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IHS MARKIT GERMANY CONSTRUCTION PMI®

Growth in construction activity accelerates to 13-month high in February

KEY FINDINGS

Broad-based rise in building work led by housing activity

New orders and employment rise the most since January 2018

Strong cost pressures persist

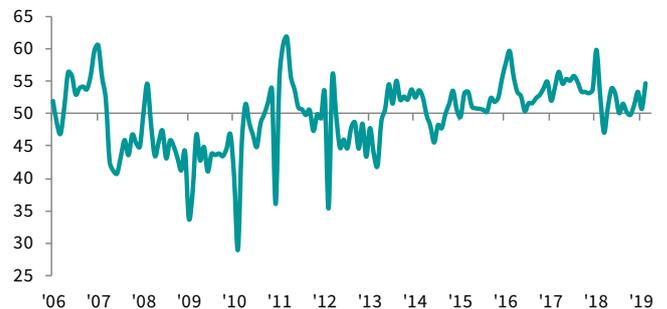
February saw the steepest rise in German construction activity for over a year, reflecting solid growth across all broad categories of building work. New orders and employment likewise rose the most since January 2018.

Strong cost pressures meanwhile remained a feature of the survey data, with constructors reporting steep increases in both prices paid for inputs and sub-contractor rates.

The headline seasonally adjusted Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – registered a reading of 54.7 in February, up from 50.7 in January. It signalled a fourth successive monthly increase in activity and a marked acceleration in the rate of growth – to the quickest since January 2018. Anecdotal evidence pointed to the early spring-like weather in February providing a boost to activity.

The acceleration in the rate of total industry activity growth from the modest pace seen in January was underpinned by improved trends across all three broad areas of construction work monitored by the survey. Housing activity remained the strongest performer, having seen growth accelerate to a strong rate that was the quickest for just over a year. The rise in commercial activity was the most marked since last May and sufficient to offset the contraction seen at the start of the year. Civil engineering activity also grew at a faster rate, with latest data showing the first back-to-back increases in this sub-category of construction work since a run of expansion that ended in October 2017.

Total Activity Index
sa, >50 = growth since previous month



As with total industry activity, new order growth recovered in February after the slowdown seen at the start of the year, showing the steepest rise in order books since January 2018. This strong inflow of new work helped inspire optimism towards activity in the year ahead, with business confidence at a nine-month high.

The increase in new construction projects led building companies to scale up their purchasing activity and take on additional staff. The rates of growth were the fastest for eight and 13 months respectively. The use of sub-contractors also increased, and to the greatest extent for just over a year.

This extra demand for sub-contractors, combined with a lack of availability, resulted in a steep monthly rise the rates they charged to building companies – the third-sharpest since the survey began in 1999. Another source of cost pressure during the month was prices paid for building materials and products, the rate of inflation of which dipped slightly since January but remained among the fastest seen over the past eight years. Panellists commented on a general increase in input prices, whilst also citing the ongoing influence of higher road toll charges.

Tightness in supply chains played a part in driving up building material prices. Latest data showed the highest incidence of delivery delays for three months.

COMMENT

Phil Smith, Principal Economist at IHS Markit, which compiles the survey:

"The construction sector had its best month for just over a year in February in terms of overall activity growth. Following the relative subdued performance in January, the headline PMI rebounded steeply to record its highest reading since the opening month of 2018 – which like February had been unseasonably mild.

"The construction sector looks to be on strong foundations, with the latest data showing order books growing for a sixth straight month and at one of the quickest rates since the survey began back in 1999.

"Residential building work is providing the main boost to total industry activity, reflecting strong housing demand and support from low interest rates, though the data have also shown overall growth in both commercial and civil engineering activity so far in 2019.

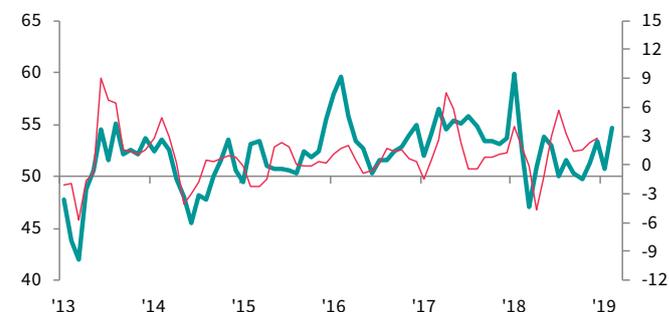
"Payroll numbers at construction firms remain on the rise, but a lack of sub-contractor availability is posing some challenges across the sector, not least because of a sharp rise in rates charged which is adding to the cost pressures stemming from higher prices paid for building materials and products."

Total Activity Index

sa, >50 = growth since previous month

Total Construction Output

sa,% 3m/3m



Sources: IHS Markit, Federal Statistical Office.

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Methodology

The IHS Markit Germany Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

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.

February 2019 data were collected 12-27 February 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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