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ALL MEMBERS MEMORANDUM No 52 - 22

UK CONSTRUCTION PMI – FEBRUARY 2022

Fastest rise in construction output for eight months

February PMI® data indicated that business activity gained momentum across the UK construction sector. Building companies commented on the strongest rise in output since mid-2021 amid stronger client confidence and work on new projects commencing. Construction companies continued to report widespread supply constraints and rapidly increasing input costs, though the rate of inflation in the latter was the least severe for 11 months. That said, ongoing disruption dampened the year-ahead outlook for activity, with confidence at the lowest since January 2021.

The headline seasonally adjusted *IHS Markit/CIPS UK Construction PMI®* Total Activity Index registered 59.1 in February, up from 56.3 in January to signal a robust and accelerated rise in output volumes. The headline index has now posted above the neutral 50.0 threshold in each of the last 13 months.

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

Lorraine MacKinder
BCSA Marketing & Membership Administrator

IHS Markit / CIPS UK Construction PMI®

Fastest rise in construction output for eight months

Key findings

Growth led by marked and accelerated rise in housing activity

Input cost inflation dips to 11-month low

Business confidence eases to softest since January 2021

Data were collected 10-25 February 2022.

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House building (index at 61.5) replaced commercial work (58.4) as the best performing category of construction work in February. The latest increase in residential work was the strongest for eight months. Commercial construction also expanded at a quicker pace than in January, with the rate of growth the sharpest since last July. Meanwhile, civil engineering activity (index at 57.5) increased at an accelerated pace that was the strongest since June 2021.

New order growth accelerated for the fourth month running in the latest survey period to extend the current sequence of expansion to 21 months. Moreover, the rate of growth was the fastest since last August as construction companies

IHS Markit / CIPS UK Construction PMI Total Activity Index
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

commented on stronger client demand in line with the recovery in economic activity and new projects being brought to tender.

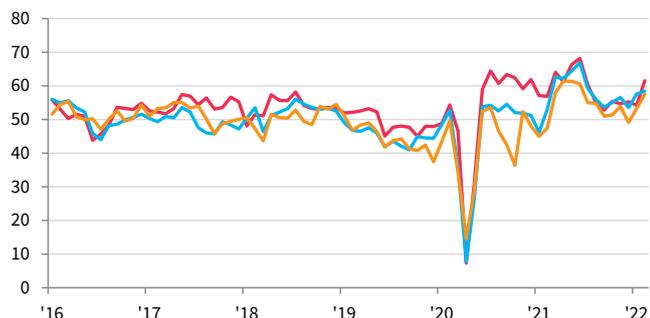
Resilient pipelines of new work were highlighted by a steep rise in input buying across the construction sector during February. The latest expansion was the fastest for seven months and commonly reflected pre-purchasing ahead of new project starts. Staffing levels also increased at a sharp pace, extending the sequence of job creation to 13 months.

Around 36% of the survey panel reported longer delivery times among suppliers in February, while only 4% saw an improvement. Delays were overwhelmingly linked to driver and material shortages, as well as international shipping delays. That said, the number of construction firms reporting longer lead times for deliveries was down from a peak of 77% in mid-2021.

Reflective of widespread delivery delays, latest data signalled another rapid rise in input prices, though the rate of inflation eased to an 11-month low. The increase in purchase prices was often attributed to rising raw material and commodity prices amid supply shortages, alongside a lack of transport capacity.

Finally, the near-term outlook for construction activity remained positive in February. Just under half of the survey panel (48%) forecast an increase in output during the year ahead, while only 9% predicted a fall. That said, the overall degree of optimism eased to the softest since January 2021 as firms cited concerns about the impact of rising costs and supply shortages.

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

Usamah Bhatti, Economist at IHS Markit, which compiles the survey said:

"UK construction companies achieved a faster expansion in output volumes in February as the economy recovered from the recent wave of COVID-19 infections related to the Omicron variant. House building had the strongest showing, as signalled by the fastest rise in residential work for eight months.

"Despite continued volatility in price and supply conditions, the overall rate of new order growth accelerated from January to reach the fastest since last August as client confidence improved in line with economic activity as Plan B restrictions were fully lifted.

"Nonetheless, widespread reports of shortages of materials and labour continued to plague the UK construction sector, while rising input costs placed further strain on businesses. It appears that the peak of price pressures has passed as the rate of input cost inflation eased for the sixth month in a row to reach the softest since last March. At the same time, reports of supplier delays were considerably lower than those seen in the middle of last year. Yet, price and supply constraints weighed on overall business confidence, which eased to the softest in just over a year."

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

"The construction sector maintained its growth momentum whilst battling a number of headwinds such as supply issues and higher input costs to put in its best performance for eight months in February.

"All three sectors offered positive news, but housing stormed ahead with the strongest rise in residential building since June last year. The reasons for this improvement ranged from securing contracts in the pipeline of new work and improved deliveries for some materials. That said, hampered supply chains still made business difficult across all sectors and deliveries remained painfully slow.

"Also, the highest rise in order books for six months didn't do enough to improve future optimism as business expectations dropped to January 2021 levels. Curbing inflation will continue to be a big issue for building firms who will be nervous about securing continuing supply and offsetting price rises to improve business margins, especially if costs continue their skyward trajectory."

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 10-25 February 2022.

Data were first collected April 1997.

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