning applications valued at £300m in May. This is a good level for Healthcare and was largely driven by a new phase of the Great Ormond Street Hospital refurbishment. £300m is low compared with the long-term average for both Education and Hotel & Leisure.

Hall added: "June's positive news on the value of contracts awarded is tempered by the fact that not all sectors performed well. Infrastructure construction was really the only sector to be showing positive potential with others giving cause for concern. The concern deepens as we look at the picture shown by planning applications and approvals. Nonetheless it is good news that new work is progressing, albeit at lower rates than previously."

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