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IHS MARKIT EUROZONE CONSTRUCTION PMI®

Softer rise in construction activity during January

KEY FINDINGS

Construction activity rises only marginally

Rate of job creation eases to near-two-year low

Slowest growth in new orders since September 2018

IHS Markit has been conducting PMI surveys of the construction sector in the eurozone since January 2000, using the same methodology as the closely-watched manufacturing and services surveys. We are now making the findings available in a press release which will be published on the fourth working day of each month going forward. The survey covers a range of variables specific to the construction sector including construction activity, new business, employment, input costs and sub-contractor trends.

January data pointed to the softest increase in eurozone construction activity since July 2018. The slowdown was partly driven by activity declines in two of the three monitored sub-sectors and only a moderate rise in new business. Weaker demand for building work also saw the rate of job creation ease to a near-two-year low and purchasing activity rise at its slowest pace since last October. Despite this, construction firms were the most optimistic towards the business outlook for six months.

Falling from 53.1 in December to 50.6 in January, the IHS Markit Eurozone Construction PMI® signalled the slowest rise in construction activity for six months. The rate of growth eased in both Germany and Italy, while French constructors reported the first contraction for five months.

At the sub-sector level, commercial and infrastructure activity fell in January. Although the declines were only marginal overall, it was the first time that any two of the three covered categories had registered contraction for six months. Continued growth in house building underpinned the overall rise in sector activity, although here the rate of expansion slowed to a marginal pace.

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



New orders at eurozone constructors also increased at a softer rate in the first month of 2019. Firms recorded the slowest rise for four months, driven by a contraction in new work at French firms.

With a weaker rise in demand for their services, construction firms in the currency union increased their staff numbers at the slowest pace for nearly two years in January. At the national level, employment growth slowed in Germany and France, while there was a reduction among Italian firms.

Similarly, firms increased input buying at a slower rate in the first month of 2019. Purchasing activity expanded at the softest pace in three months, amid a broad-based slowdown across Germany, France and Italy.

Supplier delivery times lengthened for the seventy-seventh month in a row during January. However, vendor performance deteriorated at its softest rate for eight months. Of the areas three largest economies, average lead times lengthened least in Italy, followed by France and Germany respectively.

Regarding prices, input costs faced by eurozone construction firms rose at a historically marked pace in January. The rate of inflation was faster than that registered in December and underpinned by a sharper rise in costs burdens at German firms.

Despite softer rises in overall activity and new business, construction firms in the eurozone recorded their highest level of confidence towards the business outlook for six months. Improved sentiment in Germany and France, contrasted with weaker optimism among Italian companies.

COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the survey:

“The eurozone construction sector got off to a sluggish start in 2019, posting its softest activity expansion for six months during January. This was mainly driven by a marginal contraction in France, but there was also slower growth in Germany and Italy.

“At the sub-sector level, infrastructure work across the monetary union fell for the third month in a row, making it five contractions in the past seven months. However, more noteworthy was the first decline in commercial construction activity for two years, which was centred on a deterioration in Germany. Meanwhile, the rate of housebuilding growth softened amid reduced activity in France.

“Looking forward, a weaker expansion in new orders contrasted with a rise in optimism towards the business outlook. However, the broad-based downward trend in activity and new business suggests that industry growth may continue to stutter in the coming months.”

Activity Index by construction category
Housing / Commercial / Civil Engineering



Total Activity Index by nation
Germany / France / Italy



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Methodology

The IHS Markit Eurozone Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to around 650 construction companies in Germany, France, Italy and Ireland.

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, at the country level. 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.

Eurozone level indices are calculated by weighting together the national indices. Weights are calculated from national construction value added.

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.

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