

# News Release

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## S&P Global Germany Construction PMI®

### Downturn in German construction sector deepens in July as uncertainty and high prices curb demand

#### Key findings

Total Activity Index falls to 17-month low of 43.7

Further sharp decline in new orders

Cost inflation retreats from recent peak but remains elevated

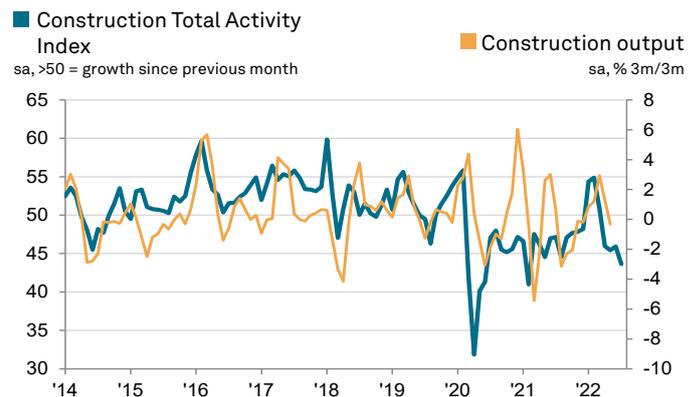
Latest PMI® data showed a deepening downturn in construction activity across Germany at the start of the third quarter, with heightened market uncertainty, sharp price increases and rising interest rates all acting to curb demand for building work. Inflows of new orders remained in sharp decline, while firms' expectations fell notably to one of the lowest levels on record amid the growing threat of a gas shortage.

Price pressures in the construction sector meanwhile remained historically elevated in July, although a partial easing of supply-demand imbalances across supply chains saw the rate of cost inflation retreat further from its recent peak to a 17-month low.

Having signalled lower activity throughout the second quarter, the headline S&P Global Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – fell deeper into sub-50 contraction territory in July. At 43.7, down from June's 45.9, its latest reading signalled the steepest decline in activity since February 2021, when severe bad weather had caused major disruption to work on sites.

July saw a decline in activity across all three broad construction categories monitored by the survey. The most marked fall was in the commercial segment, which, like residential building, recorded an accelerated rate of contraction. Civil engineering went against the broader trend with a slightly slower – albeit still notable – decline in activity.

The survey indicated a considerable weakening of demand for building work, with inflows of new orders falling sharply and for the fifth month in a row in July. Reports from surveyed businesses revealed an increasing reluctance among both private and public sector clients, owing to a combination of soaring prices, rising financing costs and a gloomy economic outlook.



Sources: S&P Global, Eurostat.  
Data were collected 12-28 July 2022.

#### Comment

Phil Smith, Economics Associate Director at S&P Global Market Intelligence, said:

*"Things went from bad to worse for Germany's construction sector in July, with the decline in building activity gathering pace. The PMI data showed the steepest drop in total industry activity since building work was badly affected by severe wintry weather in February 2021, adding to the woes from the earlier manufacturing and services surveys."*

*"Concerns about the soaring cost of building work and rising interest rates have been compounded by the growing threat of a gas shortage, leading constructors' expectations for activity to drop to one of its lowest levels in over 20 years."*

*"Indeed, demand for building work has weakened considerably in recent months, with the economic environment becoming less and less conducive to investment spending."*

*"If there were any silver linings to be taken from the drop in activity and subsequent reduction in demand for building materials and products, then an alleviation of supply chain pressures and an associated reduction in the rate of input price inflation were perhaps two of them."*

PMI®

by S&P Global

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Constructors' expectations for activity in the coming year slipped to their lowest since the initial COVID-19 outbreak in March 2020 and were among the weakest on record. More than half (51%) of surveyed businesses anticipated a fall in activity over the next 12 months, versus only 6% forecasting a rise.

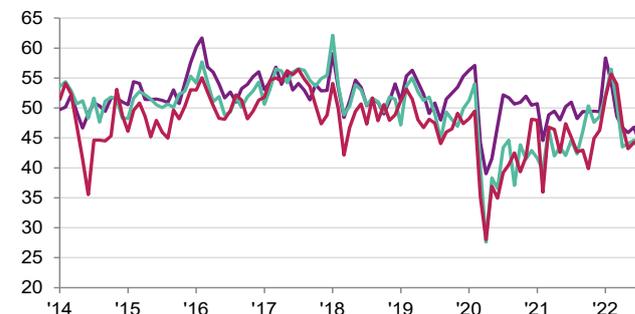
July's survey showed German constructors in retrenchment mode, as evidenced by falls in both employment and purchasing activity. The reduction in workforce numbers was the fourth in as many months, although it was only modest and the weakest in this sequence. Buying levels, on the other hand, fell at a solid and accelerated rate that was the quickest since February 2021.

The decrease in demand for building materials and products was reflected in a further easing of supply-chain pressures in July, with the incidence of delays falling for the third straight month to the lowest in almost one-and-a-half years (although it remained historically elevated).

With supply-demand imbalances easing somewhat, the rate of increase in purchase prices faced by construction companies slowed sharply for the second month running to the weakest since February 2021. Still, it remained strong by historical standards, and there was additional cost pressure on German building companies from another sharp rise in subcontractor rates, which owed in part to a continued lack of availability.

- Housing Activity Index
- Commercial Activity Index
- Civil Engineering Index

sa, >50 = growth since previous month



Source: S&P Global.

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### Survey methodology

The S&P Global 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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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