

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Construction PMI®

Sharpest drop in eurozone construction activity since May 2020

Key findings:

Activity continues to fall markedly amid robust drop in new work

Largest lengthening of delivery times since last February

Pessimism regarding future activity softens

Data were collected 11-31 January 2024.

The latest HCOB PMI® survey data pointed to a further robust deterioration in the health of the eurozone's construction sector at the start of 2024. Demand conditions remained weak, with new business declining at a marked pace that led to the most substantial fall in activity since May 2020 and a sharp cut in purchasing. Firms also highlighted a steep lengthening in delivery times in January for the first time in nine months amid delivery delays and difficulty sourcing materials. That said, cost pressures remained historically subdued, while employment levels were scaled back to the softest extent since last August. The degree of pessimism meanwhile eased from that seen in December to the least marked since last April.

The HCOB Eurozone Construction PMI Total Activity Index — a seasonally adjusted index tracking monthly changes in total industry activity — fell from 43.6 in December to 41.3 in January. The index was below the neutral 50.0 threshold for twenty-first month in a row and the latest reading was indicative of a robust decline in activity that was the steepest since May 2020.

The sharpest drop in overall construction activity was once again seen in Germany, where the pace of decline accelerated to the second-strongest since April 2020. Moreover, French constructors saw activity fall at the strongest pace in three years. Firms in Italy meanwhile recorded a sustained, albeit softer expansion in construction activity.

The weak performance of the eurozone construction sector was driven by further declines in all three monitored sub-sectors. The sharpest reduction continued to be seen in housing, where the rate of contraction was the steepest for five months following steeper and substantial reductions in Germany and France. Commercial activity meanwhile fell at the strongest rate since May 2020 amid the most marked declines at French and German firms since the pandemic-affected months of April and May 2020. The downturn in civil engineering activity remained the softest of all three categories.

Inflows of new business at eurozone construction firms fell rapidly in January. The rate of contraction quickened on the month and was one of the most marked seen in the current 22-month sequence of decline. A steeper drop in new orders was reported in France, while the reduction in Germany was rapid yet eased to the softest in five months. Italian firms noted a fourth consecutive rise in sales, albeit one that was moderate.

In line with the trend for new work, purchasing activity undertaken by eurozone construction firms fell for the twentieth month in a row in January, and at a steeper rate than December. A sharper decline in France contrasted with a softer reduction in Germany, while Italian firms noted a slower, yet still sharp expansion.

The time taken for purchased items to be delivered to eurozone construction companies lengthened for the first time since last April at the start of the year. The deterioration was the strongest for 11 months. All three monitored countries noted longer lead times, with Italian firms seeing the worst delays - the most severe since November 2022.

Employment across the eurozone construction sector likewise declined in the latest survey period. The rate of job shedding eased to the softest in five months, as German firms saw the slowest fall since last July, though French companies saw the rate of contraction accelerate. Staff numbers in Italy continued to rise solidly.

Turning to costs, average input costs faced by eurozone construction companies increased at a solid pace that eased from December. Notably, the rate of inflation remained much softer than the post-pandemic average and was well below the long-run trend. Italy posted the strongest cost inflation at construction firms, and Germany the weakest.

Business confidence across the eurozone construction sector remained weak in January, with firms generally anticipating a further fall in activity over the coming year. That said, the degree of negative sentiment was the least pronounced since last April. German companies recorded substantial pessimism, extending the current sequence to two years, while firms in France also recorded a strong degree of negative sentiment. Italian firms were increasingly optimistic that activity would rise, with the overall level of confidence reaching a five-month high.

The use of subcontractors among eurozone construction firms declined for the twenty-second month in a row in January. Notably, the pace of reduction was unchanged from December's 43-month low. Concurrently, the availability of subcontractors continued to improve, though by the least since last April. Rates charged by subcontractors rose again in January, though the rate of increase was only marginal and well below the long-run trend.

Comment

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

"Many people would have been cool if the construction sector in the Eurozone just kept shrinking like it did in December. But no, things got even worse. The downturn in total activity accelerated at the year's kickoff, propelled by the malaise in the housing sector, while commercial real estate has also caught up in this respect. Under these circumstances, civil engineering can be considered as a force of stability as activity has continued to shrink only moderately."

"There are limited signs that the construction sector has a chance to get off the ground any time soon. The most forward-looking indicator of new orders is hovering near the index level of 40 for almost one year, which means that the incoming number of fresh projects is continuously diminishing at a fast pace."

"Italy is still dancing to another rhythm than the other eurozone countries, with the construction sector experiencing growth for the fourth consecutive month. However, the expansion has softened considerably in January. It may be a sign that the public spending which has been propping up construction sector is running out of steam. The heavyweights Germany and France are experiencing an uninterrupted fall in activity since spring of 2022. The downturn kicked in shortly before the European Central Bank embarked on a series of interest rate hikes. As a result, there's a possibility that construction companies might find some breathing room if the ECB decides to lower interest rates this year."

"Presumably, the Houthi Rebels are adding hurdles to Eurozone's construction sector. This is because commercial vessels are opting for the longer route around South Africa instead of using the Suez Canal, extending the journey by at least seven days. Consequently, delivery times, which had been decreasing over most of the past year, are now on the rise again. Although input prices have risen, the increase is less severe compared to December, indicating no direct impact from the issues in the Red Sea in the latest data."

-Ends-

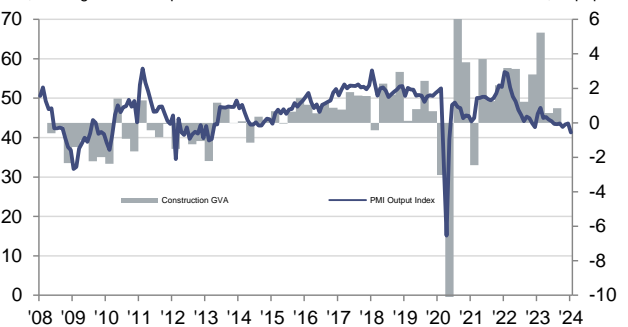
HCOB Eurozone Construction PMI Total Activity Index

sa, >50 = growth since previous month



Construction PMI Total Activity Index

sa, >50 = growth since previous month



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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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