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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction downturn shows further signs of easing in December

KEY FINDINGS

Total industry activity falls at slowest rate for four months

Employment close to stabilising as decline in new orders eases

Input cost inflation at ten-month high

Data were collected 04-22 December 2020.

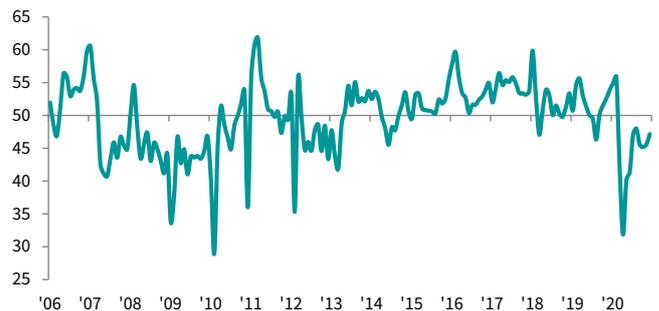
There were signs of the downturn in Germany's construction sector easing at the end of 2020, with December's PMI® survey data from IHS Markit showing slower declines in activity and new orders. Employment came close to stabilising and constructors' purchasing activity rose for the first time in ten months. However, the latter partly reflected a response to growing supply pressures, with constructors still pessimistic towards future activity due to concerns about the impact of the coronavirus disease 2019 (COVID-19) pandemic on client demand in the months ahead.

At 47.1 in December, up from the 45.6 in November, the headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – ended 2020 at its highest level for four months, though still in contraction territory.

Underlying data continued to show varied trends across the three main categories of construction monitored by the survey. Housing activity remained the only area of growth, though the pace of expansion eased since November. Commercial activity remained in a steep downturn and was the worst-performing sub-sector. The decline in work on civil engineering projects meanwhile eased sharply, to show the smallest contraction for ten months.

A lack of demand for commercial construction projects and pressure on council budgets were highlighted by surveyed building companies as two of the factors behind lower new orders in December. That said, the decline eased for the third

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



Source: IHS Markit.

month in a row and was the weakest since the start of the pandemic.

It was a similar story for employment, which fell only marginally and at the slowest rate in the current ten-month sequence of job losses. Constructors' buying levels meanwhile rose for the first time since last February. Anecdotal evidence suggested that the marginal increase was partly due to firms bringing forward purchases and stockbuilding, amid growing pressure on supply chains and rising purchase prices.

Lead-times on building materials and products lengthened markedly and to the greatest extent for eight months in December. Supply shortages in turn contributed to an acceleration in the rate of purchase price inflation to the highest since February last year.

Turning to the outlook for activity over the next 12 months, constructors generally remained downbeat due to worries about the hit to client budgets from the pandemic. Firms were even slightly more pessimistic than in November, but less so than the lows seen during the first COVID wave.

COMMENT

Phil Smith, Associate Director at IHS Markit, which compiles the survey:

"December's construction data pointed to increasing signs of stability after a challenging period for the sector, with the headline PMI moving to a four-month high and new orders showing the smallest decline since the start of the pandemic."

"There were a number of other positive takeaways from the latest survey, including a further easing in the rate of job cuts and a first rise in constructors' purchasing activity for ten months. The latter, however, looks to be partly a reaction by building firms to the increasing strain on supply chains, with average lead times on building materials and products increasing to the greatest extent since last April and purchase price inflation accelerating sharply."

"Despite ending 2020 on a more stable footing, constructors still don't share the same optimism about the outlook as their manufacturing and services counterparts, with many building companies concerned about pandemic's impact on client budgets and investment demand."

Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

Activity Index by construction category

Housing / Commercial / Civil Engineering



Source: IHS Markit.

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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.

December data were collected 04-22 December 2020.

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

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