

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Construction PMI®

German construction sector stuck in a slump at start of 2024

Key findings:

January sees sustained declines in activity, new orders and employment
Housing is the main drag, while civil engineering shows some resilience
Construction input costs continue to creep higher

Data were collected 11-30 January 2024.

The construction sector remained a drag on the German economy at the start of the year, with the latest HCOB PMI® survey, compiled by S&P Global, showing a sustained sharp downturn in building activity. Weakness remained centred on the housing sector, while civil engineering showed greater resilience. With new orders continuing to fall sharply and firms maintaining a negative outlook for future activity, there were further job losses across the sector in January.

Input costs faced by building companies meanwhile rose for the second month running, in a reversal of the trend seen throughout much of last year. This coincided with a renewed lengthening of supplier delivery times.

The **HCOB Germany Construction PMI Total Activity Index** – a seasonally adjusted index tracking changes in total industry activity – came in at 36.3 in January, down slightly from December's 37.0. The latest reading was again one of the lowest in the series history and indicative a sharp rate of contraction in overall building activity.

Of the broad construction categories monitored by the survey, housing activity remained the worst performer, exhibiting a rate of decline that was among the fastest on record. January also saw a deeper downturn in work on commercial building projects, which recorded the steepest drop since April 2020. Civil engineering activity, on the hand, fell at the slowest rate for four months.

The German construction sector continued to suffer from a lack of demand, as underlined by a sustained drop in new orders. Reports from surveyed businesses highlighted hesitancy in the market amid a backdrop of tight financial conditions, high prices and economic uncertainty. The rate of contraction in new orders eased for the third month running in January, but it nevertheless remained sharp by historical standards.

Building companies remained pessimistic towards activity in the coming year. Whilst expectations improved, they remained well below the historical series trend, with around three times as many firms anticipating a reduction in activity (38%) as those forecasting a rise (12%).

Lower workloads, combined with concerns for the outlook, led constructors to further streamline their workforce numbers during January. It marked the twenty-second straight month of job losses in the sector. The rate of decline in employment did, however, ease to the weakest since last July.

Building companies also scaled back their purchasing activity at the start of the year. The rate of contraction likewise slowed, but it remained historically sharp.

Average prices paid for purchases meanwhile rose again in January, after increasing in December for the first time in eight months. Reports from surveyed businesses highlighted the influence of higher transport costs. Rates charged by subcontractors, on the other hand, continued to fall, in part reflecting an improvement in their availability.

Adjusted for seasonal factors, German constructors faced an increase in average supplier delivery times in January. This ended

a ten-month sequence of shortening lead times.

Comment

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

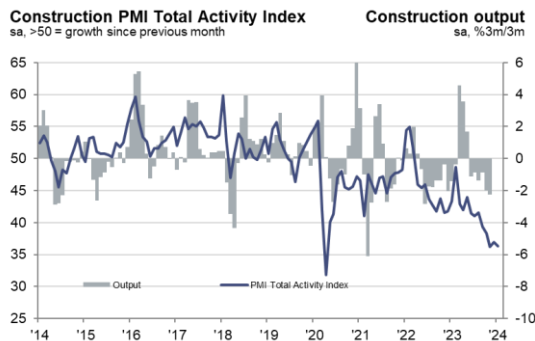
“Just when you think it cannot get any worse, it can. According to the PMI, the German construction sector is extending and deepening its downturn which has been in place since April 2022 for another month, with no near end in sight. The driver of this downturn remains the housing sector, which is in a much more depressive state than commercial real estate and civil engineering. Adding to the woes, the rising reports of insolvencies in the commercial real estate sector suggest that the bottom in this segment has not been reached.

“An eye-catching development is the hefty increase in supplier delivery times. While the corresponding time series is rather volatile, the sudden fall of the index below 50 - indicating longer delivery times – does not fit with the dire demand situation. We link this movement to the problems commercial vessels are encountering in the Red Sea. In an effort to avoid drone or rocket attacks from Houthi rebels, most vessels are taking the detour through the Cape of Good Hope, which prolongs the voyage by at least seven days. Strikes at the German railway company may also have contributed to the longer supply delivery times. This shift aligns with a slight uptick in input price inflation, posing an additional burden for the construction sector.

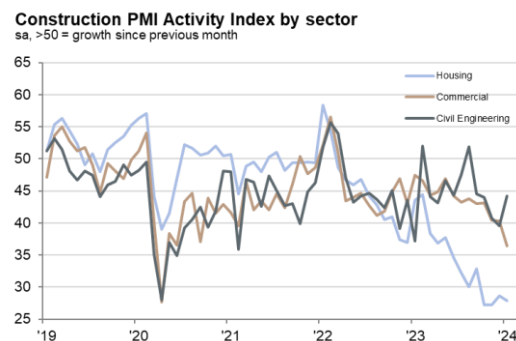
“The outlook for new orders remains bleak, with the subindicator showing minimal improvement while remaining firmly entrenched in recessionary territory. Faced with these challenges, firms have curtailed their material purchases at a pace almost as fast as in the previous month. Although at a slower pace, companies continue to reduce their staff. However, the slowdown in job cuts is unlikely to signify a turning point given the persistently weak order situation.

“For optimists, the set of PMI construction indicators may resemble a desert, offering limited signs of hope. While there is some solace in the reduced number of companies expecting output deterioration in the coming year, it’s important to acknowledge that there were still three times as many pessimists as there were optimists. In the same vein, the subcontractor usage indicator is increasing from rock bottom levels. Having said this, given the perspective that interest rates will most probably be cut eventually this year, some investors may be able to breathe a bit easier.”

-Ends-



Sources: HCOB, S&P Global PMI, Eurostat.



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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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