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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Construction growth reaches four-month high in November

KEY FINDINGS

Solid expansion of overall construction output

Residential work reclaims its place as best performing area of construction activity

Job creation accelerates to its fastest since December 2015

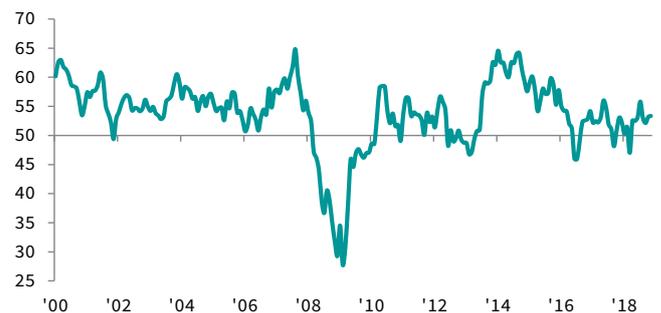
November data pointed to a solid expansion of UK construction output, which was supported by a broad-based upturn in the three sub-categories of activity monitored by the survey. Growth of new work picked up since October and rising client demand underpinned a robust and accelerated expansion of employment. The rate of job creation was the fastest since December 2015. However, business confidence remained relatively subdued, with survey respondents noting that Brexit-related concerns had weighed on their growth projections for the next 12 months.

The seasonally adjusted **IHS Markit/CIPS UK Construction Total Activity Index** registered 53.4 in November, up from 53.2 in October, to remain above the crucial 50.0 no-change mark for the eighth successive month. Moreover, the latest reading signalled the strongest rate of business activity expansion since July.

Residential building reclaimed its position as the fastest growing area of construction work in November. The latest rise in house building activity was the strongest for three months. Latest data also pointed to sustained increases in commercial work and civil engineering activity.

Survey respondents noted that rising client demand continued to boost construction output during November. The rate of new business growth picked up since October, but remained softer than seen on average in the third quarter of 2018. Some construction firms noted that Brexit uncertainty had held back new order growth, while there were also

Total Activity Index
sa, >50 = growth since previous month



reports citing delays to public sector spending decisions.

Higher levels of new business contributed to a solid expansion of input buying and rising employment numbers during November. The latest increase in staffing levels was the fastest since December 2015. Meanwhile, greater demand for construction products and materials contributed to worsening vendor performance. Longer delivery times from suppliers have been reported in each month since September 2010.

Growing demand for construction inputs led to another sharp rise in input prices during November. Survey respondents also commented on higher transportation costs and rising staff salaries. The overall rate of input price inflation was the fastest since June.

Meanwhile, latest data indicated that business optimism across the construction sector rebounded from the near six-year low seen in October. The latest reading signalled the strongest degree of confidence for three months. Anecdotal evidence suggested that Brexit-related concerns remained the main factor weighing on business optimism during November.

COMMENT

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

“November data indicates that the UK construction sector remains in expansion mode, with resilient business activity trends seen for housing, commercial and civil engineering activity. The latest overall rise in construction output was the fastest since July, helped by a stronger contribution to growth from house building activity.

"Higher levels of new work were recorded for the sixth month running in November, which resulted in a robust and accelerated rise in staffing numbers. The latest upturn in employment was the fastest for almost three years. A number of construction firms noted that greater demand for staff had led to upward pressure on salaries in November.

"Business confidence regarding the year ahead outlook for construction work picked up from October's recent low, but remained weaker than seen on average in the first half of 2018. Survey respondents widely commented that Brexit-related uncertainty had held back business optimism in November."

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

“After last month’s disappointing levels of business optimism, the construction sector perked up marginally in November. There was good activity across all the sub-sectors and residential building reclaimed its leader of the pack status with the strongest performance of all three.

"Levels of new work improved, and employment numbers increased at their fastest rate since December 2015, as projects finally started after sustained periods of delay. But before the champagne corks start popping, this rise in the overall index was small. Even with optimism at a three-month high, there is currently no indication that this will become a sustained rise as we approach the end of the year.

"Constrained supply chains were still underperforming as supplier operations worsened again and to their weakest level for three months. Suppliers reduced their stock levels and reports of raw material shortages gnawed away at efficiency. Adding to this challenging mix, prices for raw materials continued their strong upward trajectory, so the pathway ahead is still far from clear of blockages, Brexit-related or otherwise.”

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.

November 2018 data were collected 12-29 November 2018.

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

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