

News Release

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S&P Global / CIPS UK Construction PMI[®]

Construction output rises slightly in August, but new orders fall at fastest pace since May 2020

Key findings

Solid upturn in commercial work helps lift construction activity

Steep downturn in house building

Rising borrowing costs contributes to renewed fall in orders

UK construction companies recorded a marginal increase in total business activity during August. Growth in the commercial and civil engineering segments helped to offset a slump in house building.

However, business activity forecasts for the year ahead were the weakest since January and job creation lost momentum since the previous month. This was largely due to falling sales volumes across the construction sector, as signalled by the fastest decline in new orders for just over three years.

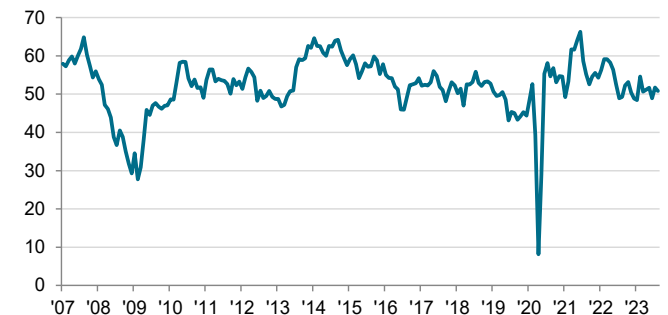
At 50.8 in August, down from 51.7 in July, the headline S&P Global / CIPS UK Construction Purchasing Managers' Index[®] (PMI[®]) – a seasonally adjusted index tracking changes in total industry activity – signalled only a slight increase in overall construction output.

There were divergent trends across the three main categories of construction activity monitored by the survey in August. Commercial building continued to expand at a robust pace (index at 54.2), with the rate of growth holding close to July's five-month high. Civil engineering activity (52.4) also increased, but the speed of growth slipped to its lowest since April.

House building remained the weakest-performing part of the construction sector (40.7), with the downturn the second-fastest since May 2020. Survey respondents widely commented on subdued market conditions and a headwind to activity from cutbacks to new build projects.

August data signalled a decline in total new order volumes for the second time in the past three months, which contrasted with solid growth in the spring. Although only modest, the downturn in order books was the steepest since May 2020. Construction companies noted that rising interest rates and concerns about the near-term economic outlook had led to more cautious spending among clients, especially in the

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



Sources: S&P Global, CIPS.
Data were collected 11-30 August 2023.

residential building segment.

Employment numbers increased for the seventh month running, but the rate of growth weakened since July and was only modest. The upturn in sub-contractor usage also softened in August, which contributed to the sharpest rise in availability since January 2010.

Suppliers' delivery times for construction products and materials meanwhile improved at a robust pace. The respective index eased slightly since the previous month, but was still the second-highest since April 2009. Survey respondents widely commented on improved stock availability and fewer pressures on supplier capacity.

An improved balance between demand and supply helped to stabilise overall input costs across the construction sector. Latest data signalled only a marginal rise in purchasing prices and the rate of inflation eased since July. A number of firms cited more competitive market conditions and successful price negotiations with suppliers to account for falling raw material costs.

August data indicated that construction companies are relatively cautious about the outlook for business activity during the next 12 months. The degree of positive sentiment slipped to its lowest since January, with concerns about the impact of rising borrowing costs and subdued housing market conditions often cited during the latest survey period.

Comment

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

"UK construction companies experienced another slump in house building activity during August as rising interest rates and subdued market conditions resulted in cutbacks to client demand and new build projects in particular. Aside from the pandemic, the recent downturn in residential work has been the steepest since spring 2009.

"Resilient demand for commercial work and infrastructure projects are helping to keep the construction sector in expansion mode for now, but the survey's forward-looking indicators worsened in August. Total new orders decreased at the fastest pace for more than three years amid worries about the broader economic outlook and the impact of elevated borrowing costs. Rising risk aversion also meant that construction firms pared back their own output growth projections, with business activity expectations slipping to the weakest since January.

"August data pointed to a welcome stabilisation of costs across the construction sector and another sharp improvement in suppliers' delivery times. Adding to signs of fewer capacity pressures, the latest survey revealed the sharpest rise in subcontractor availability for more than 13 years."

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

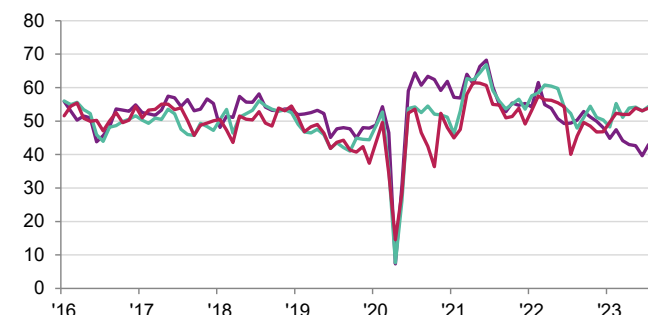
"Though the construction sector overall showed an improvement in August, several imbalances in the figures give cause for concern.

"Residential building took another knock further into contraction as new housing starts weakened. The cost of living crisis continued to squeeze household finances and buyers were reluctant to commit in the shadow of potentially another interest rate in September. Housing activity fell at its second sharpest level since 2009, excluding the pandemic years, and overall new orders dropped at the fastest rate since May 2020. The sector was propped up overall by some improvements in commercial activity such as office refurbishments.

"This below par performance had a knock-on effect on job creation which was starting to lose momentum. The right skills remained in short supply and without pipelines of new work coming through, recruitment levels were reduced."

One bright spot in August's figures was the second biggest improvement in supplier delivery times for 14 years as constraints on raw materials eased and supply chain performance improved."

■ Housing Activity Index ■ Civil Engineering Index
■ Commercial Activity Index
sa, >50 = growth since previous month



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@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.

ihsmarkit.com/products/pmi.html.

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