# 2022 Construction Performance Review

## An overview of 2022 performance and its influence on future activity

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January 2023

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# About the author

**Allan Wilen BSc (Hons), Glenigan Economics Director**

Allan heads up Glenigan's Economics Unit and has over 30 years' experience in providing insightful market analysis and forecasts on UK construction and the built environment. Following 20 successful years as Economics Director at the Construction Products Association, Allan joined Glenigan 13 years ago. During this time Allan and his team have helped hundreds of businesses confidently develop their market strategies.

Allan sits on the Consulting Committee on Construction Industry Statistics for the Department for Business, Energy and Industrial Strategy (BEIS), is member of a Construction Leadership Council working group and is a guest lecturer in construction at the University of Reading.

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# Executive Summary

2022 was an incredibly challenging year for construction as early hopes of a strong post-pandemic recovery were quickly dashed by global events, macro-economic shocks, the cost-of-living and energy crises, and continuing material and labour shortages.

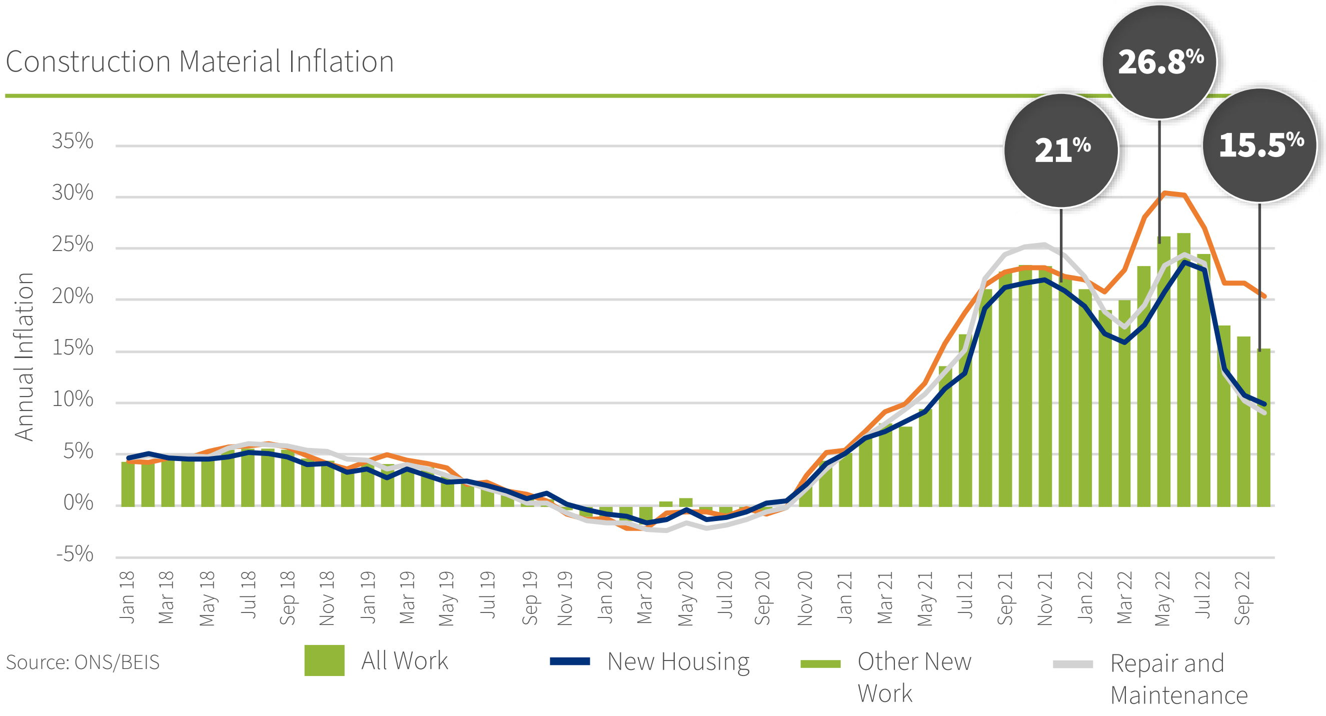
This special report looks back at the impacts of these factors together with how the construction industry performed amidst them, and how the events of 2022 might influence the industry's performance in 2023.

## Price Inflation*

Successive economic shocks have taken their toll on UK economic growth and construction activity. The post-pandemic recovery in construction activity has been dogged by material shortages and sharp price increases due to disrupted global and domestic supply chains.

**CONSUMER PRICE INFLATION**
**9.6%**

### Construction Material Inflation




Source: ONS/BEIS

*2022 price inflation to October

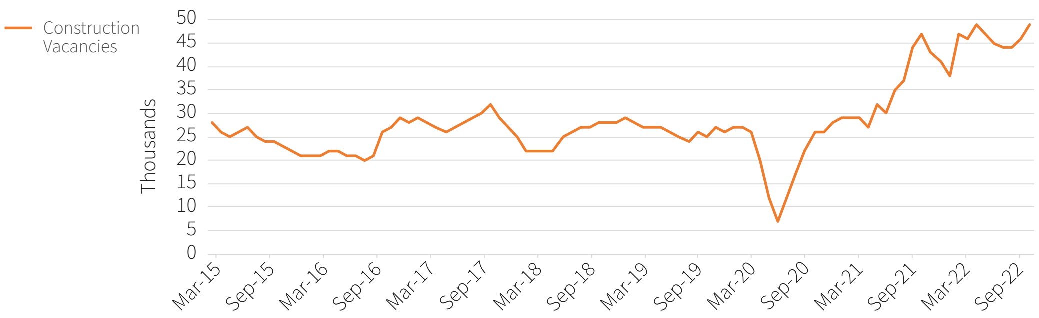
## Energy Intensive Materials Price Inflation

## Labour Challenges

The industry's long-standing labour supply issues intensified during 2022. Fewer EU nationals and the withdrawal of older workers from the labour market have shrunk the potential industry workforce. Firms responding to industry surveys have reported increased difficulties in recruiting and retaining skilled workers.

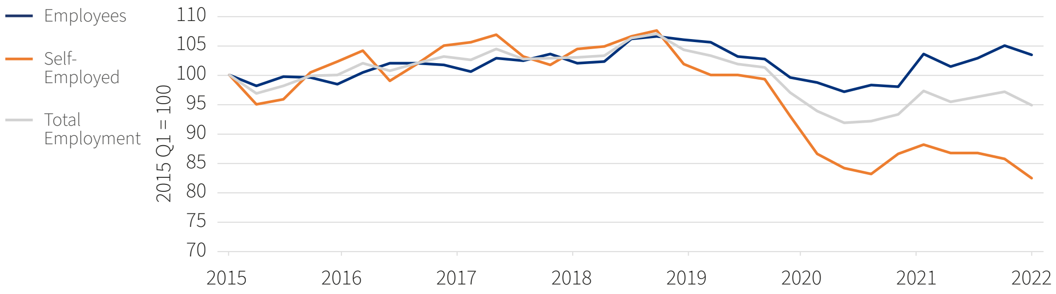
### Construction Vacancies

Source: ONS




### Construction Employment

Source: ONS




**TOTAL CONSTRUCTION EMPLOYMENT**
**2,141,000**

Below pre-pandemic levels **6.9%**

Decline on a year ago **2.4%**

**CONSTRUCTION VACANCIES**
**49,000**

Above pre-pandemic levels **96%**

*Changes to self-employment tax rules (IR35) has prompted a change in employment status for many. Self-employment has seen a sharp decline following the tax changes:*

**SELF-EMPLOYED**
**759,000**

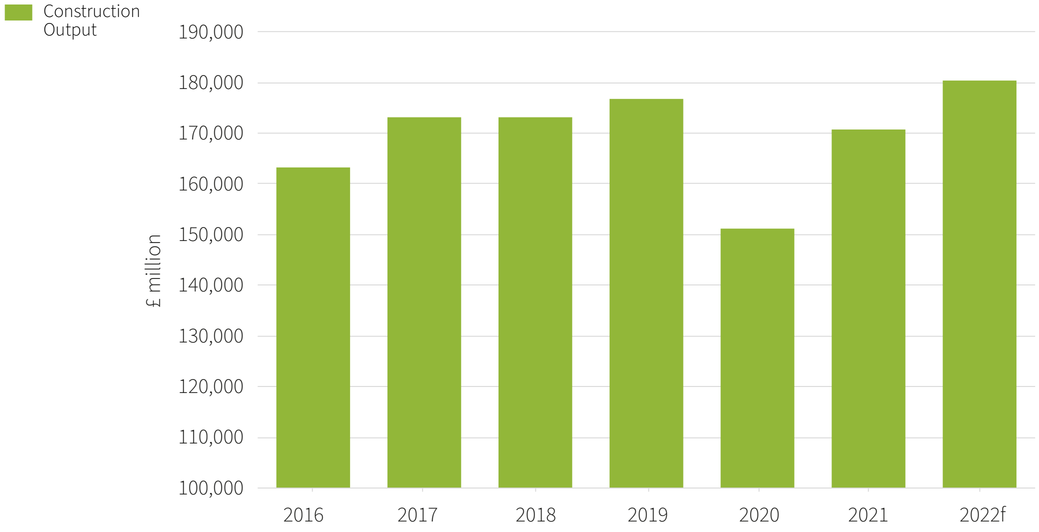
Below pre-pandemic levels **17.6%**

## Construction Output

Despite these supply side restrictions, the volume of construction output rose last year. The volume of work undertaken on-site strengthened during the autumn and is expected to have grown by 6% during the year as a whole. The rise in output was primarily driven by increases in private residential new build and repair, maintenance and improvement (RM&I) activity, industrial new build, and non-residential repair & maintenance work.

Construction Output

Source: ONS, Glenigan, f = forecast

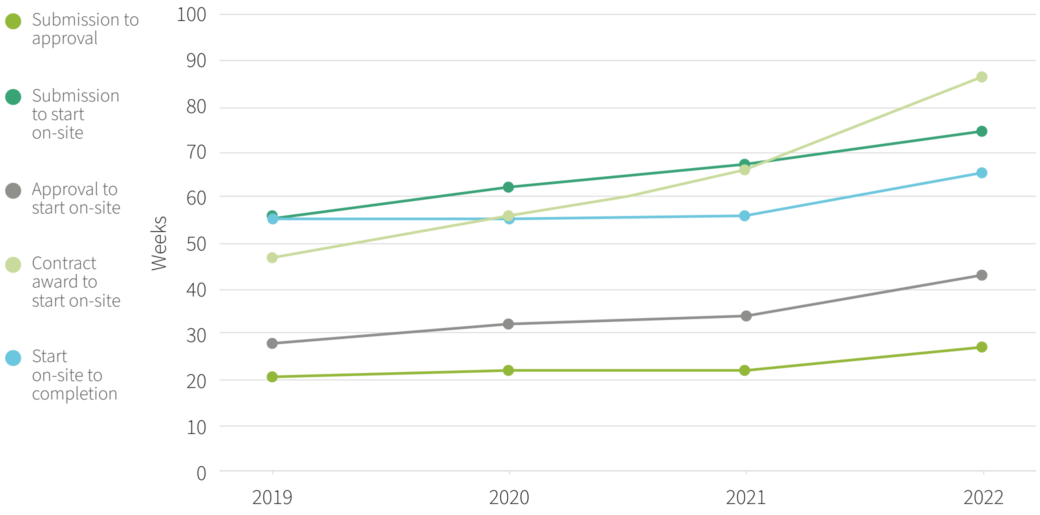



## Projects Slowdown

The material and labour supply-side issues appear to have contributed to the decline, with approved projects taking longer to progress to work on site as contractors and clients reappraise the design and costing of planned projects. These factors have contributed to a 50% increase in the time typically taken for a project to progress from approval to start on-site to 42 weeks, from 28 weeks in 2019.

### Project lead times by stage

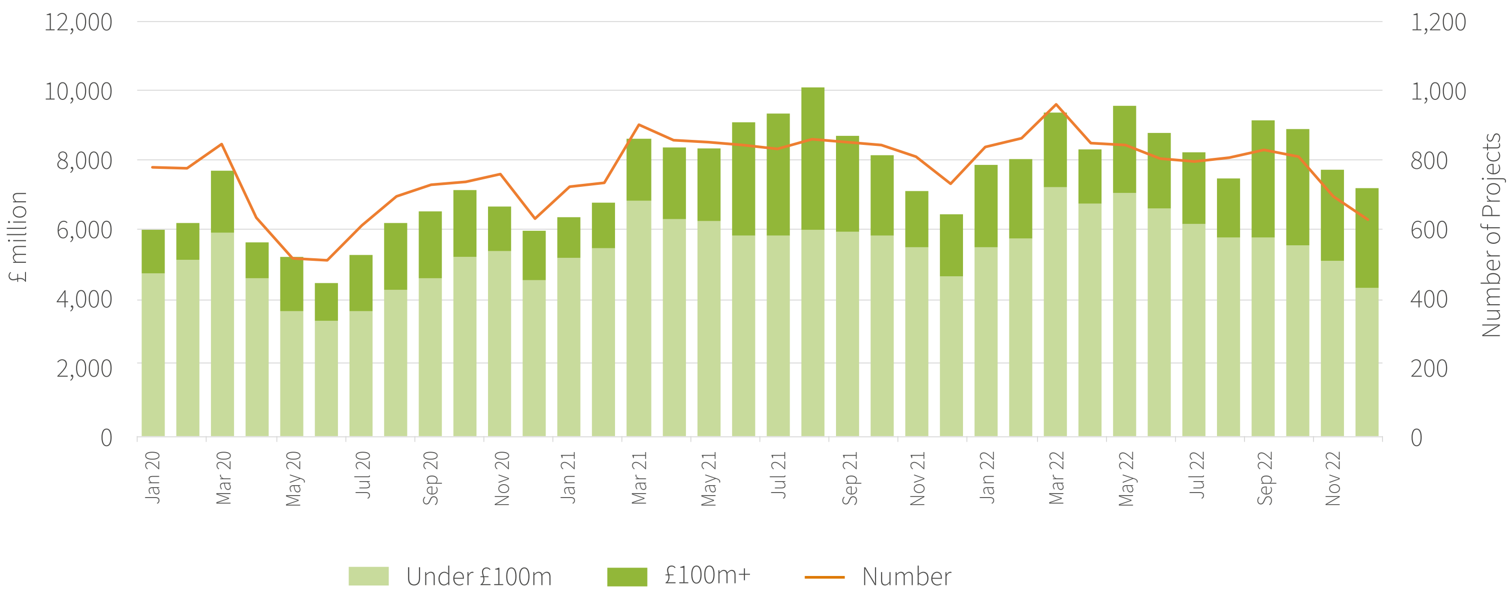
Source: Glenigan




## Projects-Starts Fell

The value and number of project starts weakened during the second half of last year. Whilst there was an increase in major project starts (over £100 million), the value of underlying project starts (under £100 million) during the final six months of 2022 were 5% lower than a year earlier and there were also 8% fewer projects started.

Project Starts



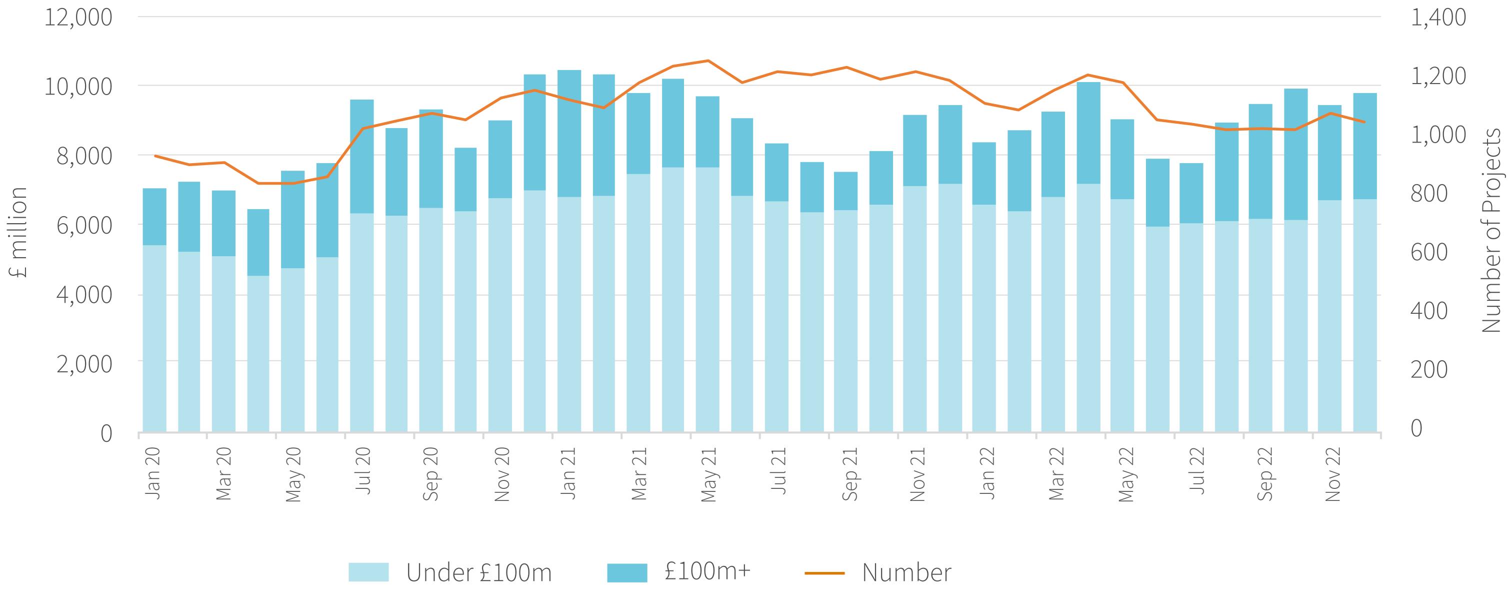

**-5%**
Decline in the Value of Underlying Project-Starts

**-8%**
Decline in the Number of Underlying Project-Starts

## Pipeline Decline

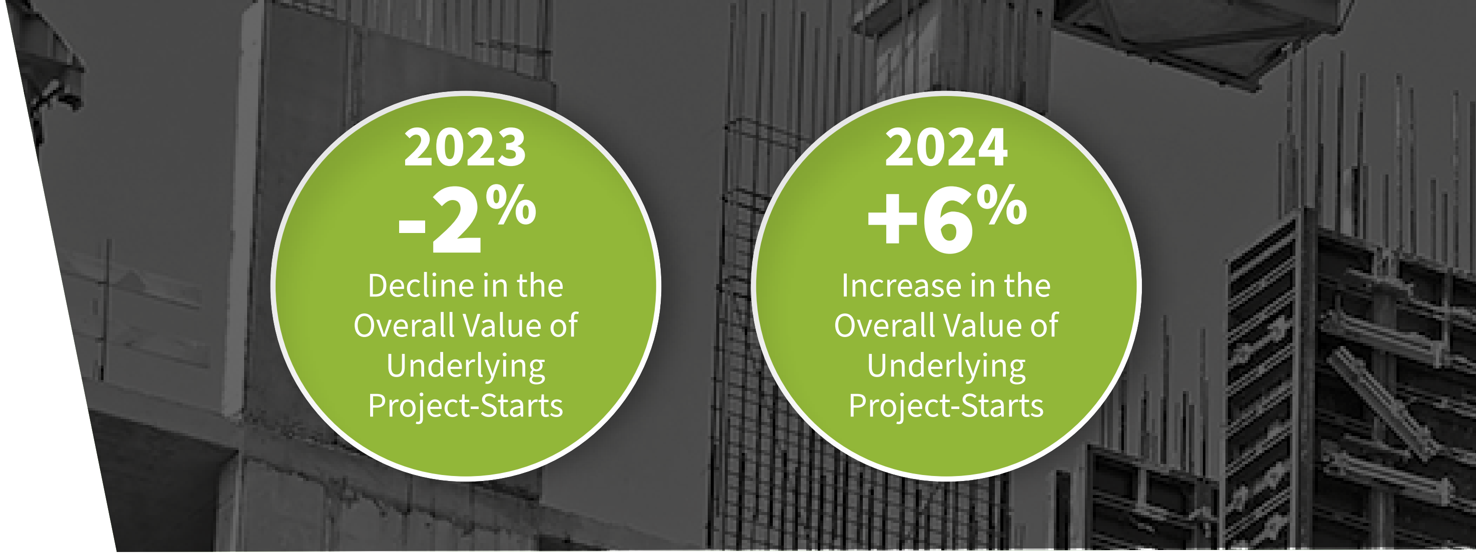
The development pipeline also weakened during the year. There were 14% fewer projects securing detailed planning consent during the final six months of 2022 and the value of underlying detailed planning consents slipped by 5% against a year earlier.

Detailed Planning Approvals




**-14%**
Decline in the Number of Projects Securing Planning Consent in Second Half of 2022

**-5%**
Decline in the Value of Underlying Planning Consents against a Year Ago




## Looking Ahead

Looking ahead construction faces a challenging economic environment during 2023. Demand will increasingly constrain construction activity during the coming year, with the UK economy in recession and the weakening development pipeline feeding through to a decline in project-starts and construction output. As industry activity cools, supply side pressures may moderate, although skill shortages are likely to persist.

### Private Residential

The housing market slowed during the course of 2022 as homebuyers' confidence was dampened by a drop in real earnings and the prospect of higher taxes and mortgage rates. Private residential starts weakened during the second half of the year as developers responded to the anticipated weakening in demand and increased their focus on building out projects already on site.

Detailed planning consents also fell back last year, with around 16% fewer projects securing approval. The value of project approvals also fell 11%, pointing to a further weakening in project starts this year as housebuilders scale back new development activity further.

### Private Non-residential

Industrial and commercial sector activity during 2022 was shaped by structural changes in the economy and property demand. Strong demand for logistics space has driven rapid growth in industrial activity, which is expected to remain at a high level during 2023. The growth in hybrid working has changed firms' office accommodation requirements, fuelling an increase in refurbishment projects.

The weaker economic outlook and the squeeze on household incomes has also had an impact, curbing investment in retail and hotel & leisure facilities. Fewer detailed planning consents during the year are likely to further constrain these sectors during 2023.

### Public Sector & Civil Engineering

The sharp rise in construction costs appear to have dampened the flow of government projects during 2022 as project budgets came under review. The value of social housing projects is estimated to have declined by 9% and a drop in detailed planning consents points to a further weakening in starts during 2023.

The value of education project starts also fell sharply last year. However, promised increases in government capital funding should support a recovery in sector starts during 2023. The value of health project starts rose by an estimated 2% last year, and increased NHS funding is expected to maintain sector activity above pre-pandemic levels during 2023.

Although the value of underlying civil engineering starts fell back last year, overall starts jumped by 13% due to a sharp increase in major projects (£100 million or more). These major contracts, including HS2 works and energy projects, will help to underpin civil engineering workload over the coming year.

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