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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Construction output falls at slower rate in October

KEY FINDINGS

Civil engineering declines at fastest pace since October 2009

New orders and employment continue to decrease

Business expectations for the year ahead remain subdued

October data pointed to a sustained decline in UK construction output, with overall volumes of work falling for the sixth consecutive month. The latest survey also revealed a sharp drop in new work, although the rate of contraction was the slowest for three months. Meanwhile, construction companies continued to reduce their workforce numbers in October, which was linked to weak order books and concerns about their near-term business outlook.

At 44.2 in October, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered below the crucial 50.0 no-change threshold. The latest reading was up from 43.3 during the previous month, but still close to the ten-year low seen in June (43.1). Construction companies noted that client demand remained subdued in response to domestic political uncertainty and the economic backdrop. In some cases, survey respondents noted that unusually wet weather in October had acted as an additional headwind to construction output.

Lower volumes of work were recorded across all three broad categories of activity. Civil engineering was the worst-performing area, with business activity falling at the sharpest pace since October 2009. House building also decreased at a faster rate in October. Latest data pointed to the greatest drop in residential work for over three years. At the same time, commercial construction fell for the tenth month running, but at the slowest rate since May.

New orders dropped for the seventh month in a row during October, but the rate of decline was the least marked since

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



Source: IHS Markit.

July. Construction companies noted that clients continued to defer decision-making on new projects in response to political uncertainty and concerns about the economic outlook. Survey respondents also suggested that intense competition for new work had resulted in more widespread price discounting to secure contract awards.

Softer demand conditions and a lack of new work to replace completed projects resulted in another fall in staffing levels across the construction sector. Employment numbers have declined in each month since April, which survey respondents mainly attributed to the non-replacement of voluntary leavers.

Input buying dropped again in October, but weaker demand for construction products and materials did not prevent a further lengthening of suppliers' delivery times. The latest downturn in vendor performance was the sharpest since June, with construction firms commenting on stock shortages among suppliers (especially plasterboard and insulation materials). However, input cost inflation was the lowest for just over three-and-a-half years.

Meanwhile, business optimism towards the year-ahead outlook for construction work remained among the weakest seen since 2012. Some construction firms noted that contract awards related to large-scale civil engineering projects had the potential to boost workloads in the next 12 months, although political uncertainty continued to cloud the outlook.

COMMENT

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

"UK construction companies experienced a downturn in business performance during October as political uncertainty and subdued economic conditions again combined to hold back sales. New orders have fallen in each month since April, which is the most prolonged period of decline recorded for more than six years.

"Civil engineering was the worst-performing area of activity in October, with business activity dropping at the fastest pace in ten years. Construction companies also voiced concerns about the uncertain outlook for large-scale infrastructure projects upon which growth is expected to rest in the coming years.

"House building has also lost momentum this autumn amid a broader slowdown in market conditions, with the latest survey data signalling the sharpest drop in residential work since June 2016.

"There are clear signs that construction firms are positioning for an extended soft patch for project starts, as highlighted by a further decline in purchasing volumes and another month of cuts to workforce numbers through the non-replacement of voluntary leavers."

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

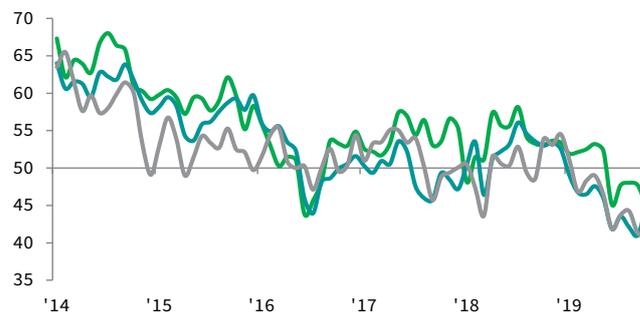
"The construction sector's distressing decline continued in October in spite of a small improvement in the headline index as a resolution to the political impasse seemed close. However with a fall in civil engineering not seen for a decade and the biggest drop in housebuilding since 2016, it appears that strength in the sector is seeping away.

"Jobs hiring suffered as businesses unsure of the Government's next steps held back on their development plans, which were weakened further by stronger competition for fewer opportunities. Future optimism remained at 2012 levels as the deep-seated Brexit gloom dampened down expectations.

"To say these figures are disappointing is a big understatement. Given that the next political hurdle is December's General Election, all eyes will be on the new administration and clear direction, because at the moment there is little insight into what could possibly pull the sector out of its ditch."

Activity Index by construction category
 Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



Source: IHS Markit.

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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.

October 2019 data were collected 11-30 October 2019.

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

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