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IHS MARKIT EUROZONE CONSTRUCTION PMI®

Stronger demand for eurozone construction work boosts activity growth at start of 2020

KEY FINDINGS

Quicker increases in new orders and output

Growth of commercial and residential building accelerates

Infrastructure activity declines further

January data painted a brighter picture of the eurozone construction sector, with a quicker rise in new work intakes underpinning faster increases in activity, input buying and employment. Moreover, the mood among builders improved from December, with firms at their most upbeat since mid-2019.

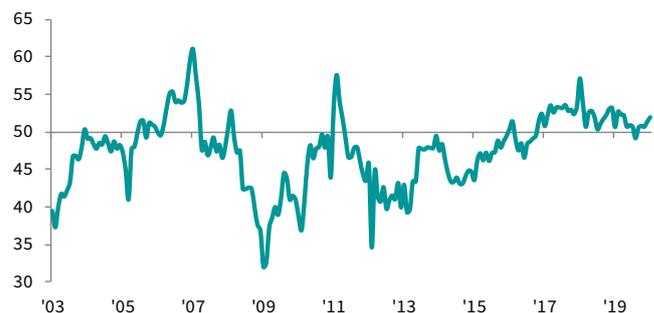
Of the euro area's three largest economies, Germany was the strongest link as trends for construction output, home building, new orders, employment and input buying were all better than the trends in France and Italy.

The IHS Markit Eurozone Construction PMI rose from 51.3 in December to 51.9 in January, to signal the strongest rate of expansion in output since April 2019. Growth of residential and commercial work accelerated to nine- and four-month highs respectively, but civil engineering activity declined further.

Eurozone builders recorded a fourth successive rise in new work, with the pace of growth the fastest in almost one year. Germany saw a stronger rate of expansion than France, while Italy continued to register a contraction.

In response to rising workloads, eurozone constructors continued to add to their workforces. Payroll numbers have increased in each month over the past three years, with the upturn noted in January the strongest since last March. Job creation accelerated in Germany and eased in France, while employment stabilised across Italy.

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



As has been the case on a monthly basis for over three years, eurozone firms purchased additional building materials in January. Input buying rose at a solid pace that was the quickest since last April.

In turn, stronger demand for inputs exerted upward pressure on prices, with the rate of inflation climbing to a seven-month high. Sub-contractor rates also increased to a greater extent, the fastest since April 2019.

Underlying data indicated that a combination of stronger demand for sub-contractors and falling availability caused the uptick in their rates. The supply of labour willing to undertake sub-contractor work in the eurozone construction sector worsened markedly and at the fastest pace in three months.

At the same time, survey participants indicated another deterioration in the quality of the work undertaken by sub-contractors. Assessments of dissatisfaction were given by German, French and Italian builders.

Meanwhile, supplier delivery times in the euro area construction sector lengthened to the greatest extent in seven months at the start of 2020. The deterioration in vendor performance was most pronounced in Germany, followed by Italy and then France.

Eurozone builders were upbeat towards growth prospects, following a neutral outlook at the end of 2019. The degree of optimism was strong by historical standards and was at a six-month high.

COMMENT

Pollyanna De Lima, Principal Economist at IHS Markit, which compiles the survey:

"The eurozone construction sector took a further step forward in January, with another pick-up in new order growth underpinning the strongest expansion in activity for nine months. While home building remained the brightest spot, it was encouraging to see growth of commercial work gathering momentum too. At the other side of the scale, however, was a further solid drop in infrastructure activity.

"Another positive takeaway was an improvement in business confidence, which supported sharper increases in employment, sub-contractor usage and input buying. All of these developments combined suggest that the construction sector looks set to enjoy further growth in the near-term.

"Still, the headline figures for the eurozone mask divergences at the country level. Germany performed notably well, leading the upturns in construction activity, new orders and purchasing. Modest growth was noted in France for all of the aforementioned measures, but Italy continued to register contractions."

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Methodology

The IHS Markit Eurozone Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to around 650 construction companies in Germany, France, Italy and Ireland.

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, at the country level. 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.

Eurozone level indices are calculated by weighting together the national indices. Weights are calculated from national construction value added.

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.

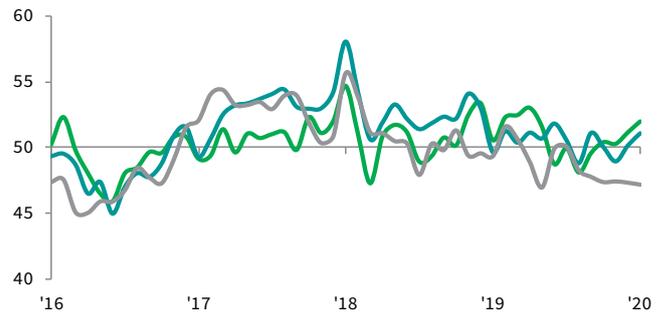
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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Activity Index by construction category
Housing / Commercial / Civil Engineering

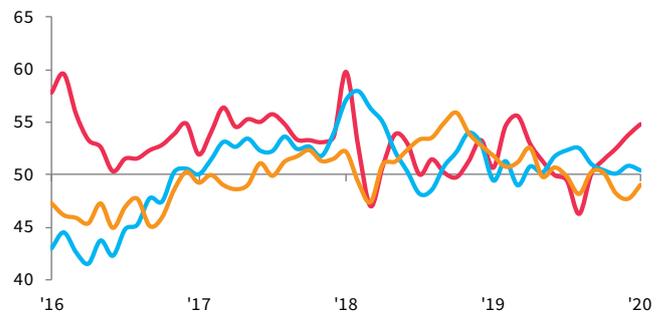
sa, >50 = growth since previous month



Total Activity Index by nation

Germany / France / Italy

sa, >50 = growth since previous month



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