

News Release

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

Construction output continues to decline at a sharp pace in October

Key findings

Steep fall in house building weighs on construction activity

Input prices decline at fastest rate since August 2009

Sub-contractor charges decrease for first time in 39 months

UK construction companies indicated that challenging business conditions persisted during October, with business activity falling for the second month running amid a lack of new work to replace completed projects. Fragile client confidence and elevated borrowing costs were often cited as reasons for weaker sales.

Improving supply conditions and falling demand contributed to a renewed decline in purchasing prices. Moreover, the latest decline in input costs was the steepest since August 2009. Reduced workloads also led to a decline in sub-contractor charges for the first time in over three years.

At 45.6 in October, the headline S&P Global / CIPS UK Construction Purchasing Managers' Index[™] (PMI[®]) – a seasonally adjusted index tracking changes in total industry activity – was up slightly from 45.0 in September. However, it was still the second-lowest reading since May 2020 and signalled a marked decline in total construction activity.

House building decreased for the eleventh successive month in October and at a much steeper pace than elsewhere in the construction sector (index at 38.5). Falling work on residential construction projects was widely linked to a lack of demand and subsequent cutbacks to new projects.

Civil engineering activity also decreased sharply in October (index at 43.7) and the rate of decline was the fastest since July 2022. Meanwhile, there were signs of stabilisation in the commercial; building segment, with activity falling only marginally and at a slower pace than in September (index at 49.5).

Total new work fell for the third month running in October and the rate of contraction was the joint-sharpest since May 2020. Survey respondents widely commented on a lack of tender opportunities and lengthier decision-making among clients due to concerns about the broader economic outlook.

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-30 October 2023.

Worries about shrinking pipelines of construction work contributed to a moderation in business confidence for the third successive month in October. Around 37% of the survey panel forecast a rise in business activity during the year ahead, while 19% predict a decline. The degree of optimism signalled by the survey in October was the lowest so far this year. A number of firms commented on particular weakness in the house building sector and an ongoing headwind from higher interest rates.

October data also pointed to a slowdown in job creation to its weakest since June, alongside another decline in purchasing activity, which mostly reflected a downturn in forthcoming projects starts.

Softer demand for construction products and materials resulted in pressure on suppliers for price discounts. The latest survey indicated that overall purchasing prices decreased at the fastest pace for over 14 years as lower timber, steel and transportation costs were passed on by vendors.

Adding to signs of spare capacity across the construction sector, latest data highlighted another strong rise in the availability of sub-contractors. Moreover, rates charged by sub-contractors fell for the first time since July 2020.

Comment

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

"October data highlighted another solid reduction in UK construction output as elevated borrowing costs and a wait-and-see approach to new projects weighed on activity. House building decreased for the eleventh month running and once again saw a much steeper downturn than other parts of the construction sector. There were signs of stabilisation in the commercial building segment, however, with output falling only slightly since September.

"Total new work continued to fall more quickly than at any time since the initial pandemic lockdown period, which contributed to shrinking demand for construction products and materials during October. Competitive pressure on suppliers to pass on lower commodity prices resulted in the fastest decline in input costs since August 2009. Sub-contractors meanwhile cut their charges for the first time in more than three years in response to a further downturn in workloads during October."

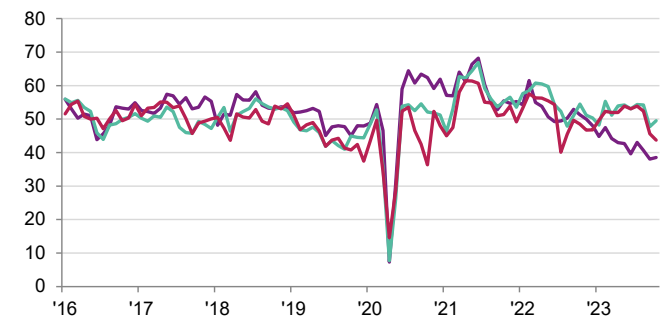
Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply (CIPS), said:

"High interest rates and low consumer demand for new homes continue to drag down the UK construction sector, with a lack of new tender opportunities and a cutback of existing projects being reported across the house building industry.

"The silver lining is that high borrowing costs are having their intended effect of putting the brakes on rising inflation. Previously suppliers were able to hike their prices in response to soaring demand. Falling construction activity has now tilted the negotiations in favour of buyers and suppliers are having to pass on lower prices for raw materials like timber and steel. Supply chain pressures are also easing as a result of the lull in new work, with better availability of raw materials, a reduction in transportation costs and an improvement in supplier delivery times. More subcontractors are available for work and some are reducing their prices in reaction to the falling demand.

"However, there is no doubt that UK construction is in a difficult period and there will likely be further challenging months to come. Despite commercial building activity continuing to fall there were signs of stabilisation within this sub-segment, and this may provide a glimmer of hope which the wider construction sector will keep a close eye on as we move into next year."

■ 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@spglobal.com.

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