

UK Construction Activity Down for the Second Month Running



The effects of economic uncertainty are being felt everywhere these days, and it seems the UK's construction sector is no exception. In a recent report, S&P Global noted that the industry is currently experiencing reduced activity, as measured by the S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®).

The index, which shows industry activity month-by-month on a scale from 1-100, is based on survey data collected from over 150 UK construction companies. In July and August, PMI values dipped below 50, indicating a decline.

Cost Concerns

A common theme from survey respondents was that clients are pulling back on new orders as cost pressures increase. Quoted in the report, Chief Economist at the Chartered Institute of Procurement & Supply (CIPS), John Glen noted that a protracted slowdown in new construction orders would be "a bitter pill for the sector to swallow," adding:

"The UK construction sector is poised for contraction once again as rising prices for raw materials worldwide filtered into UK supply chains."

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Commercial Retraction

For the commercial real estate (CRE) sector, the downturn marks a reversal for the first time in a year-and-a-half. Back in May, for example, new CRE projects were one of the primary drivers of ongoing growth, with figures from the UK's Office for National Statistics (ONS) noting a 2.8% increase in commercial construction.

That strong performance offers the possibility that the current decline is just a bump in the road. It's worth noting, however, that S&P cautions the construction sector as a whole may be in for a challenging period.

As S&P Global Market Intelligence Economics Director, Andrew Harker puts it: "Not only did construction activity fall for the second month running, but a range of indicators from the survey pointed to further weakness ahead. New orders slowed to a crawl, while concerns about the sector and the wider economy led to a drop in confidence."

Silver Lining in Supply

A potential bright spot is that there are signs that the construction materials supply crunch might finally be easing back. While the cost of materials is still a cause for concern, S&P's John Glen notes that: "Lower demand is leading to fewer purchases, downward pressure on input costs and more responsive supply chains."

This slight silver lining is echoed in data from the Construction Leadership Council which reported at the end of July that: "With one or two exceptions, general product availability continues to improve across all categories and all regions."

