

United Kingdom

Construction booms as house building growth hits ten-year high

- Construction sector reports strongest upturn in output and employment since August 2007
- Monthly growth of house building surges to ten-year peak, with signal of over 40k new homes started per quarter
- Commercial activity and civil engineering gains point to broad-based economic upturn

The construction industry is growing at its fastest rate for just over six years, fueled by house building hitting a ten-year peak. However, commercial construction and civil engineering are also growing at fast rates, indicating that the construction upturn is broad-based, and not wholly driven by the housing market.

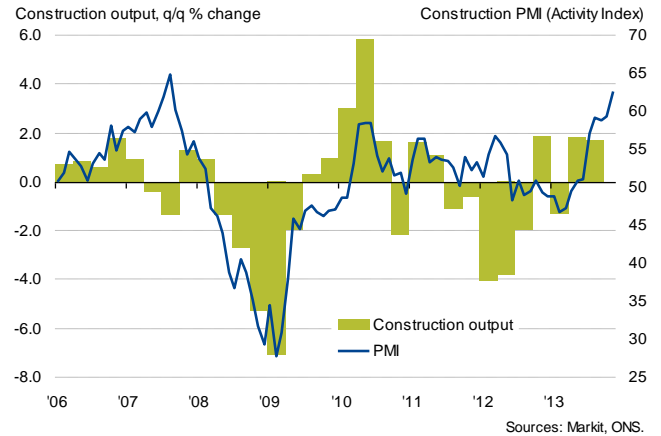
The data are therefore encouraging in respect to the sustainability of the UK economic upturn, suggesting that recent developments have encouraged home builders to start more homes, boosting housing market supply to help meet buoyant demand, and that businesses are also feeling more confident to make investments in property and infrastructure.

Builders set to boost economy

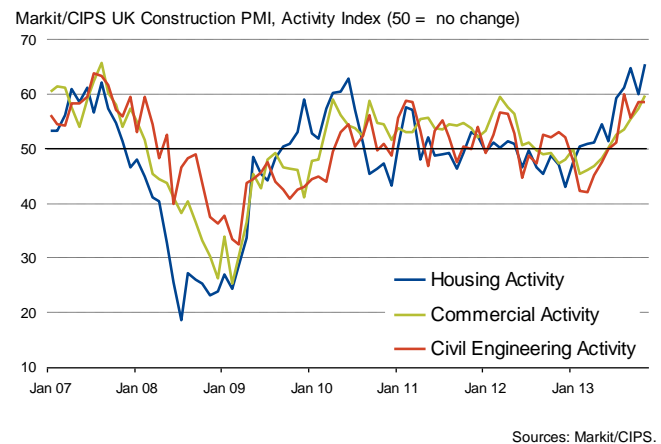
The Markit/CIPS Construction PMI surged from 59.4 in October to 62.6 in November, its highest since August 2007. At 61.0, the average reading for the fourth quarter so far is well up on the 58.3 average seen in the third quarter and indicates that the sector is poised to provide an even greater spur to economic growth than received from the 1.8% expansion of the sector seen in the third quarter. The PMI suggest that construction output growth could be as strong as 3% in the fourth quarter.

Alongside an improvement in the manufacturing sector, the data suggest that growth of gross domestic product is likely to have accelerated from the 0.8% quarterly pace seen in the third quarter, possibly exceeding 1.0%, although much of course depends on the health of the dominant service sector (for which November data are published tomorrow).

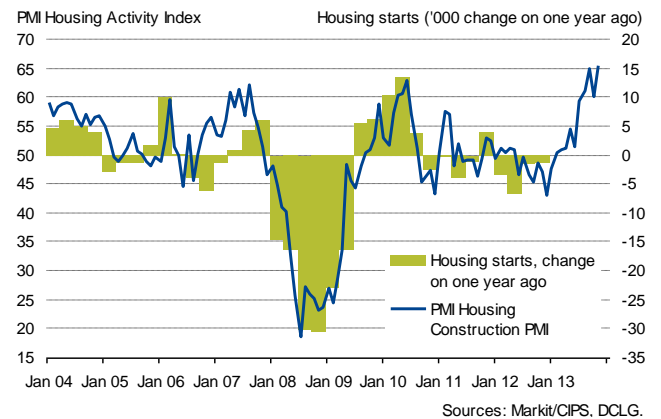
UK construction: official and survey data



Construction sectors



UK housing starts



Surge in house building

The PMI data showed the upturn of the survey being led by house building, month-on-month growth of which hit a ten-year high in November. The PMI index is signaling that the number of new housing starts has risen to 40-45,000 per quarter in recent months, up from 28,000 at the end of last year. By comparisons, house building averaged just over 57,000 in the four years prior to the onset of the financial crisis.

Rising business investment

The survey indicates, however, that the construction upturn is not simply predicated on a housing market boom fueled by government initiatives and low borrowing rates.

The PMI showed that commercial construction, including industrial, office and retail developments, grew at the fastest rate since September 2007, growing for a sixth straight month with the rate of increase gathering significant momentum over this period.

Meanwhile, civil engineering activity continued to show robust growth, sustaining a pace of expansion similar to the six-year peak that was seen back in August in recent months.

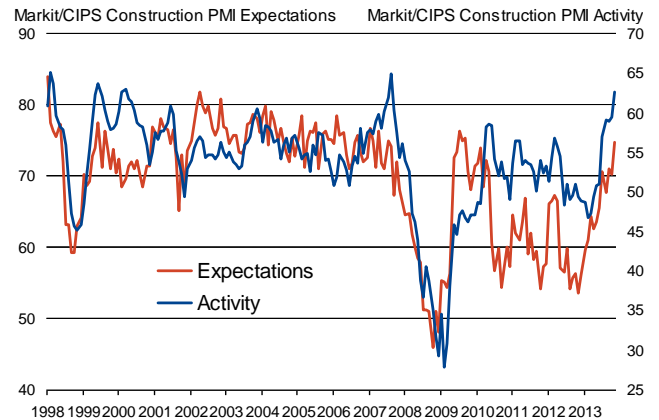
Near-record optimism and strong job growth

There may be more growth to come: construction companies reported the most buoyant degree of optimism about their own activity levels in the year ahead than at any time since mid-2009 and one of the most buoyant pictures of optimism seen in the 15-year history of the survey. However, the survey was conducted just prior to the announcement of the Bank of England's decision to rein in the household-focused element of the Funding for Lending Scheme in the new year, which may have diminished some firm's optimism regarding the outlook.

The construction upturn is also generating new jobs, with employment within the sector also growing in November at the fastest rate since August 2007. The survey data are broadly consistent with jobs being created at a quarterly rate approaching 30,000, double the rate seen in the second quarter.

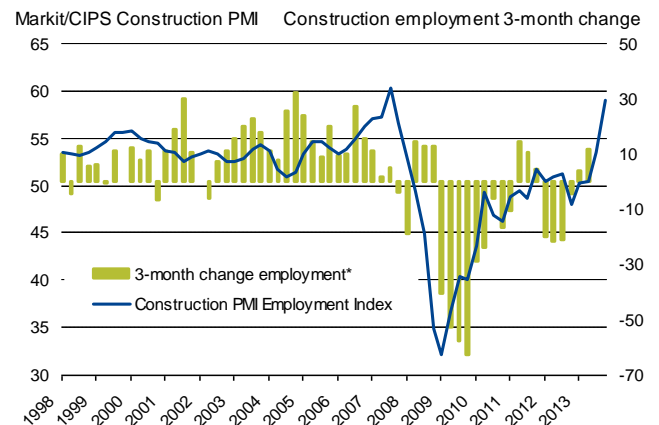
With employment rising at such a robust pace, the construction sector should help bring down joblessness and further aid the wider economic recovery.

Confidence in the construction sector



Sources: Markit/CIPS.

Construction jobs



* Centered 3-quarter average. Sources: ONS, Markit.

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[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com