NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Construction PMI®

Decline in construction activity eases in February

Key findings:

Total industry activity falls at slowest rate for five months

Downturns soften in each broad sector, but particularly in civil engineering

Input cost inflation at 11-month high as delivery times lengthen

Data were collected 12-28 February 2024.

The German construction sector remained firmly in contraction territory midway through the opening quarter of the year, although rates of decline in activity, new orders and employment all eased, the latest HCOB PMI® survey compiled by S&P Global showed. The slower fall in total industry activity partly reflected a near-stabilisation in civil engineering work.

Input prices meanwhile rose for the third month running, with the rate of cost inflation hitting the highest for nearly a year but remaining low by historical standards. The rise in purchasing costs coincided with a second successive monthly lengthening of supplier delivery times and belied a sustained downturn in demand for building materials.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – ticked up to a five-month high of 39.1 in February, from January's 36.3. Nevertheless, the latest reading was still well below the critical 50.0 no-change mark and shy of its average over the current sequence of decline that stretches back to April 2022.

February data showed slower rates of decline in each of the three broad construction categories monitored by the survey. Civil engineering activity in fact fell only factionally, its rate of decrease having slowed notably since January. Rates of contraction in both housing and commercial activity remained sharp, particularly that of the former, but they eased to the weakest since last September and December, respectively.

Activity in the construction sector continued to be dragged down by a lack of new work. Panellists cited ongoing headwinds to demand from client uncertainty, price pressures and general weakness in the economy. New orders once again fell at a sharp rate, but one that was nevertheless the least marked for six months.

The pace of job shedding likewise moderated across the construction sector in February, showing the smallest drop in employment since last July. Still, the decline in workforce numbers continued a trend of shrinking staffing capacity stretching back almost two years. Subcontractor usage also fell, contributing to an improvement in their availability. However, February saw a renewed – albeit marginal - rise in rates charged by subcontractors following a four-month sequence of decline.

Average input prices faced by constructors also increased in February, the third month in a row in which this has been the case. The rate of cost inflation crept up to its highest since March 2023, although it was still subdued by historical standards. There were some mentions of supply bottlenecks and shipping delays driving up costs, alongside the pass-through of increased toll charges and high inflation generally. Supplier delivery times lengthened again in February, in a reversal of the trend seen throughout most of 2023. That was despite a continued decline in demand for building materials and products.

Looking ahead, German constructors remained downbeat about the outlook for activity over the coming year, citing economic frailty and domestic politics as potential constraints. Whilst expectations improved slightly to the highest since last April, pessimists continued to far outnumber optimists.

Comment

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

“These numbers continue to paint an ugly picture. True, the PMI has gone up by almost 3 points which is not negligible. However, the index remains still deep in recessionary territory and it is only a one-month movement for now.

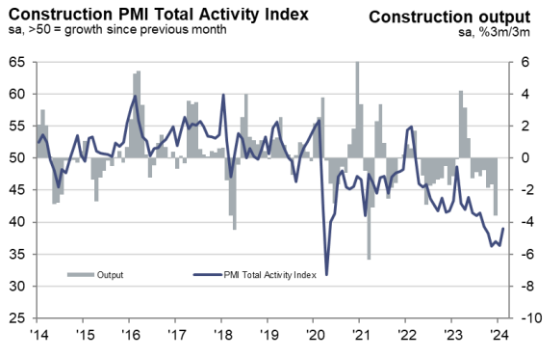
“Housing remains the main driver of the recession in construction, followed by commercial real estate activity. A silver lining comes from civil engineering as activity has remained more or less the same as in January, instead of continuing its hefty fall of the previous five months.

“Growth territory remains far away. This is best indicated by new orders which have been shrinking at a fast pace for two years running. The fall softened a bit over the last three months. But this means only that the deepening of the crisis has lost some momentum, while the crisis is far from over.

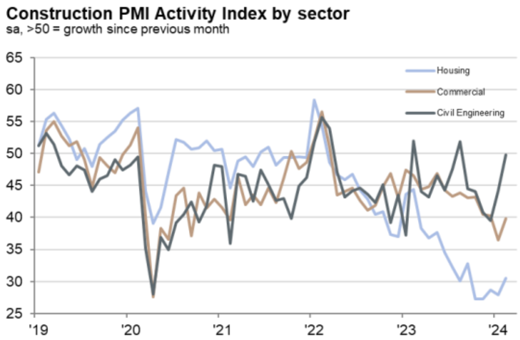
“One thing that does complicate the longed-for recovery is the fact that input prices are on the increase again for three months straight. Subcontractor rates rose in February for the first time in five months. This means that construction companies are not only suffering from the high interest rate level but also from increasing costs. Given the weak economy, it is difficult to build residential units that are both attractive for the builder and affordable to the people.

“The assessment about future activity has been negative almost continuously since the start of Covid-19 in 2020. It is as if pessimism has almost entered into the DNA of the construction sector. However, we know that better times will eventually come back. Just as an example, during 2016 to 2019, construction businesses were much more positive on the future. What could possibly trigger a change for the better? Lower interest rates are certainly one ingredient as well as a general economic recovery. Interest rate cuts, though probably not too many, are around the corner and we are convinced that the recession will be over soon.”

-Ends-



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



Sources: HCOB, S&P Global PMI.

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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

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.

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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.html

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