

Embargoed until 0930 London (0830 UTC) 4 June 2019

IHS MARKIT / CIPS UK CONSTRUCTION PMI®

Sharpest decline in construction output since March 2018

KEY FINDINGS

Modest fall in construction output in May

Commercial work remains the weakest performing category

Sharpest drop in workforce numbers since November 2012

UK construction companies indicated a renewed decline in total business activity during May. Lower volumes of commercial work and civil engineering activity more than offset a modest increase in house building. New orders also decreased across the construction sector, with survey respondents noting that subdued domestic economic conditions had led to project delays and fewer tender opportunities.

At 48.6 in May, down from 50.5 in April, the headline seasonally adjusted **IHS Markit/CIPS UK Construction Total Activity Index** registered below the 50.0 no-change mark for the third time in the past four months. The latest reading was the lowest since the snow-related downturn in construction output during March 2018.

Commercial building was the weakest area of construction activity in May, with output falling to the greatest extent since September 2017. Survey respondents widely commented that clients had opted to hold back on major spending decisions in response to Brexit uncertainty and concerns about the economic outlook.

May data also revealed a decline in civil engineering activity for the fourth consecutive month. Construction companies cited constrained client budgets and a headwind from domestic political uncertainty.

Residential work continued to expand in May, albeit at the weakest pace for three months. Higher levels of house building have been recorded in each month since February 2018.

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



The latest survey pointed to a modest reduction in new orders received by UK construction companies, with the rate of decline the steepest since March 2018. Construction companies reported strong competition, hesitancy among clients and longer sales conversion periods, largely reflecting subdued demand conditions in May.

Reduced workloads led to more cautious recruitment strategies and the non-replacement of departing staff in May. As a result, the latest survey pointed to the sharpest drop in construction employment for six-and-a-half years.

Construction companies reported another decline in their purchasing activity. Although only marginal, the latest reduction was the largest since September 2017. Supply chain pressures persisted in May, which led to another sharp lengthening of average lead times among vendors. There were a number of reports citing low stocks and shortages of materials (particularly plasterboard).

Average input prices continued to rise in May, which was often attributed to higher fuel and energy costs. However, the overall rate of input price inflation eased to its weakest since June 2016.

Meanwhile, construction firms signalled a fall in business optimism to its weakest since October 2018. Survey respondents widely cited concerns that domestic political and economic uncertainty would dampen business activity growth over the next 12 months.

COMMENT

Tim Moore, Associate Director at IHS Markit, which compiles the survey:

"May data reveals another setback for the UK construction sector as output and new orders both declined to the greatest extent since the first quarter of 2018. Survey respondents attributed lower workloads to ongoing political and economic uncertainty, which has led to widespread delays with spending decisions and encouraged risk aversion among clients.

"Commercial building remained hardest-hit by Brexit uncertainty, with construction firms reporting the steepest fall in this category of activity since September 2017. Civil engineering work also dried up in May and a fourth consecutive monthly fall in activity marked the longest period of decline since the first half of 2013. Construction companies often commented that recent tender opportunities for civil engineering work had been insufficient to replace completed projects.

"House building was the only sub-category of construction output to buck the downward trend in May, but growth remained softer than on average in 2018.

"The soft patch for construction work so far this year has started to impact on staff hiring, with some firms cutting back on expansion plans and others opting to delay the replacement of voluntary leavers. May data revealed that the latest fall in employment numbers was the steepest for six-and-a-half years. Survey respondents once again noted concerns that the subdued domestic economic outlook and delays related to Brexit uncertainty had curtailed their near-term growth prospects."

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply:

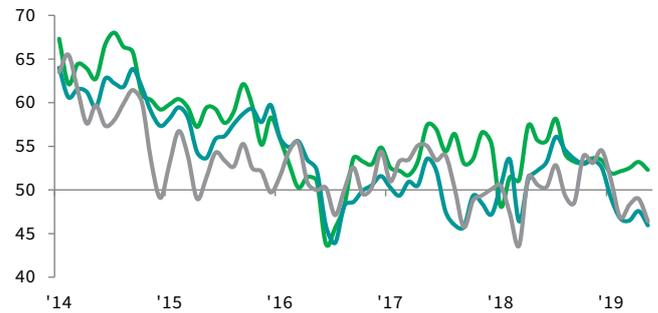
"A fragile dreariness descended on the sector this month with lower workloads leading to the fastest decline in purchasing of construction materials since September 2017. With the continuing uncertainty around Brexit and instabilities in the UK economy, client indecision affected new orders which fell at their fastest since March 2018 and particularly affected commercial activity.

"The previously unshakeable housing sector barely kept its head above water, growing at its weakest level since February as residential building started to lose momentum. The biggest shock however, came in the form of job creation as hesitancy to hire resulted in the largest drop in employment for six and a half years. Not much to be happy about it seems though an easing in some input costs for raw materials offered some relief while energy and fuel prices continued to rise.

"This is unlikely to be nearly enough to turn around the sector's fortunes, as optimism about the strength of the sector's future was the lowest since October 2018. Policymakers will need to pull a large rabbit out of the hat, and fast, to improve these difficult conditions and prevent a further entrenchment of gloom and contraction this summer."

Activity Index by construction category
 Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



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Methodology

The IHS Markit /CIPS UK Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

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.

May 2019 data were collected 13-30 May 2019.

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

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