

NEWS RELEASE

MARKET SENSITIVE INFORMATION

Embargoed until 0930 CET (0830 UTC) 7 November 2023

HCOB Eurozone Construction PMI[®]

Eurozone construction activity falls at fastest pace in 2023 to date

Key findings:

Worsening demand conditions spark faster drop in output

Input cost inflation picks up to five-month high

Input buying falls at sharpest rate in three-and-a-half years

Data were collected 12-31 October 2023

Construction activity in the eurozone contracted at the sharpest pace in ten months in October, according to the latest HCOB PMI[®] survey data. In line with the trend seen for over a year, the housing sector remained a particular point of weakness. Driving the downturn in output was a marked decline in new orders, as demand conditions deteriorated. Although falling at a softer pace, the latest decrease in new business sparked the fastest contraction in purchasing activity since May 2020 and a further solid decline in employment. Meanwhile, business confidence worsened, with expectations at their joint-lowest since last December.

On the price front, input costs continued to rise, and at a quicker pace. That said, the rate of inflation was muted in the context of the series history.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — dropped from 43.6 in September to 42.7 in October, to signal the fastest decline in construction activity since December 2022.

The latest contraction extended the current downturn to a year-and-a-half, with firms in Germany and France registering a decrease in output. Moreover, German construction firms recorded the sharpest drop in activity since April 2020. Italy was alone in signalling growth in output.

All three monitored sub-sectors indicated downturns in activity, with the housing segment continuing to lead the decline. Rates of contraction also accelerated across the commercial and civil engineering sectors, with the two segments registering similarly strong declines.

Contributing to the further decline in total construction activity was a further decrease in new orders in October, with the current sequence of contraction extended to 19 months. In line with the trend for output, Italy was the only monitored country that recorded an expansion in new business. In contrast, Germany saw the sharpest drop in client demand for three-and-a-half years.

Input prices at eurozone construction firms increased further in October, and at a faster pace. Nonetheless, the rate of cost inflation was well below the series average and those seen earlier in the year. The pace of increase was the steepest for five months, however, as French and Italian firms recorded sharp upticks in operating expenses. German construction companies signalled a marked reduction in input prices, with costs falling for the sixth successive month.

Despite historically muted increases in cost burdens, construction firms remained in retrenchment mode, as input buying fell at the steepest pace in three-and-a-half years. A rise in Italian input buying was insufficient to offset further contractions at firms in Germany and France.

Lower input buying relieved pressure on supplier capacity, as lead times for materials were reduced for the sixth month running. The extent to which delivery times shortened was the least marked in the aforementioned sequence, however, as only

construction firms in Germany registered an improvement in vendor performance.

Meanwhile, weak demand conditions led firms to cut employment again in October. The rate of job shedding was broadly in line with that seen in September and solid overall. Construction firms in Germany saw the fastest drop in workforce numbers since April 2020, while companies in France cut headcounts at only a fractional pace. At the same time, construction businesses in Italy recorded a further expansion in staffing numbers.

The reduction in new order inflows led to firms remaining pessimistic in the outlook for output over the coming 12 months. Eurozone construction companies recorded the joint-lowest degree of confidence since December 2022. At the country level, negative sentiment was driven by German and French businesses, as the former saw a marked level of pessimism and the latter registered the most downbeat expectations regarding future output since May. Although construction firms in Italy stayed positive, the degree of optimism sank.

In response to the sharpest drop in subcontractor usage since May 2020, their supply rose at the quickest pace in almost 11 years. The greatest reduction in demand for subcontractors was seen in Germany, where availability grew at the steepest rate on record. Nonetheless, subcontractor rates continued to increase, albeit at the weakest rate since December 2020.

Comment

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

"The eurozone's construction sector is still in the doldrums. In October, total activity fell again significantly and this time faster than last month. Housing got hit the hardest, but commercial building and civil engineering also felt the pinch. New orders declined at a slower pace, but they are still waving a big red flag for new projects. Therefore, and fitting with downbeat business expectations, we are not holding our breath for a quick turnaround."

"The high interest rate sensitivity of the construction sector is unmistakable. Back in March 2022, when ten-year German Bund rates, the yield benchmark, began their serious climb, it took just two months for the eurozone's housing sector to start shrinking, according to the PMI data. We reckon rates will stay elevated, but the European Central Bank (ECB) is probably done with its moves, and there are signs that long-term rates won't be able to climb much higher from here. So, maybe next year, we will finally see the construction sector hit rock bottom before starting its recovery."

"Among the three big Euro countries, Italy's construction sector seems to be dancing to its own beat. Instead of getting caught up in the downturn drama like Germany and France, Italy's builders have made a comeback into growth territory. Their Total Activity Index reading of 51.8 is a world apart from Germany's 38.3 and France's 41.0. And it's not some random fluke, because this solid number is fueled by growth across the board, in housing, commercial building, and civil engineering."

-Ends-

HCOB Eurozone Construction PMI Total Activity Index

sa, >50 = growth since previous month

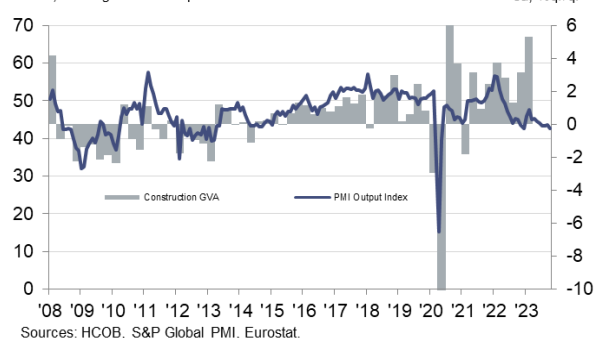


Construction PMI Total Activity Index

sa, >50 = growth since previous month

Construction Value Added

sa, %q/q



Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
M +49-16-0901-80792
cyrus.delarubia@hcob-bank.com

Katrin Steinbacher
Head of Press Office
Senior Vice President
T: +49-40-3333-11130
katrin.steinbacher@hcob-bank.com

S&P Global Market Intelligence

Siân Jones
Principal Economist
T: +44-1491-461-017
sian.jones@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

The HCOB Eurozone Construction PMI[®] is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 construction firms in Germany, France, Italy and Ireland. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data were first collected January 2000.

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, at the country level. 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. Eurozone level indices are calculated by weighting together the national indices. Weights are calculated from national construction value added.

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'.

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

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping. The bank is one of the pioneers in European-wide project financing for renewable energies and is also involved in the expansion of digital and other areas of important infrastructure. HCOB offers individual financing solutions for international corporate clients as well as a focused corporate client business in Germany. The bank's portfolio is completed by digital products and services facilitating reliable, timely domestic and international payment transactions as well as for trade finance.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

S&P Global (NYSE: SPGI)

S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

S&P Global is a registered trademark of S&P Global Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2023 S&P Global Ltd. All rights reserved. www.spglobal.com

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. www.spglobal.com/marketintelligence/en/mi/products/pmi

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, [click here](#).

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("Data") contained herein, any errors, inaccuracies, omissions or delays in the Data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the Data. Purchasing Managers' Index™ and PMI® are either trade marks or registered trade marks of S&P Global Inc or licensed to S&P Global Inc and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.