

UK Construction PMI

PMI data point towards official contraction of UK construction sector during 2008Q4.

Key findings

- **PMI figures showed an accelerated decline of UK construction activity in the last quarter of 2008.**
- **Markit employment figures suggest turn-around in official data to show job shedding over 2008Q4/2009Q1.**

December data from the CIPS/Markit UK Construction PMI® Report showed a series-record contraction of the UK construction sector. Additionally, the seasonally adjusted Total Construction Activity Index (Chart one) signalled a faster decline in output over the final three months of 2008 than during any other quarter in the survey history. The sharp falls in output highlighted by the PMI are a sign that official (ONS) construction value added data, which still pointed to slight activity growth in 2008Q3, will register a decrease in Q4.

Further evidence that ONS data for 2008Q4 will dip below zero is presented in Charts A – C in the Appendix:

- Both Markit and official series depict steep drops in incoming new business to the UK construction industry during the period in question.
- Historically wide LIBOR spreads in recent months have coincided with three successive survey-record lows from Markit's Total Construction Activity Index. This suggests that cautious lending amongst commercial banks has disrupted lines of credit to the private sector.
- Official year-on-year GDP figures show that national output has been steadily slowing since mid-2007, and actually fell during the end quarter of 2008.

The deteriorating business conditions discussed above are reflected by Markit's seasonally adjusted Construction Employment Index, which has posted below the neutral mark of 50.0 since June. Cumulating

Chart 1: PMI Total Construction Activity Index vs. ONS Construction Value Added

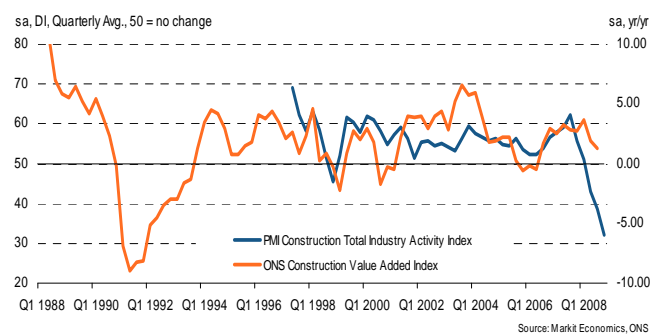


Chart 2: PMI Employment Index vs. ONS Construction Employment

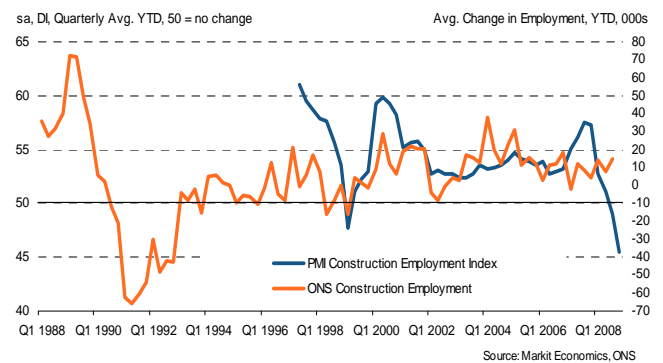
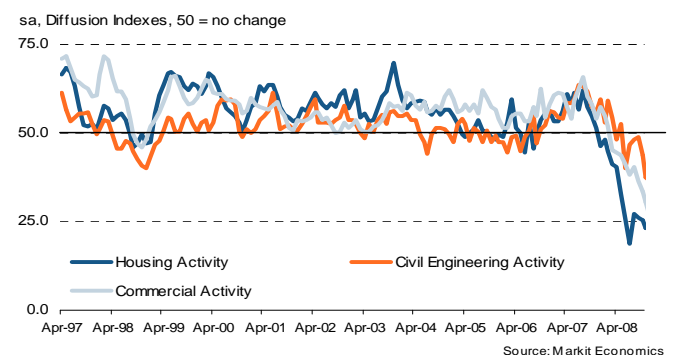


Chart 3: PMI Sub-Sector Activity Indexes



Markit's data for the year to date (Chart 2), indicated a marginal fall in staffing numbers across the industry in the year up to 2008Q3, and a marked contraction from Q1 to Q4. In contrast, when cumulated, the ONS construction employment series still signalled employment growth until Q3. However, Markit's employment index tends to lead the official series by one quarter, making it likely that the ONS series will change direction to show either stagnation or job losses during Q4, and a sharper downturn in 2009Q1.

Chart 3 shows the relative performances of the housing, commercial and civil engineering sub-sectors of the UK construction industry. Although none of the sub-sectors are faring well in the current financial and economic climates, the housing industry has suffered the most, and for the longest. This would suggest that the fastest staff shedding will be in this sector.

The UK Construction PMI is released on the 3rd February 2009. To find out how to receive data from the surveys, or obtain copies of the reports please contact economics@markit.com

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Appendix

Chart A: PMI New Orders Index vs. ONS Total New Work

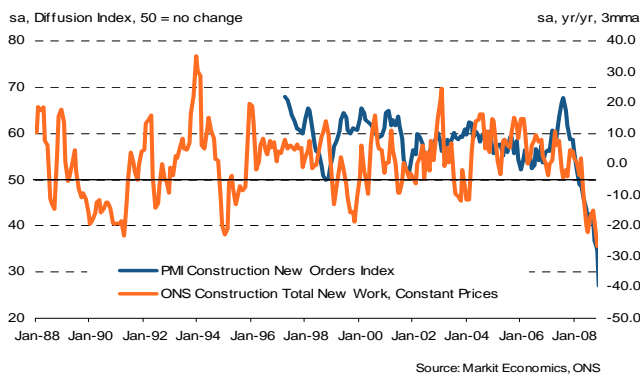


Chart B: PMI Total Construction Activity Index vs. LIBOR Spread

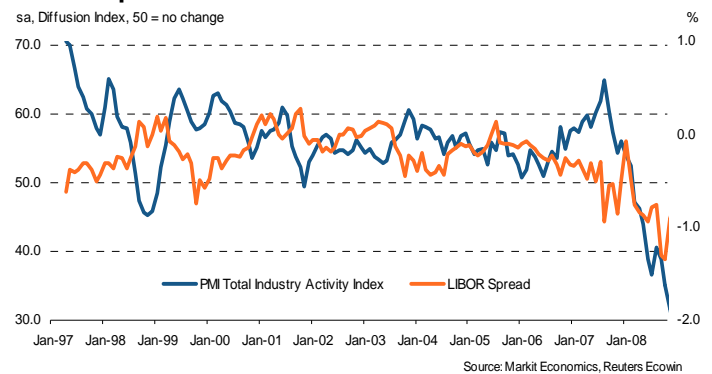


Chart C: PMI Total Construction Activity Index vs. ONS GDP

