

NEWS RELEASE

MARKET SENSITIVE INFORMATION

Embargoed until 0930 CEST (0730 UTC) 5 September 2024

HCOB Germany Construction PMI®

Construction sector remains mired in a steep downturn midway through third quarter

Key findings:

Increased weakness in housing drives faster fall in total activity

Job cuts deepen despite slower decline in new orders

Input prices drop for fifth month running and at a faster rate

Data were collected 12-29 August 2024.

Latest HCOB PMI® data showed Germany's construction sector mired in a steep downturn midway through the third quarter. Activity fell at a faster rate amid particular weakness in the housing sector, although there was some resilience seen in civil engineering. Job cuts also deepened, despite a slower decline in new orders and slightly less pessimism among firms towards the year-ahead outlook.

Price pressures meanwhile eased across the construction sector, reflecting not only a fifth straight monthly fall in purchasing costs, but also a renewed reduction in subcontractor rates. The latter coincided with a record reduction in subcontractor usage.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – came in at 38.9 in August, down from July's 11-month high of 40.0 and the lowest since May. The latest reading was below the average recorded over the current downturn that began in April 2022 and indicative of a sharp rate of decline in construction output.

The steeper reduction in total activity in August largely reflected an increased drag from the housing sector, which registered its most marked decline since April. Work on commercial building projects likewise fell at a faster rate – the quickest seen since the opening month of the year. The civil engineering sector defied the broader trend, however, recording its smallest decline in activity since February.

Weak demand conditions continued to undermine the construction sector's performance, with August seeing the current downturn in new orders reach the two-and-a-half-year mark. Firms cited a general reluctance among customers, linked in part to high interest rates. However, whilst remaining marked, the rate of decline in new orders eased for the second time in the past three months to the slowest since February 2023.

The decline in purchasing activity across the German construction sector also softened midway through the third quarter. The latest fall was the least marked since July last year, although it was still notable by historical standards.

Constructors remained pessimistic about the year-ahead outlook for activity, citing declining order books, concerns for the wider economy, high construction costs and elevated interest rates. Expectations improved slightly from the month before but were still subdued relative to the long-run trend.

Employment meanwhile fell at a faster rate in August. The pace of job shedding was the quickest since May as firms stepped up efforts to streamline staffing capacity. At the same time, data showed the steepest drop in subcontractor usage in the series history going back to 1999. With subcontractor availability improving rapidly, the rates they were able to charge decreased for the first time in five months.

Alongside the drop in subcontractor rates, August saw a sustained decline in prices paid for building materials and products.

The latest reduction was the fifth in as many months and the steepest since October last year, although it was still only moderate. Delivery times on inputs continued to quicken, although the extent to which supplier performance improved was the least marked since March.

Comment

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

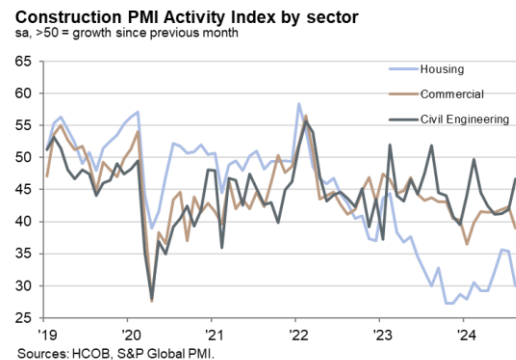
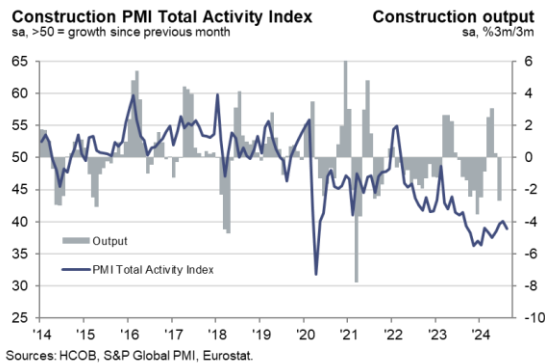
“The construction sector is cementing its path deeper into recession, with overall activity falling in August at a faster pace than in the two months prior. The accelerated downturn is largely due to a steep drop in housing and commercial projects. Meanwhile, civil engineering has been the one bright spot, with activity shrinking at a much slower rate than in previous months. This steadier performance could be linked to the recent kick-off of a massive rail track overhaul in Germany, set to last until 2030. However, this is not enough to make up for the rest of the sector’s poor performance.

“The ECB’s recent loosening of monetary policy might have stirred up some faint hopes of a turnaround in the housing market, but those hopes are fading fast. After a brief slowdown in the downward trend, the housing sector is now sliding downhill at its quickest pace in four months. Things aren’t looking much better in the commercial real estate sector either, where the index has plunged to a seven-month low. It seems the ECB’s cautious approach to cutting rates – we expect a second cut on September 12th – is not doing much to ease the pressure on builders at the moment.

“Pointing out that new orders are decreasing at a somewhat softer rate feels like clutching at straws amid an otherwise gloomy PMI report. For one, the rate at which new orders are declining is still alarmingly quick. And secondly, other indicators of demand, such as subcontractor availability, usage, and rates, all signal that business conditions are getting worse. All in all, a recovery in the construction sector seems a long way off.

“It is getting cheaper to build, with input prices dropping for the fifth consecutive month and subcontractor rates falling for the first time since March. However, with output shrinking more rapidly than employment, we might witness a productivity problem, keeping construction costs relatively high despite the lower purchase prices.”

-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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