

United Kingdom

Construction output rebound reasserts view of robust growth

- **Revival of activity in September brings construction sector growth up to 0.8% in Q3**
- **Expansion led by house building**
- **Surveys point to ongoing but slower Q4 growth**

After alarm bells were rung in August, with construction sector output falling dramatically, the sector staged a partial recovery in September to record healthy growth over the third quarter as a whole.

The UK construction sector rebounded sharply in September, according to data from the Office for National Statistics. The sector grew by 1.8% after a 3.0% decline in August. The recovery means construction grew a healthy 0.8% in the third quarter, with the sector having also enjoyed strong growth of 2.0% in July.

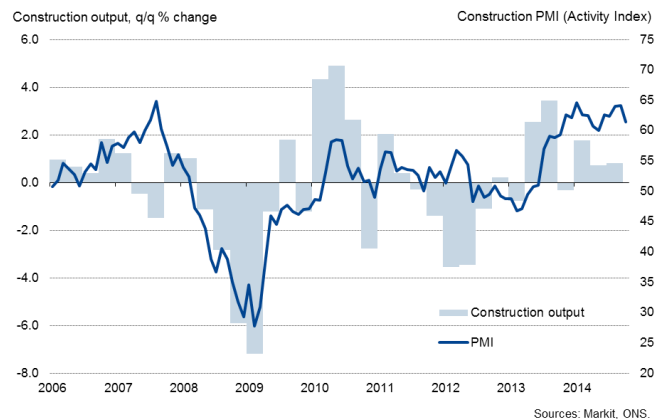
The rebound in construction output in September was already pencilled-in by the ONS in the calculation of third quarter GDP, meaning the data do not affect the estimate of the economy having expanded 0.7%.

In the detail, the 0.8% rise in construction output in the third quarter was driven by a 5.1% increase in house building activity, which included the largest rise in public sector housing seen since data were first available in 1997. Infrastructure work meanwhile rose 1.2%. Private industrial new work was up 1.7%, but commercial work slumped 3.1%.

Strong but slowing growth ahead

September's improvement brings the official data more into line with recent upbeat business survey data, which suggest the construction sector also continued to enjoy robust growth at the start of the fourth quarter. The Markit/CIPS Construction PMI showed the building sector growing at its fastest rate for 17 years in the three months to September. Although the rate of growth slowed to a five-month low in October, the pace of expansion remained very strong by historical standards. The survey also found companies taking on staff at an impressive pace at the start of the fourth quarter, and that businesses remained optimistic about prospects for the year ahead.

UK construction: official and survey data compared



Looking forward, the sector is likely to see the rate of expansion continue to cool as we move towards the end of the year and into 2015.

The housing market has slowed since earlier in the year, most likely due to a combination of factors which include the tightening of lending rules introduced in the Mortgage Market Review, house buyers' worries about future interest rate hikes and house prices simply being historically high.

However, it's not just the residential property market that is cooling. Growth of [commercial property development](#) has also slowed since earlier in the year, according to data compiled by Markit and Savills, which adds to the sense that the economy as a whole is moving down a gear in the second half of 2014.

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