

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) October 3rd 2017

IHS Markit/CIPS UK Construction PMI[®]

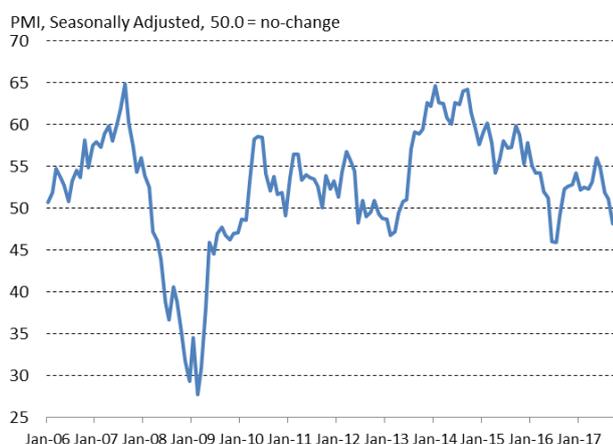
UK construction sector moves back into reverse gear during September

Key findings:

- Business activity falls for first time in 13 months
- Sharpest drop in civil engineering work since April 2013
- New orders and input buying drop in September

Data collected September 12-28

IHS Markit/CIPS UK Construction PMI:



Source: IHS Markit/CIPS

Summary:

September data revealed a difficult month for the UK construction sector, as a sustained drop in new work led to the first reduction in overall business activity since August 2016. Survey respondents attributed the drop in workloads to fragile confidence and subdued risk appetite among clients, especially in the commercial building sector.

The seasonally adjusted **IHS Markit/CIPS UK Construction Purchasing Managers' Index[®] (PMI[®])** registered 48.1 in September, down from

51.1 in August and below the crucial 50.0 no-change threshold for the first time in 13 months. The latest reading signalled the fastest decline in overall construction output since July 2016.

Lower volumes of construction work reflected marked falls in both commercial and **civil engineering** activity during September. The reduction in civil engineering work was the steepest for almost four-and-a-half years, which some firms linked to a lack of new infrastructure projects to replace completed contracts.

The latest decline in work on **commercial development** projects was the second-sharpest since February 2013 (exceeded only by the post-EU referendum dip seen last July). Survey respondents widely commented on a headwind from political and economic uncertainty, alongside extended lead times for budget approvals among clients.

House building was the only broad area of construction activity to register an expansion in September. However, growth momentum eased to a six-month low amid reports citing worries about less favourable market conditions ahead.

New business volumes dropped for the third month running in September, thereby suggesting a continued shortage of work to replace completed construction projects. Aside from the downturn seen around the EU referendum last year, the current period of decline is the longest recorded since early-2013. More subdued demand led to another fall in **sub-contractor usage** and a relatively weak rate of **job creation** among construction firms during September.

Input buying decreased for the first time in six months, largely in response to reduced workloads across the sector. Lower demand for materials helped to alleviate some strain on supply chains, as **delivery times from vendors** lengthened to the lowest extent since November 2016. Construction companies continued to face headwinds from rising **input costs**, with higher prices for imported materials helping to drive up inflationary pressures to a seven-month high.

Comments

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

“A shortfall of new work to replace completed projects has started to weigh heavily on the UK construction sector. Aside from the soft patch linked to spending delays around the EU referendum, construction companies have now experienced their longest period of falling workloads since early-2013.

“Fragile client confidence and reduced tender opportunities meant that growth expectations across the UK construction sector are also among the weakest for four-and-a-half years. At the same time, cost pressures have intensified, driven by supply bottlenecks and rising prices for imported materials.

“Commercial development has been the worst performing category in recent months. Construction firms attributed falling volumes of commercial work to subdued business investment and reduced risk appetite among clients, linked to heightened economic and political uncertainty.

“Civil engineering work decreased at its fastest pace since April 2013, which prompted concerns from survey respondents about a near-term lack of new infrastructure projects.

“House building slipped down a gear in September, which highlighted that fragile confidence has spread across all three key market segments. Some firms suggested that the loss of momentum for residential construction reflected worries about the outlook for ultra-low mortgage rates and less upbeat demand expectations.”

Fragile demand conditions appeared to weigh on construction firms' **expectations for growth** in the next 12 months. The latest survey indicated that business optimism eased to its second-lowest since April 2013. A number of firms cited concerns about UK business investment prospects, linked to uncertainty around the path to Brexit.

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

“A dismal picture of construction emerged this month as the sector showed signs of worsening business conditions across the board. With the biggest contraction in overall activity since July 2016, and a drop in new orders, optimism was in short supply.

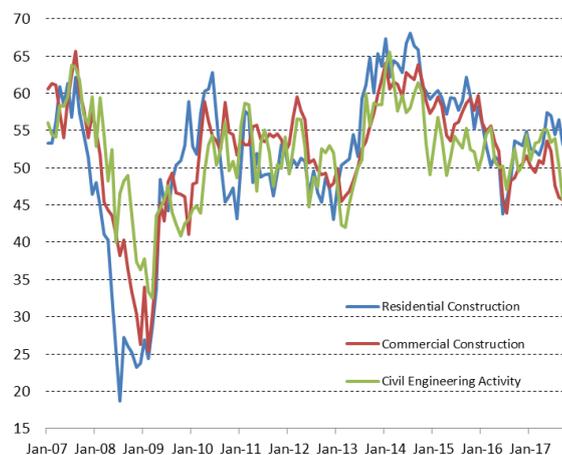
“Respondents pointed to obstructive economic conditions and the Brexit blight of uncertainty, freezing clients into indecision over new projects. Even housing, the stalwart of the construction sector stuttered with a dwindling performance, but civil engineering was the biggest victim falling to its weakest level for four and a half years.

“The contagion continued all along the supply chain as material shortages placed a strain on delivery times and increased commodity prices were affected by the weak pound. Despite a marginal increase in employment figures, this wasn't enough to dispel the descending autumnal gloom where it is unclear where any major shift in momentum for the sector will come in the next few months.”

– 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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