News Release

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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

UK construction output declines again in July

KEY FINDINGS

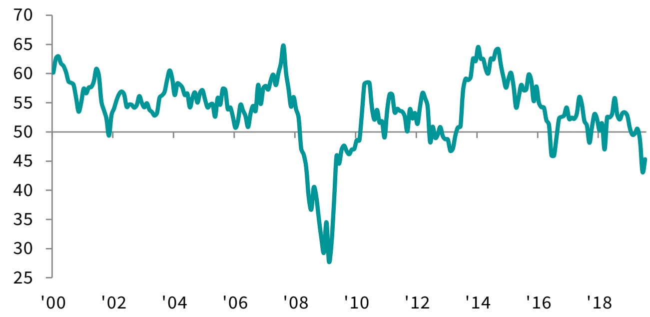
Construction activity falls for the third month in a row

Sharp drop in new work and purchasing activity during July

Business optimism slides to its lowest since November 2012

Total Activity Index

sa, >50 = growth since previous month



UK construction sector output declined for the third month running in July, reflecting lower volumes of work across all three broad categories of activity. The latest survey also revealed a sharp drop in new order intakes, which survey respondents mainly attributed to subdued economic conditions and domestic political uncertainty. Weaker demand contributed to a slide in business optimism towards the year-ahead outlook for construction activity, with the degree of confidence the lowest since November 2012.

At 45.3 in July, the headline seasonally adjusted **IHS Markit/ CIPS UK Construction Total Activity Index** posted below the 50.0 no-change value for the fifth time in the past six months. The latest reading was up from June's ten-year low of 43.1 but still signalled a marked downturn in total construction activity.

Commercial construction was the worst performing category in July, followed closely by civil engineering activity. Anecdotal evidence suggested that risk aversion among clients in response to Brexit uncertainty continued to hold back work on commercial projects. At the same time, some survey respondents noted that delays to contract awards for infrastructure work had acted as a headwind to civil engineering activity.

House building fell for the second month in a row during July, but the rate of decline was only modest and eased from the three-year record seen in June. Reports from construction companies suggested that sluggish housing market conditions had a negative influence on residential work during the latest survey period.

July data pointed to a downturn in total order books across the construction sector for the fourth successive month, which is the longest continuous period of decline since 2016. Lower volumes of new business were often linked to a lack of tender opportunities amid weaker domestic economic conditions and ongoing political uncertainty.

Employment numbers were cut back in response to deteriorating order books, although the rate of job shedding was only modest and largely reflected the non-replacement of voluntary leavers. Sub-contractor usage meanwhile decreased for the sixth consecutive month.

Demand for construction products and materials continued to soften, as signalled by a solid drop in purchasing activity during July. This helped to alleviate some of the pressure on supplier capacity, with lead times lengthening to the smallest extent since September 2016. A robust rate of input cost inflation persisted in July, partly reflecting rising prices for imported items and those in short supply (particularly insulation and plasterboard).

Construction companies meanwhile reported a sharp drop in their confidence regarding the year-ahead outlook for business activity. The latest reading was the lowest since November 2012. Survey respondents often cited Brexit uncertainty, the prospect of a General Election and delays to infrastructure work.

COMMENT

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

“UK construction output remains on a downward trajectory and another sharp drop in new orders has reduced the likelihood of a turnaround in the coming months.

"Total business activity declined at a softer pace than the ten-year record seen in June, but this should not detract attention from the challenges ahead for the construction sector. Customer demand has been squeezed on all sides in recent months, which has pushed down business expectations to the lowest since the second half of 2012.

"July data revealed declines in house building, commercial work and civil engineering, with all three areas suffering to some degree from domestic political uncertainty and delayed decision-making.

"Construction companies have started to respond to lower workloads by cutting back on input buying, staffing numbers and sub-contractor usage. If the current speed of construction sector retrenchment is sustained, it will soon ripple through the supply chain and spillovers to other parts of the UK economy will quickly become apparent."

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

“The sector felt the pressure of challenging economic conditions and the impact of another disastrous drop in demand growth, as purchasing activity petered out and Brexit nibbled away at confidence and decision-making. Though the sector’s activity improved marginally on last month’s biggest fall in a decade, this third month of contraction in a row makes for gloomy reading.

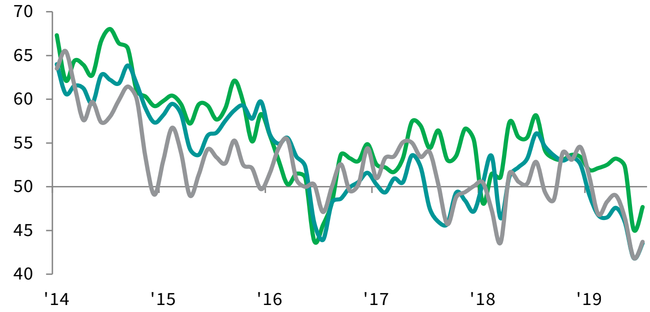
“Cost pressures continued in July as the weak pound and short supply pushed up the price of materials and made progress on building projects more difficult still. In this turbulent month the impact was felt along all the supply chain with job seekers left out in the cold as employment opportunities dried up and hiring plans were frozen.

“Moving into the second half of the year it will take the sector some time to dig its way out of this deep hole. As the autumn and the potential negative impacts of a no-deal exit from the EU threaten, any significant recovery is unlikely to be on the horizon until 2020. Construction optimism is at its lowest since November 2012, so there’s no time to lose in injecting some stability and certainty into the economy and Brexit plans before a recovery of months turns into years.”

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.

July 2019 data were collected 12-30 July 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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