

# United Kingdom

## Construction facing heightened recession risk as output slumps

- Construction output falls 1.5% in August
- Sector set to act as drag on economy in Q3
- PMI survey points to modest rebound in September but growth remains far weaker than earlier in the year

UK construction activity fell sharply in August, putting the sector on course for its worst quarter for four years and at risk of heading back into recession. Survey data provide a ray of hope, implying conditions may have stabilised in September, but it's clear that the sector remains under pressure from widespread uncertainty about the economic outlook and suggestions that growth has, at the very least, slowed considerably since earlier in the year.

Data from the Office for National Statistics showed output in the building sector dropping 1.5% in August. Although activity had risen 0.5% in July, the data for the third quarter so far point to a 1.4% drop in output, which would be the largest quarterly decline since the Q3 2012.

The disappointing data suggest the construction sector will have acted as a drag on the economy in the third quarter, during which [growth is expected to have slowed sharply](#) amid heightened political uncertainty following the EU referendum.

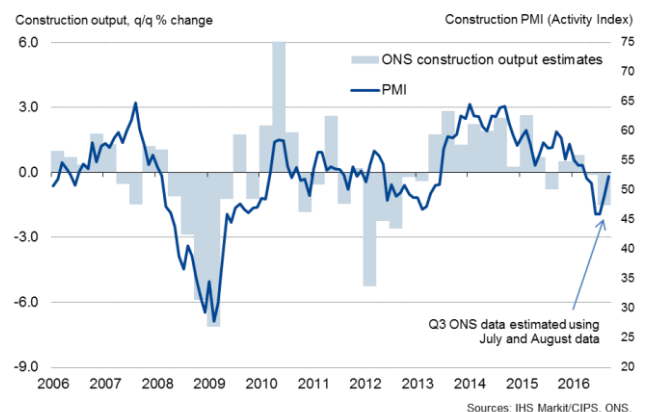
With construction sector output having fallen 0.1% in the second quarter, a further decline in the third quarter would push the industry back into a technical recession (widely defined as two consecutive quarters of falling output).

The renewed downturn of the building sector in August corresponds with survey evidence showing a marked drop in activity. The [Markit/CIPS Construction PMI](#) signalled falling output throughout the three months to August.

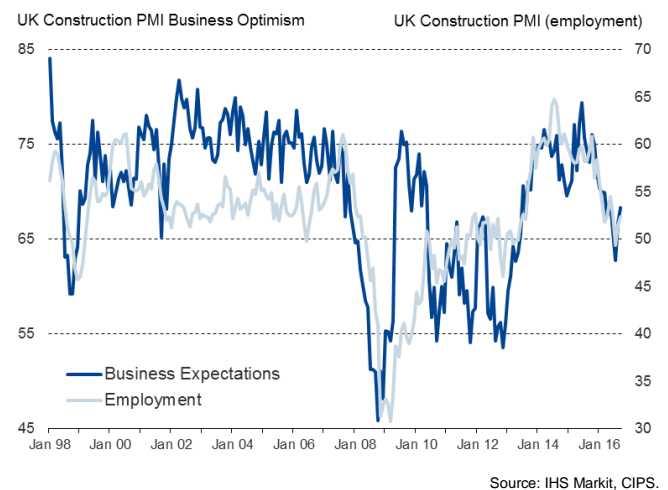
However, some relief may be in sight, as the PMI rebounded in September to register the first upturn in building activity since May. The survey nevertheless remains at levels consistent with the sector struggling to eke out any growth, with hiring and business optimism both down compared to earlier in the year. A number of survey respondents noted that Brexit-

related anxiety had receded among clients in September, although it remained a key factor holding back growth of new business.

### UK construction: official and survey data compared



### Construction optimism and employment



### Chris Williamson

Chief Business Economist

IHS Markit

Tel: +44 207 260 2329

Email: [chris.williamson@ihsmarkit.com](mailto:chris.williamson@ihsmarkit.com)

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