

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Construction PMI[®]

March sees sharp and slightly accelerated decline in German construction activity

Key findings:

Total Activity Index ticks down from February's 39.1 to 38.3

Downturn in new orders shows tentative signs of easing

Renewed improvement in supplier delivery times

Data were collected 12-27 March 2024.

The German construction sector recorded a further sharp decrease in activity in March, with the rate of contraction even accelerating slightly, the latest HCOB PMI[®] survey compiled by S&P Global showed. Building companies remained downbeat about the year-ahead outlook as they continued to face headwinds to demand from high interest rates and economic uncertainty, although the downturn in new orders did at least show further tentative signs of easing at the end of the first quarter.

Latest data meanwhile indicated a renewed improvement in supplier delivery times, amid a sustained steep decline in purchasing activity. At the same time, weak demand across supply chains acted to dampen price increases, with average purchasing costs rising only marginally and at the slowest rate for four months.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – registered 38.3 in March, coming in well below the 50.0 no-change mark and down from February's five-month high of 39.1.

The main drag on total industry activity continued to come from the housing sector, where output levels fell sharply and at a slightly quicker rate than in February. Work on commercial projects also fell steeply, albeit at the slowest pace for five months. Civil engineering activity – the most resilient broad construction category so far this year – meanwhile showed renewed weakness, recording a solid contraction in March after coming close to stabilising the month before.

German construction firms remained deeply pessimistic about the outlook for activity over the next 12 months in March, citing a challenging economic and political backdrop. Expectations slipped to their lowest in the year to date, though they remained above the average recorded in 2023.

New orders continued falling sharply at the end of the first quarter, with demand being constrained by a combination of tight financial conditions, high prices and market uncertainty, according to surveyed businesses. The rate of decline in new work did however ease for the fifth month in a row, to show the slowest decrease since August last year.

By contrast, both employment and constructors' purchasing activity fell slightly more quickly in March than in the month before. Building companies also looked to reduce their use of subcontractors, which decreased at the joint-quickest rate since 2009. With subcontractors becoming more readily available, the rates they were able to charge decreased for the fifth time in the past six months.

Average prices paid for building materials and products meanwhile rose only marginally in March. The rate of inflation was the weakest seen since purchasing costs started rising again last December.

Lastly, March's survey indicated a renewed improvement in supplier performance. After lengthening in the first two months of

the year, average lead times on building materials shortened during the latest survey period amid reports of easing pressure on supply chains.

Comment

Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

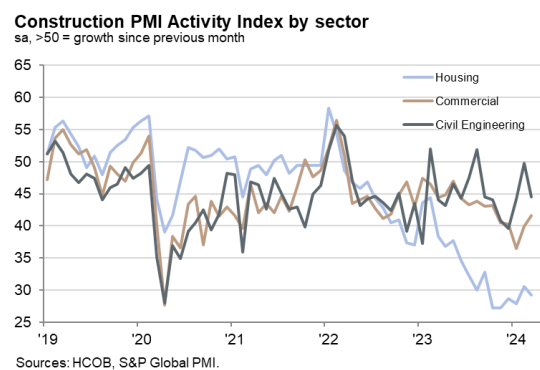
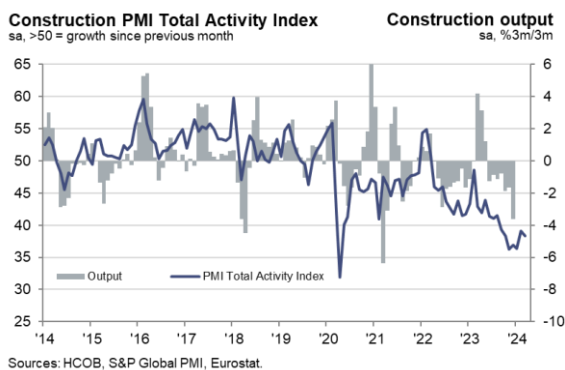
“Bad, worse, German construction. The search for the bottom has not yet ended. Instead, there was a reacceleration in the fall of activity in March, fuelled by the housing sector and this time also by civil engineering. Commercial activity is suffering too, but less than the month before. In this environment, constructors have trimmed their staff and subcontractors feel even more pain than they did over the last two months. Construction output fell by 2.1% last year and we expect it to decline at a similar rate this year.

“Sector wise, it’s still housing which is the biggest burden for the construction sector. So far in 2024, the average monthly fall in activity in this segment is more severe than in any other year since data collection began in 1999. By contrast, civil engineering appears comparatively more positive, with the index not significantly below the long-term average. In any case, there’s reason to anticipate that civil engineering could provide some stabilization to the construction sector. The German government’s issuance of new orders for the expansion of the rail network and energy grids is expected to have an impact starting from the second half of this year and extending into the following year.

“The decline in new orders has shown a gradual softening over the past five months. However, the pace of decline remains significant, indicating that a swift turnaround is unlikely in the near term. This sentiment is echoed by respondents, who are even more pessimistic about future activity compared to February. The rationale behind this outlook may stem from recent dashed hopes of early and substantial rate cuts by the European Central Bank (ECB), following the ECB’s decision to refrain from taking any action at their March meeting.

“It’s somewhat puzzling that construction costs continue to rise despite weak activity levels. However, there are signs that decreases may be on the horizon. In March, input prices grew at the slowest rate in four months and approached the threshold of 50.0, indicating stagnant prices. The heightened competition for fewer projects is expected to exert additional pressure on subcontractors and sellers of building materials. Nonetheless, it’s unlikely that input prices will revert to pre-COVID-19 levels, as there tends to be a general stickiness in price adjustments.”

-Ends-



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Note to Editors

The HCOB Germany Construction PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected September 1999.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Hamburg Commercial Bank AG

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