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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction PMI at nine-month high in December as upturn in homebuilding continues

KEY FINDINGS

December sees faster growth in activity and new orders

Commercial activity stabilises, but civil engineering remains in decline

Expectations towards future activity at five-year low

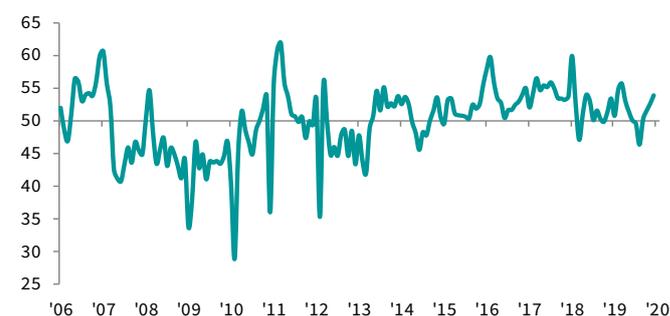
Germany's construction sector had a strong finish to 2019, latest PMI® data from IHS Markit showed, with a surge in homebuilding driving the strongest rise in overall building work for nine months. Constructors increased both employment and purchases of materials and other building inputs amid rising inflows of new work. Concerns about the outlook for commercial activity and public sector spending on infrastructure continued to dampen confidence, however, with firms' expectations at a five-year low.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – moved into stronger growth territory in December, climbing from November's 52.5 to 53.8. It was the highest reading since last March and marked a further recovery from August's five-year low.

Underpinning December's rise in total industry activity was a strong increase in homebuilding. Work on residential projects rose for the fourth month in a row and to the greatest extent since last March. Commercial activity meanwhile stabilised after falling in each of the previous five months. Civil engineering activity remained in decline, falling in December for the ninth month in a row and at a quicker rate than in the previous survey period.

Overall inflows of new work were up for the second month in a row in December, having previously fallen for six straight months. The moderate rise in order book volumes was greatest seen since last March and linked by surveyed

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



Source: IHS Markit.

businesses to stronger underlying demand for building projects.

Higher activity led constructors to add to their payroll numbers during December. Moreover, the rate of job creation accelerated for the second month in a row to the quickest since the opening quarter of 2019. Latest data also showed a solid increase in building firms' purchasing, with the rate of growth likewise accelerating since November.

Burgeoning demand for building materials and products was reflected in an increase in input lead times in December, with panellists commenting on supply bottlenecks and shortages. Prices paid for purchases increased accordingly, though lower steel prices acted to weigh on overall cost increases, which remained below the trend historical rate and close to the lowest seen over the past four years.

Looking ahead, constructors are downbeat about the outlook for activity over the coming year, citing concerns for commercial activity amid a broader economic slowdown, and worries about a lack of tenders for local infrastructure projects. Sentiment fell deeper into negative territory to reach its lowest level since the end of 2014.

COMMENT

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

"After a dip in the summer, the construction sector got back on track in the final quarter of 2019 and ended the year on a high note, with activity, new orders and employment all rising at the fastest rate since March last year.

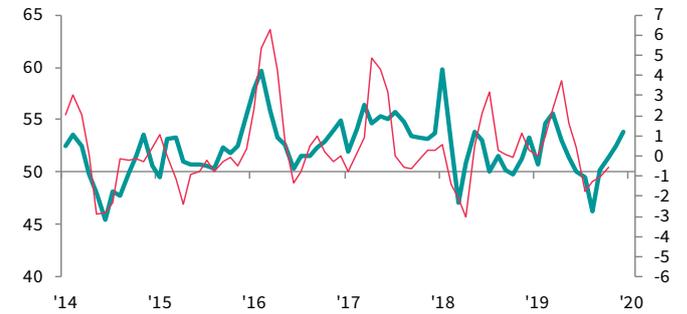
"However, as was the case during most of the second half of 2019, growth of activity in December was confined to just homebuilding. Commercial activity stabilised in December on the back of its worst run for more than six years, leaving civil engineering as the main drag on the construction sector. Outside of homebuilding, constructors remain concerned about the outlook for activity, citing the influence of the wider economic slowdown and a lack of tenders for local infrastructure projects."

Total Activity Index

sa, >50 = growth since previous month

Total Construction Output

sa,% 3m/3m



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.

December data were collected 5-20 December 2019.

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

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