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IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Construction output falls at slowest pace since May 2019

KEY FINDINGS

New orders close to stabilisation in January

Construction firms report a boost from receding political uncertainty

Business optimism rebounds to its highest since April 2018

January data pointed to a much slower decline in UK construction output than that seen at the end of 2019. New business volumes were also close to stabilisation, which contrasted with the sharp falls seen in the final quarter of last year. Survey respondents widely commented on a boost to client demand from receding political uncertainty.

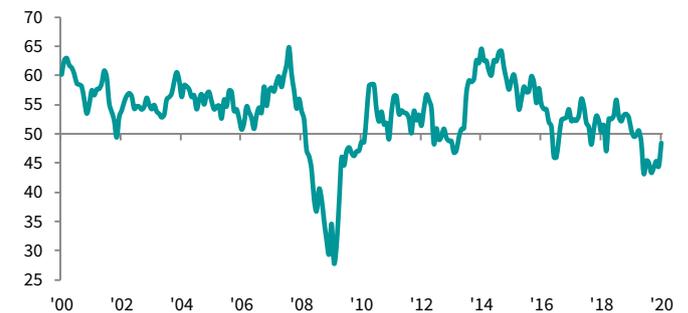
Looking ahead, construction companies are now the most optimistic about their growth prospects since April 2018. A number of firms noted that clients' willingness to spend had picked up after the general election, which should translate into rising workloads over the course of 2020.

The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index rebounded from 44.4 in December to 48.4 in January. The latest reading was still below the 50.0 no-change threshold, but signalled the slowest fall in overall construction output for eight months.

House building was the best performing broad area of construction activity, with output falling only slightly in January. Mirroring the overall construction output trend, residential work fell at the slowest pace since May 2019.

Commercial activity decreased for the thirteenth consecutive month in January, but the rate of contraction was much weaker than in December and the softest since the start of 2019. A number of survey respondents noted that reduced domestic political uncertainty had the potential to unlock new projects and provide an additional boost to

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



Source: IHS Markit / CIPS.

client spending. Meanwhile, civil engineering was the worst performing category of output in January, with construction firms often citing a lack of tender opportunities to help replace completed infrastructure contracts.

January data indicated only a slight drop in new orders received by construction companies. The rate of new business contraction eased sharply since December and was the least marked in the current ten-month period of decline. Anecdotal evidence suggested that greater clarity in relation to Brexit following the general election had a positive impact on demand, especially in the residential development category.

The latest survey pointed to a modest degree of pressure on supply chain capacity, with lead-times from vendors lengthening slightly despite a drop in purchasing volumes at the start of 2020. That said, sub-contractor availability improved for the first time since last September and at the fastest pace for three-and-a-half years.

Average cost burdens increased at a robust and accelerated pace in January. The latest rise was the sharpest since July 2019. Survey respondents commented on higher fuel and haulage costs, alongside increased prices for imported construction inputs.

COMMENT

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

"The construction sector downturn lost intensity in January amid slower reductions in house building, commercial work and civil engineering activity. Measured overall, the latest dip in construction output was much shallower than in December, with survey respondents often commenting on improved willingness to spend among clients since the general election.

"Commercial work dropped at the slowest pace since the start of 2019 and was the main beneficiary of receding political uncertainty. UK construction companies also commented on signs of a turnaround in demand conditions across the residential development category during January. Civil engineering remained the weakest performing area of construction work as firms across the supply chain cited a lack of opportunities to replace completed contracts.

"Despite concerns about prospects for work on infrastructure projects, latest data revealed a strong rebound in business optimism across the construction sector as a whole in January. The degree of positivity reached its highest level since April 2018, driven by hopes that improving confidence among clients will continue to translate into new contract awards over the course of 2020."

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

"With the strongest optimism since April 2018, construction firms were more upbeat in January as the downturn in business activity slowed, the trend improved for new work and job losses steadied to August 2019 levels, all signalling a moderation in the sector's contraction.

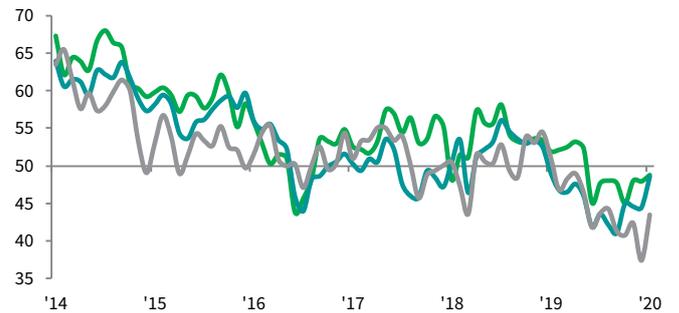
"Though the overall Index still registered below the no-change neutral mark, the signs are good that the sector is building up momentum for the year ahead and recovering some losses in new work which will ease concerns that the last bout of uncertainty has inflicted irreparable damage on the sector. The housing sector in particular was the strongest performer, with the best result since May 2019.

"Job losses are still in evidence overall and with an increase in sub-contractor use, it appears the sector is looking for short-term fixes to manage current workloads. Construction firms are not yet ready to scale up plans to increase workforces in the coming months without a stronger economic and political recovery clearly in sight.

"So, though this rebound is a welcome sign, as with all sudden improvements, the danger remains the sector could easily recoil and shrink again. The domestic political situation and the UK's attempt to find its place in the world remains littered with obstacles so businesses could find themselves on this see-saw of good and bad news for some time yet."

Activity Index by construction category
 Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



CONTACT

IHS Markit

Katherine Smith
 Public Relations
 T: +1 781 301 9311
katherine.smith@ihsmarkit.com

CIPS

Trudy Salandiak
 Corporate Communications
 T: +44-1780-761576
trudy.salandiak@cips.org

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.

January data were collected 13-30 January 2020.

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

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