

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Construction PMI[®]

Construction sector business conditions continue to worsen in October

Key findings:

Faster falls in total activity and new orders

Rate of job shedding quickens

Sustained downward pressure on construction costs

Data were collected 12-30 October 2023.

The health of Germany's construction sector continued to worsen during October, according to the latest HCOB PMI[®] survey compiled by S&P Global, with firms recording deepening declines in both total activity and employment amid rapidly weakening demand. The majority of companies expected activity to fall in the coming year.

Price pressures across the sector meanwhile continued to ease as the cost of building materials fell for a sixth straight month. Notably, rates charged by subcontractors decreased – albeit only fractionally – for the first time in almost 11 years in line with a record improvement in their availability.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – remained on a downward trajectory at the start of the fourth quarter. At 38.3 in October, down from 39.3 in September, the index recorded its lowest reading for three-and-a-half years.

The downturn in total activity continued to be led by the housing sector, with German construction companies recording one of the fastest rates of decline in work on residential projects in the series history since 1999. Civil engineering activity also fell at a quicker pace in October, while commercial activity contracted at a marked rate that was little-changed from the previous survey period.

Inflows of new work across the construction sector were down for a twentieth successive month in October. Reports from surveyed businesses highlighted a general lack of appetite for investment amid a backdrop of higher interest rates and economic uncertainty. Moreover, the rate of decline in new orders quickened for a second successive month and was the third-fastest on record.

Falling workloads in turn led building companies to scale back their workforce numbers during October, the nineteenth month in a row in which this has been the case. Furthermore, the pace of layoffs quickened to the fastest since April 2020.

Similarly, constructors made deeper cutbacks to their purchasing activity in October. Reflecting this, lead times on building materials and products improved as surveyed firms reported increased stock levels across supply chains. The rate of improvement in vendor performance was the least marked for six months, but still considerable by historical standards.

The softness in demand across the construction sector and its supply chains resulted in further downward pressure on input prices, which fell for the sixth month running. The rate of decline did however ease for the first time in this sequence and was the weakest since July. Meanwhile, after rising continuously on a monthly basis since the start of 2013, rates charged by subcontractors edged fractionally lower in October.

Looking ahead, constructors were downbeat about prospects for activity over the next 12 months, with around 54% anticipating a decline and only 7% predicting a rise. Expectations picked up from the month before, though merely from a near-record low.

Comment

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

“Things continue to go from bad to worse in Germany's construction sector. The housing sector is the epicentre of the downturn, nosediving at a breakneck speed. Meanwhile, civil engineering and commercial building activity are stuck in a similar rut as last month. As a result, the total industry activity index for construction has plummeted even further below 40.

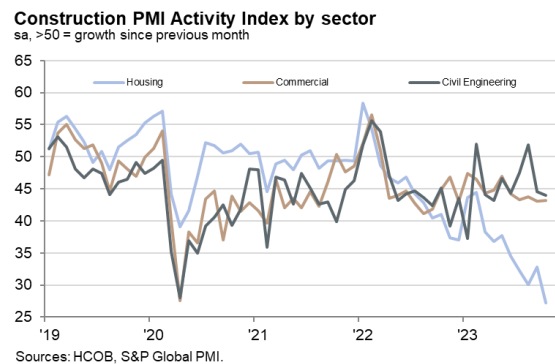
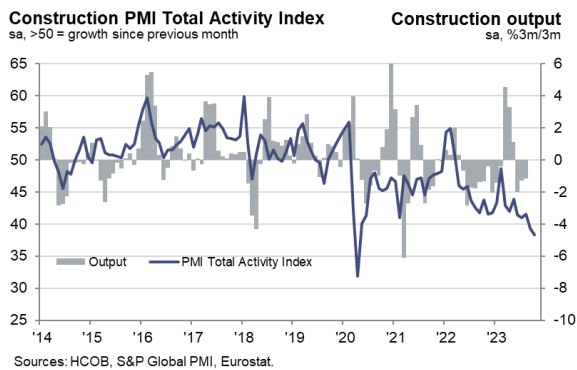
“It is particularly worrying that new orders again fell faster than the month before, indicating that we have not reached the bottom yet in terms of activity. The sharp declines in purchases and jobs are just adding to this bleak scenario.

“The geopolitical drama in the Middle East is causing ripples in the construction sector. Apart from creating additional uncertainty, the war between Hamas and Israel has triggered a spike in gas prices. It looks as if this is behind the softer decrease in input prices, as a lot of building materials like bricks and insulation rely on natural gas.

“Those companies which remain in business are getting goods faster from their suppliers and finding more subcontractors to choose from, which is good news. However, the quality of subcontractors has worsened, and they are not offering much of a discount on their services.

“It looks like construction companies are not finding much solace in the thought that interest rates might be peaking. The Future Activity Index is sounding the alarm for a big downturn in the next year, even though it's up slightly from last month. While there are indeed some downside risks, overall, we would expect to have left the bottom behind us in 12 months from now.”

-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

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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