

News Release

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

Construction slowdown continues in June. Housing activity falls for first time in more than two years

Key findings

Weakest rise in construction output since September 2021

House building declines for first time since May 2020

Business optimism dips for fifth month running

UK construction companies signalled another loss of momentum in June as total business activity expanded at the weakest pace for nine months and new orders increased to the smallest extent since last October. Worries about the near-term economic outlook led to a sharp decline in business expectations for the year ahead. June data indicated that growth projections are now the least upbeat since July 2020.

At 52.6 in June, down from 56.4 in May, 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 mark for the seventeenth consecutive month. However, the latest reading signalled only a moderate increase in construction output and the slowest rate of expansion since September 2021.

Civil engineering was the most resilient sub-sector in June (index at 54.3, down only slightly from 55.5 in May). A similarly strong increase in business activity was seen in the commercial segment, but the rate of growth eased sharply since May to the slowest so far in 2022 (index at 54.3, down from 59.8).

House building was the weakest-performing area of construction activity for the fourth month running in June. Moreover, the latest index reading of 49.3 signalled an overall downturn in residential work for the first time since May 2020.

June data pointed to a solid rise in total new orders, but the rate of expansion softened to its weakest since October 2021. Some construction companies noted a lack of new work to replace completed projects due to economic uncertainty and inflation concerns.

Efforts to boost capacity in response to greater overall workloads contributed to another robust rise in staffing numbers during June. Job creation has been recorded in each

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 13-29 June 2022.

month since February 2021. Survey respondents once again commented on shortages of candidates to fill vacancies, despite higher wage offers.

Input buying meanwhile increased at a much slower pace than in May, with the latest expansion the weakest since the start of 2021. The loss of momentum was attributed to weaker new order growth and, in some cases, a smaller degree of safety stock building.

Suppliers' delivery times lengthened again in June, but the downturn in performance remained less marked than that seen in the first quarter of 2022. Staff shortages and a lack of transport availability were the most commonly cited reasons for longer wait times for construction products and materials.

Around 71% of the survey panel reported higher purchasing prices in June, while only 1% signalled a reduction. The resulting index signalled a rapid pace of cost inflation that was slightly faster than in May, albeit still below the survey-record high seen in June 2021. Higher prices paid mostly reflected rising energy, fuel and transportation costs, according to survey respondents.

Looking ahead, around 36% of construction companies anticipate a rise in business activity, compared to 17% that expect a decline. While this highlighted positive sentiment overall in June, the degree of optimism signalled was the lowest since July 2020. Weaker business confidence has now been recorded for five months running, largely reflecting subject growth expectations for the UK economy, alongside uncertainty about the impact of higher interest rates and escalating inflationary pressures.

Comment

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

"The gloomy UK business outlook and worsening consumer demand due to the cost of living crisis combined to put the brakes on construction growth in June. Commercial construction saw a considerable loss of momentum as clients exercised greater caution on new spending, while long-term infrastructure projects ensured a relatively resilient trend for civil engineering activity.

"House building has expanded more quickly than the rest of the construction sector over the course of the pandemic, but now finds itself as the worst-performing broad category so far in 2022. Moreover, the latest survey indicated an outright decline in residential work for the first time in just over two years.

"Construction companies appear braced for a difficult second half of the year as new order growth and business activity expectations fell again in June, reflecting inflation concerns, higher interest rates and less favourable domestic economic conditions. Measured overall, the degree of optimism across the construction sector is now the lowest seen since July 2020."

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

"Residential building levels fell for the first time since May 2020, and builders are getting an increasingly stark vision of the marketplace they are now operating in as overall activity growth also fell sharply.

"This is in glaring contrast to the pandemic years where the construction sector held up well compared to the other sectors, but the weakest rise in output since September 2021 and the softest increase in new orders since October shows this has now changed. The heightened competition faced for short supply raw materials as well as essential skills for the building trade is squeezing the optimism out of builders with the lowest business expectations since July 2020.

"Returning from pandemic lockdowns has not been easy as builders now face greater affordability challenges not just for staff wages but for the energy-intensive materials needed to deliver the pipelines of construction work they currently have. With a downbeat economic environment, the sector will be fearful about what is round the corner during the rest of this year."

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



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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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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