

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Construction PMI[®]

Downturn in construction activity gathers pace in September amid near-record drop in new orders

Key findings:

Total activity falls at quickest rate for nearly three-and-a-half years

Job cuts deepen as business confidence plunges to near-record low

Input costs decline at joint-quickest rate in series history

Data were collected 12-28 September 2023.

Conditions across Germany's construction sector continued to deteriorate at the end of the third quarter, according to the latest HCOB PMI[®] survey compiled by S&P Global. Declines in activity and employment accelerated amid a near-record drop in inflows of new work, with surveyed firms highlighting particular weakness in the housing sector. Firms' expectations fell to one of the lowest levels in the series history.

The slump in demand fed through to another sharp drop in constructors' purchasing activity, which in turn contributed to a steep decline in average purchase prices – the joint-quickest on record – and another notable improvement in supplier delivery times.

September saw the **HCOB Germany Construction PMI[®] Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – move further into sub-50 contraction territory, falling from August's 41.5 to 39.3. This was its lowest reading since April 2020.

Housing activity was once again the worst-performing area of construction by far. The rate of decline in work on residential building projects eased since August, when it reached the quickest for 13-and-a-half years, but it remained historically sharp. Commercial activity fell markedly and to the greatest extent since September last year, while civil engineering returned to contraction following a brief uptick the month before.

A sharp and accelerated drop in new orders underscored the challenging demand conditions facing constructors. Reports from surveyed firms highlighted headwinds from tighter financial conditions, still-high cost pressures and uncertainty among customers. The decline in new business was in fact the fourth-fastest on record.

Constructors' expectations for future activity likewise took a turn for the worse in September. Since data collection began in 1999, confidence has been lower on only two occasions: November 2008 and October 2022. Around 59% of firms predicted a decline in activity over the next 12 months, versus only 4% anticipating a rise.

With workloads declining and businesses growing increasingly pessimistic about the outlook, job losses across the construction sector increased in September. Employment fell sharply and at the fastest rate since April 2020. Building companies reduced their use of subcontractors considerably, which in turn contributed to a near-record improvement in availability and a virtual stalling of the increase in rates charged.

Average purchase prices faced by German constructors meanwhile fell at the joint-quickest rate in the survey's history, matching that recorded in April 2009. Firms reported a number of items down in price, with steel and insulation mentioned most often. Surveyed firms highlighted the influence of falling demand for building materials and products, which also led to quicker delivery times. Supplier performance improved markedly once again in September, albeit to the least extent for five months.

Comment

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

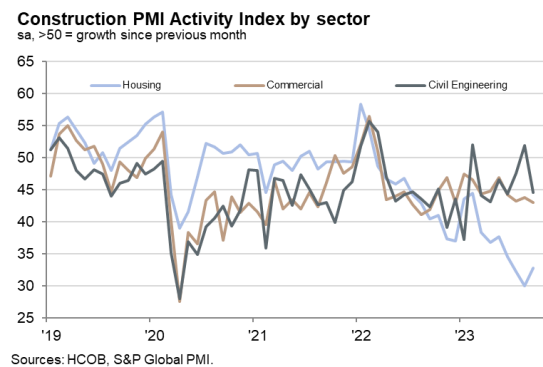
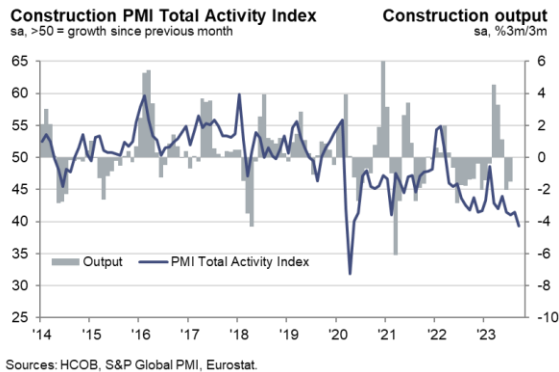
“The German construction sector is sinking deeper into the quicksand. Residential construction remains in a severe downturn, and the commercial real estate construction index has fallen further into contraction territory. Meanwhile, last month’s whisper of hope, that civil engineering might come to the rescue of the German construction sector, fizzled out at the end of the third quarter. Having said this, over the next few years, civil engineering will most probably be supported by more public and private spending on transport infrastructure, as announced by the government.

“The surveyed companies report anecdotally that they are still concerned about financial straitjackets from high interest rates, cost pressures that won’t quit, and that they and their customers alike are drenched in uncertainty. This tallies with the deeper fall in the activity index, which is now at the lowest level since 2020.

“Hold onto your hats, the rollercoaster is not done. New orders plummeted, the index hitting a low we haven’t seen since the great recession of 2008/09, except for the initial COVID shock. Thus, buckle up for further downward pressure on activity in the coming months. No wonder that the lion’s share of firms sees a future with fewer cranes in the sky a year from now.

“The recession script is playing out – subcontractors are easier to bag and losing their grip on pricing, while input cost decreases are quickening. Deeper job cuts tell the same story.”

-Ends-



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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.

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