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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction activity falls for first time in nine months in July

KEY FINDINGS

Decreases in both commercial and civil engineering activity

Sharpest downturn in new orders since September 2014

Growth in employment and purchasing activity weakens amid gloomier outlook

Germany's constructors recorded a decrease in total industry activity for the first time in nine months in July, according to the latest PMI® survey. The reduction in output coincided with a third successive monthly fall in new orders. With confidence towards future output also declining, constructors recorded one of the smallest rises in employment over the past three years.

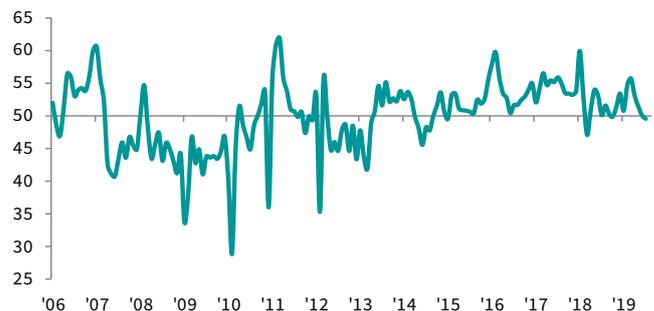
A slowdown in input cost inflation to the weakest since October 2016 meanwhile reflected a further softening of supply chain pressures in the sector.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – registered 49.5 in July. The index had signalled no change in activity in June (50.0) but, falling for the fourth month in a row, it dipped into contraction territory for the first time since October 2018 and was at a 16-month low at the start of the third quarter.

The decrease in overall construction output in July reflected contractions in both commercial and civil engineering activity. The decline in work on commercial building project was the first since January, but only modest. For civil engineers, it was the fourth decrease in activity in as many months, with rate of decline accelerating to a solid pace. Home building returned to growth in July, albeit with the increase in activity merely reversing the modest decline seen in June.

New orders at constructors remained on a downward

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



trajectory in July, falling for the third month in a row and at the quickest pace since September 2014. The bulk of anecdotal evidence attributed the drop in new work inflows to capacity constraints and already high backlogs, though there were mentions from some panellists of slowing demand.

As such, firms continued to take on additional staff and raise buying levels to help fulfil outstanding orders, though rates of growth slowed on both fronts. The latest expansion in purchasing activity was only marginal.

This was reflected in a further easing of supply chain pressures across the sector. Though lead times on building materials and products continued to lengthen, they did so to the smallest extent since early-2016.

Average prices paid for purchases meanwhile increased at a slower rate in July. Easing for the fifth time in the past six months, the rate of inflation reached the weakest for over two-and-a-half years (although was still above the historical series average). Constructors meanwhile faced a rise in sub-contractor rates during July, in part due to a lack of availability.

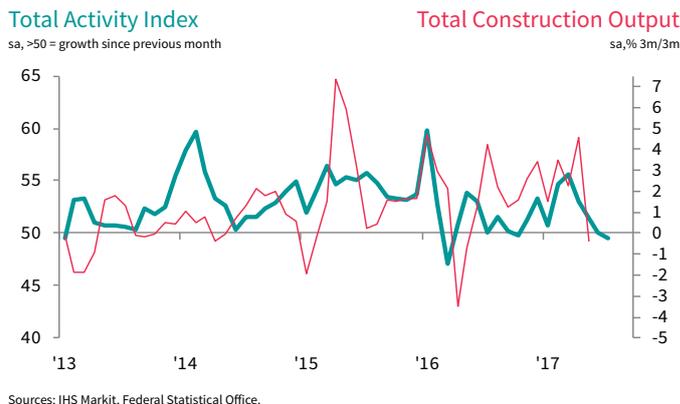
Finally, July saw constructors lower their expectations for activity in the year ahead. For the first time in nine months, the number of firms expecting output to fall over the next 12 months exceeded those forecasting a rise, with the resulting index at its lowest since November 2015. An uncertain outlook for commercial activity was a factor, alongside generally weaker economic sentiment.

COMMENT

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

"As is the case with manufacturing, there is an increasing drag on overall economic output from the construction sector in July. The survey's indicators of total activity and new orders have maintained their recent slide, with the former now at its lowest since March 2018. However, it's difficult to untangle how much of the slowdown still represents payback from the very strong start to the year, and how much is due to weaker underlying demand.

"A fall in new orders of the magnitude seen in July – the sharpest in almost five years – would suggest that the slowdown is no longer just about capacity constraints, although this is clearly still an important factor. Worries about the outlook for commercial construction and weakening economic trends in general are weighing on the minds of constructors, with expectations with regards to future output now at their lowest since late-2015."



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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.

July 2019 data were collected 12-30 July 2019.

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

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