

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) October 4th 2016

Markit/CIPS UK Construction PMI®

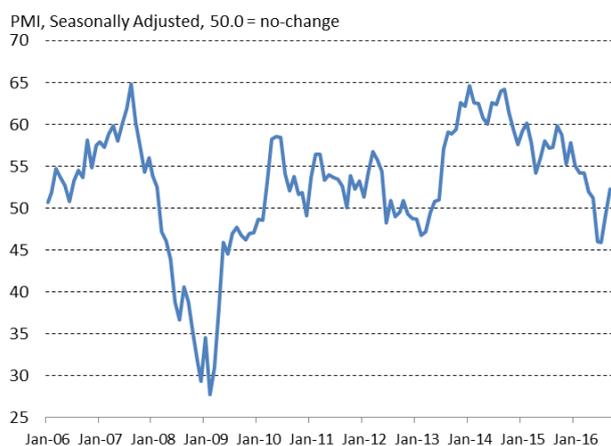
Construction sector returns to growth in September

Key findings:

- Business activity rises for the first time since May
- Solid upturn in housing activity offsets decline in commercial work
- Fastest increase in new orders for six months

Data collected September 12-29

Historical Overview:



Source: IHS Markit/CIPS

Summary:

September data highlighted an upturn in business activity across the UK construction sector for the first time since May, primarily driven by a recovery in residential building. New orders also rebounded during September, which ended a four-month period of sustained decline.

Survey respondents cited improving confidence among clients and a reduced drag on demand from Brexit-related uncertainty. Reflecting this, construction firms indicated a further recovery in their business expectations for the next 12

months, with optimism the strongest since May. Just under half of the survey panel (45%) forecast a rise in output over the year ahead, while only 9% anticipate a reduction. However, the degree of confidence remained softer than that seen at the start of 2016.

Adjusted for seasonal influences, the **Markit/CIPS UK Construction Purchasing Managers' Index® (PMI®)** registered 52.3 in September, up from 49.2 in August and above the 50.0 no-change value for the first time in four months. The latest reading was well above July's seven-year low and indicated the fastest rise in construction output since March. The pace of expansion was nonetheless still softer than the long-run survey average (54.6).

A solid rebound in **residential activity** was the key factor boosting overall construction output during September. Moreover, the latest increase in housing activity was the strongest recorded since January. A number of firms cited resilient demand for residential building work and generally improving market conditions.

Construction companies pointed to a renewed rise in **civil engineering activity**, with the pace of expansion the fastest since March. **Commercial construction activity** decreased for the fourth month running, which is the longest period of sustained decline since early-2013. However, the latest fall was only modest and the slowest recorded since the downturn began in June.

Higher levels of overall construction activity were supported by a rise in **new work** for the first time since April. Anecdotal evidence suggested that

signs of improving domestic economic conditions, and an upturn in housing-related demand in particular, had contributed to greater volumes of incoming new work in September. This in turn led to a further moderate rise in **employment levels** across the construction sector, although **sub-contractor usage** continued to fall at one of the fastest rates since late-2013.

Mirroring the positive trends seen for business activity and new work, latest survey data highlighted a return to rising **input buying** across the construction sector. Meanwhile, construction companies indicated that **supply chain pressures** eased in September, with the latest deterioration

Comments

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

“UK construction companies moved back into expansion mode during September, led by a swift recovery in residential building from the three-and-a-half year low recorded in June.

“Resilient housing market conditions and a renewed upturn in civil engineering activity helped to drive an overall improvement in construction output volumes for the first time since the EU referendum.

“A number of survey respondents noted that Brexit-related anxiety has receded among clients, although it remained a factor behind the ongoing decline in commercial building work.

“Construction firms appear reasonably optimistic about the near-term outlook, with confidence linked to the fastest rise in new orders since March and a more upbeat economic newsflow in general. However, the sector remains on a much weaker growth trajectory than seen at the start of 2016, which contrasts with the export-led surge in manufacturing production during September.

“Not only are UK construction companies feeling the impact of subdued investment spending relative to earlier this year, but the weak pound has contributed to a sharp acceleration in cost inflation. There were again widespread reports that domestic suppliers had acted quickly to pass on higher imported raw material costs, despite softer demand conditions in recent months.”

in vendor performance the least marked seen for almost six years.

There were again widespread reports that exchange rate depreciation had pushed up the cost of construction materials during September. A number of survey respondents noted that domestic suppliers had sought to pass on higher imported raw material costs. Although easing since August, the rate of **input price inflation** was close to the highest for two years.

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

“The residential sector was the winner this month, as consumer confidence made a modest recovery, post the EU referendum.

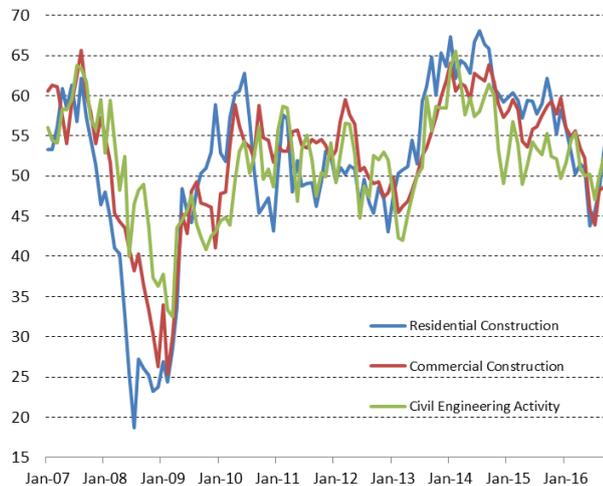
“Overall, the fastest rise in new orders for construction projects since April ended a four-month decline, and purchasing activity was at its highest since March. But, though there were modest rises in staffing levels, these were at one of the weakest rates in the last three years.

“Supplier delivery times recovered at a moderate rate, as higher stocks of building materials were reported and business optimism improved, ending a 39-month low. But, the sector still faces challenges with continuing pressures on input prices resulting from the weaker pound and the lingering uncertainty of the Brexit process and how it will impact on future business.”

– 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 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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