

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Construction PMI[®]

Further marked fall in eurozone construction activity

Key findings:

- New orders decline at strongest rate for four months
- Softest decrease in employment levels since last May
- Input cost inflation eases to four-month low

Data were collected 12-29 February 2024.

Construction activity in the eurozone contracted markedly midway through the first quarter, according to the latest HCOB PMI[®] survey data. In line with the trend seen since September 2022, the housing sector remained a particular point of weakness. Driving the downturn was a robust decline in new orders, as demand conditions remained subdued. The rate of decline was the strongest since last October and contributed to a further sharp fall in purchasing activity. More positively, employment levels fell at a modest rate that was the softest for nine months, while businesses reported a softer degree of pessimism regarding the year-ahead outlook for activity.

On the price front, input costs continued to rise solidly, though at the slowest rate in four months. Moreover, the rate of inflation was muted in the context of the series history.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — rose from 41.3 in January to 42.9 in February, to signal a softer yet still marked decline in eurozone construction activity.

The latest contraction extended the current downturn to 22 months, with firms in Germany and France registering robust decreases in activity. Italy was alone in signalling growth in February, though here the pace of expansion slowed to a fractional pace.

All three monitored sub-sectors indicated deteriorations in activity, with the housing segment continuing to lead the decline with the sharpest reduction since last August. Rates of contraction across the commercial and civil engineering sectors eased on the month and were at the softest in three and six months respectively.

Contributing to the sustained decline in total construction activity was a further decrease in new orders in February, with the current sequence of decline extended to 23 months. In line with the trend for output, Italy was the only monitored country that recorded an expansion in new business, though one that was only fractional. In contrast, German firms recorded a further rapid fall, while French firms saw the sharpest drop in client demand since last September.

Input prices at eurozone construction firms increased further in February, though at a slower pace. The rate of cost inflation was at a four-month low, and well below both the long-run series average and the levels seen over the prior two years. Italian and German firms saw stronger increases in operating expenses, with the latter recording the steepest rise in nearly a year. French firms meanwhile saw the slowest increase since the current sequence began in April 2016.

Despite historically muted increases in cost burdens, weak demand meant construction firms remained in retrenchment mode

and lowered input purchases further. The rates of decline in Germany and France eased from the start of the year, but remained marked while Italian firms saw the slowest increase since last September.

Supplier capacity saw sustained pressure in February, as lead times were lengthened for the second successive month. The extent to which delivery times extended was sharp and little-changed from that seen in January and attributed to material shortages and delays due disruption in the Red Sea. All three monitored economies in the bloc saw longer lead times, led by France.

Weak demand conditions led firms to cut employment levels again in February. The rate of job shedding eased from January however, and was the softest since last May. Construction firms in Germany saw the sharpest drop in workforce numbers, followed by France, though the rates of decline eased to six- and two-month lows respectively. Italian business recorded a further solid expansion in staffing numbers, meanwhile.

The reduction in new order inflows led to firms remaining pessimistic towards the outlook for output over the coming year. Eurozone construction companies have now signalled falling confidence for two years running, though the latest deterioration was the softest since last April. Negative sentiment was driven by German firms, while pessimism was also signalled in France. Construction firms in Italy however remained optimistic.

Subcontractor usage fell at a further marked rate during February, which corresponded with a sustained increase in their supply. The most marked movements were seen in Germany. At the same time, subcontractor rates rose at the fastest pace in three months amid a renewed increase among German firms, while the quality of subcontractor work continued to deteriorate.

Comment

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

"The PMI for the construction sector sends a clear message: If the Eurozone wants to pull itself out of the recession quagmire, relying on the construction sector is not the way forward. Unfortunately, the sector shows no signs of imminent recovery. On the contrary, order inflows have declined even more sharply in February than in the past four months."

"The decline in activity remains dramatic in the residential construction sector, where building activity has plummeted at a pace not seen in six months. Similarly, in the commercial sector, construction has been consistently decreasing for 23 consecutive months, although the rate of contraction was slightly less pronounced than in the previous month. A glimmer of hope comes from civil engineering, where the decline in activity is at its slowest since last August."

"The situation for construction companies is not only complicated by high interest rates but also by persistently high input costs. These rising costs are also reflected in higher rates for subcontractors. Surprisingly, the downward trend in activity has not yet translated into lower input prices, possibly due to overall wage increases and energy prices. For instance, oil prices are currently higher than the average of the past year."

"Italy's construction sector continues to operate by its own rules. While it's not booming, it stands out among the top three Eurozone countries as the only one showing growth. It appears to have left behind a brief recessionary phase from the previous year. In contrast, France and Germany remain deeply entrenched in recession. The anticipated interest rate cuts by the ECB may contribute to easing the situation, but more crucial will be a general economic recovery, which can restore confidence for both households and businesses to invest in construction."

-Ends-

HCOB Eurozone Construction PMI Total Activity Index

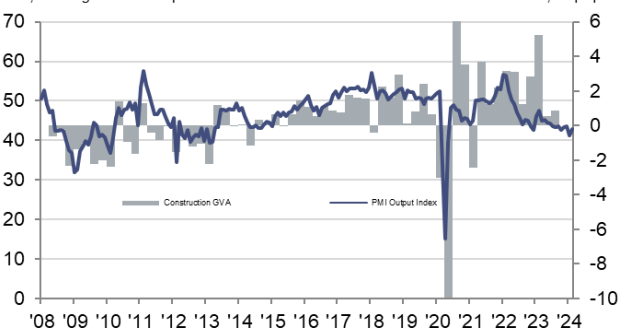
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Eurostat via S&P Global Market Intelligence.

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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

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