

United Kingdom

Construction grows at fastest rate for six years

- **PMI data signal strong start to fourth quarter for construction**
- **Output and employment indicators highest since 2007**
- **Broad-based upturn, led by house building**

The UK construction industry grew at its fastest rate in over six years in October, according to PMI survey data from Markit and CIPS. The Construction PMI Activity Index rose to 59.4, its highest since September 2007, up from 58.9.

Comparisons with historical official data suggest that the latest reading of the PMI is roughly consistent with the sector's output growing at a quarterly rate of 2.5% in October, unchanged on the rate of increase seen in the official data in the third quarter.

Although only accounting for 6% of total economic output in the UK, the strength of the sector's growth in recent months means construction is providing a major stimulus to the UK's economic recovery. The data therefore add to evidence that the country will see further strong GDP growth in the final quarter of 2013 after the 0.8% expansion seen in the third quarter.

The survey also reveals a broad-based improvement in activity across the construction industry. Civil engineering and commercial building activity both grew at faster rates than in previous months, with the latter one showing the strongest monthly gain since April 2012. However, the steepest rate of increase was again seen in the house building sector, which has outperformed since February, despite the rate of growth sliding to a three-month low in October.

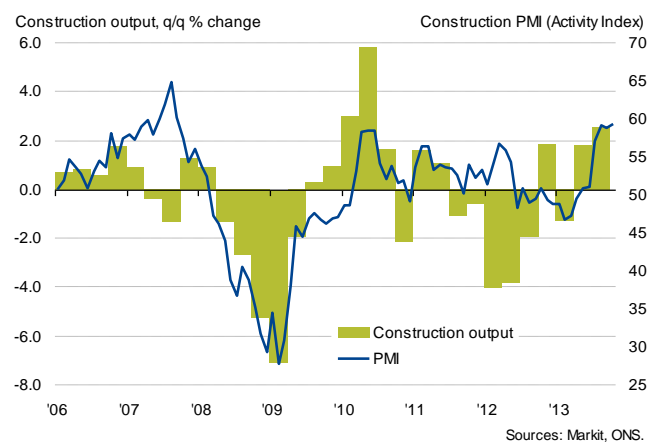
Upturn in housing starts

The PMI's Housing Activity Index correlates well with official data on new housing starts, and the October reading points to annual growth of approximately 10%. The recent growth in new housing starts signaled by the business surveys suggest that approximately 42k houses were started in the third quarter, the highest since early-2008, but that this pace weakened to

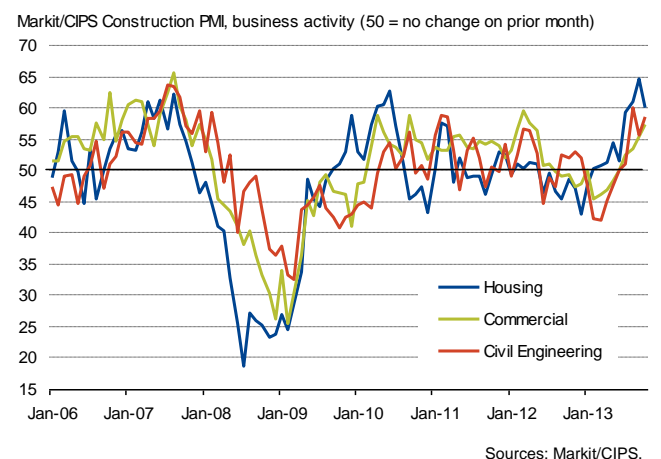
around 36K in October. By comparison, housing starts fell to a low of 22k per quarter in late-2008 and averaged approximately 56k per quarter in the five years leading up to the financial crisis.

The recent upturn in construction, and house building in particular, is especially beneficial to the wider economy as higher demand for construction materials boosts the manufacturing sector and the labour-intensive nature of many construction projects boosts employment. The October survey showed employment rising at the fastest rate since October 2007, up for the fifth successive month.

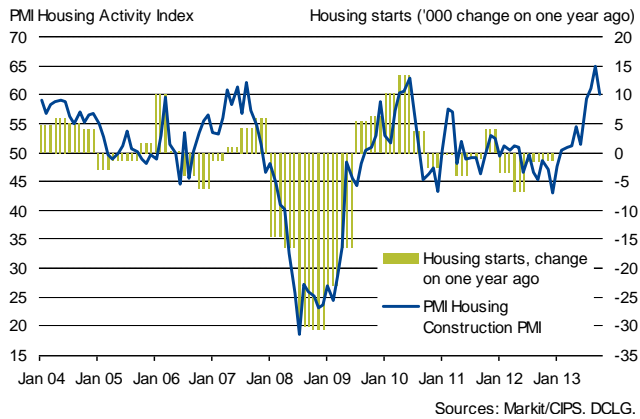
UK construction output



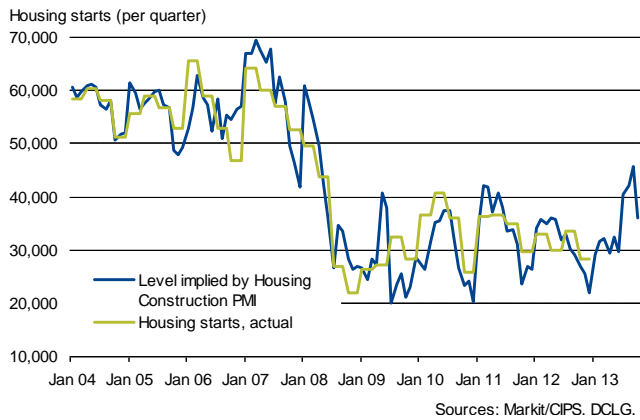
Construction sectors



Housing starts – change



Housing starts – level



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