

United Kingdom

Construction downturn eases in August

- **Construction PMI rises to three-month high of 49.2 in August**
- **Downturn extends into third month but rate of decline eases**
- **Employment, new orders and expectations gauges remain subdued by historical standards**
- **Data follow signs of manufacturing rebound in August**

UK construction activity fell for a third successive month in August as the industry goes through its toughest spell since 2009. While the sector saw a welcome easing in the rate of decline, uncertainty about the impact of Brexit remains widespread and confidence low by historical standards.

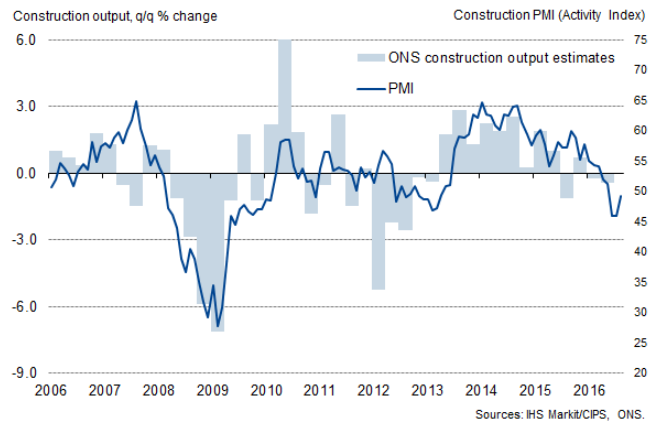
The rise in the construction PMI nevertheless adds to the welcome news provided by yesterday's rebound in the manufacturing PMI to suggest that the risk of imminent recession has fallen considerably. Monday's services PMI will of course be key to gauging the health of the overall economy and any immediate threat of recession or rebound. We also need to wait and see the extent to which August's rebound in the PMI can be sustained in coming months.

The [Markit/CIPS Construction PMI](#) rose from 45.9 in July, a low not seen since June 2009, to a three-month high of 49.2 in August. However, the average reading of 47.0 seen over the past three months is the weakest since the final quarter of 2009, during the global financial crisis.

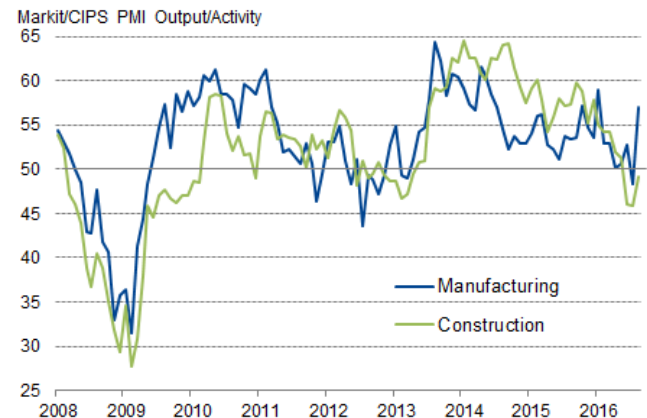
With official data already showing construction to have been in recession in the first half of the year, the PMI suggests that the sector will have continued to contract in the third quarter, acting as a drag on the wider economy.

House building and commercial activity (such as offices, industrial units and retail space) both fell for a third straight month, though rates of decline eased. Civil engineering meanwhile stabilised after July's marked decline.

UK construction: official and survey data compared



Construction and manufacturing PMIs



Construction PMI orders and business expectations about the year ahead



Sources: IHS Markit, CIPS

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New orders fell for a fourth month running, though likewise saw the rate of decline moderate as client confidence recovered somewhat compared to July.

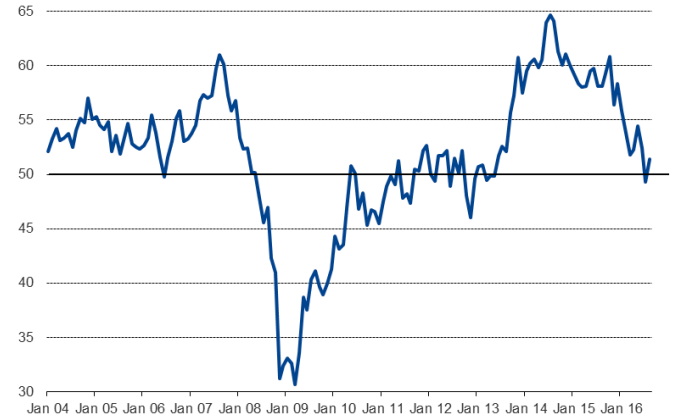
While employment returned to modest growth, the rate of hiring is a shade of that seen in prior years, linked partly to still-weak confidence about the outlook.

The survey also brought more worrying news on inflation, with both manufacturing and construction now reporting the highest rate of growth of input costs for five years, as the weaker pound pushes up the cost of imported materials.

Cut through the noise and volatility of the past few months and the overall picture is one of the construction sector in a moderate downturn, and its disappointing performance so far in 2016 is a far cry from the solid growth seen throughout much of the prior three years. Profits will also be coming under pressure from the combination of weak demand and rising costs. However, August's construction and manufacturing PMI survey results provide encouraging news that any immediate hit to the economy from the uncertainty caused by the EU referendum may be more limited than previously feared.

Construction employment

Markit/CIPS Construction PMI Employment Index



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