

IHS Markit Germany Construction PMI®

Supplier shortages continue to weigh heavily on construction sector

Key findings

Activity and new orders decline solidly in July

Employment cut at quickest rate since last October

Input price inflation reaches record high amid material shortages

Data were collected 12-29 July 2021.

July data pointed to another solid contraction in Germany's construction sector as supply-chain issues continued to impede activity. Output and new orders fell sharply, while staffing levels fell at the quickest rate in nine months. With transportation bottlenecks expected to persist, firms maintained a pessimistic outlook towards activity over the coming 12 months.

On the price front, shortages in the supply of building products and materials led to a steep rate of cost inflation. In fact, input prices rose at a survey record rate for the fourth month in a row.

The headline IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – registered 47.1 in July, up fractionally from 47.0 in June. Despite easing to a four-month low, the pace of decline in activity was still solid.

Underlying data continued to show varied trends across the three main categories of construction monitored by the survey. Housing activity remained the only area of growth, with the rate of expansion quickening to an eight-month high, while the civil engineering category saw a faster reduction. Commercial activity remained in a steep downturn and was the worst-performing sub-sector, although, there were signs of moderation with the fall the softest in four months.

Surveyed respondents reported taking on less new work in July, which was often attributed to raw material shortages, and a general reluctance to spend amongst clients. Overall, new orders fell sharply, but the rate of decline was the softest since March.

Transportations bottlenecks were again prevalent, with 73% of respondents reporting longer lead times in July. The degree at which lead times lengthened was the fourth-most marked in the

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Germany Construction PMI Total Activity Index
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"Construction activity in Germany remained deep in contraction territory in July as the sector continues to be constrained by supply bottlenecks and sharp rates of inflation. Cost have risen at record rates over the last four survey periods, with the pace of increase quickening sharply in July."

"Meanwhile, civil engineering and commercial activity saw solid declines once again. The only real area of encouragement is housing, where its recovery gained momentum."

"Constructors remain widely pessimistic about their growth prospect, with shortages at the centre of negativity. With supply chain pressures expected to persist, and COVID-19 cases rising across the globe, we are likely to see sharp price pressures continue as we head into the second half of the year."

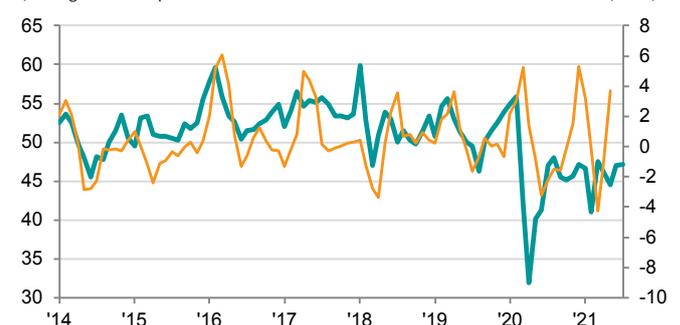
near 22-year history of the survey, surpassed only by those seen in April to June.

Shortages in the supply of materials led to intense cost pressures during July. Anecdotal evidence pointed to higher prices across a range of building products and materials including steel and lumber. As a result, input prices rose sharply and at a record rate for the fourth month running. Higher costs and a weak demand led to a third monthly contraction in purchasing activity in Germany's construction sector, although, the decline was only marginal.

Meanwhile, the non-replacement of voluntary leavers resulted in another reduction of staffing levels. Excluding the fractional uptick in January, job shedding has been seen in each month since March 2020.

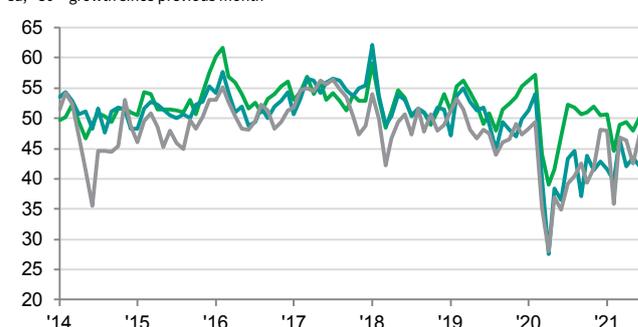
Finally, sentiment surrounding activity over the coming year remained in negative territory. Material shortages and the associated price pressures weighed heavily on outlook. Although, firms were notably less pessimistic than they have been in recent months.

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



Sources: IHS Markit, Eurostat.

Activity Index by sector
Residential / Commercial / Civil Engineering
sa, >50 = growth since previous month



Source: IHS Markit.

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Survey methodology

The IHS Markit Germany Construction PMI® is compiled by IHS Markit 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 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@ihsmarkit.com.

Survey dates and history

July data were collected 12-29 July 2021.

Survey data were first collected September 1999.

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