

NEWS RELEASE

MARKET SENSITIVE INFORMATION

Embargoed until 0930 CEST (0730 UTC) 5 October 2023

HCOB Eurozone Construction PMI®

Sharpest drop in eurozone construction sales since May 2020

Key findings:

Activity continues to fall markedly amid steeper drop in new work

Purchasing activity and employment decline at quicker rates

Expectations for activity weaken

Data were collected 08-29 September

The latest HCOB survey data pointed to a further marked deterioration in the health of the eurozone's construction sector at the end of the third quarter. Demand conditions remained weak, with new business declining at a substantial pace that was the quickest since May 2020, leading to further marked falls in activity and input buying. Confidence regarding the year ahead also deteriorated, falling to the lowest in 2023 so far. Cost pressures meanwhile remained subdued, with expenses rising at a modest rate that was far below those recorded this time last year. Sub-sector data revealed that activity continued to contract across all three monitored categories, with house building leading the decline.

The HCOB Eurozone Construction PMI® Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — rose slightly from 43.4 in August to 43.6 at the end of the third quarter. The index therefore remained well below the neutral 50.0 threshold to signal a further steep decline in overall activity. This also extended the current sequence of reduction to 17 months.

The sharpest drop in overall construction activity was once again seen in Germany. Notably, the pace of decline accelerated to the most pronounced since April 2020. A softer, but still sharp reduction was recorded in France, while Italy recorded only a fractional drop in activity.

The weak overall performance of the eurozone construction sector was driven by further declines in activity across all three monitored sub-sectors. The sharpest reduction by far was seen for housebuilding activity, despite the rate of contraction easing from August's 40-month record. Commercial activity also fell at a milder, but still marked pace. The downturn in civil engineering activity quickened, but remained the weakest of all three categories.

The quickest decrease in housebuilding activity was seen in Germany, followed by France. Residential construction activity meanwhile rose slightly for the first time in ten months in Italy. Civil engineering likewise fell in Germany and France but expanded marginally in Italy. However, Commercial activity fell across all three countries, led by Germany.

Inflows of new business at eurozone construction firms fell rapidly during September. Furthermore, the rate of contraction quickened to the most pronounced since May 2020. Steeper drops in new orders were reported in Germany and France, while Italian firms noted a slightly softer fall in sales.

In line with the trend seen for new work, purchasing activity undertaken by eurozone construction firms fell at the quickest rate in 40 months during September. Sharper declines in input buying in Germany and France contrasted with broadly stable purchasing at construction firms in Italy.

The time taken for purchased items to be delivered to eurozone construction companies shortened again in September. The modest improvement masked divergent trends at the country level, however. In Germany, supplier performance improved sharply, while delivery times were unchanged in France. Lead times meanwhile lengthened again in Italy, and to the greatest extent since February.

Employment across the eurozone construction sector likewise declined further in the latest survey period. The rate of job shedding was solid and largely reflected payroll cuts in Germany and France, as staff numbers continued to rise modestly in Italy.

Turning to costs, average input prices faced by eurozone construction companies increased at a modest pace that was little-changed from August. Notably, the rate of inflation remained much softer than the post-pandemic average and was below the long-run trend. Sharp and accelerated increases in costs were seen in France and Italy. In contrast, expenses fell at the joint-sharpest rate on record in Germany.

Business confidence across the eurozone's construction sector remained weak in September, with firms generally anticipating a further fall in activity over the next year. Furthermore, the degree of negative sentiment was the most pronounced since December 2022. Differences persisted at the country level, however. Forecasts at German constructors hit a near-record low, while French firms were less pessimistic than in August. Italian firms were generally optimistic that activity would increase, though the overall level of confidence slipped to a seven-month low.

The use of subcontractors among eurozone construction firms declined for the eighteenth month in a row in September. Notably, the pace of reduction was the sharpest seen since May 2020. Concurrently, the availability of contractors continued to improve, and by the most in four months. Rates charged by subcontractors rose again in September. Whilst solid, the rate of increase was the joint-slowest in 32 months.

Comment

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

"The eurozone's building business is still caught in a bind. The economy's most rate-sensitive chunk is still stuck in a downward trend that kicked off in spring of last year. Even though the European Central Bank has signaled that the interest rates hiking cycle is about to come to an end, business expectations remain in a tailspin."

"The housing slump has lost a bit of speed from last month, but it is still leading the dip, beating out commercial real estate and civil engineering. Among the Euro heavyweights, Germany remains the worst performer, followed by France. Construction in Italy flatlined in September. That's still enough to keep it king of the hill in the trio, once again."

"Signs of an upswing are nowhere on the radar. The drop in new orders put the pedal to the metal, and material volumes followed suit. Hand in hand with that, subcontractor use is dropping, and it's a heftier fall than we saw last month."

"In contrast to the services sector of the eurozone, where the employment train is still chugging uphill, companies of the construction sector are reducing their staff at a fast pace. As there are no signs of a turnaround for the time being, expect this scene to play out all the way into next year."

-Ends-

HCOB Eurozone Construction PMI Total Activity Index

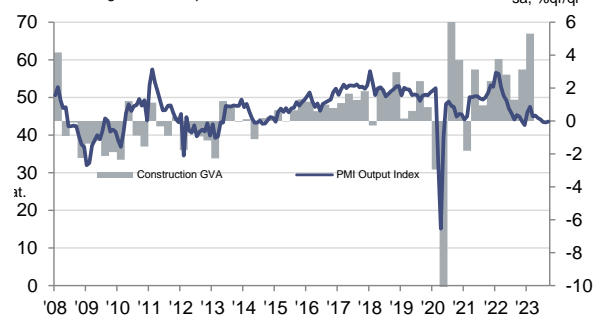
sa, >50 = growth since previous month



Construction PMI Total Activity Index Construction Value Added

sa, >50 = growth since previous month

sa, %qr/qr



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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.

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S&P Global (NYSE: SPGI)

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