News Release

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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Construction activity declines for first time in 11 months

KEY FINDINGS

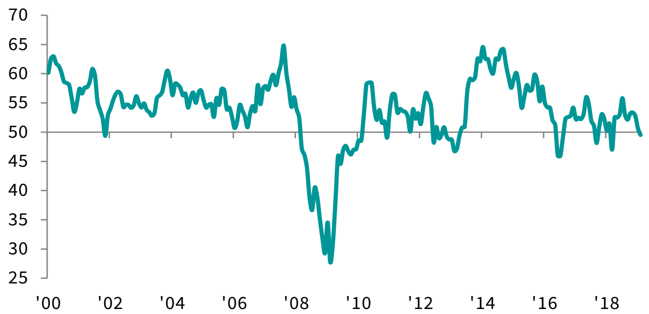
Slight fall in construction output, led by commercial and civil engineering work

Housing is the only category to register growth in February

Sharp deterioration in supplier performance

Total Activity Index

sa, >50 = growth since previous month



UK construction companies indicated that business activity levels fell during February, which ended a ten-month period of sustained expansion. The drop in construction work was led by reductions in commercial building and civil engineering activity. A soft patch for new orders so far in 2019 meant that job creation remained subdued in February. Survey respondents often cited concerns about a lack of new projects to replace completed contracts.

At 49.5 in February, down from 50.6 in January, the headline seasonally adjusted **IHS Markit/CIPS UK Construction Total Activity Index** registered below the 50.0 no-change threshold for the first time since the snow disruptions seen in March 2018. Aside from this brief weather-related decline in output, the latest reading was the lowest since September 2017.

Residential work was the best performing area of construction activity in February, with growth recorded for the thirteenth month running. However, the rate of expansion was only modest and therefore could not offset the declines recorded for commercial and civil engineering activity. In both cases, the pace of contraction was the steepest since March 2018.

Anecdotal evidence from survey respondents suggested that Brexit uncertainty had slowed decision-making on commercial projects and led to subdued client demand so far this year. There were also reports that low transaction volumes and a general drop in confidence across the housing market had acted as a brake on residential building.

February data signalled only a marginal overall rise in new work received by construction firms, with the latest index reading the weakest since May 2018. Political uncertainty was widely cited as a factor contributing to a lack of invitations to tender, particularly on commercial projects.

Fragile order books and a renewed decline in construction output meant that employment growth remained much softer than seen in the final quarter of 2018. Among those companies reporting an increase in staffing numbers, there were some reports that extra trainees had been taken on to help alleviate skill shortages. However, other firms commented that concerns about the business outlook had led to the non-replacement of voluntary leavers.

The index measuring business expectations for the year ahead remained inside positive territory, but the degree of confidence eased to a four-month low and was well below the long-run survey average. Construction firms noted that delays to client decision-making had slowed progress of new project starts, which could create gaps in their future workloads.

Input buying fell for the first time since September 2017, reflecting softer demand. However, suppliers' delivery times lengthened to the greatest extent since last August. Some firms noted that stockpiling by UK manufacturers had resulted in shortages of transport availability and led to longer wait-times for construction products and materials. Input cost inflation meanwhile edged up since January, but was still at the second-lowest level since June 2016.

COMMENT

Tim Moore, Economics Associate Director at IHS Markit, which compiles the survey:

"The UK construction sector moved into decline during February as Brexit anxiety intensified and clients opted to delay decision-making on building projects. Risk aversion in the commercial sub-category has exerted a downward influence on workloads throughout the year so far. This reflects softer business spending on fixed assets such as industrial units, offices and retail space. The fall in commercial work therefore hints at a further slide in domestic business investment during the first quarter, continuing the declines seen in 2018.

"There were also reports that the more fragile housing market confidence has begun to act as a brake on residential work, which adds to signs that house building has lost momentum since the end of last year. This leaves the construction sector increasingly reliant on large-scale infrastructure projects for growth over the year ahead.

"Construction companies pared back their purchasing activity in response to subdued demand in February, but delivery delays for inputs were among the highest seen over the past four years. Survey respondents noted that stockpiling efforts by the UK manufacturing sector had an adverse impact on transport availability and supplier capacity across the construction supply chain.

"On a more positive note, input price inflation held close to January's two-and-a-half year low. The slowdown in cost pressures from the peaks seen in the first half of 2018 provides a signal that the worst phase has passed for supplier price hikes related to sterling depreciation."

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply:

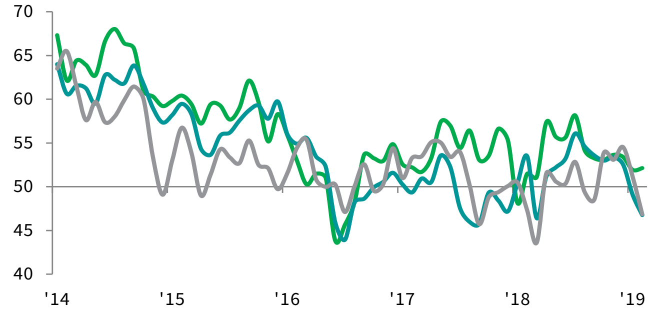
"The recent fears over the Brexit-related impacts on the sector were realised this month, as barring the weather-related blip in March last year, construction put in its worst performance since September 2017, with the PMI contracting to just below the no-change mark.

Commercial and civil engineering activity was pushed into the red, as client uncertainty over placing new orders left its mark. This meant the relatively weak residential building sector was the best performer. However, with consumer confidence also waning, housing is likely to follow suit in the coming months.

The domino effect of stockpiling by other sectors such as manufacturing impacted on supplier performance, as builders competed for dwindling supplies of raw materials, while transportation availability also became a problem, leading to supply chain bottlenecks. This meant that purchasers were subjected to the second-longest delivery times since March 2015, affecting work already in-hand.

On the upside, input price inflation was not as strong compared to the last couple of years and employment creation was modestly maintained in spite of some companies placing a freeze on any new hires. In short, the foundations of the construction sector are crumbling under the weight of Brexit and businesses are switching to survival mode until the way forward is cleared."

Activity Index by construction category
Housing / Commercial / Civil Engineering
sa, >50 = growth since previous month



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Methodology

The IHS Markit /CIPS UK Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

February 2019 data were collected 12-27 February 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 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 ihsmarkit.com/products/pmi.html.

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About CIPS

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