

Q & A: CONSTRUCTION, STATISTICS & THE ECONOMY

Is construction larger than we think?

It depends upon how you measure construction. Using the Office for National Statistics' (ONS) construction output data series, this shows the **volume** of construction output amounting to £106.8 billion in 2011. The **volume** of Gross Domestic Product (GDP) in 2011 was £1,440 billion. Construction thus accounted for 7.4% of the economy in 2011.

That seems clear enough.

Not quite. Firstly, the above measure refers to volumes - output adjusted for inflation. If we use current prices, a slightly different picture emerges. In 2011, construction output as measured by the ONS amounted to £121.7 billion. In the same year, GDP measured in current prices amounted to £1,516 billion. Using the current price measure construction accounted for 8% of GDP in 2011.

The difference between the volume and value measures is slight - either way construction accounts for a small share of the economy – right?

Wrong. We noted above that the size of construction depends upon how you measure it. The main constituent of the above measure, ONS construction output, measures the value of output undertaken by building and civil engineering companies.

Right, but how else can we measure construction?

By measuring what companies, individuals, and the public sector say they spend on construction. That is recorded in ONS National Accounts data as Gross Fixed Capital Formation (GFCF). This is split by asset class, with two classes covering

construction. In 2011 these two classes summed to £118.3 billion, equating to 7.8% of GDP when measured in current prices.

OK, so the GFCF data measure of construction is close to the current price output measure.

Taking the data as it is – yes. But there is one important difference. The GFCF data exclude a large element of repair and maintenance (R&M) work. If we include this, we will arrive at a larger figure for all construction work.

OK, so how large is that missing R&M element?

At this stage there is no accurate answer, but our best estimate is that the GFCF measure plus the missing R&M element totals £142 billion, or 9.4% of GDP in 2011.

So, we started with construction accounting for 7.4% of the economy, and finished with it accounting for 9.4%. Which reading do you think is correct, or closer to the truth?

The one that gives a reading of 9.4%.

On that measure, what share of the economy did construction account for at the peak of the boom (2007-2008)?

Very close to 11.5%.

Doesn't that mean construction is a more important part of the economy than many assume?

Yes – using the above measure it was, in 2011, about 25% or £30 billion larger than suggested by the headline volume output data.

February 2013