

United Kingdom

Construction sector hiring hits all-time high as building booms in June

- **Construction activity growth accelerates in June**
- **Job creation hits all-time high**
- **Subcontractor pay rates surge amid record skill shortages**

The construction industry took on a record number of staff in June as activity in the sector continued to boom, according to PMI™ data. However, subcontractor pay rates have also risen at a survey-record pace in recent months as skill shortages reached all-time highs.

The Markit/CIPS Construction PMI™ rose from 60.0 in May to 62.6 in June, signalling a rate of increase in building activity that has rarely been beaten since survey data were first collected in 1997.

Boost to GDP

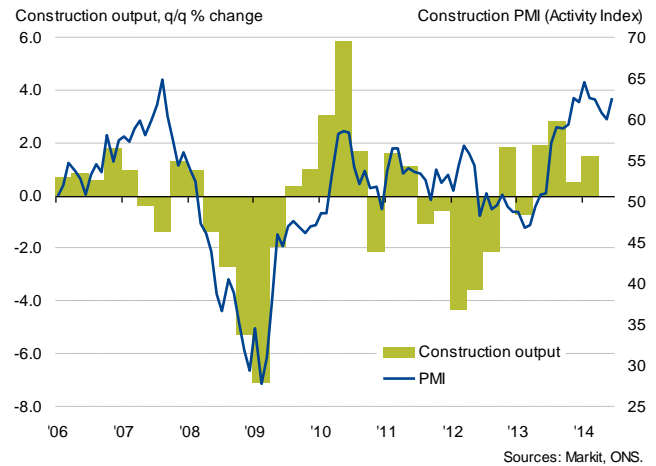
The recent PMI reading is indicative of the construction sector growing at a quarterly rate of 3% or more in the second quarter, although we note that official data have indicated a far less buoyant picture of the sector than the PMI survey. However, the strength of the survey indicates that there may be scope for further upward revisions to recent official data. Construction sector growth for the first quarter, for example, has already been revised up five-fold from an initial estimate of 0.3% to 1.5%.

The marked rise in construction output follows news from the manufacturing PMI that the goods-producing sector saw the largest quarterly rise in output for two decades in the second quarter. The strong growth of both sectors should help drive a further robust increase in gross domestic product of a similar magnitude to the 0.7%-0.8% increase seen in previous quarters over the past year.

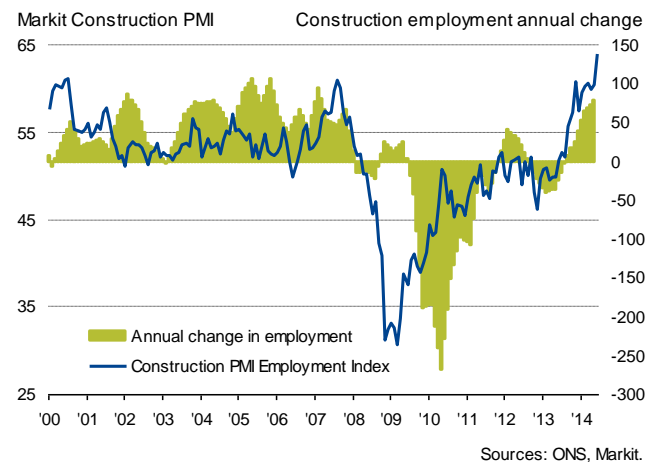
Business investment in fixed assets and house building both rise sharply

In addition to highlighting the speed at which the construction sector is growing, the survey provides additional good news in terms of the broad-based nature of the upturn.

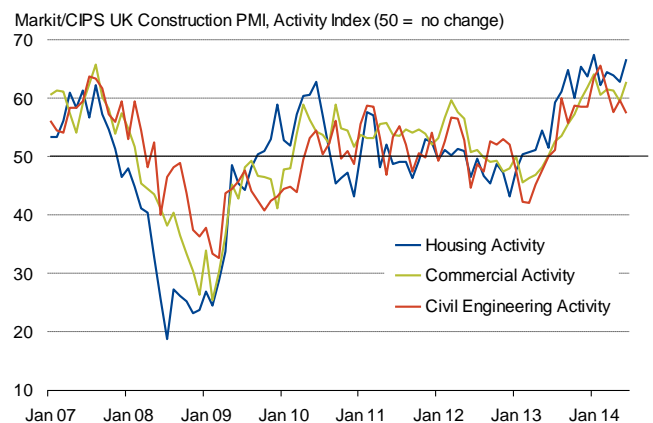
UK construction: official and survey data



Employment



Construction sectors



Commercial construction activity, house building and civil engineering all rose sharply again in June, albeit with the pace of growth of the latter easing to a nine-month low. But growth of commercial activity and house building accelerated, reflecting increased business investment in property such as offices, industrial units and retail space, as well as a surge in residential construction.

Record employment growth

The need to boost capacity to meet surging demand for building encouraged construction firms to take on extra staff at a rate never previously recorded in the survey's 17-year history. The sector's PMI Employment Index rose from an already-high 60.5 in May to 64.0.

Employment in the sector has increased each month for just over a year as the recovery has taken hold. With business confidence about the year ahead remaining buoyant in June, further strong growth of hiring is likely as we move into the second half of the year.

Subcontractor pay rates rising sharply

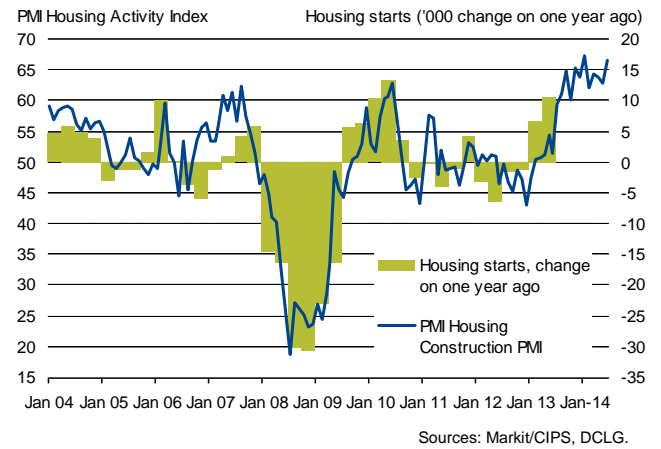
The growth is coming at a price though. Specifically, construction companies had to pay their subcontractors higher rates, amid record skill shortages.

Average rates charged by subcontractors had risen at a survey-record pace in May, and the rate of increase eased only very slightly in June. So far this year, construction firms have seen growth of subcontractor pay rates exceed anything previously seen over the survey history by a wide margin.

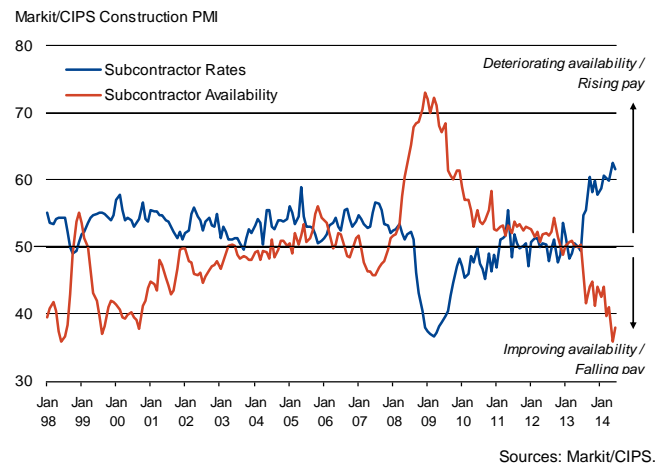
The upward pressure on pay rates reflects widespread shortages of suitable subcontractors. Survey respondents have reported by far the steepest deterioration in subcontractor availability ever recorded by the survey in recent months, albeit with a very slight easing in June.

The survey suggests that widespread skill shortages have developed after many tradesmen and subcontractors left the sector, or left the country, during the recession.

UK housing starts: growth



Rates paid for subcontractors



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