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News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Construction PMI

UK construction sector contracted for twenty-second successive month in December

Key points:

- New order volumes contracted following an increase in November.
- Staffing levels were cut again.
- Construction companies forecast a recovery in the sector in 2010.

Summary:

December data pointed to a further contraction in UK construction activity, extending the current downturn into its twenty-second successive month. Subdued demand was the main factor underlying reduced activity, as levels of new business, which some companies report are still at low levels, fell slightly during the month. However, despite the continuing recession and a further cut in employment, construction companies remained confident that a recovery will occur in 2010.

The seasonally adjusted ***CIPS/Markit Construction Purchasing Managers' Index (PMI®)*** posted 47.1 in December, which signalled a further decline in UK construction sector activity. The pace of contraction was broadly unchanged since November, and extended the sequence of sustained reduction in activity to twenty-two months.

Both the commercial and civil engineering subsectors reported further declines in activity during December. However, a rise in residential construction activity was reported, extending the period of growth to four consecutive months. Moreover, the rate at which housing activity increased was the fastest since August 2007.

Incoming new business received by UK construction companies reduced in December. This was in contrast to November data when a marginal rise in new orders had been indicated. Panellists commented that clients had reduced budgets for construction work. Additionally, any new offers to tender were very competitive.

Indicative of the sustained decline in activity, staffing levels were cut again in December. Many construction companies reported that they were still restructuring their operations in line with lower workloads. Similarly, sub-contractor usage fell in the month, leading to a further marked rise in subcontractor availability.

Purchasing activity contracted again in December. Moreover, the rate of decline accelerated since November, as new orders were reduced.

Reflecting the sustained decline in purchasing activity at construction firms, suppliers' delivery times shortened. However, this was to the weakest extent in seventeen months.

UK construction companies reported a further rise in input prices in December. The rate of increase was unchanged since November, with input cost inflation remaining low in the context of historical data.

Despite the sustained contraction in activity, optimism over future business conditions rose in December. Anecdotal evidence suggested that an anticipated recovery in the industry during 2010, particularly within the housing market, would result in higher demand.

Comment:

David Noble, Chief Executive Officer at the Chartered Institute of Purchasing & Supply, said:

"December was another disappointing month for the UK construction sector. Unlike other parts of the economy, it seems unable to escape the shackles of the recession, as it entered its twenty-second successive month of decline. Purchasing managers painted a bleak picture as firms suffered from reduced client demand and falls in new business. As a result, contractors are competing aggressively to secure the relatively fewer new contract tenders there are in the market.

“Though the sector ended the year on a bad note, there are some glimmers of hope. Most significantly, the residential sector showed a marked improvement in activity, with growth indicated for four consecutive months. This suggests that the increase in house prices last year is beginning to have an effect on construction and encouraging new building.

“Purchasing managers also remain confident that 2010 will be a much better year for the construction sector and that it will begin to grow again. However, whether this optimism is based on hope rather than foresight on orders in the pipeline remains to be seen.”

Sarah Ledger, Economist at Markit said:

“The UK construction sector ended the year with levels of activity still in decline. The rate of contraction slowed considerably during 2009, although with only one month of increasing new business indicated in that period, activity failed to grow.

“Nonetheless, sentiment over future business activity remained positive, with many construction companies anticipating a recovery in the industry during 2010. Underpinning this, residential construction activity has now increased for four successive months.”

The January *Report on Construction* will be published on Tuesday 2nd February 2010 at 9.30am

-Ends-

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Notes to Editors:

The CIPS/Markit UK Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional, and industry contribution to GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the ‘Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the ‘diffusion' index. This index is the sum of the positive responses plus a half of those responding ‘the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The CIPS/Markit UK Manufacturing Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Where appropriate, please refer to the survey as the CIPS / Markit UK Manufacturing PMI.

About CIPS

The Chartered Institute of Purchasing & Supply (CIPS) is the leading international body representing purchasing and supply management professionals. It is the world-wide centre of excellence on purchasing and supply management issues. CIPS has almost 54,000 members in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of purchasing and supply chain professionals can have a major impact on the profitability and efficiency of all types of organisation.

About Markit

Markit is a leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.