

NEWS RELEASE

MARKET SENSITIVE INFORMATION

Embargoed until 0930 CEST (0730 UTC) 6 September 2023

HCOB Germany Construction PMI[®]

Construction sector malaise continues in August as housing activity posts sharpest fall in 13-and-a-half years

Key findings:

Downturn led by plummeting housing activity; civil engineering ticks up

Business expectations sink to nine-month low

Near-record fall in input costs as pressure on supply chains eases

Data were collected 10-30 August 2023.

A deepening decline in housing activity continued to weigh heavily on the German construction sector midway through the third quarter, according to the latest HCOB PMI[®] survey compiled by S&P Global, with work on residential building projects falling to the greatest extent in 13-and-a-half years as rising interest rates took their toll. Building companies remained in retrenchment mode, making notable cuts to both employment and purchasing activity.

There was some respite in the form of a near-record fall in input costs, amid reports of competition among suppliers and a reduction in raw material prices. At the same time, input lead times continued to improve rapidly. Still, the mood among constructors darkened as expectations towards future activity sank to the lowest in nine months.

The **HCOB Germany Construction PMI[®] Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – came in at 41.5 in August, up slightly from July's 29-month low of 41.0. Despite rising to a three-month high, the index was still well below the 50.0 no-change threshold and thereby indicative of a sharp rate of decline in total activity.

The principal drag on output came from the housing sector, where activity fell to the greatest extent since February 2010. There was also a marked drop in work on commercial building projects, albeit with the rate of decline easing slightly. Civil engineering activity meanwhile went against the trend and returned to growth for the first time in six months.

The construction sector continued to be buffeted by a combination of rising interest rates and caution among customers, which contributed to a further steep drop in new orders in August. The rate of decline did however ease for a second straight month to the weakest since February.

Building companies reacted to reduced workloads by cutting staffing numbers for a seventeenth straight month in August. Moreover, the rate of decline in employment quickened to the fastest in over three years.

Similarly, latest data showed a sharp and accelerated downturn in purchasing activity across the German construction sector midway through the third quarter. The drop in demand for materials was reflected in a sixth successive monthly improvement in vendor delivery times as pressure on supply chains eased. The rate at which lead times quickened remained among the fastest in the series history despite easing further from June's record.

Average input costs faced by German constructors meanwhile fell at the second-fastest rate since data collection began in 1999, the degree of discounting coming close to that seen in April 2009 during the global financial crisis. The fourth consecutive monthly fall in purchase prices follows a period of elevated cost inflation throughout 2021 and 2022. Rates charged by subcontractors meanwhile rose at the slowest rate for nearly three years amid a further improvement in their availability.

Lastly, August's survey showed growing pessimism among German constructors. Dropping for the fourth month in a row, expectations towards future activity fell to the lowest since November last year and further below the long-run average.

Comment

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

“In August, construction work kept on plummeting at a fast pace, primarily due to a sharp decline in house building. The dismal condition of this sector can be traced back to a blend of higher interest rates, real income erosion from inflation, and needless bureaucratic obstacles. It’s not just that the government’s goal of 400,000 residential units won’t be achieved this year. It also seems like Germany will fall considerably short of the roughly 290,000 units that were constructed last year.

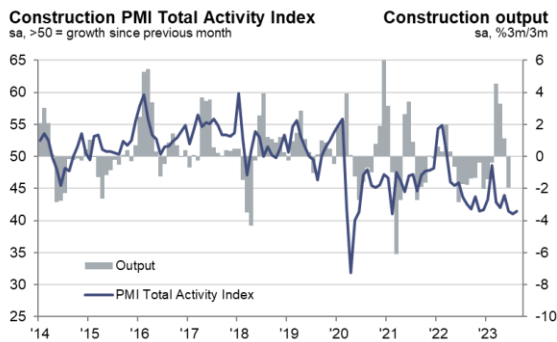
“Expectations among companies point to a much weaker activity level in twelve months’ time, which fits to the continued sharp decrease of new orders and the fact that material buying has been trimmed down more rapidly.

“The overall miserable environment is causing input prices to decline more rapidly. In the same vein, subcontractor rates have increased again at a softer rate, continuing a trend that has been underway since the middle of last year.

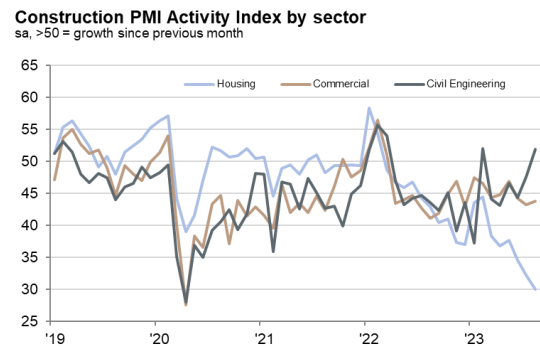
“The construction sector is scaling back its workforce at a less rapid rate than its overall activity. The reason could be the consistently tight labour market we’ve had so far which is now adjusting to a somewhat more equilibrated level.

“Civil engineering is a bright spot in the construction sector, as activity has increased in August. However, we shouldn’t draw broad conclusions from a solitary number, as activity in this sector has a history of being quite erratic.”

-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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