

News Release

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

UK construction sector slowdown continues in May amid first drop in new orders since April 2013

Key points:

- Marginal overall rise in business activity
- Incoming new work declines for the first time in over three years
- Input buying stagnates in May, but job hiring hits four-month high

Markit/CIPS UK Construction PMI®

PMI, Seasonally Adjusted, 50.0 = no-change



UK construction firms experienced another difficult month overall in May, with output growth easing to its weakest for almost three years and incoming new work declining for the first time since April 2013. Survey respondents noted a general slowdown in market conditions and delays to client decision making ahead of the EU referendum.

However, there were signs that construction companies remain relatively upbeat about the growth outlook, with more than half of the survey panel (51%) expecting a rise in output over the next 12 months and only one-in-seven (14%) anticipating a fall. As a result, job creation picked up in May and reached a four-month high.

The seasonally adjusted **Markit/CIPS UK Construction Purchasing Managers' Index® (PMI®)** posted 51.2 in May, down from 52.0 in April and only slightly above the critical 50.0 no-change mark. The latest reading signalled the weakest overall rise in business activity for almost three years. All three broad areas of construction activity were stuck in a low gear during May. Residential building work increased at one of the weakest rates seen since early-2013, while growth of commercial activity was the slowest for nearly three years. Civil engineering stagnated in May, which made it the worst performing sub-category of activity for the second month running.

May data signalled an outright reduction in new order volumes for the first time since April 2013. Anecdotal evidence pointed to a general lack of client confidence, driven by heightened uncertainty about the economic outlook. Moreover, a number of firms noted reluctance among clients to place orders and commence contracts until after the EU referendum.

According to a special question added to the survey this month, around one-third of respondents have seen a detrimental impact on their business from uncertainty regarding the forthcoming vote. Further details are provided in the research note following this press release.

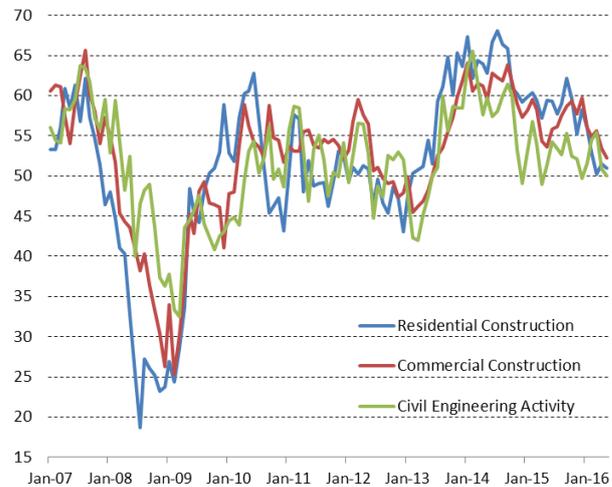
A reduced flow of incoming new work contributed to cautious stock policies and input buying at construction firms in May. Reflecting this, the latest survey pointed to stagnation in purchasing activity across the construction sector. However, staff hiring was maintained in May, which marked three years of continuous job creation. The latest increase in payroll numbers was the fastest since January, which construction companies linked to new project starts and high levels of orders-in-hand.

Meanwhile, construction firms noted a moderate deterioration in supplier performance, continuing the downward trend seen since September 2010. A robust pace of input price inflation was also recorded in May, although the latest rise in average cost burdens was slower than April's nine-month high.

Looking ahead, UK construction firms are upbeat overall about the year-ahead outlook, with just over half of the survey panel forecasting a rise in output. The degree of optimism was up fractionally since April, but still at one of the lowest levels seen over the past three years. Survey respondents linked this to heightened economic uncertainty and concern that softer market conditions will persist into the second half of 2016 (especially in the housing sector).

UK Construction PMI[®] by Category of Activity

PMI, Seasonally Adjusted, 50.0 = no-change



Source: Markit/CIPS

Comment:

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

“Construction companies are facing a challenging second quarter of 2016, with growth headwinds apparent across all three key areas of activity. May data signalled the worst month for commercial building since June 2013, while residential work and civil engineering activity both saw a renewed loss of momentum.

“Survey respondents noted that the forthcoming EU referendum has disrupted new order flows and the timing of client decision making in particular. Heightened uncertainty and subdued general economic conditions in turn contributed to the first outright fall in new work received by construction firms for just over three years.

“The main positive aspect was a pick-up in staff hiring to its fastest since the beginning of the year. Positive employment trends not only contrasted with falling new order volumes in May, but the gap between these indices was the largest since the survey began in 1997.

“An optimistic interpretation is that construction firms are looking through the second quarter weakness and feel that workloads will recover momentum. However, should this fail to materialise later in 2016, then job creation is likely to come under pressure given its elevated trend relative to current demand patterns.”

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

“The sector appeared to have taken residence in a waiting room of non-activity, as continuing poor global economic conditions and uncertainty around the EU referendum impacted growth and new orders.

“Supplier performance degraded and continued its downwards trend which began in September 2010. Purchasing activity ground to a virtual standstill.

“The chink of light appeared to be the industry’s optimism for the future and an indication that that this may be a short-term situation as employment continued to rise to a four-month high and job creation has been continuous for three years. Once again the industry holds its breath to see what the coming months will bring as housing sector growth in particular remains weak.”

– Ends –

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Notes 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@markit.com

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About PMI

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/economics.

About CIPS

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Special Question on EU Referendum

Around one-in-three construction firms report detrimental impact on business performance from 'Brexit' uncertainty

Uncertainty with regards to the outcome of the forthcoming EU referendum is having a detrimental impact on the current business performance of around one-third of UK construction companies. This is according to the responses provided by PMI panellists to a special question added to the May Markit/CIPS UK Construction PMI survey.

When asked whether the issue of the UK's potential exit from the European Union is currently having an impact on their business, some 30% of surveyed companies that answered the question commented on a 'detrimental' effect, while a further 5% indicated that the impact was 'strongly detrimental'. Conversely, just 1% reported a 'strongly beneficial' effect.

Over half (55%) noted no significant impact, while one-in-eleven respondents were unsure whether 'Brexit' worries were a factor impacting on their business (9%).

Looking at the nature of the impact on construction firms, nearly one-third of respondents commented that Brexit 'uncertainty' was making it difficult to make business decisions (32%), with a similar proportion noting an adverse impact on their sales (around 34% of construction firms indicated a detrimental impact in this area).

Only a small minority (16%) of construction companies reported that costs were also being adversely affected by the EU referendum uncertainty, while around one-in-four (26%) commented on a detrimental impact on profits. Investment and planning decisions were similarly also hampered (26% of construction firms).

At the same time, the vast majority of the survey panel (73%) reported no significant effect emanating from uncertainty over 'Brexit' on their ability to hire suitable staff.

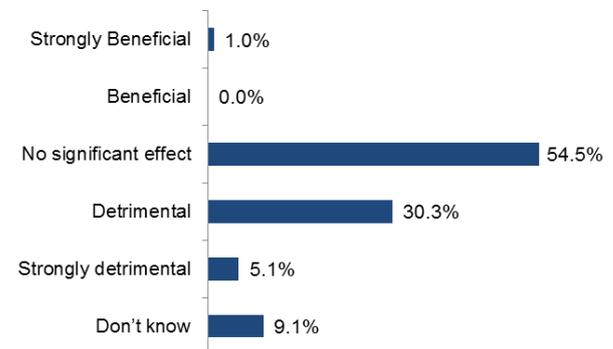
Data were collected between May 12th-27th.

Survey data on the impact of the EU referendum relating to the service sector will be published on 3rd June 2016.

Overall impact of Brexit uncertainty

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

(Sample = construction)



Nature of impact (construction)

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

- Overall impact on business
- Impact on your investment and expansion plan
- Impact on ability to hire suitable staff
- Impact on ability to make business decisions
- Impact on profits
- Impact on sales
- Impact on your costs

