

UK economy

Construction output rise adds to signs of economy gaining momentum

- Official data show annual rate of decline easing sharply in April
- Markit's seasonal adjustment points to increased output compared to March
- Data add to flow of better economic news and sign of stronger GDP growth in Q2

UK construction industry data for April showed the smallest year-on-year decline since output began falling at the start of last year. Our seasonal adjustment of the data also suggests that output rose compared with March, adding to evidence that the economy picked up further momentum in the spring.

The Office for National Statistics reported that construction industry output fell 6.5% in April, down 1.1% on a year ago. Encouragingly, that was the weakest annual rate of decline since it went negative at the start of 2012, easing markedly from a 7.2% rate of contraction in March and a worrying 13.7% pace at the end of last year. The data are not seasonally adjusted, however, and are extremely volatile (output had risen 12.1% over the month in March, for example), making it extremely difficult to ascertain the underlying trend in the data or the implications for quarterly GDP growth.

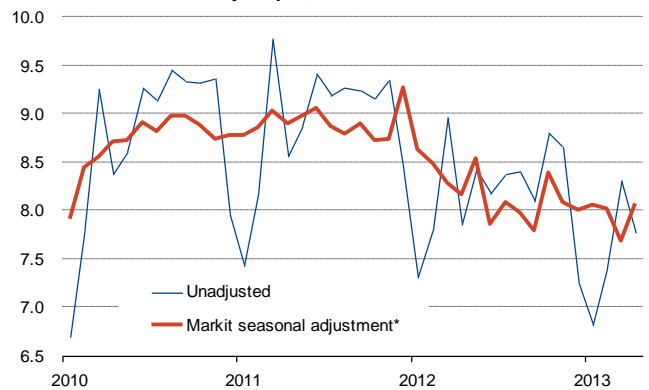
It is possible to perform a basic seasonal adjustment on the data using the X12-Arima program which is widely used by statistical offices (and the ONS will start publishing seasonally adjusted data next month). This adjustment shows output was up sharply in April, rising 5.2% after a 4.3% fall in March, registering the strongest increase since last October.

Measured on a three-month-on-three-month basis, which gives an idea of quarterly growth momentum, the sector contracted 1.5% in the three months to April compared with a 2.9% decline in the three months to March after seasonal adjustment. With GDP data showing the construction industry contracted 2.4% in the first quarter, quite close to our seasonally-adjusted estimate, the data suggest that the sector may be starting to act as a less of a drag on the economy. This adds further to our view, based on upbeat PMI survey

data and an increasingly encouraging flow of official data, that economic growth picked up in the second quarter compared to the 0.3% quarterly rate seen in the first three months of the year, with growth possibly reaching 0.5%.

Construction industry output

UK construction industry output, £bn

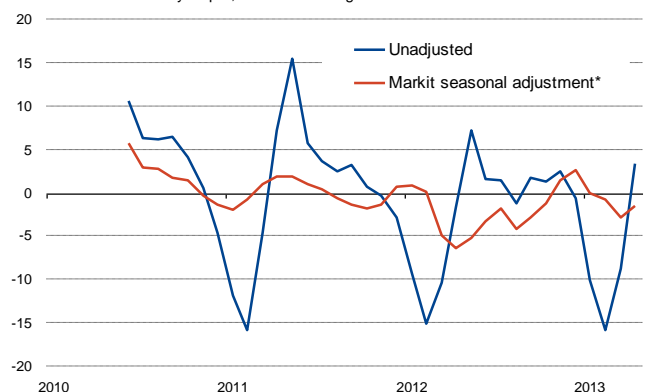


* using x12 ARIMA

Source: ONS, Markit

Quarterly growth rates

UK construction industry output, 3m/3m % change



* using x12 ARIMA

Source: ONS, Markit

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com