

## News Release

**Purchasing Managers' Index®**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL 0930 (London / UTC) November 2<sup>nd</sup> 2016**

### Markit/CIPS UK Construction PMI®

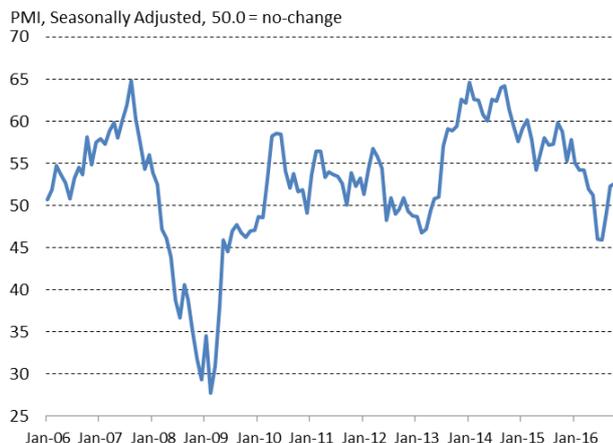
#### Construction output rises in October, driven by housing activity

##### Key findings:

- Business activity increases at fastest pace since March
- Residential work remains key growth engine
- Input price inflation close to its highest since mid-2011

Data collected October 12-28

##### Markit/CIPS UK Construction PMI:



Source: IHS Markit/CIPS

##### Summary:

UK construction companies recorded a sustained expansion of overall business activity in October, led by another solid increase in residential work. New order volumes also picked up across the construction sector, but the rate of growth eased since September and remained weaker than seen prior to this summer. This contributed to a drop in business confidence regarding the year-ahead growth outlook, with the latest reading the second-lowest since May 2013. At the same time, input

costs rose at one of the fastest rates seen over the past five years, which survey respondents widely linked to the weaker pound.

At 52.6 in October, the seasonally adjusted **Markit/CIPS UK Construction Purchasing Managers' Index® (PMI®)** edged up from 52.3 in September and remained above the 50.0 no-change threshold for the second month running. The latest reading pointed to the fastest upturn in activity since March, although the rate of growth was only modest and still much softer than the average since the recovery began three-and-a-half years ago (57.3).

**Housing activity** remained the key growth driver across the construction sector in October. Latest data signalled a solid increase in residential building work, and the pace of expansion was only slightly weaker than September's eight-month peak. There was also a stabilisation in **commercial construction** activity during October, while **civil engineering** decreased slightly and was the weakest performing broad category of activity.

**New business** growth was only moderate in October and still much weaker than seen during the first quarter of 2016. Some firms noted that Brexit-related uncertainty had continued to act as a brake on client confidence and resulted in delayed spending decisions. Nonetheless, construction companies reported a further upturn in their **staffing levels** and **purchasing activity** during the latest survey period. The rise in input

buying was the fastest since March, which contributed to a sharper deterioration in **supplier performance** in October.

**Input prices** increased at the second-fastest rate since July 2011 (exceeded only by the rise in costs reported this August). Anecdotal evidence suggested that suppliers had sought to pass on higher imported raw material prices following the sharp depreciation of sterling against the US dollar and euro. Some construction companies also pointed to greater transportation costs in October.

## Comments

**Tim Moore, Senior Economist at IHS Markit** and author of the **Markit/CIPS Construction PMI®**, said:

*“The UK construction sector has started the fourth quarter in a positive fashion, with the latest survey data revealing a moderate rebound from the downturn seen during the summer.*

*“Construction growth was dependent on a solid recovery in residential work, as civil engineering and commercial building struggled for momentum in October.*

*“While business activity has picked up since the third quarter, the recent phase of new order growth has been the weakest for three-and-a-half years. Survey respondents noted that Brexit-related uncertainty and concerns about the UK economic outlook had held back investment spending.*

*“Subdued new order intakes contributed to a fall in construction sector business confidence for the first time since July. At the same time, a sharp pace of input price inflation added to construction firms’ anxieties about the year-ahead business outlook, with higher costs overwhelmingly linked to supplier price hikes in response to the weak pound.”*

Looking ahead, the number of construction firms expecting a rise in **business activity over the next 12 months** (43%) continued to exceed those that forecast a reduction (14%). However, the latest reading was down markedly since September and the second-lowest since May 2013. A number of survey respondents cited the impact of Brexit uncertainty on investor sentiment, alongside reduced confidence towards the general economic outlook.

**David Noble, Group Chief Executive Officer at the Chartered Institute of Procurement & Supply**, said:

*“Housing proved to be the most resilient driving force behind the continued moderate expansion of activity – the fastest since March, but, the level of new order growth was at a weaker level than seen earlier in the year.*

*“Supplier performance deteriorated slightly reflecting the ongoing trend of low stocks seen in the last few months, as the level of input buying increased at its fastest rate since March.*

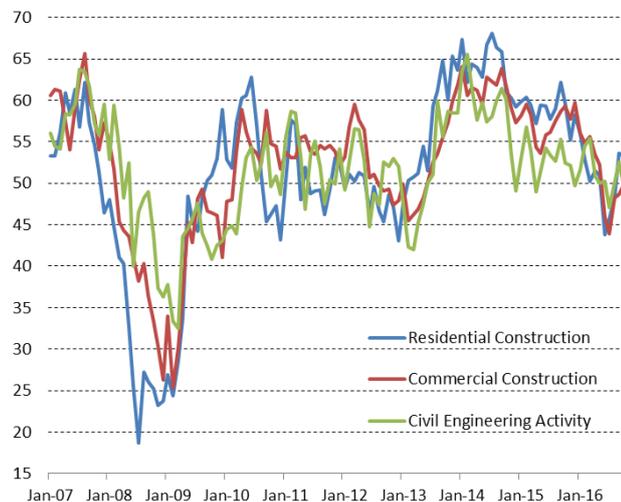
*“A rise in input prices due to the weak pound resulted in the second-fastest increase in cost pressures since mid-2011.*

*“Respondents reported a squeeze on margins, while increased marketing and new projects helped counteract the continuing uncertainty surrounding the Brexit aftermath. Coupled with concerns around the longer-term performance of the UK economy, this dampened overall business optimism to its second-lowest level since May 2013.”*

– Ends –

## UK Construction PMI® by Category of Activity

PMI, Seasonally Adjusted, 50.0 = no-change



Source: IHS Markit/CIPS

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### Note to Editors:

Where appropriate, please refer to the survey as the Markit/CIPS UK Construction PMI®.

**The Purchasing Managers' Survey** is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 170 construction companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to GDP. The survey is based on techniques successfully developed in the USA over the last 60 years by the National Association of Purchasing Management. It is designed to provide one of the earliest indicators of significant change in the economy, being issued on the first working day of each month. The data collected are not opinion on what might happen in the future, but hard facts on what is actually happening at "grass roots" level in the economy. As such the information generated on economic trends pre-dates official government statistics by many months.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) and seasonally adjusted numbers are available to subscribers from Markit. Please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

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