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## IHS MARKIT GERMANY CONSTRUCTION PMI®

### Germany's construction sector still mired in a downturn in June

#### KEY FINDINGS

Activity falls for fourth month running amid weaker order books

Job cuts continue despite gradual recovery in confidence

Input price inflation at near 11-year low

Data were collected 12-29 June 2020.

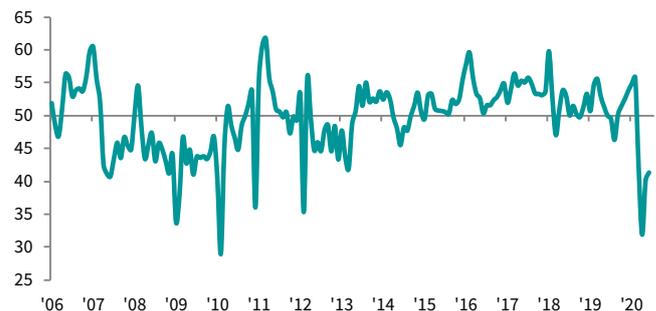
Latest PMI® data from IHS Markit showed a sustained downturn in activity across Germany's construction sector in June, led by ongoing weakness in new orders linked in part to the coronavirus disease 2019 (COVID-19) pandemic. Though firms were less pessimistic about the outlook, they nevertheless cut payroll numbers for the fourth month in a row.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – registered 41.3 in June. This was up slightly from May's 40.1 and a further improvement from a ten-year low in April. However, the reading was well below the neutral 50.0 threshold and thereby suggested that construction activity was still firmly in contraction territory.

Activity has now fallen in each month since March. The downturn in June was once again led by steep declines in work on both commercial and civil engineering projects. Moreover, the respective rates of contraction accelerated slightly since May, albeit remained notably softer than those seen in April. By contrast, housing activity showed greater signs of stabilising at the end of the second quarter, falling relatively modestly and at the slowest rate during the crisis so far.

June's survey meanwhile showed a fourth straight monthly decrease in new orders across the German construction sector, which surveyed businesses often attributed to hesitancy among clients. The pace of decline was little-

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



Source: IHS Markit.

changed from that recorded in the previous survey period. Constructors remained downbeat about the year-ahead outlook for activity, citing concerns about a potential longer-term impact on investment, and demand for new commercial projects in particular, due to the COVID-19 pandemic. That said, sentiment improved for the third month running in June, recovering further from a near-record low in March.

Given the decrease in workloads and worries about future activity, constructors maintained a preference for lower payroll numbers and further reduced their use of sub-contractors during June. In line with the trend in activity, however, the decline in employment eased for the second month running to the weakest since March.

Purchases of building materials and products were likewise scaled back for a fourth consecutive month in June. Lead times on inputs meanwhile showed signs of stabilising, as disruption to supply chains caused by the COVID-19 pandemic and associated lockdowns at home and abroad continued to ease.

Finally, June's survey showed historically low cost pressures across the German construction sector. Input price inflation dipped for the fourth month running to the weakest since August 2009. Rates charged by sub-contractors also barely rose, as their availability improved.

## COMMENT

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

*"The PMI data suggest that, while less affected by the COVID-19 pandemic than either the manufacturing or service sectors, construction activity has slowed down over the past four months, with June seeing little signs of a pick-up outside of the residential category.*

*"Surveyed businesses have reported that clients are more reluctant to place new business due to the current uncertain climate. As such, constructors remain cautious about the outlook for activity, and towards work on commercial projects such as retail outlets, office space and manufacturing plants in particular.*

*"After more than four-and-a-half years of continuous job creation in the sector we've seen a period of retrenchment as constructors looked to trim payroll numbers amid lower workloads and concerns towards the outlook."*

### Total Activity Index

sa, >50 = growth since previous month

### Total Construction Output

sa,% 3m/3m



Sources: IHS Markit, Eurostat.

## 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.

June data were collected 12-29 June 2020.

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

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