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IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction sector returns to growth in November amid accelerating inflows of new work

KEY FINDINGS

Renewed rises in commercial and housing activity

New order growth accelerates to strongest in nine months

Input price inflation ticks up to 13-month high

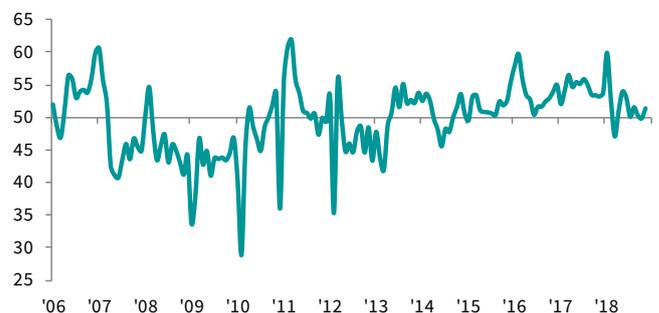
Latest PMI® data showed a return to growth of Germany's construction sector in November, following the first drop in building activity for seven months in October. Supporting the upturn was a pick-up in the inflow of new orders, which accelerated to the highest since February. Less positively, however, the rate of input price inflation reached a 13-month high amid reports of rising transport costs.

The headline seasonally adjusted Germany Construction Purchasing Managers' Index® (PMI®) ticked up to 51.3 in November, moving back inside growth territory following a reading of 49.8 in October. However, although representing an improvement in performance, the latest figure was still only indicative of a modest rate of growth overall, and one that remained below its year-to-date average (51.8) and well down on its 2017 trend level (54.3).

Behind the rebound in total industry activity in November were renewed increases in homebuilding and commercial construction work. The latter saw the slightly steeper rise, though in both cases the rate of growth was only moderate. In a reversal of the situation in October, civil engineering was the weakest performing area of the sector, seeing activity levels fall back after a slight gain the month before.

Rising inflows of new orders helped support the overall increase in industry activity in November, with the latest data extending the current sequence of order book growth to three months. Moreover, the rate of expansion reached its highest since February.

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



Upturns in output and new orders were accompanied by a pick-up in the pace of job creation across the construction sector in November. That said, the rate of employment growth was still the second-weakest seen in the past two-and-a-half years. It was a similar picture for constructors' buying levels, which returned to growth but rose only slightly overall.

November's survey showed the continuation of strong pressure on supply chains, with building companies facing another marked increase in average lead times on materials and products. There were some reports linking delivery delays to a lack of available freight capacity.

Average prices paid for inputs meanwhile rose sharply during the month. The rate of inflation was at a 13-month high. A number of surveyed businesses commented on the influence of rising transport costs, and in particular the impact of new road toll charges. Adding to cost pressures, rates charged by sub-contractors rose steeply and to the greatest extent since May.

Business confidence towards the outlook for activity over the next 12 months improved slightly in November, although the degree of optimism was subdued relative to the trend over the past three years. Some constructors raised concerns over a slowdown in the automotive sector.

COMMENT

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

"A further boost to construction order books helped the sector get back on track in November. Output rebounded following a rare decrease in October, with growth centred on the commercial and housing sectors. The one area of weakness was civil engineering, which was unable to build on the rise in activity seen at the beginning of the fourth quarter and has now gone over a year without back-to-back monthly increases in output.

"Although there was an improvement in most of the survey indicators from the lows seen in October, the rates of growth signalled were generally well below the levels seen at the start of the year and during 2017. The scale of the latest increases in employment and purchasing levels were only relatively modest, which in part reflected some uncertainty among constructors regarding the outlook for activity.

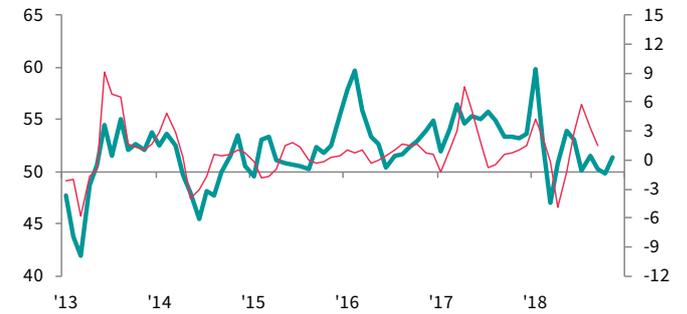
"Constructors continued to report strong pressure on the cost front, with the survey highlighting sharp and accelerated increases in both average purchase prices and rates charged by sub-contractors."

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.

November 2018 data were collected 12-29 November 2018.

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

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