

United Kingdom

Construction sector back in recession but ends 2015 on brighter note

- **Output falls 0.4% in fourth quarter despite upturn in December**
- **Growth of housing activity offset by declines in repair & maintenance and infrastructure work**
- **Survey data show weak start to 2016**

UK construction output rose 1.5% in December, according to the Office for National Statistics, but the rise was insufficient to avert a further deterioration in the building sector over the fourth quarter as a whole.

Despite the December upturn, the sector is now estimated to have contracted by 0.4% in the fourth quarter instead of the ONS's prior estimate of 0.1%. That follows a reported 1.7% downturn in the third quarter and means the construction sector is technically in recession.

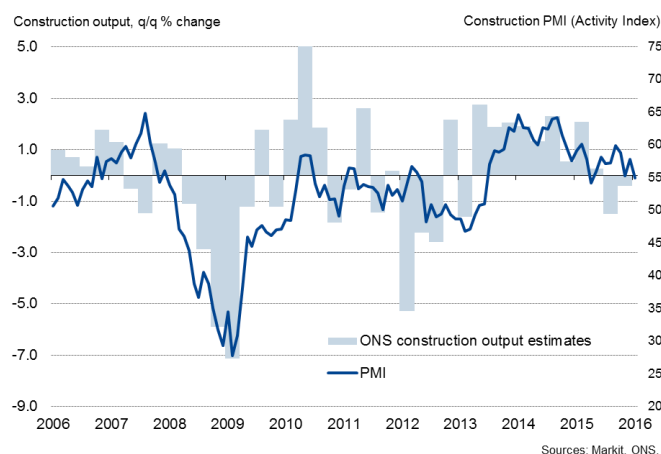
The worse-than-expected number follows disappointing news of a larger than previously thought 0.5% decline in industrial production in the closing quarter of last year. The combined weakness of industrial production and construction poses downside risk to the initial estimate of [0.5% GDP growth in the final quarter](#) of last year, but we would need to see other sectors' figures also nudged lower for growth to be revised down to 0.4%.

The fourth quarter construction downturn occurred despite a 4.0% jump in housebuilding, helping to reverse a 5.7% drop in the third quarter. While housebuilding contributed 0.8% to growth in the sector during the fourth quarter, infrastructure building and housing repair and maintenance acted as significant drags, subtracting 0.5% and 0.6% from the sector's growth respectively. Private commercial work acted as a modest growth driver, contributing 0.1%.

As usual, we treat the data with caution, as the numbers have in the past been revised significantly. However, although any revisions are likely to be upward – on the basis that [Markit/CIPS PMI survey data](#) have shown a stronger underlying trend in recent months – warning lights are flashing over the health of the construction sector. Even the survey data have shown signs of weakness, with January numbers registering the smallest monthly expansion of output

for nine months, and one of the worst months seen over the past two-and-a-half years.

UK construction: official and survey data compared



Chris Williamson

Chief Economist, Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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

For further information, please visit www.markit.com

Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited.