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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction activity contracts at sharpest rate since June 2014

KEY FINDINGS

Civil engineering leads broad-based drop in activity

Order books fall for fourth month in a row

Expectations for activity slip to lowest since October 2015

German construction activity fell at the fastest rate for more than five years in August, latest PMI® data showed, as the downturn spread to all broad categories of building work. The recent decline in new orders meanwhile gathered pace, with worries about a sustained slowdown dragging firms' output expectations down to the lowest since late-2015.

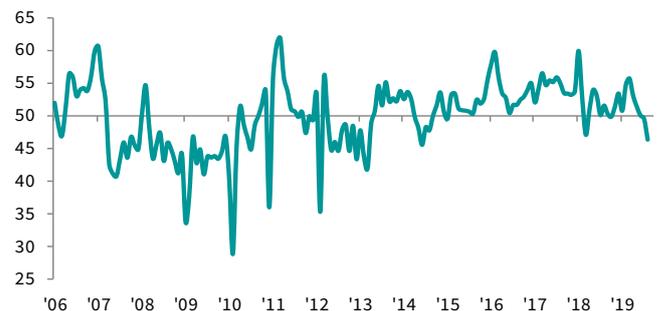
Amid a drop in demand for building materials and products, input price inflation slowed to a three-year low, and reports of delivery delays continued to moderate.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – sank to 46.3 in August, down from 49.5 in July and its lowest reading since June 2014. The result also marked the first back-to-back declines in total construction activity for five years.

For the first time since the snow-related disruption in March 2018, all three broad construction categories recorded a decrease in activity. The worst performing remained civil engineering, where work fell for the fifth month in a row and at the quickest rate in almost one-and-a-half years. Data also showed a sharp drop in commercial activity, the most marked since March 2013, while work on housing projects returned to contraction after a brief rise in July, falling only modestly but the most nonetheless since May 2014.

Survey respondents highlighted a decrease in tender opportunities during August, particularly from the public sector. Accordingly, new orders fell for the fourth month in

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



a row, with the rate of decline accelerating to the quickest since July 2014.

The sustained contraction in new work was reflected in growing concerns among constructors about the outlook for activity over the next 12 months. August saw expectations turn increasingly negative and sink to the lowest overall in almost four years.

Employment trends continued to defy the broader downturn in August, with constructors continuing to create jobs, albeit at the slowest rate for ten months. Purchasing activity, by contrast, fell for just the second time in over four years.

Lower demand for building materials and products saw supply chain pressures ease to the weakest in four-and-a-half years in August, with lead times lengthening only modestly on average.

Input cost inflation faced by German constructors slowed for the sixth time in the past seven months, reaching the lowest since August 2016. This contrasted with a marked and accelerated rise in rates charged by sub-contractors, which the data showed was largely attributable to a lack of availability.

COMMENT

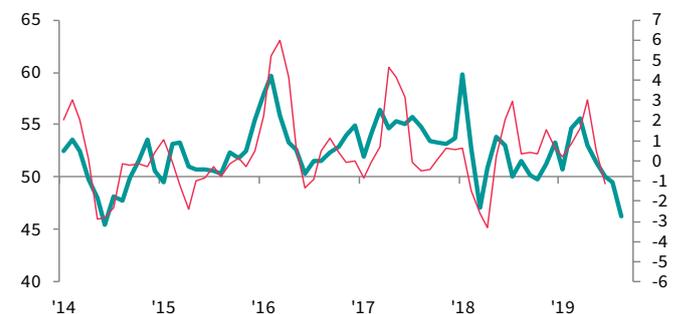
Phil Smith, Principal Economist at IHS Markit, which compiles the survey:

"Signs of a rebound in the construction sector following the slowdown in the second quarter haven't yet materialised. Instead, trends have turned increasingly negative, with new orders and expectations sinking deeper into contraction territory amid reports of growing concerns among clients about an economic slowdown and a lack of tender opportunities from the public sector.

"Home building showed renewed weakness in August and joined the commercial and civil engineering categories in contraction, resulting in a decrease in total industry activity that surpasses anything we've seen since June 2014."

Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

CONTACT

IHS Markit

Phil Smith
Principal Economist
T: +44-1491-461-009
phil.smith@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit Germany Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

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.

August 2018 data were collected 13-28 August 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).