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IHS MARKIT GERMANY CONSTRUCTION PMI®

Upturn in German construction activity continues into February

KEY FINDINGS

Total activity posts sharpest rise since the start of 2018

Homebuilding remains strongest-growing category

February sees further solid job gains despite intensification of cost pressures

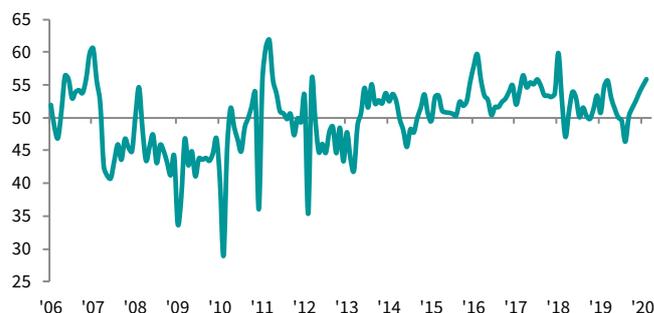
German constructors recorded a further acceleration in growth in February, with total industry activity rising at the sharpest pace for over two years, latest PMI® data from IHS Markit showed. The upturn continued to be led by strong growth in the residential category, though commercial activity also increased and the drag from falling civil engineering activity eased. Further solid jobs gains were seen across the sector during the month, despite the survey revealing a sharp pick-up in cost pressures.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – remained on an upward trajectory in February, rising for the sixth month in a row (from a five-year low last August) to its highest since January 2018. At 55.8, up from 54.9 at the start of the year, the latest reading pointed to a marked rate of growth in total activity by historical standards.

Homebuilding remained the strongest-performing broad construction category in February, with growth in this sector accelerating for the fifth month in a row to the quickest for more than two years. Work on commercial projects rose for the second month in a row, with the rate of expansion accelerating to an 11-month high. Civil engineering activity remained the main area of weakness, though even here the decline eased and was only marginal overall.

Much like in January, February's increase in activity owed partly to unseasonably mild weather, according to reports from surveyed businesses. This was also a factor behind

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



Source: IHS Markit.

a fourth straight monthly increase in the new orders. Encouragingly, however, there were also mentions from survey participants of stronger underlying demand leading to greater tender opportunities. New order growth moderated from January's 11-month high.

One area where the survey continued to show strong growth was payroll numbers, with the pace of job creation continuing to run at its quickest since the opening quarter of 2019. There was also a marked rise in firms' purchases of raw materials and other building products – the steepest since June 2018.

Greater purchasing activity among Germany's constructors was reflected in a further increase in lead times on inputs in February. On top of this, average purchase prices rose sharply, with the rate of inflation accelerating for the second month running to its highest since March last year. There was additional pressure on the cost front from a rise in sub-contractor charges, linked in part to deteriorating availability.

The recent upturn in new work and a healthy backlog of orders across the sector meant that constructors remained upbeat about the outlook for activity. The degree of optimism improved since January, though it remained well below the highs in 2018/19.

COMMENT

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

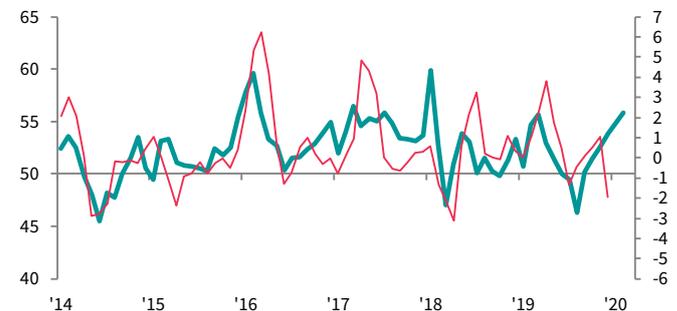
"Germany's construction sector has enjoyed a strong start to the new year, with PMI data showing growth of total industry activity accelerating again in February to its highest since January 2018. Homebuilding is booming, whilst at the same time there is a sustained recovery in commercial activity and an easing drag from work on civil engineering projects, which showed the smallest decline for 11 months.

"Underlying demand across the construction sector remains healthy, but it's important to note that, so far this year, work on sites has been helped by the mild winter weather.

"We saw a similar situation in 2019, when the mild-weather-induced upturn in the opening quarter was subsequently met with some payback in the following months. A potential correction in activity levels will be something to watch out for as we move through spring and into the summer."

Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

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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.

February data were collected 12-27 February 2020.

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

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