

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Construction PMI®

Construction activity falls at sharpest rate since January

Key findings:

Downturn in output remains broad-based

New orders and employment fall at softer rates

Input prices rise slightly

Data were collected 12-28 June 2024.

The Eurozone Construction PMI® data from Hamburg Commercial Bank indicated a sustained marked downturn in construction output at the mid-point of the year, as firms continued to see order book volumes slide, leading to further cuts to employment and purchases. Weak construction demand fed through to an alleviation of supply chain pressures, the cutting of subcontractor usage, and a mild pace of input cost inflation. Output continued to shrink across all monitored sectors and countries in June.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — dropped to 41.8 in June from 42.9 in May, signalling a marked contraction in output across the construction sector. Having steepened from May, the rate of decline in output was also the second-strongest since mid-2020, surpassed only by that seen in January.

Production levels continued to fall across all three of the major eurozone countries in June. German firms faced the greatest slump in performance, despite the contraction in output easing to the least marked since August 2023. At the same time, faster reductions were observed in the French and Italian construction sectors, with the former seeing its sharpest fall in output since March, and the latter posting its strongest drop in nearly two years (though still the weakest of the three).

Output curtailments were also broad-based across the three main categories of the eurozone construction industry. Businesses continued to signal that the fastest decline was in housing activity, albeit with the rate of deterioration softening to a six-month low. Meanwhile, a drop in civil engineering output across all three nations caused the downturn in this sector to surpass commercial engineering and accelerate to its sharpest since November 2022. Commercial engineering was nonetheless close behind, registering a sharp and quicker contraction when compared to that seen in May.

Weakness in output levels across the euro area construction sector was mainly attributed to a sustained fall in new order inflows. Order books decreased sharply in June, with reductions seen in all three monitored countries for the third month running. However, a much softer decrease in Germany than in the previous survey period meant that the total contraction was the softest recorded since February 2023. French and Italian construction sales fell at a sharper pace than in May, with a particularly steep decline seen in the former nation.

Employment levels across the construction sector were reduced further in June in response to weak demand conditions. The cut to job numbers was solid, but eased slightly from May's four-year record due to a renewed uplift at Italian companies.

By contrast, the level of input purchases fell to the greatest extent since May 2020, as material requirements continued to weaken amid lower sales. With subdued demand pressures on supply chains, vendors were able to reduce their delivery times. Notably, the degree to which lead times quickened was the greatest recorded since March 2009.

Construction firms reported similarly weak demand for subcontractors. Usage fell markedly in June, with the downturn broadly unchanged since May, leading to another sharp increase in subcontractor availability.

Meanwhile, the eurozone construction sector registered only a marginal rise in input costs during June. The rate of inflation was the slowest recorded in almost a year, with modest increases in France and Italy partially offset by a third successive decrease across Germany. Subcontractor rates were up only modestly, and to the softest degree for three months.

Continuing the pessimistic trend, eurozone construction firms posted a negative outlook for future output in June. The degree of negativity was the worst since March, but remained softer compared to that typically seen over the past two years. Italy was the only monitored country to project an increase in construction output, while France fell into negative territory (alongside Germany) for the first time since March.

Comment

Commenting on the PMI data, Dr. Tariq Kamal Chaudhry, Economist at Hamburg Commercial Bank, said:

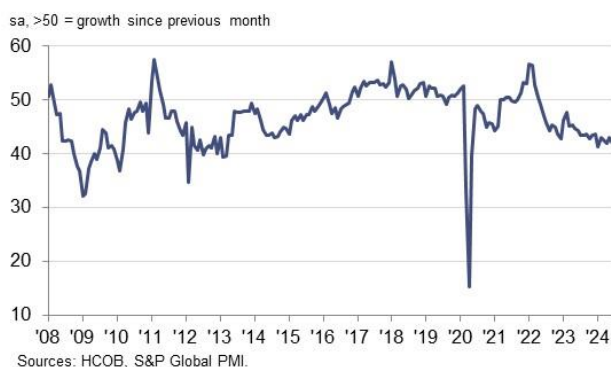
"The Eurozone construction sector is stuck in a recession with no clear path to recovery. The HCOB PMI for June fell to 41.8. The setbacks in the three largest economies in the zone—Germany, France, and Italy—have been particularly severe this month. Subsector activity shows that residential construction remains the weakest, though there was a slight softening in the pace of decline compared to the previous month. The most significant negative correction from May occurred in civil engineering activity."

"Inflation is slowly but surely cooling down. Since the peak in July 2021, input price pressures in the Eurozone's construction sector have been on a downward trend, which continued in June. Further reductions in price growth are likely as demand in the construction sector remains extremely weak. Additionally, subcontractor prices rose at a slower rate, although they are still growing moderately."

"The construction sector in the Eurozone needs a growth story, but the outlook for the future offers little encouragement. Falling inflationary pressures alone won't suffice; monetary measures in the form of substantial interest rate cuts are necessary for this interest-sensitive sector. However, caution currently prevails at the ECB, and according to HCOB Economics, only one additional interest rate cut is expected well into 2025. This is insufficient to make a significant impact. Therefore, it is understandable that the expectations of surveyed constructors remain in contraction territory."

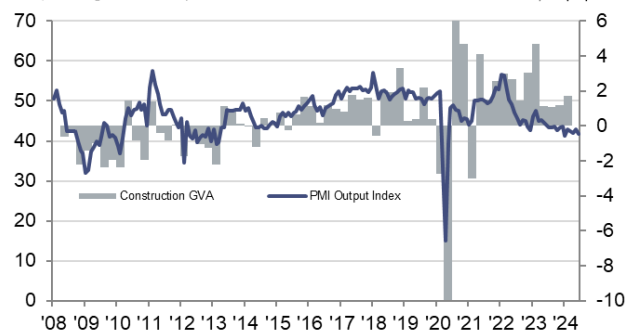
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HCOB Eurozone Construction PMI Total Activity Index



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

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.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

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