

MEDIA RELEASE

Are We Witnessing the Start of a Summer Slowdown in Construction?

LONDON, UK, MAY 13, 2022 – Leading construction industry intelligence provider, Barbour ABI, has released its May Snap Analysis and the data reveals that in April levels of contract awards and planning approvals were well below those seen in March.

Tom Hall, Chief Economist at Barbour ABI, said: “After a stellar performance for contract awards in March, activity was always likely to fall in April due to the Easter holidays and a new financial year, coupled with the high inherent volatility of the index. The question on everyone’s lips will be is this the start of a fall in sentiment before a full-blown recession in the summer?”

Barbour ABI’s Snap Analysis is a monthly look at the construction industry across all sectors with the data analysed at each stage of the pipeline - contract awards, planning approvals and planning applications – to give a robust picture of the short- and medium-term outlook for the industry across the UK.

Contract Awards

Contract awards in April were at their lowest level since August 2021 and were down 33% on the previous month. However, contract awards have been hitting record highs recently and April was still above the long-term average at £5.8bn. The regular volatility of the index, together with the Easter break, could be the reason for the fall back in April, but it could also indicate a fall in sentiment preceding a summer recession.

The reason for concern is the sectors that the sectors which performed worst in April were commercial and residential, the sectors responsible for the recent record levels of contract awards.

Residential construction contract awards were down 47% in April versus the previous month to £1.8bn, but this is still just below the long-run average. However, the commercial sector suffered the biggest hit with a drop of 75% of the value of contracts awarded in April v March 2022. At just £300m in April, this was the lowest level since February 2021.

Infrastructure contract awards also fell in April. £1.5bn of contracts were awarded but this was a 33% drop on the previous month. Renewable energy projects continue to support activity in the infrastructure construction sector and April also saw two large road projects announced, one of which was the £160m A417 link road in Gloucester.

The environment for contract awards in the Hotel & Leisure sector was a more positive one. The continuing post-Covid recovery saw £800m of contracts awarded in April. This was dominated by the £500m Everton FC stadium redevelopment but there was also a small uptick in hotel construction.

Logistics provision was the main reason for a 30% increase in contract awards in the Industrial sector, which recorded its best month since October 2021, with £900m of contracts awarded. An increase in light industrial activity was also noted.

Healthcare remained static at a roughly average value of £190m of contract awards. However, this is a 35% fall compared to 2021's average of £280m per month.

Investment in education plummeted 50% on March levels at just £220m. This is 60% less than the average monthly contract award values recorded in the second half of 2021.

Planning Approvals

The short-medium term outlook for construction is indicated by levels of planning applications receiving approval. April's picture is a mixed one. While the level of planning approvals is high overall, the picture is dominated by Infrastructure development, especially wind farms. Commercial, hotel & leisure and education recorded very poor levels of planning approvals.

April was an extremely good month for Infrastructure planning approvals. A total of £5.6bn of projects were given the green light, including £4.4bn for three offshore wind farms off the East coast of England.

Residential planning approvals were valued at £3.7bn in April. Although a drop of 19% on March, this is still a good level of activity for the sector.

Commercial planning approvals were less positive, however, recording a 43% drop on March levels to £600m. This is well below average for the sector.

£400m of planning approvals in hotel & leisure signals recovery in this sector is continuing to be sluggish.

Following recent above average levels of planning approvals, April saw approvals in the industrial sector fall back to an average £700m.

Healthcare planning approvals experienced a significant drop of 56% month on month to £150m, but this is around the historical average for the sector.

After a slight improvement in Q1, 2022, investment in education construction continued at the subdued levels seen in 2021 at just £300m.

Planning Applications

The medium-term picture is illustrated by the level of planning applications. The data for March, analysed in Barbour ABI's May Snap Analysis indicates that although there may be a slump in activity in the summer, activity could pick up again in the third and fourth quarter of 2022. Overall, £12.3bn worth of planning applications were lodged in March.

Infrastructure construction continues to be the headline act, recording a fantastic month for planning applications. HS2 and renewable energy projects continue to drive the sector, but this month there was also a £700m film studio redevelopment application lodged.

Following a poor Q1, residential planning applications returned to average 2021 levels with £4.8bn of applications submitted in March.

The Commercial sector also saw a return to 2021 levels with £700m of planning applications presented in March. However, this is still a low and concerning level of activity for the sector.

Planning applications in the Hotel & Leisure sector continued to emerge slowly from the Covid-induced hiatus, but at £400m in March, activity in the sector is still a long way off pre-Covid levels.

However, the forward-looking picture for Industrial construction is a rosy one. Warehousing and logistics continue to dominate the sector but there is some evidence of manufacturing re-emerging with a manufacturing facility and a subsea cable factory in the North East of England adding to the March total of £2.2bn of planning applications lodged.

There were just £80k worth of planning applications made in Healthcare in March – a steep decline on 2021's high levels. Education planning applications were also well below the average seen in 2021 with just £270m of new planning applications submitted.

Hall continued: "One month does not make a trend, however the sharp falls in commercially sensitive sectors across contract awards and planning approvals, particularly for residential and offices will be cause for concern at the current time. On the flip side you could argue that in the face of high levels of uncertainty, the construction pipeline is continuing, at least currently."

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