

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Construction PMI®

Downturn in construction sector extends into June as housing activity post sharpest drop since February 2010

Key findings:

Building sector hit by rising interest rates and economic uncertainty

New orders fall at second-fastest rate since January 2009

Decline in input costs gathers pace as supply pressures ease

Data were collected 12-29 June 2023.

Business conditions across the German construction sector took a turn for the worse in June, with building companies recording faster declines in both activity and new orders amid a backdrop of rising interest rates, customer uncertainty and wider inflationary pressures, the latest HCOB PMI® survey compiled by S&P Global showed.

With business expectations in the sector also falling, data showed constructors firmly in retrenchment mode as job losses increased and purchases of building materials and components fell sharply.

Another record improvement in input delivery times was meanwhile registered at the end of the second quarter as supply chain pressures continued to ease, while input costs fell at the fastest rate since May 2009.

The **HCOB Germany Construction PMI® Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – dropped from May's 43.9 to 41.4 in June, signalling a noticeable acceleration in the rate of decline in building activity across the eurozone's largest economy. The latest reading signalled the fastest rate of contraction since February 2021.

As has been the case in throughout most of the past year, housing activity was the worst-performing construction category. Here, activity fell at the fastest rate since February 2010. Elsewhere, there were identical rates of decline in both commercial and civil engineering activity, which in each case were faster than those seen in May.

One of the main headwinds facing the construction sector was rising interest rates, anecdotal evidence showed. Alongside heightened customer uncertainty and still-high building prices, it led to further strain on demand for construction work, as highlighted by a further steep drop in new orders. The rate of decline in new work was in fact the second-steepest seen since January 2009, after that recorded in April 2020.

Businesses generally expected the challenging environment to continue at least over the next year, with more firms anticipating a drop in activity over the next 12 months than those forecasting a rise. Moreover, constructors were the most pessimistic about the outlook so far this year.

Employment in the building sector fell for a fifteenth straight month in June as firms adjusted to lower workloads and the prospect of a prolonged slowdown in demand. Furthermore, the rate of job shedding quickened to the fastest since last September.

June also saw German constructors make deeper cuts to their purchasing activity, which showed the sharpest decline for more three years.

Lower demand for building materials and products helped to alleviate the pressure on construction supply chains. This was underscored by a continued marked improvement in lead times on purchases. In fact, the extent to which delivery times quickened in June surpassed the previous month's series record.

Easing supply-demand imbalances meanwhile led to further downward pressure on constructors' input costs, which fell for the second month running and at the quickest rate for over 14 years. It follows steep cost inflation throughout 2021 and 2022.

Comment

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

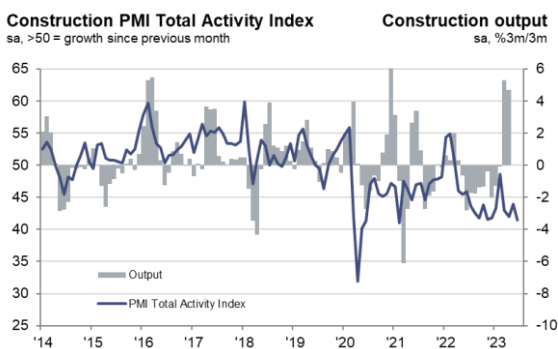
“Activity in the construction sector in Germany declined at an accelerated rate in all sectors in June. Our HCOB nowcast model for gross value added in the construction sector, which takes into account the PMI values, now indicates a significant slump for the second quarter of around 2%.

“According to the PMI survey, the decline in construction activity has deepened especially in the residential construction sector, but also in commercial real estate and civil engineering. It now seems definitively clear that the surprising growth in this sector reported by Destatis for Q1 was just a weather-related outlier, and that the construction recession that started in Q2 2022 has not ended.

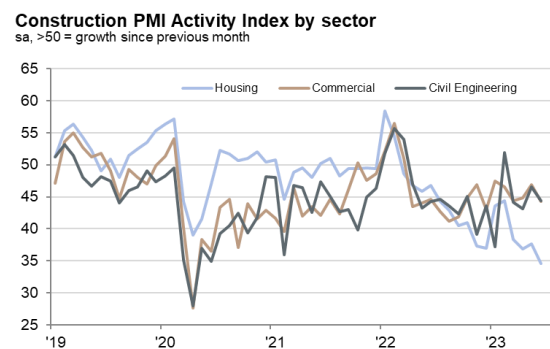
“There is nothing to suggest that the situation will improve in the near future. For example, new orders declined at an accelerated pace in June and layoffs have also increased. In line with this, construction companies are purchasing less material, purchase prices have fallen at an accelerated rate and delivery times have shortened further. In view of the weak demand situation, residential property prices have fallen continuously since the middle of last year, according to Destatis, and in Q1 were down 6.8% year-on-year.

“In this environment, it is not surprising that even more companies than in the previous month expect less construction activity in a year’s time, suggesting the weak phase may continue for a while. All in all, everything points to a longer lean period, especially as it is still unclear whether the European Central Bank will raise interest rates once, twice or even more times.”

-Ends-



Sources: HCOB, S&P Global PMI, Eurostat.



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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@ihsmarkit.com.

Hamburg Commercial Bank AG

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