

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Construction PMI[®]

Eurozone construction activity suppressed by sustained weakness in new orders

Key findings:

- Marked declines in both activity and new orders
- Input prices rise at quickest pace for eight months
- Strongest degree of pessimism since November 2022

Data were collected 06-22 December 2023

The economic performance of the eurozone construction sector remained gloomy at the end of 2023, according to the latest HCOB PMI[®] survey data, as companies continued to reduce activity owing to sustained and marked declines in new orders. In response, firms continued to scale back input purchases, reduced employment levels and signalled marked pessimism regarding the year-ahead outlook for activity. Housing was the main drag on overall construction activity, though all three monitored segments saw contractions in December. Despite softer demand for inputs, the rate of input price inflation was the strongest seen since April.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — edged up from 43.4 in November to 43.6 in December, marking the softest deterioration in activity for three months, yet one that was still robust overall.

Leading the downturn was a marked reduction in Germany, while France saw a steeper decline. Italy meanwhile bucked the wider trend to record the strongest expansion since April 2022.

As has been the case since May 2022, all three broad areas of the eurozone construction sector recorded a reduction in activity. Housing remained the weakest link, despite the rate of decline easing to a three-month low, while the contraction in civil engineering activity also softened. There was a stronger and marked decline in commercial work, with the rate of reduction the steepest since July.

Eurozone construction companies reduced output volumes in tandem with ongoing deteriorations in demand. New orders decreased for the twenty-first month in a row and markedly, despite the rate of reduction easing to the softest since August. There were softer, yet still rapid reductions in new work intakes in Germany and France, while Italian firms signalled the strongest expansion since May 2022.

Faced with reduced workloads, eurozone constructors scaled back input purchasing at the end of 2023. The latest decline in buying levels was sharp but the softest recorded in five months. Germany and France saw sustained falls in December, led by a marked fall in the former. In contrast, firms in Italy saw a steep increase that was the strongest since May 2022.

Despite weaker demand for inputs, price pressures continued to build during December. The rate of input price inflation was strong, and the sharpest seen since April. There was a renewed increase in cost burdens among German construction companies, while French and Italian firms saw quicker rises in operating expenses.

Supply chain pressures eased in the latest survey period, extending the current sequence of shorter lead times to eight months. That said, the latest improvement was the softest in the sequence and only fractional. Only firms in Germany continued to point to a steep improvement in delivery times, as French firms signalled the strongest deterioration since August. Firms in Italy meanwhile recorded the most marked deterioration in vendor performance for ten months.

December data highlighted a tenth consecutive decline in construction employment across the eurozone. The pace of job shedding was softer than that seen in November and the softest seen for four months. Companies in Germany and France signalled further reductions in staffing levels. At the same time, Italy recorded the strongest uptick in employment levels since February 2022.

Continuing the trend seen since March 2022, eurozone constructors were downbeat regarding the year-ahead outlook for activity in December. The overall degree of pessimism worsened from November and was the strongest for 13 months. Forecasts varied at the national level as German firms signalled robust pessimism, while French companies reported the most marked degree of negative sentiment since April 2020. Italian constructors meanwhile noted the strongest degree of optimism since August.

In addition to cutting payroll numbers in December, eurozone constructors reduced their usage of subcontractors. The fall was the twenty-first in as many months and the strongest since May 2020. Subsequently, there was an improvement in subcontractor availability, albeit the softest seen for four months.

Subdued demand for subcontractors reduced pressure on rates charged by them. The pace of the increase in December was the weakest in the current 44-month sequence, however. Meanwhile the quality of work undertaken by subcontractors worsened to the greatest extent since May.

Comment

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

"As anticipated, the construction sector of the Eurozone concluded the fourth quarter on a lackluster note. Among the segments – housing, commercial real estate, and civil engineering – housing activity took the brunt of the impact, declining at a pace nearly as rapid as the preceding month. Commercial real estate activity contracted more swiftly than before, while the downturn in civil engineering activity exhibited a modest softening.

"While not exactly spreading optimism, there is a marginal improvement in some sub-indexes. The decline in new orders is not as rapid as in the prior month, and the same holds true for the quantity of purchases. Interestingly, considering the serious downturn in the construction sector, job trimming is less severe than one would expect.

"In the trio of leading Eurozone countries, Italy's construction sector continues to stand out as the top performer, boasting solid growth in December. The most plausible explanation lies in the lasting impact of the superbonus 110 tax credit scheme, even after its discontinuation in February 2023. It appears to have positively impacted construction projects initiated before this cutoff date.

"Casting an eye toward the future, business expectations are on a discouraging trajectory, and the descent in new orders persists at a considerable pace. Input prices are on the rise once more, albeit at much more modest levels than the preceding years of 2021 and 2022. This development doesn't exactly inspire confidence. However, there is a potential bright spot—the decline in interest rates. If the decline continued – it is not our base case scenario - this could serve as a lifeline, easing refinancing conditions for a multitude of construction companies and possibly providing crucial support to the sector this year."

-Ends-

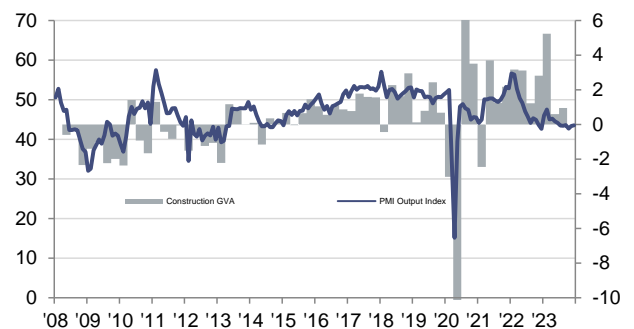
HCOB Eurozone Construction PMI Total Activity Index

sa, >50 = growth since previous month



Construction PMI Total Activity Index

sa, >50 = growth since previous month



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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@spglobal.com.

Hamburg Commercial Bank AG

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