News Release

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S&P Global / CIPS UK Construction PMI®

Construction activity rises at fastest rate for nine months in February

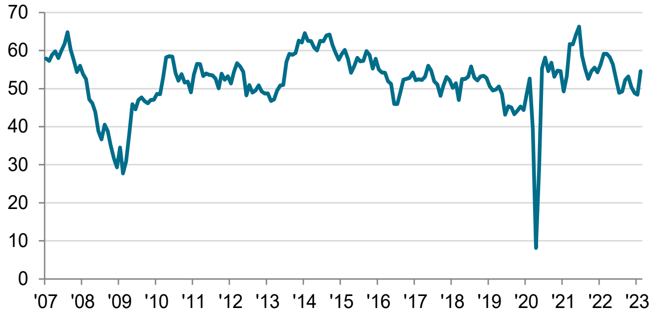
Key findings

Renewed expansion of total construction output

Greater commercial work helps to offset drop in housing activity

Input cost inflation lowest since November 2020

Construction Total Activity Index
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.
Data were collected 10-27 February 2023.

February data highlighted a robust increase in overall business activity across the UK construction sector, thereby ending a two-month period of decline. The rate of growth was the strongest since May 2022, supported by a marked rebound in commercial work and a positive contribution from civil engineering activity. In contrast, housing activity decreased for the third month running.

At the same time, the latest survey pointed to the least widespread supplier delays since January 2020 and a slowdown in input cost inflation. The overall rate of purchase price inflation was the lowest for 27 months in February.

The headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered 54.6 in February, up from 48.4 in January and above the neutral 50.0 threshold for the first time in three months. The latest reading was the highest since May 2022.

Commercial construction was the best-performing area in February (index at 55.3), with the rate of expansion the steepest for nine months. Civil engineering activity also returned to growth in February (index at 52.3), although the rate of expansion was only modest.

Construction companies noted a fall in residential building work for the third consecutive month in February (index at 47.4). The speed of the downturn eased since January, however. Survey respondents commented on subdued market conditions due to elevated interest rates, alongside cutbacks to new house building projects in anticipation of weaker demand.

Total new work picked up in February, as signalled by an improvement in order books for the first time since November 2022. Construction companies reported signs of a turnaround in demand for commercial projects due to the improving near-term economic outlook.

Forthcoming project starts contributed to a modest upturn in purchasing activity during February. Despite rising demand for construction products and materials, the latest survey indicated that supply pressures continued to ease. The respective index signalled that delays with vendor delivery times were the least widespread for just over three years.

A better alignment of demand and supply helped to bring down input price inflation across the construction sector in February. The latest round of purchase price increases was the slowest since November 2020. Higher input costs were mostly linked to suppliers passing on rising energy bills and salary inflation, although this was offset by lower transportation bills.

Business expectations for the year ahead improved further from the 31-month low seen in December 2022. Around 46% of the survey panel anticipate a rise in construction activity over the year ahead, while only 13% predict a decline. The resulting index pointed to the highest level of optimism for one year. Construction firms often noted signs of a recovery in client demand, despite elevated interest rates and recession risks.

Finally, latest data indicated a modest increase in employment numbers across the construction sector. However, efforts to cut costs continued to hold back staff recruitment, according the survey respondents.

Comment

Tim Moore, Economics Director at S&P Global Market Intelligence, which compiles the survey said:

"Business activity in the UK construction sector returned to growth during February as a rebound in commercial work and civil engineering output helped to compensate for housing market weakness. Some firms noted that fading recession fears and an improving global economic outlook had boosted client confidence in the commercial segment. At the same time, work on major infrastructure projects such as HS2 contributed to the expansion of civil engineering activity in February.

"Cutbacks to new house building projects remained the weak spot for construction sector activity, with total residential work falling for the third month running in February. Survey respondents often commented on subdued demand and a headwind from elevated interest rates.

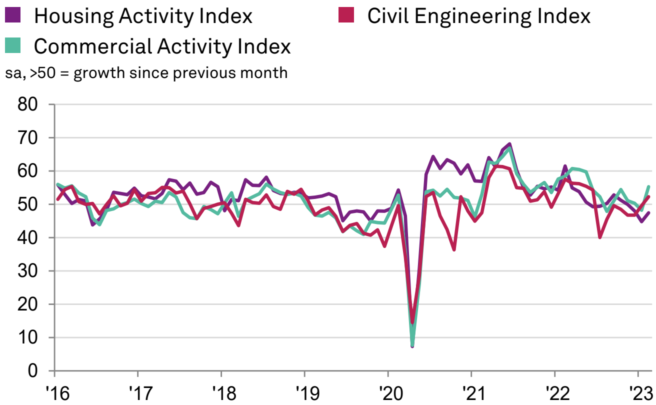
"Construction companies appear increasingly confident about the year ahead business outlook, with optimism rebounding strongly from the lows seen in the final quarter of 2022. Softer inflationary pressures and the least widespread supplier delays for just over three years were factors supporting business expectations in February."

Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply, said:

"The overall figure paints a bright picture of progress in the construction sector with a robust jump in output last month. Supply deliveries were at their most improved since January 2020 and some commentators mentioned sourcing closer to home to avoid logjams in supply chains caused by China's Covid policy and the war in Ukraine.

"New order levels were also at their highest since November 2022 but these strong numbers belie the fact that there is uneven growth in building activity in the UK. Commercial and civil engineering projects dominated this performance with activity on projects such as HS2 and commercial builds. Residential building on the other hand was the odd one out with a third month in contraction as mortgages rates put a dampener on the number of house purchases and buyers were unwilling to commit.

"Builders themselves remained cheerful as optimism rose sharply and almost half of the survey's respondents believed business would improve in 2023. With the slowest inflationary rises for raw materials since November 2020 this offered some relief, and it was cheaper transportation costs that helped offset salary and energy costs which were still rising."



Source: S&P Global.

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Survey methodology

The S&P Global / CIPS UK Construction PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected April 1997.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 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.

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