

## IHS MARKIT GERMANY CONSTRUCTION PMI®

### Construction PMI falls to three-month low in September

#### KEY FINDINGS

Total industry activity contracts at faster rate

Continued decline in new orders sees constructors extend job cuts

Sentiment towards future activity remains negative

Data were collected 11-29 September 2020.

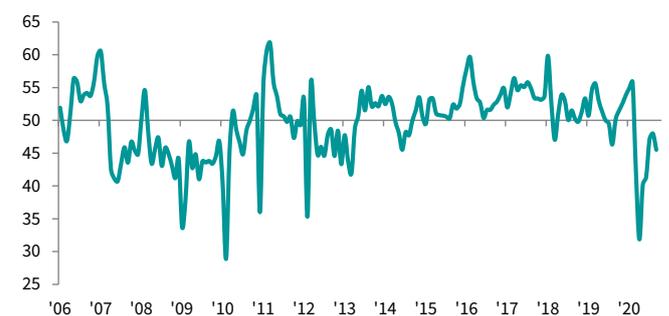
Latest PMI® survey data from IHS Markit showed a fresh setback for the German construction sector, with total industry activity falling at a faster rate in September. Furthermore, amid an ongoing decline in new orders and pessimistic expectations for activity over the year ahead, building companies continued to scale back workforce numbers during the month.

After rising in each of the previous four months, the headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – slipped to 45.5 in September from August's 48.0. This was the lowest reading for three months, although it remained notably higher than those seen between March and June.

The main drag on total industry activity in September was from the commercial building sub-sector, where work fell sharply and at the fastest rate for three months. Civil engineering activity also remained in contraction, albeit with the decline easing to the weakest since February. The only bright spot was housing activity, though even here data showed the softest growth for three months.

Undermining the construction sector's performance was a continued decline in new orders. Surveyed businesses often commented on a reluctance among clients to commit to new projects, often linked to the coronavirus disease 2019 (COVID-19) pandemic. September's decrease in order book volumes was marked and broadly in line with those seen in July and August.

Total Activity Index  
sa, >50 = growth since previous month



Source: IHS Markit.

Constructors reported worries about the pandemic's potential impact on client investment over the coming year. Accordingly, expectations towards future activity remained pessimistic, with sentiment even falling – albeit slightly – for the first time in six months.

Amid this backdrop, September saw a seventh straight monthly decrease in construction sector employment. The pace of job shedding was the quickest for three months, though still slower than seen throughout the second quarter. Building companies also reduced their use of sub-contractors.

Demand for construction materials and products fell further at the end of the third quarter. The decline in purchasing activity was slightly steeper than those seen in July and August, though still relatively modest compared with the rates of reduction recorded during the peak lockdown months. Lead times on inputs meanwhile deteriorated, and to the greatest extent since May, with anecdotal evidence highlighting ongoing supply issues related to the pandemic.

Turning to costs, latest data showed a slight uptick in the rate of purchase price inflation faced by German constructors to the highest since March. That said, it remained mild by historical standards. Similarly, September saw a marginally faster, but still only modest increase in rates charged by sub-contractors. Improved availability was a factor weighing on sub-contractors' pricing power.

## COMMENT

Phil Smith, Principal Economist at IHS Markit, which compiles the survey:

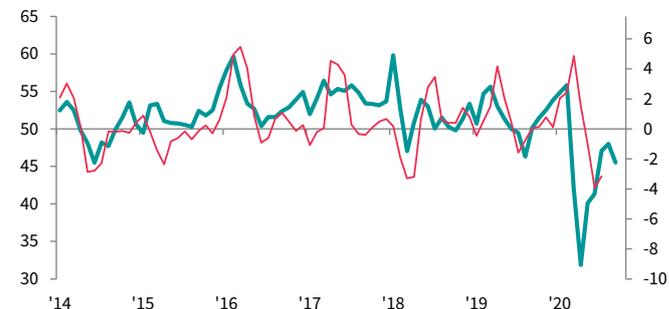
*"Construction activity had looked to be stabilising, so the drop in the PMI to a three-month low in September comes as a disappointment and shows the sector is not quite out of the woods yet.*

*"The downturn in the PMI owed almost entirely to a sharp reduction in commercial activity, with the current environment causing businesses to think twice about commissioning new work. Tellingly, constructors aren't confident of a turnaround any time soon and remain pessimistic about the outlook for activity. Housing activity remains the only real positive.*

*"After years of rising employment in the constructor sector, the survey has pointed to a sustained period of retrenchment. There's also less work for sub-contractors, which, for one thing, is helping to limit rises in fees and thereby overall costs for construction businesses."*

### Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

## CONTACT

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### Methodology

The IHS Markit Germany Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

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.

September 2020 data were collected 11-29 September 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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