

United Kingdom

PMI shows construction enjoying best quarter of growth for 17 years

- **Construction PMI rises to 64.2 in September**
- **Q3 PMI average highest since Q2 1997**
- **But optimism about the outlook falls to lowest for 11 months**

After the manufacturing PMI signalled a disappointing slowing of factory growth in September, a near-record increase in activity registered by the construction PMI provides more encouraging news on the health of the UK economy at the end of the third quarter.

Best quarter for 17 years

The headline index from the Markit/CIPS Construction PMI rose from 64.0 in August to 64.2. At 63.5, the average reading for the third quarter is up from 61.1 in the second quarter and the strongest quarterly performance seen for 17 years.

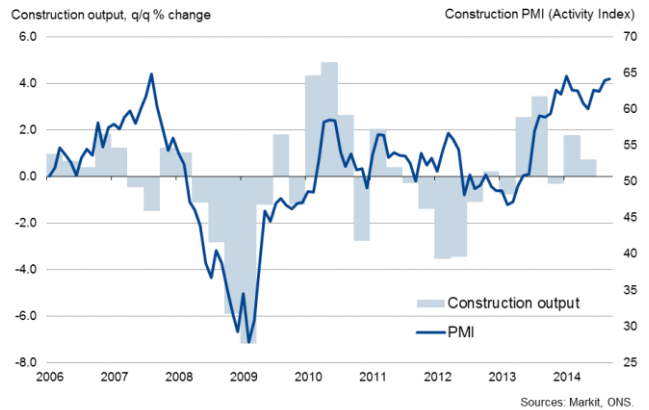
Although only representing around 6-7% of GDP, the sheer pace of expansion signalled by the PMI suggests that the construction sector can provide a meaningful boost to economic growth in the third quarter.

Initial estimates from the ONS showing construction output to have been flat in the second quarter have since been revised up to reveal that the sector in fact enjoyed a reasonably impressive 0.7% expansion. The [better than previously thought performance](#) helped boost growth in the whole economy from 0.8% to 0.9% in the second quarter. Further upward revisions to construction output so far this year are possible, as the official data still lag behind the brighter picture painted by the construction PMI survey.

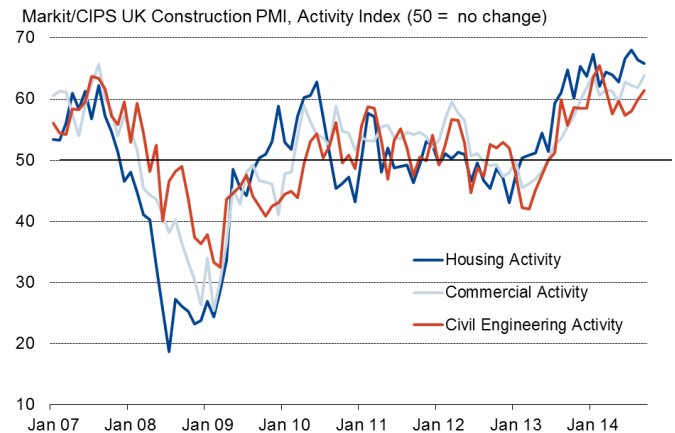
Economy showing signs of slowing

Economic growth may slow in the second half of the year, however. Construction firms' optimism in relation to the outlook fell to the lowest for nearly a year in September, sullied by concerns over a slowing housing market, shortages of both skilled labour and suitable sub-contractors, higher interest rates and a general weakening of growth in the wider economy. Combined with the weakening picture from manufacturing, this

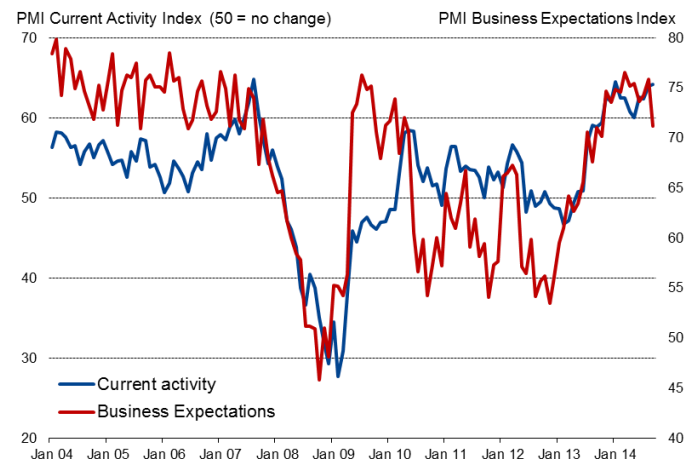
UK construction: official and survey data compared



Broad-based upturn within construction



Optimism wanes



downturn in construction firms' optimism may mean the second quarter GDP expansion of 0.9% could represent a peak in the pace of economic growth this year. We await tomorrow's services PMI numbers to get a better steer on the economy's growth in the third quarter, though data available so far point to an expansion in the region of 0.7-0.8%.

While the manufacturing sector is showing signs of falling prey to weak overseas demand, notably in the euro area, and the recent strengthening of sterling, the construction sector continues to thrive off buoyant domestic economic conditions.

House building continued to lead the upturn in September, but once again construction firms reported rapid growth of commercial activity and civil engineering, pointing to increased investment in office space, industrial units, retail space and infrastructure.

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