

Embargoed until 0930 CEST (0730 UTC) 8 April 2021

IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction sector sees downturn in activity ease in March, but cost pressures surge higher

KEY FINDINGS

Total Industry Activity Index rises to 47.5

Pandemic continues to hit order books

Input price inflation reaches highest since July 2008

Data were collected 12-30 March 2021.

Latest PMI® data from IHS Markit showed the downturn in Germany's construction sector easing in March. However, the surveyed also highlighted growing pressure on supply chains, with the lack of availability across a range of key building materials and products pushing up purchase prices to the greatest extent since mid-2008.

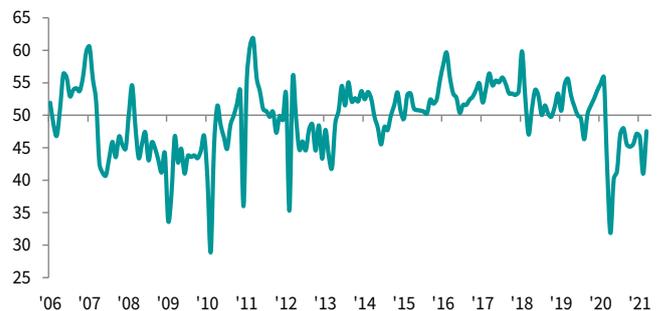
Adjusted for seasonality, the headline IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – remained in sub-50 contraction territory in March at 47.5. However, it was up sharply from 41.0 in February, when companies had widely reported disruption due to extreme wintry conditions. The latest reading was the second-highest since the start of the coronavirus disease 2019 (COVID-19) pandemic behind that seen last August.

Several firms reported continued bad weather during March, alongside delays caused by long wait times on planning permissions and a soft patch in demand. As such, there were further – albeit notably slower – declines in activity across each of the three broad construction categories monitored by the survey. Commercial activity recorded its shallowest decline for 13 months, though was still the worst-performing sub-sector narrowly behind civil engineering. Housing activity posted the slowest contraction.

Constructors once again reported fewer opportunities to tender during March, citing the pandemic's impact on private and public sector budgets as well as continued caution towards investment. New orders were down for

Germany Construction PMI Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit.

the thirteenth month in a row, albeit less steeply than in February.

There were similar trends seen in employment and purchasing activity, both of which contracted for the second month but more slowly than in the previous survey period. Sub-contractor usage was also down on the month, but so was their availability, leading to a steep rise in average rates charged.

At the same time, constructors faced growing cost pressures from rising prices for inputs, including concrete, insulation, steel, timber and plastics. The rate of inflation was the fastest for more than 12-and-a-half years.

The survey highlighted that prices had risen largely due to demand exceeding supply. Input shortages in turn resulted in increased numbers of delivery delays, with March seeing one of the most marked deteriorations in vendor performance in the series history since 1999.

Finally, latest data showed an improvement in constructors' expectations towards future activity to a 13-month high.

COMMENT

Phil Smith, Associate Director at IHS Markit, which compiles the survey:

"Latest PMI data showed much steadier performances across each of the major segments of construction activity in March, following the widespread disruption caused by severe bad weather in February. However, reports from surveyed businesses indicated that the sector continued to be held back by a soft patch in new orders linked to the impact of the pandemic on clients' willingness and ability to invest, with several firms also commenting on delays in planning permissions.

"The business climate is becoming more difficult due to the supply-side issues facing the industry, with shortages across a range of key building products and materials leading to near-record delays in the delivery of inputs. An imbalance of supply and demand pushed up purchase prices at the fastest rate in more than 12-and-a-half years."

Germany Construction PMI Total Activity Index

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Construction Output

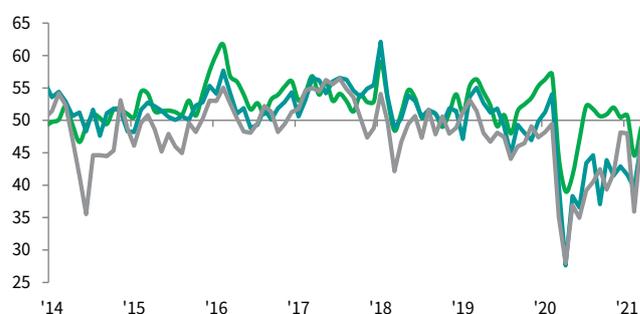
sa,% 3m/3m



Sources: IHS Markit, Eurostat.

Activity Index by construction category

Housing / Commercial / Civil Engineering



Source: IHS Markit.

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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.

March data were collected 12-30 March 2021.

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

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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