News Release

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S&P Global / CIPS UK Construction PMI®

House building slump weighs on construction output

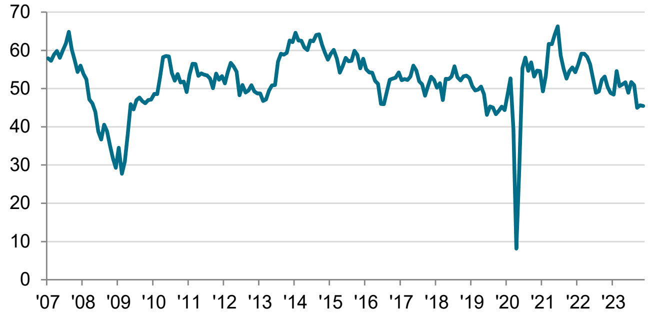
Key findings

November data signals another sharp fall in housing activity

Employment decreases for first time in ten months

Steepest decline in input costs since July 2009

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



Sources: S&P Global, CIPS.
Data were collected 09-29 November 2023.

UK construction companies indicated a decline in business activity for the third consecutive month during November, led by another sharp fall in residential building. Elevated borrowing costs and subdued demand for new housing projects were widely cited as factors holding back construction activity.

Latest survey data pointed to the steepest reduction in purchasing costs across the construction sector for more than 14 years. This was linked to lower raw material prices, alongside greater competition among suppliers in response to falling demand for construction inputs.

The headline S&P Global / CIPS UK Construction Purchasing Managers' Index™ (PMI®) – a seasonally adjusted index tracking changes in total industry activity – registered 45.5 in November, down fractionally from 45.6 in October and below the 50.0 no-change value for the third month running. The latest reading was the second-lowest since May 2020 and signalled a marked reduction in total industry activity.

November data illustrated that house building (index at 39.2) remained by far the weakest-performing segment, followed by civil engineering (43.5). Survey respondents cited cutbacks to residential development projects and a general slowdown in activity due to unfavourable market conditions.

Commercial building showed some resilience (index at 48.1), but activity in this category has now decreased for three months in a row. Construction firms noted that lacklustre domestic economic conditions and delayed decision-making by clients on major investment spending had been factors limiting demand.

November data suggested a continued lack of new work to replace completed projects. Total new orders decreased for the fourth month running, albeit at the slowest pace since August. Customer hesitancy and greater borrowing costs were often reported as weighing on sales volumes, especially in the housing category.

Business activity expectations for the year ahead picked up from October's recent low, but remained notably weaker than seen in the first half of 2023. Concerns about the near-term demand outlook contributed to a renewed decline in staffing numbers during November and a marked reduction in purchasing activity.

Input buying has now decreased in five of the past six months, largely reflecting reduced workloads and a lack of new project starts. Some firms also commented on destocking efforts in response to improved supply conditions, which led to lower input buying in November.

Average lead times among vendors shortened for the ninth successive month in November. That said, the rate of improvement has eased considerably since the summer. Survey respondents reported spare capacity among suppliers and weaker demand for construction inputs, although some commented on transportation delays.

A combination of greater price competition among suppliers and falling raw material costs contributed to another decrease in input prices across the construction sector. The overall rate of decline was the steepest since July 2009, with survey respondents reporting falling prices paid for a range of materials (especially steel and timber).

Comment

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

"A slump in house building has cast a long shadow over the UK construction sector and there were signs of weakness spreading to civil engineering and commercial work during November. Residential construction activity has now decreased in each of the past 12 months and the latest reduction was still among the fastest seen since the global financial crisis in 2009. Elevated mortgage costs and unfavourable market conditions were widely cited as leading to cutbacks on house building projects. Rising interest rates and the uncertain UK economic outlook also hit commercial construction in November, while a lack of new work contributed to the fastest decline in civil engineering activity since July 2022.

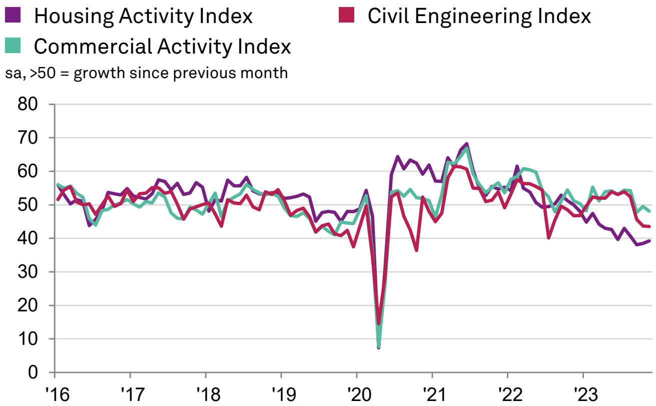
"Improving supply conditions were evident again in November, linked to rising raw material availability and spare capacity across the supply chain. Greater competition among suppliers added to downward pressure on prices paid for construction products and materials. The latest survey indicated that overall input prices decreased for the second month running and at the fastest rate since July 2009."

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

"There is no doubt that 2023 has been a difficult year for the UK construction sector. Inflated borrowing costs and falling demand have conspired to further slow new building this month.

"Despite this, the sector has finally emerged from a period of intense supply chain pressure and prices are now falling across the board, especially for timber and steel. Projects are no longer being delayed due to unexpectedly high material costs with November seeing the sharpest reduction in purchasing prices since July 2009.

"There will be no quick fixes next year for the sector. Lower demand, elevated interest rates and the prospect of an election promise an uncertain start to 2024. This is a challenging moment for suppliers in the sector, who may have tough price negotiations ahead."



Source: S&P Global PMI.

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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@spglobal.com.

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