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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Construction work declines at the steepest rate since April 2009

KEY FINDINGS

Rapid falls in construction output and new work in March

Employment drops at fastest pace since September 2010

Business expectations slump to weakest since October 2008

March data pointed to the fastest downturn in UK construction output for almost eleven years as emergency public health measures to halt the spread of coronavirus 2019 (COVID-19) led to stoppages of work on site and a slump in new orders.

The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index dropped to 39.3 in March from 52.6 in February, to signal the steepest fall in construction output since April 2009. Survey respondents overwhelmingly attributed reduced activity to the impact of the COVID-19 pandemic.

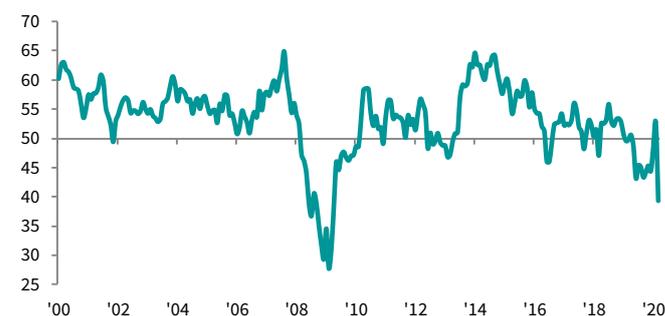
All three broad categories of construction work recorded a fall in output during March. Civil engineering activity (index at 34.4) saw the steepest rate of decline, followed closely by commercial building work (index at 35.7).

Residential activity dropped at a comparatively modest pace in March, with the equivalent index posting 46.6. However, construction companies often commented on an expected slump in house building from stoppages on site amid increasing measures to slow the spread of COVID-19.

New work received by construction companies fell at a sharp rate in March, with the downturn in order books the fastest recorded by the survey since August 2019. Survey respondents commented on a combination of weaker demand and concerns among clients about the feasibility of starting new projects during the COVID-19 outbreak.

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit / CIPS.

Lower workloads and business closures resulted in a marked reduction in staffing numbers across the construction sector during March. The latest survey indicated the steepest pace of job shedding since September 2010.

Construction companies recorded intense supply chain pressures in March as the COVID-19 pandemic resulted in reduced capacity and shortages of stock among vendors. The latest lengthening of lead-times among vendors was the steepest recorded since October 2014.

Input buying dropped at the fastest rate for six months. Average cost burdens continued to rise in March, although the rate of inflation moderated since the previous survey period amid softer demand conditions and lower commodity prices.

Meanwhile, latest data indicated a slump in business expectations across the UK construction sector. Survey respondents are more pessimistic about the year ahead outlook than at any time since October 2008, which was almost exclusively attributed to the economic impact of the COVID-19 pandemic.

COMMENT

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

"March data provides an early snap-shot of the impact on UK construction output from emergency public health measures to halt the COVID-19 pandemic, with activity falling to the greatest extent since the global financial crisis.

"The closure of construction sites and lockdown measures will clearly have an even more severe impact on business activity in the coming months. Survey respondents widely commented on doubts about the feasibility of continuing with existing projects as well as starting new work.

"Construction supply chains instead are set to largely focus on the provision of essential activities such as infrastructure maintenance, safety-critical remedial work and support for public services in the weeks ahead."

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

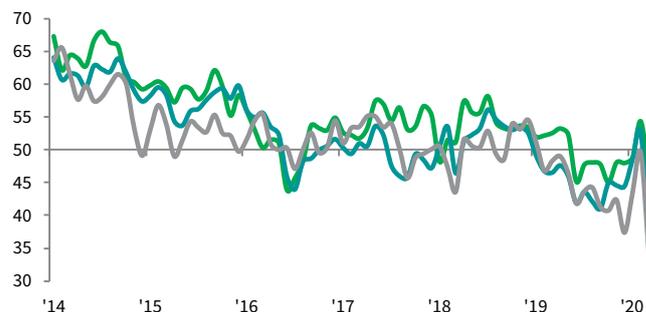
"The battered construction sector was offered a brief respite in February with a marginal rise in output after a difficult year, but any hope of a continuation of growth was mercilessly bulldozed away in March and construction companies registered their lowest levels of optimism since October 2008.

"As measures to contain the coronavirus COVID-19 pandemic were put in place across the UK, construction sites closed and builders lost their jobs on a frightening scale as overall activity fell to an extent not seen since April 2009. New orders were reduced to a trickle as the scale of the disease dawned on clients and lockdown severely hindered any further progress.

"With no upturn in sight, and with the fastest level of layoffs since September 2010, the sector is stuck in quicksand and sinking further. Though lower commodity prices will bring some relief for those that can source a limited number of materials amidst disrupted supply chains, this will be cold comfort without sites to work in and staff available as health concerns remain. The brutality of this impact cannot be underestimated, and the sector has not hit rock bottom yet."

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.

March data were collected 12-30 March 2020.

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

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