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IHS Markit Germany Construction PMI®

Construction sector continues to struggle with material shortages and rising costs

Key findings

Headline Total Activity Index at 47.7 in October

Rises in commercial activity and employment provide some positives...

... but supply bottlenecks and elevated prices remain headwinds

Data were collected 12-28 October 2021.

The German construction sector recorded another muted performance in October, latest PMI® data from IHS Markit showed. The recent downturns in activity and new orders continued, linked in part by surveyed businesses to material shortages and acute price pressures. On a more positive note, however, work on commercial building projects returned to growth after a protracted decline, while employment also increased slightly.

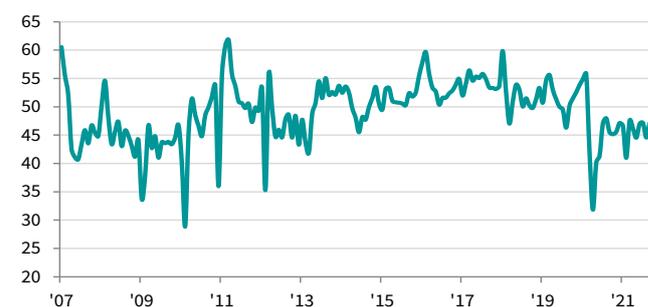
The headline IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – came in at 47.7 in October. This was still in sub-50 contraction territory but up slightly from September's 47.1. Surveyed firms commented on the influence of material shortages and capacity limitations.

One positive development on the activity front in October was a rise in work on commercial building projects. Although only marginal, it was the first such increase recorded since February 2020. By contrast, there was an increased drag on total industry activity from the civil engineering category, which recorded its steepest rate of contraction for eight months. Housing activity meanwhile fell at a modest pace that was unchanged from September.

As has been the case in each month since March 2020, German constructors recorded lower inflows of new orders in October. The rate of decline accelerated slightly, though it was still the second-slowest in the year-to-date. A number of surveyed firms reported that clients were put off by higher prices, which had risen in line with surging costs in the sector.

Average prices paid for building materials and products increased steeply again in October, with the rate of inflation among the

Germany Construction PMI Total Activity Index
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Economics Associate Director at IHS Markit, said:

"In the detail, there were a number of positive takeaways from October's survey. It was particularly encouraging to see commercial activity return to growth, following a difficult period when this sector provided a notable drag on overall construction activity as business investment was suppressed by the pandemic.

"Secondly, we saw employment creep higher for a second straight month, as constructors try to deal with capacity constraints. However, a severe lack of availability of subcontractors remains an issue, and one that is currently showing no signs of easing.

"At the same time, building materials and products remain in short supply, which is not only holding back activity directly, but also driving up the cost of construction work and thereby acting as a headwind to demand.

"The number of reports of delays in the receipt of building inputs has subsided in recent months from the record highs at the start of the summer, but for any real relief we'd need to see this trend continue in the coming months as supply chains still remain stretched."

continued...

quickest seen since data collection began in 1999. Concrete, insulation, steel and timber were the items most often reported as up in price.

At the same time, German constructors noted a near-record increase in average rates charged by subcontractors. This owed in large part to a sustained sharp decline in their availability.

Constructors continued to face supply-side constraints from a lack of available materials. Combined with transportation issues, this led to widespread delays in the receipt of purchases. That said, the deterioration in supplier performance in October was the least marked for eight months.

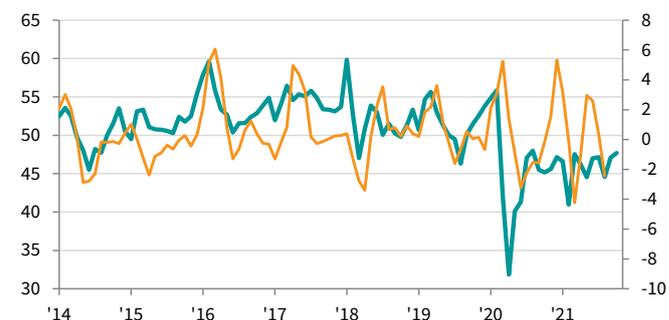
Although difficulties obtaining building materials and products continued to weigh on constructors' purchasing activity, buying levels did broadly stabilise in October after five straight months of decline.

Even more positively, employment at German constructors rose slightly for the second month in a row. This followed seven consecutive months of decline.

Looking ahead, German constructors were somewhat divided on the outlook for activity. Around 20% predicted a fall, and often linked their pessimism to acute price pressures within the sector. However, 18% predicted a rise in activity, which equated to a slight improvement in expectations since September.

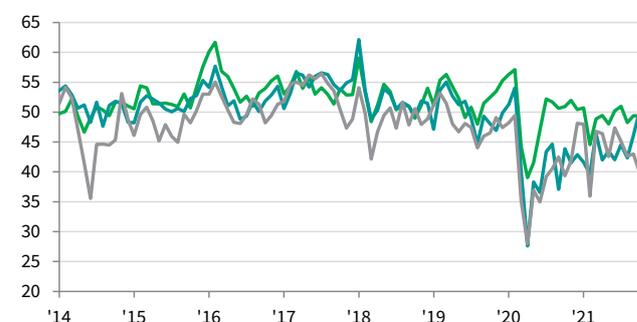
Germany Construction PMI Total Activity Index
sa, >50 = growth since previous month

Construction output
sa,% 3m/3m



Sources: IHS Markit, Eurostat.

Activity Index by sector
Residential / Commercial / Civil Engineering
sa, >50 = growth since previous month



Source: IHS Markit.

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Survey methodology

The IHS Markit Germany Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to 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.

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

Survey dates and history

October data were collected 12-28 October 2021.

Survey data were first collected September 1999.

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