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UK ECONOMIC UPDATE: CONSTRUCTION PMI, STEADY GAINS

Berenberg Macro Flash

Markit/CIPS Construction PMI, Aug 2015

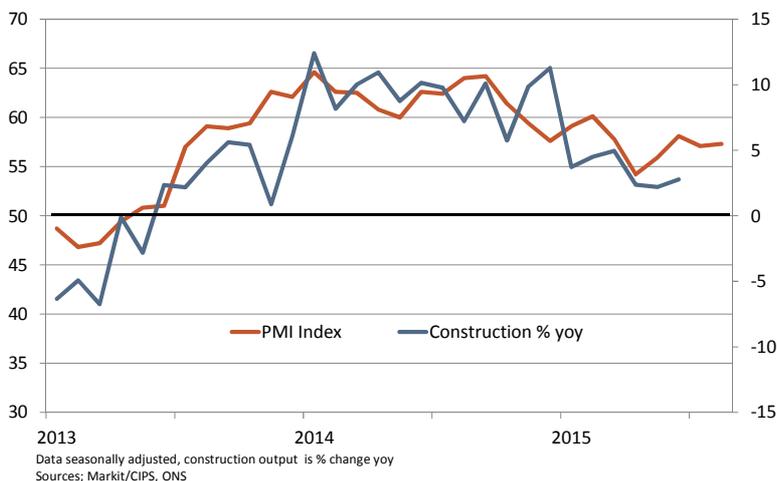
Actual	57.3
Previous	57.1
Consensus	57.5
Berenberg	57.5

UK construction output regains its balance. After a sharp dip in spring PMI data suggest that the stability in Q2 is carrying over into Q3. The headline index came in at 57.3, slightly below our expectations of 57.5, but up on the previous month of 57.1. With the headline rate above 50.0 for 27 consecutive months, construction is experiencing the longest duration of unbroken growth for over seven years. 53% of respondents expected business activity to increase over the next year, with a lack of capacity and strong tender demand common themes in the survey. This is positive news, construction has been slow to recover from the crisis and has been an area where the so called ‘output gap’ has been hard to measure. It was also reported that lower fuel and energy costs were helping to restrain input costs. Falling oil prices have impacted with a lag, but now the benefits are here, this will help to boost profit margins, and should spur on some needed investment to advance capacity.

Headline PMI data and construction output figures do not tell the full story. Whilst construction output overall has been growing on an annual basis for over 3 years and is nearing its pre-crisis peak in real terms, the cross sector performance is strongly varied. Boosted by public infrastructure programs such as the national infrastructure plan, infrastructure and public housing output are up by over 75% and 50% respectively. To contrast this, private industrial, which is linked to UK manufacturing, a laggard sector of the UK economy, is down by over 35% compared to pre-recession. Commercial output has struggled to regain its pre-2008 legs too, down by over 25%. Although London commercial output, office and retail in particular, were seen as a safe havens in the last few years, boosting demand, the rest of the UK has struggled to absorb an excess supply of units that accumulated in the good years. In 2007, industrial and commercial output accounted for 30% of overall construction output, now they account for only 20%.

Source: Markit/CIPS

Chart 1: Construction output vs PMI data





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