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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction activity growth ticks down in April amid slower rise in new orders

KEY FINDINGS

Slower growth in commercial and housing activity

Civil engineering activity shows modest decline

Measures of new orders, jobs and costs also soften

Though continuing to grow in April, Germany's construction sector showed a loss of momentum from the strong rate of expansion recorded at the end of the opening quarter, according to the latest PMI® survey. The report revealed slower increases in activity, employment and buying levels, as new orders rose at the weakest rate for six months. Cost pressures remained elevated by historical standards, although rates of inflation in both input prices and sub-contractor charges retreated further from their recent highs.

The headline seasonally adjusted Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – slipped to 53.0 in April from March's 14-month high of 55.6. The latest reading was the lowest since January, albeit still comfortably higher than the long-run average of 47.8 (since 1999).

Behind the increase in total industry activity in April was sustained growth of both housing and commercial building work. However, despite remaining solid overall, the respective rates of expansion were the weakest for three months. Civil engineering activity meanwhile fell during April, after having grown throughout the opening quarter of the year.

As well as indicating a slower increase in activity, latest data also signalled a further weakening of the pace of new order growth at German constructors, down from a 13-month high in February to the weakest since October last year. The slowdown in order book growth, coupled with concerns towards the outlook for the car industry, contributed to a

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



softening of firms' optimism towards future activity, which fell sharply to a four-month low.

Higher workloads in April prompted constructors to create new jobs and scale up their purchasing activity during the month. However, mirroring the trend in activity, the rates of growth in both employment and buying levels pulled back from their recent highs in March to the slowest since January. Sub-contractor usage also showed a weaker rise, following strong growth in each of the previous two months.

April saw cost pressures across the construction sector ease further from the high levels observed around the turn of the year. Average prices paid for building materials and products rose sharply, but at the weakest rate since May 2018. The latest increase in sub-contractor rates was meanwhile the joint-slowest in the past 23 months. That said, owing to a lack of availability, rates charged for sub-contracted work still rose markedly overall and more quickly than at any point in the survey history before June 2017.

Construction supply chains meanwhile remained stretched in April. Around one-third (31%) of surveyed firms reported a lengthening of input lead-times, versus only 4% noting an improvement. This equated to an overall deterioration in vendor performance that was broadly in line with trend in 2018.

COMMENT

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

"Germany's construction sector hit a bit of a speed bump in April, as growth slowed from the strong rate seen at the end of the opening quarter. Falling from a 14-month high of 55.6 in March to 53.0, the modest correction in April still leaves the headline PMI at a healthy level by historical standards.

"The upturn in residential building remains the real bright spot across the German construction sector, amid strong demand for housing and supportive credit conditions. Commercial activity grew at the slowest rate for three months, but it was the modest decrease in civil engineering activity that was perhaps the biggest disappointment, following the category's best quarterly performance for one-and-a-half years in Q1.

"Capacity constraints remain an issue across the construction sector, with firms reporting a dearth of sub-contractors and increasing wait-times on inputs, although they look to be having a waning impact on costs. Rates of inflation in purchase prices and charges levied by sub-contractors have eased further from their recent highs, which is probably a reflection of developments on both the supply- and demand-side."

Total Activity Index

sa, >50 = growth since previous month

Total Construction Output

sa,% 3m/3m



Sources: IHS Markit, Federal Statistical Office.

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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.

April 2019 data were collected 10-29 April 2019.

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

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