

News Release

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S&P Global Germany Construction PMI®

Construction sector conditions continue to worsen, despite slower decline in activity

Key findings

Headline Total Activity Index registers 43.8 in October, from 41.8

Costs continue to soar as input price inflation pushes higher

Business confidence slumps to second-lowest on record

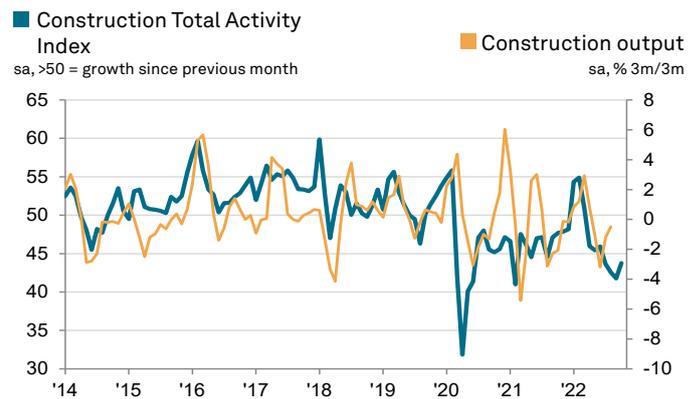
German construction activity remained in contraction in October, latest PMI® data from S&P Global showed, with the sector continuing to be hit hard by sharply rising costs and hesitancy among clients. Headwinds to demand were compounded by increasing interest rates and the prospect of recession, leading building companies' expectations to slump to the second-lowest on record. Firms reported further retrenchment on the employment front, although, as was the case with activity, the rate of decline eased.

The headline S&P Global Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered below the 50.0 no-change mark for the seventh month in a row in October, signalling a sustained downturn in the sector. At 43.8, the latest reading was up from September's 19-month low of 41.8 and the highest since June, but nonetheless it remained indicative of a solid rate of decline.

The reduction in activity remained broad-based by sector and continued to be led by housing activity, which fell at a sharp rate that was only slightly slower than September's near two-and-a-half year record. In the commercial and civil engineering segments, the rates of decline in activity were similarly solid but eased notably in both cases.

Weighing on output levels in October was a further fall in inflows of new work, the rate of decline of which remained much quicker than that of total industry activity (although it also eased compared to September). Surveyed businesses commented on a number of factors serving to suppress demand, including soaring prices, economic and geopolitical uncertainty, and rising interest rates.

With German constructors expecting these challenges to persist over the year ahead, potentially leading to a recession in the country, sentiment towards the outlook for activity remained bearish. Confidence was in fact at a near-record low, coming close to the nadir during the global financial



Sources: S&P Global, Eurostat.
Data were collected 12-28 October 2022.

Comment

Phil Smith, Economics Associate Director at S&P Global Market Intelligence, said:

"October's construction survey produced another set of dismal results, not least showing a further drop in business confidence to the second-lowest on record as building firms faced growing challenges around both supply and demand."

"On the supply-side, material shortages remain an issue, while the soaring cost of energy has exacerbated price pressures across the sector."

"With prices already sky-high and still rising, increasing borrowing costs and the uncertain economic outlook have put a further squeeze on demand and dampened the outlook for the building sector."

"According to the PMI surveys, construction is one area where we've already seen some staff shedding, and the decline in employment continued into October."

"The extent of the downturn in total industry activity eased somewhat in October, but with the economy appearing to be heading for recession over the winter, it's likely that further weakness lies ahead."

PMI®

by S&P Global

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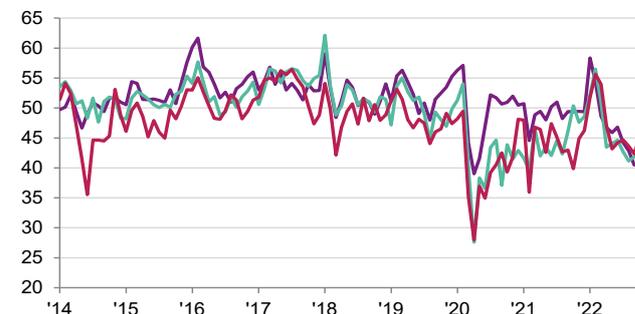
crisis.

October's survey showed relentless pressure on German construction companies on the cost front. The rate of input price inflation quickened (albeit slightly) for the second month in a row, taking it to the highest since June and further above its historical series average. Anecdotal evidence highlighted the influence of soaring energy costs. Higher raw material prices were also mentioned by some firms, amid ongoing reports of supply shortages. That said, reflecting a seventh straight monthly decrease in constructors' purchases of construction materials and products, delays in the receipt of inputs eased to the joint-lowest since December 2020.

As well as reducing buying levels, German building companies also scaled back both their staffing numbers and the use of subcontractors during October. The decline in employment, which panellists partly linked to the non-replacement of leavers, was the seventh in as many months, albeit the least marked since July. Subcontractor rates meanwhile rose sharply, but at a slower pace than in September as pressure on availability eased somewhat.

- Housing Activity Index
- Commercial Activity Index
- Civil Engineering Index

sa, >50 = growth since previous month



Source: S&P Global.

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Survey methodology

The S&P Global 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.

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