Decline in construction activity eases in July amid renewed growth in homebuilding

KEY FINDINGS

Total Activity Index at five-month high of 47.1

Rise in homebuilding cushions further declines in commercial and civil engineering activity

Rate of job losses slows as sentiment continues to recover

The latest PMI® survey from IHS Markit pointed to an ongoing soft patch in German construction activity in July, linked to the impact of the coronavirus disease 2019 (COVID-19) pandemic. However, the decline in the sector continued to ease thanks in part to an upswing in residential activity. In addition, data indicated slower decreases in new orders, employment and buying levels, as well as less pessimistic expectations towards future activity.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers’ Index® (PMI®) – which measures month-on-month changes in total industry output – registered to 47.1 in July. Though still below the 50.0 no-change mark, the reading was up from June’s 41.3 and indicated a further recovery from a recent low of 31.9 in April. The decline in activity signalled by the index was the weakest since the current downturn began in March.

The slower fall in total industry activity at the start of the third quarter partly stemmed from a renewed increase in work on residential projects. After a four-month sequence of decline, housing activity rose moderately in July. Activity elsewhere remained subdued, with both the commercial and civil engineering categories seeing sustained contractions. That said, the respective rates of decline were the weakest for five months.

The COVID-19 pandemic, and related uncertainty, continued to weigh on inflows of new work across the German construction sector in July. While the rate of decline remained marked by historical standards, it eased further from April’s record to the weakest since the downturn began in March.

The pace of job losses at German constructors likewise slowed for the third month in a row in July, to show the smallest drop in employment during the COVID-19 crisis so far. Latest data showed an identical trend in constructors’ purchasing activity, which fell only modestly and at the slowest rate for five months.

The construction supply chain continued to be impacted by short-time work schedules at manufacturers and logistical issues related to the coronavirus pandemic during July. That said, reflecting the phased reopening of businesses, the rate of lead time lengthening continued to moderate.

Staying on the supply side, latest data showed a further modest rise in average prices paid for purchases in July. The rate of inflation ticked up for the first time in five months, though it remained among the slowest seen over the past five-and-a-half years. Similarly, rates charged by subcontractors increased more quickly than in June, but still only modestly by historical standards as demand for their services fell and availability improved.

Looking ahead, constructors remained downbeat about the outlook for activity over the next 12 months, citing greater caution among clients and squeezed budgets. That said, expectations were the least pessimistic since the onset of the COVID-19 crisis in March.
Phil Smith, Principal Economist at IHS Markit, which compiles the survey:

“The PMI data suggest that the constructor sector is yet to escape from its recent slump, although there are some signs of improvement in the detail. The residential building sector looks to be more resilient to the troubles being caused by the COVID-19 pandemic, with housing activity returning to growth in July and helping to at least partially offset the subdued trends in both commercial and civil engineering activity.

“Although the heightened levels of uncertainty remained a dampener on inflows of new orders at constructors, the decline did at least show signs of easing, which was in turn reflected in a further moderation in the pace of job cuts. However, construction companies still believe that difficult times lie ahead, with the current climate not exactly conducive to investment, particularly across the business sector.”

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.

July data were collected 13-30 July 2020.

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

About PMI

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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