News Release

Embargoed until 0930 BST (0830 UTC) 6 October 2022

S&P Global / CIPS UK Construction PMI®

Construction output returns to growth in September, but business expectations hit 26-month low

Key findings

Total industry activity rises for first time in three months

Output growth linked to work on delayed projects

Business optimism lowest since July 2020 as new orders stall

UK construction companies signalled a modest increase in business activity during September, which represented a return to growth after two months of falling output. However, subdued demand persisted, as signalled by the weakest trend for new orders since the recovery began in June 2020.

Looking ahead to the next 12 months, survey respondents remain cautious about their growth prospects. The degree of confidence towards the business outlook dropped to its lowest for over two years in September, mostly reflecting concerns about higher interest rates and a downturn in the wider UK economy. On a more positive note, supply shortages eased in September, with delivery delays the least widespread since February 2020.

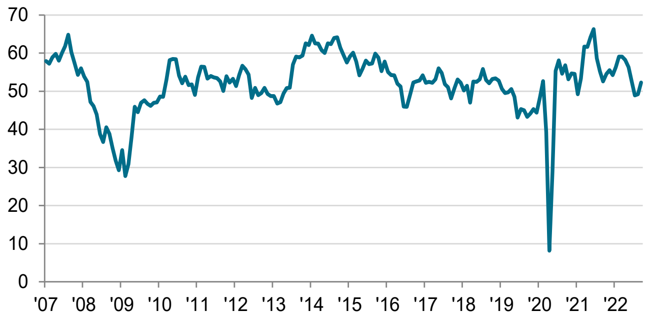
At 52.3 in September, up from 49.2 in August, the headline seasonally adjusted S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered above the 50.0 no-change value for the first time since June. The latest reading was the highest for three months and signalled a modest overall increase in construction output. Survey respondents commented on a boost to activity from work on previously delayed projects.

House building was the best-performing category in September (index at 52.9), with growth reaching a five-month high. Commercial work increased only marginally (51.0), while civil engineering activity (49.6) fell for the third month in a row.

Survey respondents often commented on a strong pipeline of outstanding work, but incoming new orders remained relative scarce in September. Latest data signalled that new business volumes were broadly unchanged overall, which represented the worst month for new orders for almost two-and-a-half years. Construction firms cited slow decision-making among clients and greater risk aversion due to inflation concerns, squeezed budgets and worries about the economic outlook.

S&P Global / CIPS UK Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-29 September 2022.

Subdued client demand contributed to a marginal reduction in purchasing activity across the construction sector. Survey respondents also suggested that a turnaround in supplier performance had led to reduced inventory building. Latest data signalled the least marked lengthening of vendor lead times since the pandemic began.

Employment growth meanwhile accelerated from August's 17-month low. Around 21% of the survey panel reported a rise in staffing levels, while only 8% signalled a decline. Higher workforce numbers reflected efforts to boost business capacity, although construction firms continued to cite shortages of candidates to fill vacancies and strong wage pressures.

Average cost burdens increased sharply in September, but the overall rate of inflation eased to its lowest since February 2021. Survey respondents noted escalating energy costs and greater prices paid across the board for construction products and materials. Lower fuel prices and improved transportation availability were cited as factors helping to moderate the overall pace of cost inflation in September.

Finally, business optimism for the coming 12 months was relatively subdued in September. The latest survey pointed to the weakest growth projections since July 2020. While construction firms often commented on expected growth due to forthcoming new projects, many also suggested that recession risks and higher interest rates had weighed on confidence.

PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply

Comment

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

"UK construction companies experienced a modest increase in business activity during September, but the return to growth was fuelled by delayed projects and easing supply shortages rather than a flurry of new orders. Reports of delivery delays for construction products and materials were the least widespread since the pandemic began as greater business capacity and improved transport availability helped to ease pressure on supply chains.

"However, forward-looking survey indicators took another turn for the worse in September, with new business volumes stalling and output growth expectations for the year ahead now the lowest since July 2020. This reflected deepening concerns across the construction sector that rising interest rates, the energy crisis and UK recession risks are all set to dampen client demand in the coming months."

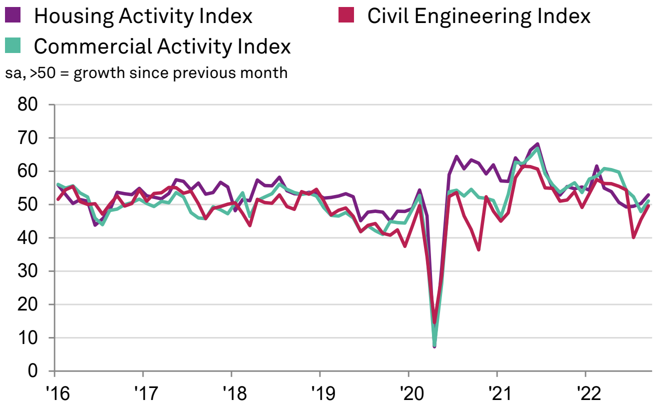
Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply, said:

"Developments in the UK economy have given the sector food for thought as supply chain managers reported softer levels of buying last month and the new orders index slipped to its lowest since May 2020. Though the headline index showed growth after two months in contraction, the devil lies in the detail pointing to lower customer confidence, a challenging UK economy and recession on the doorstep.

"Firstly, the rise in output has no sign of sustainable growth behind it as without new pipelines of work any gains will soon leak away. This was not lost on builders themselves who reported the lowest level of optimism since July 2020 about business opportunities in the next year.

"Secondly, the costs of doing business and the cost of living are still high and rising. More expensive energy and salary pressures to secure skilled staff have contributed to additional inflation, though 21% of building companies in the sector were still hiring to maintain capacity for current projects.

"The housing sector remained the strongest performer in September although with interest rates rising and mortgage costs affecting affordability rates especially for first-time buyers, this will be an obstacle for house building to keep up the momentum as we approach 2023."



Source: S&P Global.

Contact

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761576
trudy.salandiak@cips.org

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click here.

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.

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of 60,000 members in over 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.
www.cips.org

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.
ihsmarkit.com/products/pmi.html.

PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply