

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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Markit/CIPS UK Construction PMI[®]

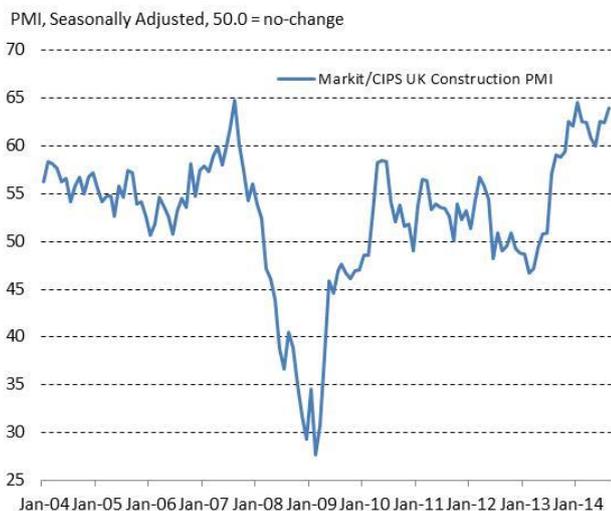
Construction output rises at fastest pace for seven months in August

Key points:

- Strong rises in all three categories of construction activity
- Employment growth holds close to July's record-high
- Survey-record strains on supplier lead-times and sub-contractor availability

At 64.0 in August, up from 62.4 in July, the seasonally adjusted **Markit/CIPS UK Construction Purchasing Managers' Index[®] (PMI[®])** remained well above the neutral 50.0 threshold and signalled the fastest overall increase in output levels since January. The latest reading also pointed to the second-strongest rate of output expansion since the pre-recession peak seen in August 2007.

Markit/CIPS UK Construction PMI[®]



Source: Markit/CIPS

August data indicated a continued strong recovery in UK construction output, driven by sharp rises in housing, commercial and civil engineering activity. A sustained upturn in workloads and widespread confidence towards the business outlook resulted in another rapid upturn in employment numbers. Greater demand for staff also contributed to a survey-record decline in sub-contractor availability, as well as the steepest rise in rates charged by sub-contractors since the survey began in April 1997.

A steep increase in construction output reflected strong contributions from all three broad areas of construction in August. Residential construction posted the fastest rise in activity, despite the pace of expansion moderating slightly to a three-month low. Civil engineering activity increased at the strongest pace since March, while growth of commercial construction again held close to its fastest since the summer of 2007.

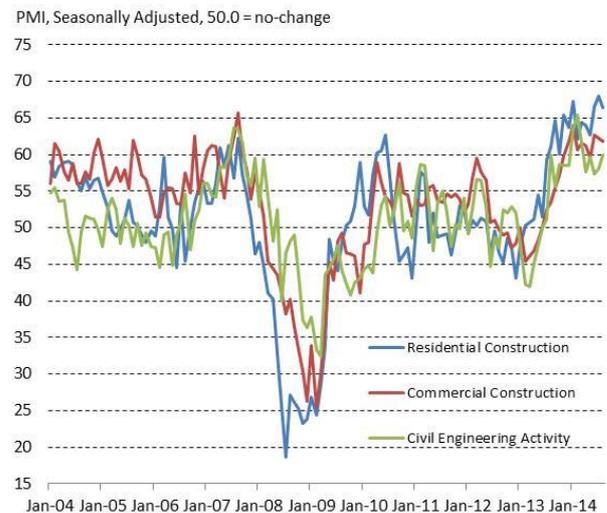
Strong gains in incoming new work were recorded during August, thereby extending the current period of continuous new business growth to 16 months. Survey respondents cited improving economic fundamentals and a corresponding rise in clients' willingness to commit to new construction projects. As a result, construction firms remain highly upbeat about the prospects for output growth over the year ahead, with more than half (59%) expecting a rise in business activity and only 7% forecasting a decline.

Construction firms hired staff at a strong rate in August, with the pace of job creation only slightly less marked than the survey-record high seen in July. Moreover, sub-contractor usage picked up sharply and at the fastest rate since the survey began in April 1997. This in turn contributed to a survey-record drop in sub-contractor availability and a much steeper increase in rates charged by sub-contractors.

There were also signs of greater strains on supplier capacity in August. Delivery times from vendors lengthened to the greatest degree since the survey began over 17 years ago. Construction firms widely commented that low stocks and capacity pressures had resulted in worsening supplier performance.

Meanwhile, latest data indicated a sharp and accelerated increase in average cost burdens across the construction sector. The rate of input price inflation was the fastest since July 2011, with some firms noting that strong demand for inputs had allowed suppliers to re-establish margins in recent months.

UK Construction PMI[®] by Category of Activity



Source: Markit/CIPS

Comment:

Tim Moore, Senior Economist at Markit and author of the **Markit/CIPS Construction PMI[®]**, said:

“UK construction firms saw one of the sharpest rises in output for seven years in August, with increasing workloads driven by an array of factors including surging homebuilding activity, greater infrastructure spending and renewed confidence within the commercial development sector.

“A broad-based upturn in construction demand has created a boom in job creation this summer, as construction companies look to replace capacity lost in the aftermath of the recession.

“However, acute skill shortages meant that sub-contractor charges rose at the fastest pace since the survey began in 1997. Meanwhile, sub-contractor availability fell at a survey-record pace, which could act to further ignite pay pressures in the short term.

“Supply chain pressures intensified during August, as falling stocks and strong demand for inputs contributed to the steepest lengthening of vendor delivery times since the survey began 17 years ago.

“While some survey respondents noted optimism that additional supplier capacity will come online over the near term, construction companies were generally less sanguine in relation to their staff hiring difficulties, reflecting concerns about protracted growth pains in this area.”

Commenting on the report, **David Noble, Group Chief Executive Officer at the Chartered Institute of Purchasing & Supply**, said:

“The resurgence in construction has entrenched itself after a summer of blistering growth but builders should prepare for growing pains this autumn as the sector labours to recover lost capacity. Buoyed particularly by investment into civil works, construction output grew at the fastest pace for seven months in August, whilst activity continued to expand in housing and commercial construction. Confidence for the next 12 months also remained high as businesses continue to invest for the future.

“Nevertheless, an encouraging 15-months of sustained employment growth, the longest since 2006-2008, is revealing a major skills shortage in the sector. August saw the quality of sub-contracted work deteriorate at the fastest rate since the survey began in 1997, combined with a record reduction in the availability of sub-contractors and a record rise in the rates charged. The sector is struggling to find enough skilled tradesmen to keep pace with new work and the labour market will continue to put pressure on costs until the next wave of apprentices begin to enter the jobs market.

“Indeed, across the supply chain, delivery times have seen the sharpest rise since the survey began, with input prices growing at the fastest rate since July 2011. With the UK’s appetite for building materials

growing throughout the summer, suppliers are struggling to ramp up production to pre-crisis levels.”

– Ends –

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Notes to Editors:

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

The Purchasing Managers' Survey is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 170 construction companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to GDP. The survey is based on techniques successfully developed in the USA over the last 60 years by the National Association of Purchasing Management. It is designed to provide one of the earliest indicators of significant change in the economy, being issued on the first working day of each month. The data collected are not opinion on what might happen in the future, but hard facts on what is actually happening at "grass roots" level in the economy. As such the information generated on economic trends pre-dates official government statistics by many months.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) and seasonally adjusted numbers are available to subscribers from Markit. Please contact economics@markit.com

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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are 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. To learn more go to www.markit.com/economics.

About CIPS

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