

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Eurozone Construction PMI<sup>®</sup>

## Sharpest fall in eurozone construction activity in 2023 so far

### Key findings:

Both output and new orders fall at fastest pace since last December

Supplier performance improves to greatest extent since April 2009

Weakest cost pressures in over seven years

Data were collected 12-30 June

The eurozone construction sector contracted at a stronger pace at the end of the second quarter of 2023 according to the latest HCOB<sup>®</sup> survey data, as overall activity and new orders fell at the steepest rates in the year so far. Weaker demand for construction materials and other inputs reduced the pressure on supply chains, which allowed for a further shortening in lead times that was the most marked in over 14 years. The reduced demand for inputs also eased inflationary pressures in the sector, as businesses signalled the slowest rise in input prices since March 2016, when the current sequence of inflation began.

At 44.2 in June, the HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — fell slightly from 44.6 in May to signal a reduction in overall construction activity for the fourteenth consecutive month. The pace of decline was the strongest seen since December 2022 and sharp overall.

The aggregate reduction in the eurozone was led by a marked deterioration in activity in Germany that was the steepest seen since February 2021. There was also a further strong, albeit softer reduction among French firms, while companies in Italy signalled only a modest reduction in total activity.

On a sub-sector basis, the strongest decrease in activity was reported in residential construction, where the rate of reduction was the most marked seen for six months. The pace of decline in commercial work was unchanged from May's five-month low, while civil engineering activity contracted at the slowest pace since February.

The amount of new business received by eurozone construction firms fell again in June, thereby stretching the current period of decline to 15 months. The rate of reduction quickened slightly from May to reach the sharpest since the end of 2022. Lower volumes of new work were often linked by panellists to higher cost pressures due to inflation and rising interest rates, as well as a lack of investment across the construction sector. Construction companies in Germany noted the strongest reduction in sales since the nadir of the COVID-19 pandemic in April 2020, while firms in France saw a sustained marked contraction. Italian firms meanwhile saw a renewed marginal uptick in new orders that was the first for seven months.

Employment at eurozone construction companies fell further during June. The rate of job shedding was solid, and the strongest since May 2020. Data broken down by country showed that workforce numbers fell at a quicker pace in France and Germany. Italian companies meanwhile posted a considerably softer upturn in staffing levels in comparison to the previous survey period.

Purchasing activity undertaken by eurozone construction companies fell for the thirteenth successive month in June. The rate of contraction was sharp, having accelerated since May to the quickest in just over three years. Input buying fell at a quicker pace in both Germany and France, with the former seeing the steepest fall since April 2020. Construction firms in Italy meanwhile saw the softest decrease in the current seven-month sequence.

Supply chains across the eurozone construction sector saw a notable improvement at the end of the second quarter. Average lead times shortened to the most marked extent since April 2009 and solidly overall. Data split by country showed a series record improvement in vendor performance in Germany, while shorter lead times were signalled in France for the first time since January 2018. Conversely, Italian firms saw a slightly stronger deterioration in supplier performance.

June survey data indicated a further easing in the rate of input cost inflation faced by construction companies in the eurozone. The latest increase in expenses was only modest and the softest recorded since March 2016. Firms in Germany saw prices fall for the second successive month and at one of the sharpest rates on record, while French inflation eased to a two-and-a-half year low. Cost burdens in Italy rose at a stronger pace, however.

The Future Activity Index was unchanged in June, indicating a sustained and sharp degree of pessimism among eurozone construction firms. Downbeat forecasts regarding the year-ahead outlook for activity were often linked to tight financial conditions, a lack of investment and economic uncertainty. Pessimism was signalled in Germany and to the greatest degree in six months, while French firms expected activity to stagnate. Only Italian firms were optimistic that output would increase.

The usage of subcontractors at eurozone construction companies declined for the fifteenth straight month in June, with the rate of reduction was unchanged from May and marked. The availability of subcontractors meanwhile rose for the third month in a row.

Rates charged by subcontractors continued to increase in June, and at a slightly stronger rate than in May. However, the quality of outsourced work deteriorated further, albeit to the least extent since July 2020.

## Comment

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

*“The construction sector in the eurozone remains under heavy pressure and is unlikely to recover in the coming months. The HCOB PMI for the construction sector has fallen again from an already low level and the same applies to new orders. The lack of confidence is confirmed by the corresponding PMI expectations as well as an accelerated reduction in employment. Activity in the residential construction sector has fallen particularly sharply, while civil engineering is the most relatively stable, as it generally benefits from orders from the public sector.”*

*“In this environment, delivery times are returning gradually to normal and the availability of subcontractors has also been improving for several months. The easing is also bit by bit making itself felt in prices. Input prices, for example, have been rising at a much slower rate, and the prices charged by subcontractors have also been showing a decline in their bargaining power for more than a year.”*

*“Looking at the three largest economies in the euro zone, the downturn is deepest and longest in progress in Germany, followed by France. By contrast, Italy still looks the most stable and, according to official data, has not yet experienced a recession in this sector in the past twelve months, unlike Germany and France.”*

*“An end to the downturn can probably be expected at the earliest when it is clear that the European Central Bank (ECB) will not raise its key interest rates any further and that long-term yields will also stop rising. While the ECB is approaching its “terminal rate,” there is still room for loftier long-term yields given the relatively high inflation rate. Higher interest rates have been cited as an important burdening factor by some of the companies surveyed for many months now.”*

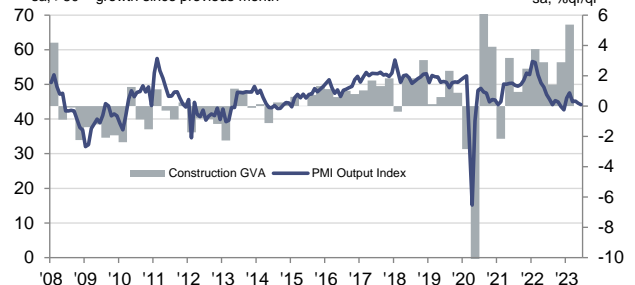
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HCOB Eurozone Construction PMI Total Activity Index  
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Construction PMI Total Activity Index  
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Eurostat via S&P Global Market Intelligence.

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## Note to Editors

The HCOB Eurozone Construction PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 construction firms in Germany, France, Italy and Ireland. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data were first collected January 2000.

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, at the country level. 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. Eurozone level indices are calculated by weighting together the national indices. Weights are calculated from national construction value added.

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'.

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](mailto:economics@ihsmarkit.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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