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ALL MEMBERS MEMORANDUM No 10 - 22

UK CONSTRUCTION PMI – DECEMBER 2021

Construction growth eases to three-month low in December

Fewer supply shortages contributed to the slowest rate of input price inflation for nine months.

The headline seasonally adjusted IHS Markit/CIPS UK Construction PMI® Total Activity Index posted 54.3 in December, to remain above the crucial 50.0 no-change threshold. However, the latest reading was down from 55.5 in November and signalled the weakest rate of expansion for three months. Some survey respondents noted that tighter pandemic restrictions and rising COVID-19 cases had acted as a brake on recovery, especially in the commercial sector.

The full IHS Markit/CIPS UK Construction Total Activity Report is attached.

Lorraine MacKinder
BCSA Marketing & Membership Administrator

Embargoed until 0930 GMT (0930 UTC) 7 January 2022

IHS Markit / CIPS UK Construction PMI®

Construction growth eases to three-month low in December

Key findings

Weakness centred on commercial and civil engineering segments

House building regains its place as fastest-growing category

Supplier delays are now the least widespread since November 2020

Data were collected 6-22 December 2021.

December PMI® data pointed to another solid increase in business activity across the UK construction sector, but the rate of expansion slipped to its lowest since September.

On a more positive note, the number of construction firms reporting supplier delays dropped from 47% in November to 34% in December. Meanwhile, around 5% of the survey panel reported shorter lead times among vendors (up from 4%). The resulting index signalled the least marked downturn in supplier performance since November 2020.

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Residential construction activity saw the strongest growth (index at 55.3) and was the only category to gain momentum in December. Commercial building lost its position as the best-performing segment, with the recovery easing to its lowest since September (index at 53.6).

Meanwhile, civil engineering activity decreased slightly at the end of 2021 (index at 49.1), which ended a nine-month period of expansion.

IHS Markit / CIPS UK Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

Customer demand was relatively resilient in December, despite some reports citing delayed decision-making due to the Omicron variant. In fact, the latest rise in overall new order volumes was the strongest since August. Higher levels of new work have now been recorded for 19 consecutive months.

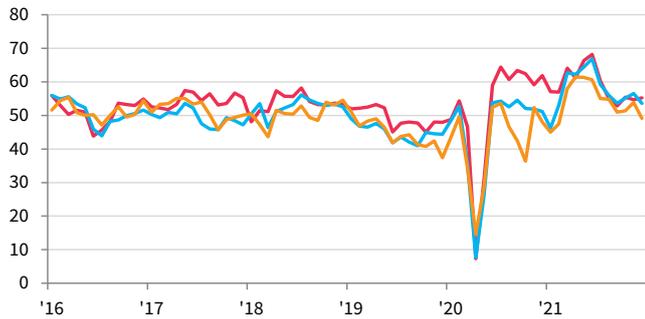
A sustained rebound in construction orders helped to boost employment numbers during December. The rate of job creation eased only slightly since November. Survey respondents often commented on extra staff hiring as part of new project starts and long-term expansion plans.

Higher fuel, energy and raw material prices continued to push up average cost burdens across the construction sector in December. However, the overall rate of inflation eased for the fourth month running to its lowest since March.

An improved alignment between demand and supply helped to soften inflationary pressures at the end of 2021. Purchasing activity increased at the slowest pace for three months, while supplier lead times lengthened to the least marked extent since November 2020. Where longer wait times were reported, this was mostly linked to international shipping delays and shortages of haulage drivers.

Looking ahead, just over half of the survey panel (51%) forecast a rise in business activity during 2022, while only 9% predict a decline. Although signalling upbeat sentiment for the year ahead, the degree of optimism was the joint-lowest reported since January 2021.

Activity Index by sector Residential / Commercial / Civil Engineering
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

UK Construction PMI Employment Index
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

Comment

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

"UK construction companies ended last year on a slightly weaker footing as renewed pandemic restrictions held back the recovery, especially in commercial work and civil engineering. Some firms commented on disruption from rising COVID-19 cases, while others noted a lack of new work to sustain the rapid growth rates seen earlier in 2021.

"The worst phase of supplier delays seems to have passed as the availability of construction products and materials continued to turn a corner in December. While suppliers to the construction sector have caught up on backlogged work and boosted capacity, there were still widespread reports citing unresolved transportation issues and driver shortages.

"Input cost inflation moved down another notch in December, helped by the alleviation of some supply chain pressures. The latest rise in purchasing prices was far slower than the 24-year peak seen last June."

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

"Though the overall index moved down slightly in December there was light at the end of the tunnel for builders in terms of the strongest order numbers since August, reduced pressure on business costs and some improved delivery times for essential materials.

"Residential building has powered on every month since June 2020 and was the best performing category in the last month of 2021. Commercial building struggled to gain a stronger footing in a weakened UK economy and civil engineering activity fell back into contraction.

"Though supply constraints were still hiking up prices, inflation was the lowest since March as materials production carried on apace reducing supply restrictions. It was shipping delays and haulage shortages that remained the significant gripes in the industry as over a third of supply chain managers faced longer wait times. Though this was an improvement on the previous month and the best since November 2020, it was still a factor affecting builders' forecasts for 2022 as business optimism fell to the joint-lowest for almost a year."

UK Construction PMI Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Sources: IHS Markit, CIPS.

UK Construction PMI Input Prices Index

sa, >50 = inflation since previous month



Sources: IHS Markit, CIPS.

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Survey methodology

The IHS Markit \CIPS UK Construction PMI® is compiled by IHS Markit 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 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.

Survey dates and history

Data were collected 6-22 December 2021.

Data were first collected April 1997.

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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.