

# United Kingdom

## Construction sector suffers temporary set back in May as output falls

- **Construction falls 1.1% in May after 1.2% gain in April. Output 0.6% lower in Q2 than Q1**
- **Surging survey data suggest data likely get revised higher**
- **Economy still set for robust growth in Q2**

The construction industry moved into reverse in May, according to official data. The weakness of these data alongside disappointing manufacturing output data for May suggests that policymakers will be encouraged to err on the side of caution about hiking interest rates too early in what looks to be a still-fragile recovery.

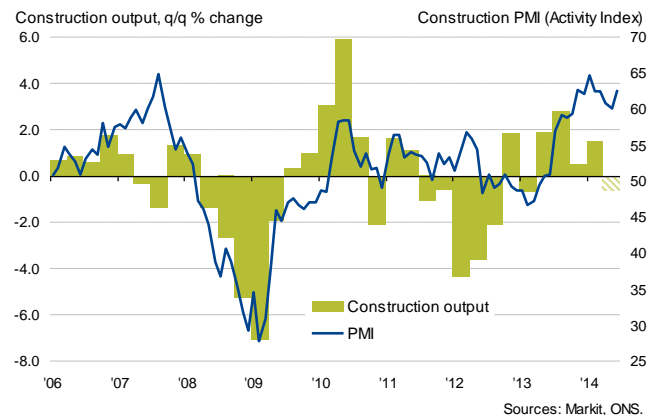
However, the data leave us scratching our heads, as surveys and anecdotal evidence from the sector point to booming business conditions. There's a strong likelihood that either these latest number will get revised higher or that June will see a strong rebound, perhaps reflecting difficulties in correctly seasonally adjusting economic data to take account of moving Easter holidays, which could change the policy picture in coming months.

### Construction down 0.6% so far in Q2

Construction sector output fell 1.1% in May, reversing the 1.2% rise seen in April, according to data from the Office for National Statistics. A 5.2% increase in public sector house building was offset by declines in other work, notably a 3.6% drop in private commercial work. Oddly, private sector house building, which has led growth of the sector in prior months, was unchanged in May. Industrial building rose 1.3% and infrastructure building was flat.

Although 3.5% higher than a year ago, output so far in the second quarter is running 0.6% lower than the first quarter. That compares with a 1.5% increase in the first quarter. Even with a strong rebound in June, it's hard to see the official data showing any significant growth of construction output in the second quarter. A 2.5% jump in construction output in May would merely leave the second quarter on a par with output in the first quarter.

### UK construction output



However, we take these recent numbers with a digger load of salt, mainly due to the extent to which data get revised after the first publication. Note that the 1.5% expansion in the first quarter has been revised up from an initial estimate of just 0.3%. The weakness of the survey data in May also sits in stark contrast to upbeat survey data, which paint a picture of a booming construction industry.

The latest Markit/CIPS Construction PMI data have shown output of the sector rising in recent months at a rate rarely exceeded since the survey began in 1997. Hiring hit an all-time high in June as firms geared up for further growth in the second half of the year.

### Economy still enjoying strong momentum

Fortunately, with construction only accounting for 6% of total economic activity, the weakness of the May data does little to change the picture for overall economic growth in the second quarter. So far the official data for the second quarter have shown that retail sales are up 1.7%, industrial production has risen 0.3%, with a further improvement likely in June, and service sector output is 0.7% higher.

Even with this disappointing construction number, the official data available so far and the PMI surveys indicate that the UK economy enjoyed another robust economic expansion in the second quarter, at least matching the 0.8% growth seen in the first quarter. Once the volatility in the official data is accounted for, there's also little sign of momentum waning as we move into the second half of the year.

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