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IHS Markit Germany Construction PMI®

Construction sector employment rises in December, but activity remains subdued

Key findings

December sees slight pick-up in construction sector job creation

Further, albeit slower, declines in activity and new orders

Signs of price pressures and supply constraints easing

Data were collected 06-22 December 2021.

Latest PMI® data indicated another subdued performance from the German construction sector in December, albeit with a pick-up in employment offering some signs of positivity. Activity and new orders both showed modest contractions, although rates of decline eased since November. On the cost front, input price inflation remained elevated by historical standards but dipped to a nine-month low amid fewer reports of supply delays.

The headline IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry activity – registered 48.2 in December. Although still below the 50.0 mark separating growth from contraction, the latest reading was up from 47.9 in November and the highest since the onset of the pandemic.

Detailed data showed subdued trends in activity across each of the three broad construction categories monitored by the survey. Civil engineering activity remained the weakest-performing segment, despite its rate of contraction easing to the slowest since last June. The decline in commercial activity also moderated, while work on residential projects fell at a marginal rate that was little-changed since November.

High prices, tight client budgets and fewer opportunities to tender in general were all factors behind a sustained fall in new orders in December. That said, the rate which new business decreased was only modest and the least marked for three months.

More positively, German constructors reported a fourth straight monthly rise in employment at the end of the fourth quarter. The rate of job creation picked up and was the quickest in the current sequence, although it remained only modest overall and slower than seen on average in the years leading up to the pandemic.

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:

"The construction sector ended 2021 with another subdued performance on the activity front. The headline PMI remained in sub-50 contraction territory, though it did tick up slightly to its highest since February 2020, which was a positive of sorts.

"The employment data were once again the main bright spot, showing job creation in the construction sector not only continuing but also gathering pace as further efforts were made to increase capacity.

"Cost pressures faced by German building companies remained strong in December, but even on this front there were some reasons for encouragement as the rate of input price inflation dropped to a nine-month low amid signs of supply bottlenecks slowly easing.

"Although expectations improved slightly since November, constructors ultimately remained downbeat about growth prospects in 2022, with price pressures still uncomfortably high and a lack of tender opportunities weighing on confidence."

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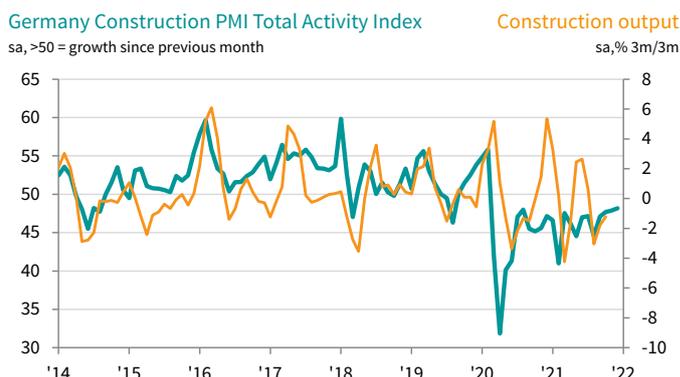
December's survey meanwhile indicated a slight rise in constructors' use of subcontractors. Their availability remained in sharp decline, however, thereby contributing to a further steep rise in rates charged. The pace of inflation remained among the quickest on record, although it eased slightly further from last September's all-time peak.

Constructors also faced further cost pressure from a steep increase in average prices paid for building materials and products in December. Inflation on this front also eased, however, down for the fourth time in the past five months (from a record-high in July) to the weakest since last March.

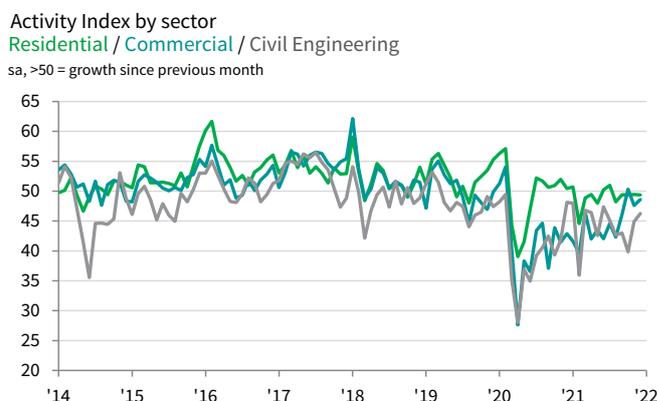
Still, the increase in input costs was elevated by historical standards, and efforts by some constructors to protect themselves against future price rises by building up stocks contributed to a pick-up in purchasing activity – the first for eight months.

Supply chains to the construction sector remained stretched, with many surveyed businesses once again recording longer lead times on purchases. However, the extent of the deterioration in supplier performance was the least marked since last February.

Concerns about rising prices, lingering supply-chain issues, and a lack of tender opportunities continued to dampen business confidence in December. On balance, German constructors remained pessimistic about the year-ahead outlook for activity, albeit slightly less so than in November.



Sources: IHS Markit, Eurostat.



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

November data were collected 06-22 December 2021.

Survey data were first collected September 1999.

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