News Release

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S&P Global Germany Construction PMI®

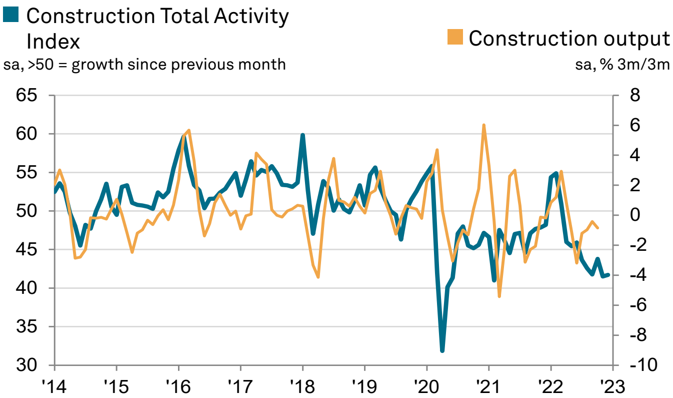
Housing activity bears the brunt of headwinds facing construction sector

Key findings

Sharp drop in residential activity in December

New orders remain deep in contraction territory

Input cost inflation retreats to two-year low



Sources: S&P Global, Eurostat.
Data were collected 6-22 December 2022.

The downturn in Germany's construction sector extended into the final month of 2022, with housing activity exhibiting a particularly sharp rate of decline in the face of high prices, rising interest rates and heightened economic uncertainty, latest PMI® data from S&P Global showed. Building companies remained in retrenchment mode, scaling back their purchasing activity as well as streamlining employment. Expectations for the year ahead were deeply pessimistic, although they did improve slightly, amid a further easing of supply bottlenecks and a sustained slowdown in the rate of input cost inflation.

The headline S&P Global Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered 41.7 in December. This was little-changed from November's 41.5 and still firmly below the 50.0 threshold that separates growth from contraction.

Of the three construction categories monitored by the survey, housing activity remained the weakest performing by far. It recorded the steepest rate of decline since February 2012. Elsewhere, commercial activity posted the sharpest fall since last September, whereas as the decline in civil engineering activity eased noticeably on the month (though was still marked overall).

Lower activity across Germany's construction sector reflected a multitude of headwinds to demand – including spiralling prices, tightening financial conditions and general investment reluctance – and an associated reduction in inflows of new work. December marked the tenth month in a row in which a decrease in new orders has been recorded. The rate of decline remained sharp but eased for the second time in the past three months.

Building companied reacted to falling workloads by paring back their purchasing activity during December, the ninth month in a row in which this has been the case. The rate of

Comment

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

“The construction sector, and especially housing activity, remained under pressure from a variety of factors during December. A toxic mix of spiralling prices, rising interest rates and a general lack of appetite for investment due to the uncertain economic outlook has led to a sustained drop in demand for construction work, with the effects seemingly having the greatest impact on residential building projects.

"Construction companies were downbeat about the outlook for activity in 2023, and more so than their counterparts in manufacturing and services. However, with a cap on energy prices coming into effect and a sustained sharp slowdown in the rate of input cost inflation to a two-year low suggesting the worst of the price pressures are in the past, expectations did improve further from last October's recent low."

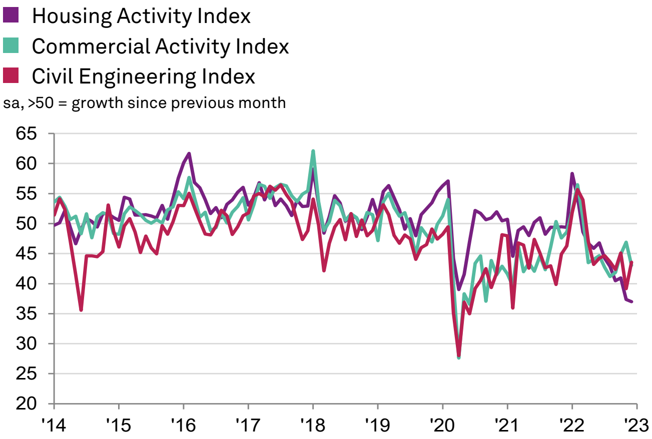
decline was quicker than the average over this sequence despite easing from the previous survey period.

Similarly, there was a further reduction in construction sector employment at the end of the fourth quarter. Here, however, the pace of job shedding quickened to the fastest since last September. The non-replacement of leavers was cited by a number of surveyed firms. The use of subcontractors likewise decreased during December, in line with the trend observed in each month since last April. This in turn contributed to the first improvement in subcontractor availability in over two years.

More positively, the sustained reduction in demand for building materials and products helped to further alleviate the pressure on construction supply chains. The incidence of delays in the receipt of inputs reached its lowest since September 2020.

The rate of inflation in average prices paid for building materials and products meanwhile fell sharply for the second month in a row, taking it to its lowest since December 2021. That said, it was still slightly above its pre-pandemic series average (since September 1999).

Lastly, December's survey showed that German constructors remained deeply pessimistic about the outlook for activity over the next 12 months. Almost half of surveyed firms (48%) expected a fall in activity, versus only 7% predicting a rise. Sentiment did however recover further from last October's near-record low to the highest for four months.



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.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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