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## IHS MARKIT GERMANY CONSTRUCTION PMI®

### Construction sector posts rare decline in activity in October

#### KEY FINDINGS

October sees falls in both housing and commercial activity

New orders rise the most in five months...

...but employment growth slows to 29-month low

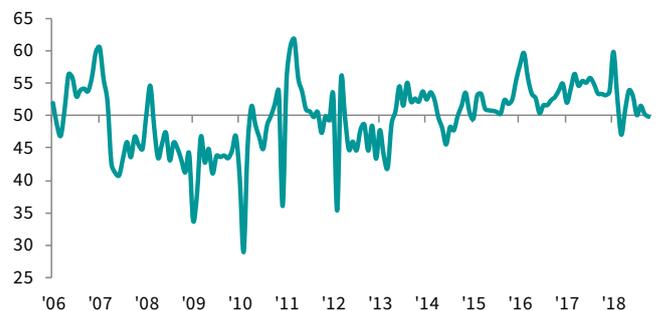
Activity in Germany's construction sector fell in October, to mark only the third such decline in over four years. The slight drop in total industry activity reflected reductions in work on both housing and commercial building projects. Accordingly, job creation in the sector slowed and constructors reported the first drop in buying levels in over three years. Cost pressures meanwhile intensified.

The headline seasonally adjusted Germany Construction Purchasing Managers' Index® (PMI®) dipped to 49.8 in October, from September's 50.2. It was the index's first sub-50 reading since March, when activity was curtailed by a bout of especially cold weather, though it represented only a marginal pullback in the level of activity from the month before.

The worst-performing area of construction activity in October was housing activity. Though only modest, the decline in residential building work was the first in seven months and slightly steeper than the drop in commercial activity (which was likewise the first since March). Only civil engineering activity rose during the month, a reversal of the situation seen in September.

The decrease in total industry activity impacted negatively on the pace of hiring across the construction sector during October. Job creation was at its lowest in almost two-and-a-half years. The use of sub-contractors meanwhile decreased during the month, though this was at least partly linked to a lack of availability.

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



More positive was a further increase in inflows of new work at constructors, the level of which has now risen in three of the past four months. However, despite picking up to its highest since May, the rate of new order growth remained subdued compared with the highs seen earlier in the year.

October saw constructors reduce their purchases of building materials and products, thereby ending a sequence of growth in buying levels seen in every month since August 2015. The extent of the decrease was the most marked in over four years.

Delivery times on purchased items continued to lengthen during the October amid reports of stretched capacity among suppliers. That said, reflective of the moderate easing in demand for inputs, the deterioration in vendor performance was the weakest in four months.

On the cost front, constructors reported a sharp and accelerated monthly increase in average input prices in October. The rate of inflation was at a 12-month high and among the quickest observed over the past seven-and-a-half years. Higher oil prices and new road toll charges were the main drivers, according to anecdotal evidence.

Finally, latest data showed a weakening of constructors' confidence towards the outlook for activity over the next 12 months. Reports from surveyed firms highlighted concerns over a slowing manufacturing sector.

## COMMENT

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

*"It was a largely disappointing set of numbers for the construction sector in October, with total activity shown to have slipped from the month before and building companies adding jobs at the slowest rate for nearly two-and-a-half years.*

*"Though only marginal, October's decrease in activity was notable in the fact that, unlike the last two falls in January 2015 and March this year, it wasn't associated with a bout of severe bad weather.*

*"The most positive takeaway from the survey was another steady increase in new orders, which should at least support activity levels in the short term. However, firms once again reported not being able to take full advantage of the positive demand environment due to being at or near to full capacity.*

*"Constructors were hit by rising costs during the month, reporting the influence of oil prices and new road toll charges. Input cost inflation was at close to its highest for over seven years in October and, on top of this, constructors also faced another steep rise in sub-contractor rates."*

### Total Activity Index

sa, >50 = growth since previous month

### Total Construction Output

sa,% 3m/3m



Sources: IHS Markit, Federal Statistical Office.

## CONTACT

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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.

October 2018 data were collected 12-31 October 2018.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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