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Housebuilding recovery starts to crumble

Homebuilding has slumped for the first time after 12 months of expansion, according to the Markit/CIPS survey

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Building firms have laid off staff and cut rates for subcontractors to cope with a lack of demand, according to the Markit/CIPS purchasing managers' index survey.

Photograph: Graham Turner for the Guardian

The [gloomy outlook for the construction industry](#) was reinforced today by figures showing that housebuilding activity slumped for the first time in more than a year. Orders for building firms fell in September for the fourth straight month as the recovery in demand which has seen a brief recovery in the industry's fortunes went into reverse.

Firms laid off staff and cut rates for subcontractors to cope with a lack of demand, according to the Markit/CIPS purchasing managers' index (PMI) survey.

Confidence among builders also fell to its lowest point since last March as the industry feared the impact of public spending cuts to be laid out by the chancellor, George Osborne, later this month.

The monthly snapshot of the [construction industry](#) showed housing activity fell to 45.42 after reaching a peak of 62.76 in the summer. This ended 12 months of expansion and marked the lowest reading since July 2009. Any reading above 50 signals growth.



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Analysts said the industry's confidence was ebbing away as firms prepared for a slowdown in the economy and some of the biggest cuts in public spending in a generation.

David Noble, chief executive of purchasers' organisation CIPS, said: "While the construction sector is still growing, a sharp fall in confidence suggests work in the pipeline may not be so strong. Not since the onset of the recession have we seen optimism in such short supply."

The news came as research revealed that construction work on nearly 150,000 homes in London has been halted because of a lack of funding from either private or public sources. According to the London Rental Housing Company, many of these projects are no longer economically viable, and some are blighting the London skyline as they have stopped work mid construction.

Iain Hutchinson, founder of the housing company, which aims to provide homes for families who cannot get into social housing or on to the housing ladder, said: "There are over 300 'oven-ready' sites in London with planning permission but no schemes to move forward as the [housing market](#) is so weak and isn't recovering quickly."

The research shows the boroughs of Greenwich, Barnet and Barking and Dagenham have the highest number of schemes on hold.

The Markit report said that overall construction activity moved up from 52.08 to 53.79 in September, indicating the industry's recovery was maintained after a boost from commercial and civil engineering orders.

But Sarah Ledger, an economist at Markit and author of the report, said the rise reflected a brief spike in orders for commercial and civil engineering projects that was unlikely to last.

"The UK Construction PMI remained above the 50.0 no-change threshold in September, signalling sustained growth in the sector. However, new order growth slowed again, suggesting that, upon completion of existing contracts, activity may weaken," she said.

"Residential construction is already falling, while strong commercial and civil engineering figures are likely to be benefiting, at least to a degree, from 11th-hour budget spending. Given the impending public sector cuts, funds are unlikely to be replenished to the same extent.

"Confidence among construction companies suffered a sharp knock in September, with sentiment at its lowest level since March 2009. This was played out through a further marked cut in jobs. However, the overall economy is not forecast to return to the depths of the downturn recorded in 2008/2009, suggesting that constructors have had their fingers burnt by the severity of the recent recession and are perhaps overly cautious on their outlook for the sector."

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