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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Sustained fall in commercial work weighs on construction sector during March

KEY FINDINGS

Marginal reduction in overall construction output

Commercial work remains weakest performing area

Residential building rises at fastest pace for three months

The recent soft patch for UK construction output continued during March. Another fall in commercial work and civil engineering activity more than offset a modest upturn in residential building. New business and employment numbers increased only slightly at the end of the first quarter, reflecting subdued underlying demand and delays to decision-making among clients.

Adjusted for seasonal influences, the headline seasonally adjusted **IHS Markit/CIPS UK Construction Total Activity Index** posted 49.7, up fractionally from 49.5 in February but still below the 50.0 no-change threshold. The sustained decline in total construction activity represented the first back-to-back fall in output levels since August 2016, although the rate of decline remained only marginal in March.

Commercial construction was the worst performing area during the latest survey period, with business activity dropping to the greatest extent since March 2018. There were widespread reports that Brexit uncertainty and concerns about the domestic economic outlook had led to risk aversion among clients. Civil engineering activity also fell in March, although the rate of decline eased since February.

Residential building bucked the downward trend seen across the wider construction sector in March. The latest upturn in housing activity was only modest, but still the strongest seen so far in 2019.

March data revealed a marginal increase in new work received by UK construction companies, with the rate of

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



expansion remaining subdued in comparison to the long-run survey average. Survey respondents commented on intense competition for new work and a reluctance among clients to commit to major spending decisions in March. Mirroring the trend for new orders, latest data also highlighted only a modest rise in staffing levels at UK construction companies.

Input buying rebounded slightly in March, followed a decline during the previous survey period. Some firms commented on stock building efforts as part of their Brexit preparations, which helped to boost purchasing activity. Meanwhile, suppliers' delivery times lengthened markedly in March, which survey respondents attributed to low stocks and stretched capacity among vendors.

Average cost burdens increased at a sharp and accelerated pace during March. The rate of input price inflation was the fastest since November 2018. Higher raw material costs were attributed to the weak sterling exchange rate and, in some cases, shortages of available items among regular suppliers.

Meanwhile, business optimism edged up from the four-month low seen during February. However, the degree of positivity remained much weaker than the long-term survey average. A number of construction companies noted that economic and political uncertainty had weighed on business expectations for the next 12 months.

COMMENT

Joe Hayes, Economist at IHS Markit, which compiles the survey:

"Fears that the recent weakness of the UK construction sector may not be just a blip, but a sustained soft patch, were further fuelled by latest data. Amid subdued inflows of new work, a first back-to-back decline in output since August 2016 was recorded. Brexit-related uncertainty continued to generate indecisiveness, ultimately hitting order book volumes. Furthermore, strong competition for contracts was also reported by some panel members. The outlook was subsequently underwhelming by historical standards, with the unsettled political and economic environment keeping business confidence below its long-run average.

"Nevertheless, UK construction businesses ramped up their purchases of materials and other inputs, reflecting efforts to build safety stocks ahead of any potential Brexit-related disruptions. As such, supply chain constraints persisted and average input lead times lengthened once again."

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

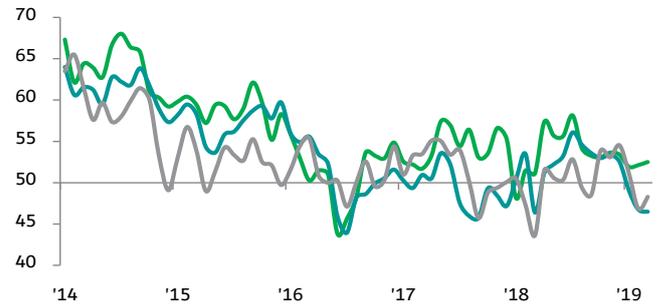
"The situation in the UK construction sector was broadly unchanged from February, with PMI data posting a second consecutive month in contraction. The fault of this continuing inertia was placed squarely at the feet of Brexit.

"Not a small rise in job creation, optimism and new orders, nor resilient house building, were enough to buck the underlying downward trend in a sector suffering from client hesitation and consumer gloom. There was also intense competition from other sectors, with the stockpiling of supplies increasing delivery times again and creating raw material shortages, all adding to the pressures. Given the lack of warehousing space in the UK and the difficulties of storing bulky items, it is evident the sector has pressed the panic button in its attempt to keep projects moving during the political impasse.

"It is unlikely that next month will bring about any positive news given the challenges of a weaker UK economy, volatile pound and intense competition for new orders, as Brexit continues to cast a long shadow over the sector's future."

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 2019 data were collected 12-28 March 2019.

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

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