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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction activity growth softens to only marginal rate in January

KEY FINDINGS

Slowdown follows solid upturn in activity in relatively mild December

New orders rise for fifth straight month

Purchase prices rise sharply, as do sub-contractor rates

German construction activity continued to rise in January, according to the latest PMI® data from IHS Markit, though severe bad weather in parts of the country saw the rate of expansion slow compared with the relatively mild December. New order growth was robust but also eased, as did the rates of increase in employment and constructors' buying levels. Despite the slowdown, constructors remained confident about the prospect of activity rising in the next 12 months.

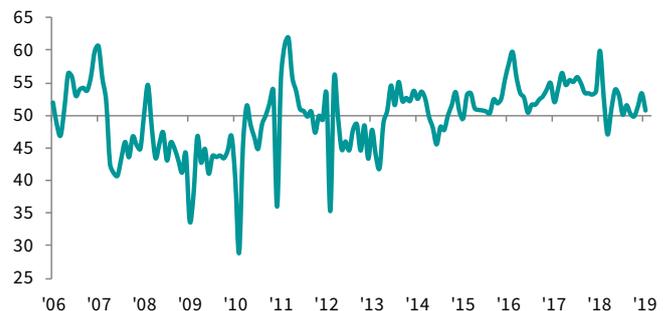
On the cost front, constructors faced steep and accelerated rises in both sub-contractor rates and average purchase prices, with the latter reportedly driven up by increased energy costs and road toll charges.

January saw the headline seasonally adjusted Germany Construction Purchasing Managers' Index® (PMI®) – a measure of changes in total industry activity – slip to 50.7, down from 53.3 in December and its lowest reading in the current three-month sequence of growth.

The slowdown was led by a renewed decline in commercial activity, which fell to the greatest extent in almost six years following modest growth in November and December. In addition, housing activity increased at a much slower rate than in December. Civil engineering was the only area of construction that began the year on a stronger footing, recording a rise in activity for the first time in three months.

The recent upturn in construction order books extended to a fifth straight month in January. The rate of growth eased since December, but it was still solid overall and the second-fastest seen in the past 11 months.

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



It was a similar story for employment and purchasing activity, both of which were raised by constructors during the month due to greater workloads, but more slowly than in the preceding survey period. Conversely, sub-contractor usage showed the greatest increase since May last year. With the availability of sub-contractors continuing to decline, January saw a steep and accelerated rise in rates charged.

Adding to the cost pressures faced by constructors, average prices paid for building materials and products increased sharply during the month. The rate of inflation was among the quickest seen over the past eight years, with surveyed businesses commenting on an increase in energy costs and the impact of the hike in road toll charges at the start of the year.

German constructors recorded a further increase in lead-times on purchased items in January. Though still substantial by historic standards, the deterioration in vendor performance was the least marked since April last year.

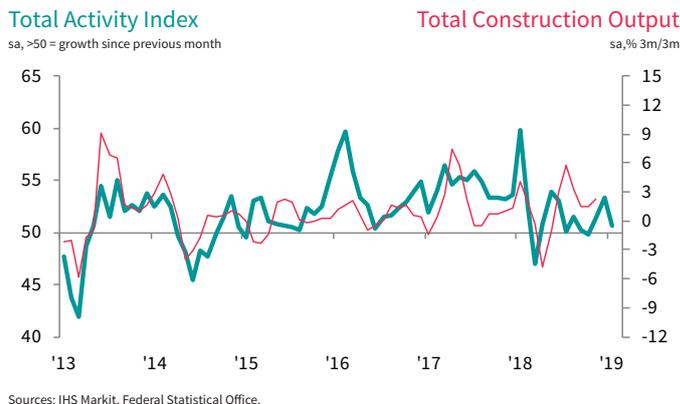
Looking ahead, constructors reported optimism towards the outlook for activity over the next 12 months, citing backlogs of work and hopes for new projects. The degree of confidence was at a six-month high, although well below the record levels seen in early-2018.

COMMENT

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

"After a solid end to 2018, the German construction sector lost some momentum in January, with the PMI data signalling softer growth across a number of key business metrics. However, while December was unusually mild, the opposite was true of January. The fact that growth in total industry activity slowed down more than new orders, which remained comparatively robust, suggests that it wasn't necessarily a demand-driven slowdown and that severe bad weather probably did cause some disruption to actual work on the ground during the opening month of the year.

"Trying to unravel these distortions is difficult, but if we look at three-month moving averages to try to smooth fluctuations caused by any potential weather effects, then we see that the trend rates of growth for total activity, new orders and employment have all improved, albeit remaining below the highs in 2018. Alongside a rise in business confidence, this paints a fairly positive picture."



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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.

January 2019 data were collected 11-30 January 2019.

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

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).