

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Construction PMI®

Construction sector remains mired in contraction territory midway through second quarter

Key findings:

- Activity continues to fall sharply amid a lack of new work
- Further cutbacks to employment and purchasing activity
- Input costs fall for second month running, albeit modestly

Data were collected 10-30 May 2024.

Business conditions remained highly challenging in the construction sector midway through the second quarter, with the latest HCOB PMI® survey compiled by S&P Global signalling further sharp decreases in total industry activity and new orders. Firms continued to retrench accordingly, scaling back both purchasing activity and employment.

Lower demand for construction materials meanwhile weighed on average purchasing costs, whilst also leading to a further marked improvement in supplier delivery times.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – registered at 38.5 in May, up from 37.5 in April. Although this was the highest reading for three months, it was still well below the 50.0 threshold that separates growth from contraction.

The sharp decrease in total activity reflected sustained downturns in each of the three broad construction categories monitored by the survey. Housing activity remained the worst-performing area by far, although here the rate of decline did at least ease to the weakest for eight months. Work on commercial building projects fell at a marked pace that was unchanged from the month before. Civil engineering, the most resilient sector so far this year, recorded a deepening rate of decline.

Fundamental to the construction sector's ongoing struggles remained a dearth of incoming new work. The rate of contraction in new orders was sharp and even accelerated (albeit slightly) for the first time in seven months. Reports from surveyed firms suggested that customer demand continued to be hindered by high prices and financing costs.

Building companies generally expected activity levels to fall over the coming year, citing shrinking pipelines of new work. Sentiment deteriorated slightly in May, after having reached a 12-month high in April.

Lower workloads and concerns about future activity prompted construction companies to scale down workforce numbers during May. It continued a sequence of continuous job cuts going back April 2022. The rate of staff shedding was the fastest in the year-to-date. Subcontractor usage likewise fell during the month.

Similarly, latest data showed a sustained decline in the quantity of building materials and products bought by German builders. The extent to which purchasing activity fell in May was the most marked since last November.

Lower demand across supply chains in turn resulted in further downward pressure on input prices and faster deliveries of purchases. May's decrease in input cost was the second in as many months and faster than that seen in April, although it was still only modest overall.

The improvement in supplier delivery times was one of the greatest seen in the series history, which stretches back to 1999. As well as building materials, subcontractors were also more readily available.

Comment

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

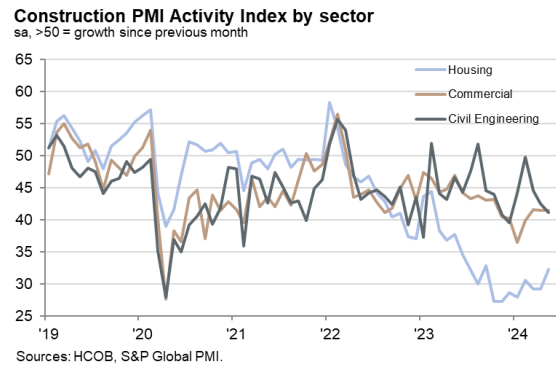
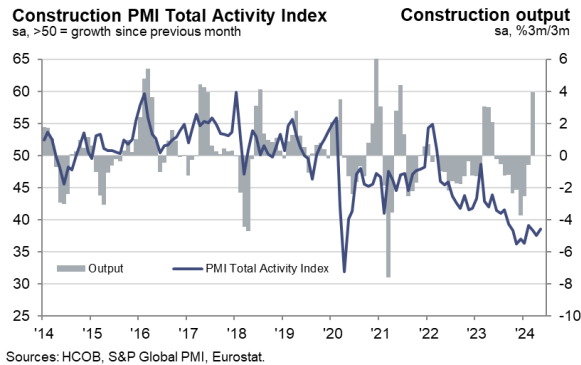
“I’d like to say that there is light at the end of the tunnel. But there isn’t. The marginal increase of the headline PMI by one point to 38.5 continues to signal a depressive state of the construction sector. The housing index has improved by around 3 points, but residential activity is still shrinking much faster than the commercial buildings and the civil engineering sectors. The latter, which was expected to stabilize the construction sector overall as civil engineering is a bit more immune to business cycles, has instead accelerated its downward path.”

“In a clear sign of further weakening demand, new orders have shrunk at a faster rate than in the two months before. In the same vein, firms are reducing their purchases of materials. The fact that the availability of subcontractors has improved significantly while companies don’t have to worry anymore about delivery times is the result of the sector’s still worsening problems.”

“Even though the European Central Bank is about to cut interest rates, expectations about future activity have worsened. This points to the fact that it is not all about interest rates. Instead, there is a combination of high building costs, including high regulatory burdens – input costs have retreated only softly over the last few months – a loss of purchasing power, and general uncertainty amid geopolitical threats.”

“Due to the faster decline in new orders and worries about future projects, construction companies cut back their workforces in May. This marks the latest in a string of job cuts that started in April 2022. The pace of layoffs hit a new high for this year. We expect further downward adjustments to employment in the coming months before stabilization occurs, probably by the start of next year.”

-Ends-



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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@spglobal.com.

Hamburg Commercial Bank AG

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