

NEWS RELEASE

MARKET SENSITIVE INFORMATION

Embargoed until 0930 CET (0830 UTC) 6 December 2023

HCOB Eurozone Construction PMI[®]

Construction activity falls further amid weak demand; inflationary pressures build

Key findings:

Further marked drop in new orders drives decrease in output

Input costs rise at fastest pace since April

Employment falls at sharpest rate since May 2020

Data were collected 09-30 November 2023

The eurozone construction sector remained in contraction territory in November as activity fell sharply again, according to the latest HCOB PMI[®] survey data. The decrease in output eased slightly on the month, but continued to be driven by a marked contraction in housing activity which was once again the worst performing of the three monitored segments. Moreover, the downturn was led by weak demand conditions and a substantial decline in new business. Lower new orders sparked a further round of job shedding, as employment fell at the quickest pace in three-and-a-half years. Retrenchment and cost-cutting were also reflected in a steep contraction in input buying and reduced subcontractor use.

At the same time, input cost inflation gathered pace, with operating expenses rising at the quickest rate since April.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — posted at 43.4 in November, up slightly from October's ten-month low of 42.7. The latest data signalled a sharp decrease in total output, nonetheless.

The decline in activity across the eurozone was driven by contractions in France and Germany, with the latter recording the sharpest drop in output for over three-and-a-half years. Only Italian construction firms registered a rise in activity, with the pace of expansion accelerating to the fastest since May 2022.

Meanwhile, the housing sector continued to weigh on total output and was the worst performing sub-sector for the fifteenth successive month. Commercial and civil engineering firms also saw a decrease in activity. Civil engineering companies noted the sharpest downturn in output since January.

Weak demand conditions across the eurozone construction sector continued to drive the overall downturn, as new orders fell again in November. Although easing from October, the rate of decline was marked overall and quicker than the series average. German and French construction firms registered substantial falls in new sales, with Italy bucking the trend and posting a stronger upturn.

In line with lower new order inflows, eurozone construction firms cut their workforce numbers midway through the fourth quarter. The pace of job shedding accelerated slightly to the fastest since May 2020. French firms registered a quicker drop in headcounts, while German companies continued to see a marked fall in employment.

Meanwhile, input costs increased at a faster pace during November. Operating expenses picked up at a solid rate that was the quickest since April. France and Italy recorded steep upticks in cost burdens, albeit at slightly softer rates than in October. Germany construction firms, however, saw a further fall in input prices. That said, the pace of decline slowed notably and was only modest overall.

Construction companies showed further signs of retrenchment as input buying fell for the eighteenth successive month in

November. The rate of decline was sharp, despite easing to the slowest for three months. The downturn in purchasing activity was led by German firms, where input buying fell at the quickest pace since February 2010.

In line with weak demand for inputs and lower purchasing activity, eurozone construction firms recorded a seventh consecutive monthly improvement in supplier performance. Lead times shortened modestly, as a marked reduction in delivery times in Germany was weighed down by deteriorations in vendor performance in Italy and France.

Eurozone construction firms remained downbeat in their expectations for output over the coming year in November. The degree of confidence slipped further to the weakest for a year. Pessimism worsened in Germany and France, while Italian firms continued to express optimism in the year-ahead outlook.

Finally, subcontractor availability rose at the joint-fastest pace in 11 years during November, amid weak demand among construction firms. Moreover, subcontractor usage fell markedly, albeit at a softer pace than October's recent record. A further month of decline in the quality of subcontractor work, as adjudged by monitored construction companies, led to only a marginal increase in rates charged. The pace of subcontractor charge inflation was the slowest since May 2020.

Comment

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

"The construction sector remains in the doldrums, with the housing segment enduring the deepest fall in activity. While the housing descent softened slightly in November, commercial real estate and civil engineering companies maintained a consistent rate of activity reduction from October. Searching for green shoots is a futile effort, as the new orders index saw only a marginal improvement from a low point. Pessimism regarding activity 12 months from now worsened, painting a challenging outlook.

"Amidst the painful recession, input prices defy expectations by increasing at a faster pace. The paradoxical nature of this scenario raises eyebrows, especially when considering the severe order situation. Yet, history reveals that in past recessions, it's not uncommon for input prices to rise even as activity and orders decline. While we don't have general explanation for this behaviour of prices, in the current context, labor market shortages and geopolitical troubles likely contributed to continued upward pressure on input prices.

"In the face of a profound slowdown, job cuts have maintained a rather modest pace so far, a trend likely sustained as long as companies remain afloat. However, prominent insolvencies among real estate developers in the Eurozone introduces a potential game-changer. This could ripple through the market, potentially triggering more profound staff cuts in the coming quarters.

"The construction sectors in Eurozone countries navigate the storm of high-interest rates with varying degrees of resilience. Germany grapples with the most severe impact, a situation that has been exacerbated in November. In France, there's a challenging landscape, albeit with a slight softening. Italy's construction sector, on the other hand, not only emerged from negative territory in October but growth accelerated in the subsequent month. Politics are likely at play, with the EU Commission's nod to the use of the EU Next Generation Fund for major infrastructure projects in Italy potentially influencing the positive trend. In contrast, Germany exercises increased caution in its construction sector following the bombshell constitutional court judgment on the availability of public funds."

-Ends-

HCOB Eurozone Construction PMI Total Activity Index

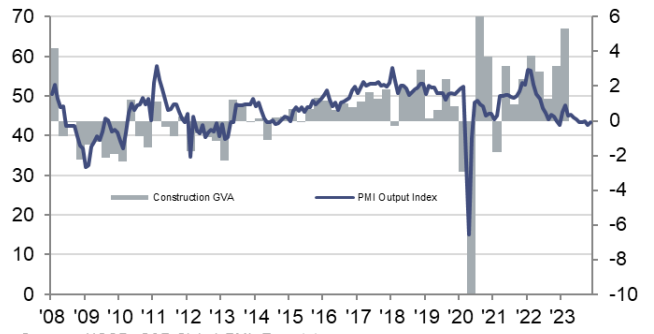
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Eurostat.

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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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