

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London / UTC) November 2nd 2017

IHS Markit/CIPS UK Construction PMI[®]

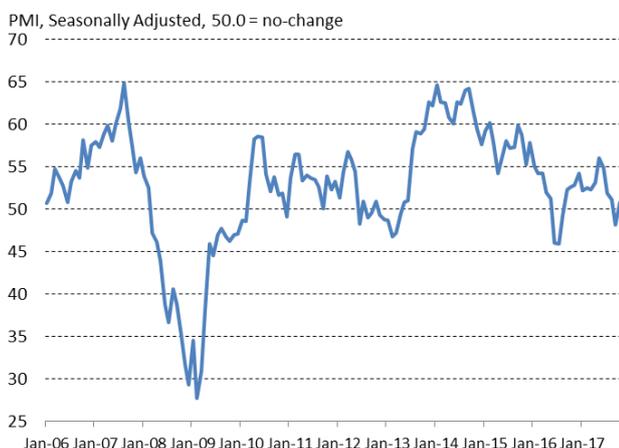
Construction activity rises slightly in October, but optimism falls to lowest for almost five years

Key findings:

- Marginal upturn in construction output, led by housing activity
- Civil engineering and commercial building decline again in October
- Confidence regarding 12-month outlook drops to weakest since December 2012

Data collected October 12-30

IHS Markit/CIPS UK Construction PMI:



Source: IHS Markit/CIPS

Summary:

UK construction companies signalled that business conditions remained subdued during October. Output growth was largely confined to house building, which partly offset lower volumes of civil engineering and commercial activity. Moreover, the balance of construction firms expecting an increase in business activity over the next 12 months eased to

its weakest since December 2012. Caution in terms of the outlook for construction workloads meant that employment numbers increased at one of the slowest rates seen over the past four years.

At 50.8 in October, up from 48.1 in September, the seasonally adjusted **IHS Markit/CIPS UK Construction Purchasing Managers' Index[®] (PMI[®])** moved back above the 50.0 no-change mark. However, the latest reading was weaker than the post-crisis trend (54.7) and signalled only a marginal rise in overall construction output.

Commercial building decreased for the fourth month running in October, which survey respondents liked to worries about the UK economic outlook and subsequent delays to decision-making among clients. **Civil engineering** was the worst performing sub-category, with some firms citing a lack of big-ticket infrastructure projects to replace completed contracts.

A solid increase in **residential building** work underpinned the slight upturn in overall construction output during October. The latest rise in housing activity was faster than in September, but still subdued in comparison to the average for 2017 to date.

October data pointed to a marginal increase in **new work** across the construction sector, thereby ending a three-month period of decline. However, the rate of new order growth remained weaker than recorded at any time from mid-2013 to early last year. Survey respondents generally cited fragile client demand,

with heightened economic and political uncertainty acting as a brake on growth.

The index measuring construction firms' **expectations for business activity** over the year ahead signalled that optimism dipped to a 58-month low in October. Anecdotal evidence widely linked the drop in confidence to concerns about UK economic prospects and a lack of new projects in the pipeline. As a result, **job creation** remained subdued in October and input buying increased only marginally.

Comments

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

“Greater house building was the sole bright spot in an otherwise difficult month for the construction sector. Sustained declines in civil engineering and commercial activity meant that large areas of the building industry have become stuck in a rut.

“Reduced tender opportunities and fragile demand are placing a dark cloud over the near-term outlook. October survey data indicated that UK construction companies are now the least confident about their forthcoming workloads since December 2012. Staff recruitment has also begun to tail off as construction companies head into the winter with heightened concern about demand conditions.

“The recent soft patch for civil engineering activity has been the most severe for around four-and-a-half years, linked to a shortfall of new contracts to replace completed work on infrastructure projects.

“Commercial building also fell in October, with survey respondents noting that concerns about near-term UK economic prospects had impacted on private investment and led to delayed spending decisions.

“Residential work has been a key growth engine for construction so far in 2017. However, some firms commented on renewed apprehension about the durability of house building outperformance, which has been achieved against a backdrop of sustained policy support and ultra-low interest rates.”

Intense **supply chain pressures** were recorded again in October, driven by low stocks and constrained capacity among vendors. Some firms noted that a recovery in demand for construction products across the euro area had added to cost pressures, alongside the weaker sterling exchange rate. **Input prices** increased sharply, but the rate of inflation remained softer than the near six-year peak seen at the start of 2017.

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

“Though construction orders have shown a small improvement for the first time in four months, the sharp fall in business confidence will send a chill down the spine.

“With the lowest optimism since December 2012, purchasing managers blamed a slowdown in work from commercial clients, vanishing civil engineering projects and an increasing weariness over Brexit for the lack of performance, weak pipelines and slowdown in job hires.

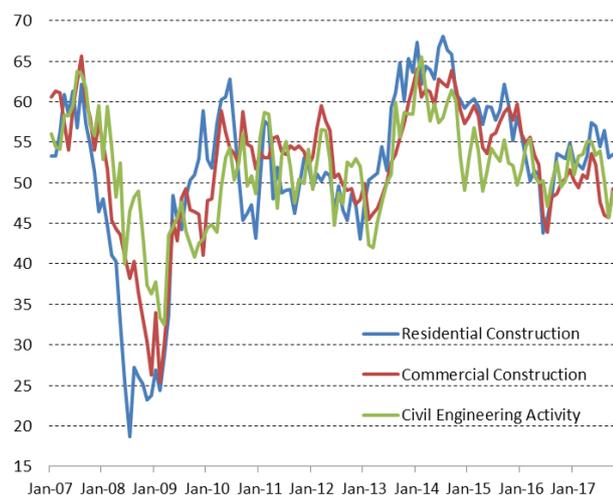
“Supply chains were under the cosh again this month, as buyers struggled to get the materials and products they needed due to low stocks and squeezed supply, exacerbated by increased construction demand in the Eurozone. There were also reports of increasing shortages in some raw materials which slowed work already underway.

“Housing continued to show the strongest foundations and is set to be the main driver of growth in the coming months but the prospect of softer consumer demand and rising costs will impact. Any heavy reliance on residential building alone would be foolhardy with interest rate rises on the horizon and availability of skilled workers lacking in the sector, unless the Chancellor pulls a rabbit out of the hat and supports the training of new construction workers, the pound recovers some stability and a surge of supply capacity become available.”

– 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 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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