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8 June 2022

ALL MEMBERS MEMORANDUM No 100- 22

UK CONSTRUCTION PMI – MAY 2022

Weakest rise in residential work for two years holds back construction sector during May

Higher borrowing costs and intense inflationary pressures were also cited as factors likely to hold back growth over the next 12 months. The latest survey data indicated that business activity expectations at construction companies were the least upbeat since August 2020.

The headline S&P Global / CIPS UK Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered 56.4 in May, down from 58.2 in April and the lowest reading for four months.

The full S&P Global/CIPS UK Construction Total Activity Report is attached.

Lorraine MacKinder
BCSA Membership Manager

News Release

Embargoed until 0930 BST (0830 UTC) 8 June 2022

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

Weakest rise in residential work for two years holds back construction sector during May

Key findings

Total activity expands at slowest pace since January

Housing remains worst-performing category

Optimism lowest since August 2020

May PMI[®] data signalled another growth slowdown in the construction sector amid a considerable loss of momentum for the residential category. The latest rise in housing activity was the weakest since the recovery began two years ago. Survey respondents suggested the subdued consumer confidence and worries about the economic outlook had constrained demand.

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Weaker trends in the house building sub-sector were the main brake on growth, with this index falling to 50.7 from 53.8 in April. Moreover, the latest reading signalled the worst performance for residential work since May 2020.

Commercial building was the fastest-growing segment in May (index at 59.8), with the speed of expansion easing only slightly since April. Construction companies noted strong demand for commercial work, despite a degree of hesitancy due to the uncertain economic outlook.

Meanwhile, civil engineering activity increased for the fifth month running and at a robust pace (index at 55.5) amid a sustained boost from major infrastructure projects.

Total new orders expanded again in May, which marked two years of continuous sales growth in the construction sector. That said, the latest increase in new work was the slowest since December 2021.

Job creation accelerated slightly in May and was the

Construction Total Activity Index

sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

Data were collected 12-30 May 2022.

strongest for four months. Survey respondents typically cited efforts to boost capacity and meet rising customer demand. There were again widespread reports citing recruitment difficulties due to shortages of suitably skilled candidates.

May data highlighted strong demand for construction products and materials, as signalled by a steep and accelerated rise in total purchasing volumes. Efforts to replenish stocks and pre-purchase ahead of price rises also contributed to higher purchasing activity in May, according to survey respondents.

There were positive signals for supplier performance in May, as delays were the least widespread since February 2020. Some firms noted an improvement in the availability of construction items, despite ongoing challenges including logistics bottlenecks, Brexit trade frictions and supplier staff shortages.

Rapid cost inflation persisted in May, with the vast majority of survey respondents (73%) reporting a rise in purchasing prices. This was linked to rising fuel, energy and raw material costs. That said, the overall rate of inflation eased to a three-month low.

The number of construction firms predicting an increase in business activity during the year ahead (46%) continued to exceed those expecting a decline (19%) by some margin. However, the resulting index measuring overall growth expectations across the construction sector signalled the weakest degree of optimism since August 2020.

Construction companies suggested that lower consumer confidence, rising borrowing costs and heightened economic uncertainty were all likely to act as headwinds to client demand in the next 12 months.

Comment

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

"May data signalled a solid overall rise in UK construction output as resilience across the commercial and civil engineering segments helped to offset weakness in house building. Residential construction activity was close to stagnation in May, which represented its worst performance for two years amid signs of softer demand and a headwind from low consumer confidence.

"New order volumes expanded at the slowest pace since the end of 2021, which added to signs that heightened economic uncertainty has started to impact client spending. Concerns about the business outlook were signalled by a fall in construction sector growth projections to the lowest for more than one-and-a-half years in May. Around 19% of construction firms predict an outright decline in business activity during the year ahead, up from just 5% at the start of 2022.

"On a more positive note, supplier delays subsided in May, with the latest downturn in performance the least marked since February 2020. Meanwhile, rapid price pressures persisted due to rising energy, fuel and staff costs, but the overall rate of inflation eased to a three-month low in May."

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

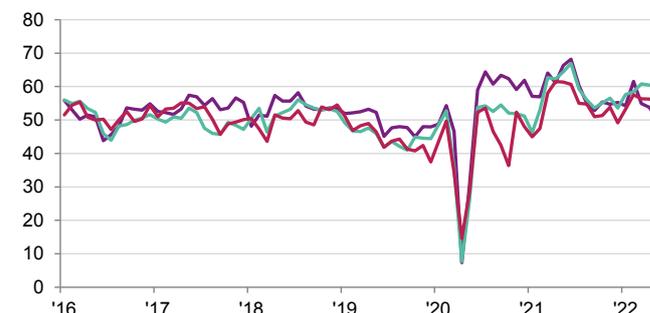
"Though still offering a comfortable margin above the no change mark, the construction sector saw growth ease to a four-month low with the usual suspects taking the heat out of the recovery – elevated inflation, future uncertainty and supply-chain disruption.

"Supply chain managers scaled up purchasing levels to beat expected price increases in the months ahead as inflation rates remained powerfully strong even with the slight easing in prices. There was also robust job hiring in May so businesses could secure the best talent from a dwindling pool of skilled candidates to build capacity for the remainder of the year.

"Subdued client confidence affected new order levels with the slowest rise in pipelines of new work since December 2021. The housing sector in particular showed further signs of fragility with the worst performance since May 2020 and moving closer to the danger zone of negative territory. Affordability concerns will be weighing on the mind of potential house buyers grappling with escalating costs for everyday items, resulting in a postponement of big purchases until the UK economy shows more resilience.

"The lack of positive sentiment was also reflected in construction companies' confidence over the next 12 months, with optimism dropping to the weakest since August 2020 even though this was the best performing sector out of the three."

■ 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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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.

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