News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit/CIPS UK Construction PMI®

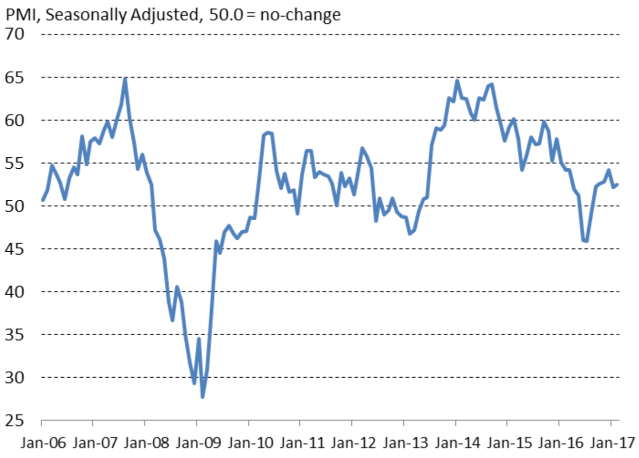
Modest rise in construction output, but cost pressures remain at an eight-and-a-half year high

Key findings:

- Solid upturn in civil engineering activity underpins growth in February
- House building activity expands at slowest pace for six months
- Input price inflation little-changed from January's peak

Data collected February 10-27

Markit/CIPS UK Construction PMI:



Source: IHS Markit/CIPS

Summary:

UK construction companies recorded a sustained expansion of overall business activity in February, with civil engineering replacing house building as the main growth driver. Residential activity increased at the slowest pace for six months, while commercial building declined for the first time since October 2016. The latest survey revealed a further solid expansion of employment numbers, despite a slowdown in new business growth to its weakest for four months. Meanwhile, intense cost inflation persisted in February, which was overwhelmingly linked to higher prices for imported materials.

At 52.5 in February, up slightly from 52.2 in January, the seasonally adjusted **Markit/CIPS UK Construction *Purchasing Managers' Index® (PMI®)*** registered above the neutral 50.0 threshold for the sixth consecutive month. However, the rate of output growth remained weaker than its post-referendum peak (54.2 in December 2016) and subdued in comparison to the trends seen over the past three-and-a-half years.

Survey respondents noted that the resilient economic backdrop and a stabilisation in client confidence since the EU referendum continued to help drive construction growth in February. However, there were also reports that demand growth had softened so far in 2017. Reflecting this, incoming new work increased only marginally and at the slowest pace since last October. Some construction companies noted that sharply rising input costs had an adverse impact on decision-making and contributed to delays in contract completions.

February data indicated that construction companies remain upbeat about their growth prospects for the next 12 months, with almost half (48%) forecasting a rise in business activity and only 13% expecting a decline. The degree of positive sentiment was stronger than seen on average in the second half of

2016, but weaker than January's 13-month peak. Strong demand for house building projects was cited as a key factor likely to boost construction output.

Robust business confidence contributed to sustained staff hiring across the construction sector in February. Sub-contractor demand also picked up during the latest survey period, which contributed the sharpest drop in sub-contractor availability since January 2016.

Input buying increased again in February, although the rate of expansion was only marginal. Greater pressure on supplier capacity led to the sharpest deterioration in vendor performance since June 2015. Construction companies also reported the second-fastest rise in input costs since August 2008. Survey respondents noted higher prices for a range of materials, driven by the weak sterling exchange rate against the U.S. dollar and euro.

Comments

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

"February's survey data highlights that the UK construction sector has rebounded from its post-referendum soft patch but remains on a relatively slow growth trajectory. Weaker momentum in the house building sector was a key factor weighing on construction growth, alongside a renewed fall in work commercial projects.

"There was little sign that the UK storms had a material impact on construction growth in February, although some firms noted that longer delivery times for roof tiles had added to supply chain issues. Instead, survey respondents mainly cited an underlying slowdown in sales growth, with the latest rise in new work the weakest for four months. In some cases, construction companies reported that sharply rising input prices had a disruptive impact on contract negotiations.

"February data revealed that input cost inflation remained at levels last seen in the summer of 2008. Suppliers' efforts to pass on rising energy costs and global commodity prices have been amplified by the weak sterling exchange rate."

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

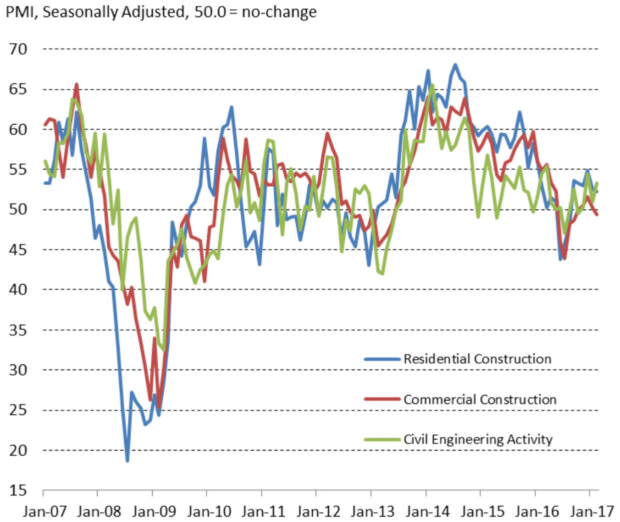
"Suppliers were challenged this month as they groaned under the weight of higher demand and some material shortages, with the sharpest drop in performance since June 2015. This impacted on the sector's overall pace of activity, as delivery times lengthened for bricks, blocks and roofing tiles.

"Housing was singled out as a drag with its weakest performance for six months. As a previous driver of growth, there will be concerns about this softening of house building activity. The drop in sub-contractor availability was the largest seen since January 2016, against a backdrop of rising employment numbers across the construction sector, which will add to worries around labour market capacity as we move along the path to Brexit.

"But overall, the sector's optimism was still high as workloads remained strong, propped up by the prospect of new projects and repeat business. Though the level of new orders was modest, it is the relentless and brutal rise in prices for construction materials, combined with the impact of the weaker pound, that could block the sector's progress in the coming months."

– Ends –

UK Construction PMI® by Category of Activity



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

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Purchasing Managers' Index® (*PMI*®) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/product/pmi.

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