Construction work slows for another month as firms hit by climbing costs

A
ctivity in the UK construction sector contracted for the second month in a row in August as economists warn of trouble ahead for companies hit by rising costs and waning demand.

The S&P Global/CIPS construction purchasing managers' index (PMI), closely watched by the housebuilding sector, scored 49.2 in August, up fractionally from 48.9 in July but still below 50, meaning it is considered a decline.

The score came in below the consensus of analysts who predicted a reading of 52, signalling growth, according to Pantheon Macroeconomics.

New orders slowed to a crawl, while concerns about the sector and the wider economy led to a drop in confidence

Andrew Harker, economics director at S&P Global Market Intelligence, said: "The UK construction sector looks set to be in for a challenging period, according to the latest PMI data.

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“Not only did construction activity fall for the second month running, but a range of indicators from the survey pointed to further weakness ahead.

“New orders slowed to a crawl while concerns about the sector and the wider economy led to a drop in confidence.”

A sharp decline in activity in the civil engineering industry dragged down the overall score for the second month running.

A drop in commercial construction work, such as offices and hospitality buildings, marked the end of a period of growth stretching back for a year and a half, the report said.

The rising cost of raw materials and concerns over the potential for wider economic downturn impacted the sector and led to a drop in confidence among the businesses surveyed.

Construction companies also scaled back input buying for the first time since the first Covid wave hit – meaning they bought less materials for their inventories – which signalled a downturn in the sector, according to the index.

However, the knock-on effect of reduced purchases meant that there was less pressure on suppliers and consequently an easing of supply chain delays, it added.

Coupled with signs that inflation across the industry softened during the month, there was some positive news for the sector.

Dr John Glen, chief economist at the Chartered Institute of Procurement and Supply (CIPS), said: “There is some consolation for the sector as it readies itself for a future of high energy costs, however.

“Lower demand is leading to fewer purchases, downward pressure on input costs and more responsive supply chains.

“Together, these trends could eventually help to reverse inflation, but a prolonged dip in new orders will be a bitter pill for the sector to swallow.”

Economists at EY ITEM Club added that construction companies use a high amount of energy and so are at risk of bigger challenges ahead.

Martin Beck, chief economic adviser to the EY ITEM Club, said: “Although August’s survey pointed to some easing in inflationary pressures faced by construction firms, costs and prices continued to rise at historically strong rates, reflecting higher prices for cement, steel and other raw materials and rapid growth in pay.

“The cost of debt is climbing and, as a heavy energy user, the construction sector is particularly exposed to energy price rises.”