

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) September 4th 2017

IHS Markit/CIPS UK Construction PMI®

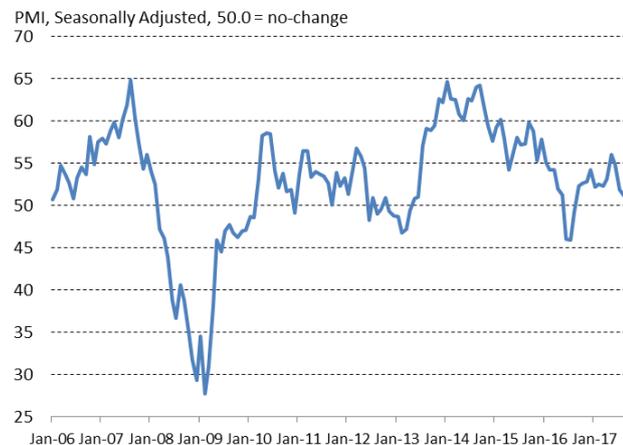
Weakest upturn in UK construction output for 12 months in August

Key findings:

- Marginal increase in overall construction activity
- Robust rise in house building offset by marked fall in commercial work
- New business declines for the second month running

Data collected August 11-30

IHS Markit/CIPS UK Construction PMI:



Source: IHS Markit/CIPS

Summary:

August survey data indicated that the UK construction sector continued to experience a slowdown this summer. Reduced levels of commercial work were a key source of weakness, which offset robust growth in residential building.

There were also signs of a sustained soft patch ahead, with new business volumes falling for the second month running. Survey respondents linked subdued demand to reduced business investment and heightened economic uncertainty. As a result,

construction firms exerted greater caution in terms of their staff hiring, with employment numbers rising at the slowest pace since July 2016.

At 51.1 in August, the seasonally adjusted **IHS Markit/CIPS UK Construction Purchasing Managers' Index® (PMI®)** remained above the 50.0 no-change threshold for the twelfth month running. However, the latest reading was down from 51.9 in July and pointed to the weakest overall UK construction performance since August 2016. A key reason for the slowdown was a lack of new orders to replace completed projects, according to the survey respondents.

Residential building was the only area to buck the overall trend in August, with housing activity rising at a robust and accelerated pace since the previous month. Meanwhile, **civil engineering activity** was close to stagnation and **commercial work** dropped at the fastest pace since July 2016. Reports from survey respondents widely suggested that concerns about the UK economic outlook had weighed on the commercial development sector, with clients opting to delay spending decisions and, in some cases, scale back planned projects.

Total **new order volumes** dropped for the second month running in August, although the rate of contraction was only marginal and slower than seen in July. Survey respondents continued to cite reluctance to commit to new construction projects, linked to general economic uncertainty and less favourable market conditions.

Mirroring the subdued trends for business activity and incoming new work, latest data revealed a slowdown in **job creation** to its weakest since July

2016. Construction firms also recorded a decline in **sub-contractor usage**, which continued the downward trend seen since March.

Supply chain pressures persisted in August, despite stagnation in **input buying**. Longer **delivery times** were linked to ongoing stock shortages among vendors.

Comments

Tim Moore, Associate Director at IHS Markit and author of the **IHS Markit/CIPS Construction PMI®**:

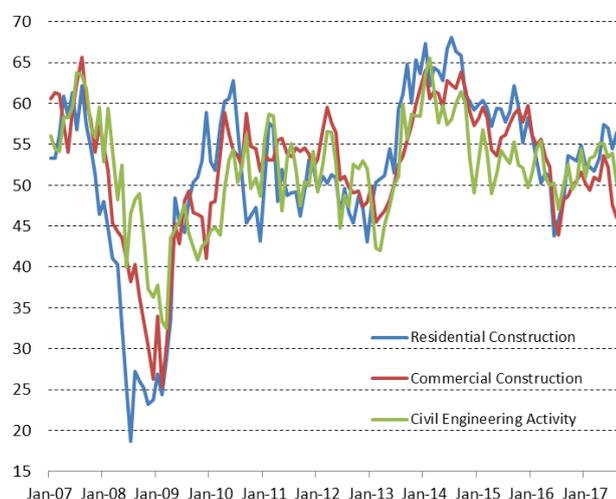
“UK construction companies indicated that lacklustre growth conditions persisted during August. Civil engineering work stagnated, which meant that the construction sector was reliant upon greater house building activity to deliver an outright expansion in output volumes. Commercial development remained by far the worst performing category, with business activity falling at the fastest pace since July 2016.

“Survey respondents noted that subdued business investment and concerns about the UK economic outlook had led to a lack of new work to replace completed projects, especially in the commercial building sector.

“There were signs that UK construction firms are bracing for the soft patch to continue into this autumn, with fragile business confidence contributing to weaker trends for job creation and input buying during August.”

UK Construction PMI® by Category of Activity

PMI, Seasonally Adjusted, 50.0 = no-change



Source: IHS Markit/CIPS

On a more positive note, **cost pressures** were the weakest since September 2016. Survey respondents noted that exchange rate depreciation continued to drive up prices for construction materials, but some commented on successful negotiations with suppliers against a backdrop of softer market conditions.

Duncan Brock, Director of Customer Relationships at the Chartered Institute of Procurement & Supply, said:

“The sector hit a roadblock this month as purchasing activity slowed for the third month and new business wins were hard to come by. Reduced Government spending, economic uncertainty and Brexit-delayed decision-making among clients were largely to blame.

“The struggling commercial sector drove this disappointment, languishing under the pressure with the fastest drop in activity in over a year. Job creation was nothing to shout about and showed signs of a slowdown, as companies reined back additional spending.

“But any further drag on the construction sector overall was halted by the continuing strong performance by housebuilders, defying expectations with a good month. The sector was also offered some respite from the ongoing march of rising prices as input price inflation weakened.

“This good fortune in prices is unlikely to continue as suppliers scramble to match the demand for an increasing number of materials in short supply and delivery times lengthened. Price rises will become inevitable if builders have to compete to get what they need.

“In the near-term future, without those new orders waiting in the wings, the performance of the construction sector is likely to continue to be downbeat.”

– Ends –

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Note to Editors:

Where appropriate, please refer to the survey as the IHS 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com

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