

## IHS MARKIT GERMANY CONSTRUCTION PMI®

### Construction sector moves closer to stabilisation in August

#### KEY FINDINGS

Declines in output and employment continue to ease

New orders and business expectations remain subdued by COVID-19

Modest cost pressures provide some respite to constructors

Data were collected 12-27 August 2020.

The German construction sector was closer to emerging from its recent slowdown in August, with latest PMI® survey from IHS Markit showing output nearing stabilisation alongside softer falls in employment and new orders. The coronavirus disease 2019 (COVID-19) pandemic nevertheless remained a restraining factor on demand and, as such, continued to weigh on firms' expectations for activity over the year ahead.

The headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – edged up to 48.0 in August from July's 47.1. This showed the downturn in output having eased further from April's nadir, with the index moving closer to the 50.0 no-change threshold and to its highest for six months.

Homebuilding continued to defy the broader slump in activity, rising for the second successive month in August, albeit at a slightly slower pace. The decline in work on commercial building projects – including manufacturing plants, office space and retail outlets – meanwhile eased to the weakest since it began in March. The drag from lower civil engineering activity also moderated, though the latest reduction was still sharp overall.

As has been the case since March, constructors recorded a decrease in inflows of new work in August. Surveyed businesses often commented on a reluctance among clients due the uncertain outlook, while there were also mentions of the pandemic's impact on budgets and the processing of planning permissions. The rate of decline in new orders

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



Source: IHS Markit.

eased for the fourth month in a row, albeit only slightly.

With firms expecting the pandemic to suppress demand over the coming year, expectations towards future activity remained pessimistic in August. The trend in business sentiment at least remained on an upward trajectory, however, with the index recovering further from March's near record low.

Reduced workloads meant that constructors maintained a preference for lower staffing numbers. However, as with output and new orders, the decline in employment eased in August, and was the weakest since the current sequence of job losses began in March. Firms also cut their use of sub-contractors.

The trend in employment was mirrored by that of purchasing activity, with building firms recording a further fall in buying levels, but one that was only modest compared with the declines seen in the second quarter.

The ongoing soft patch in demand for building materials and products continued to restrict supplier pricing power. Constructors faced only a modest rise in average purchasing costs in August, with the rate of inflation being among the lowest seen over the past five-and-a-half years. There was some support to prices from ongoing tightness in supply chains, linked to COVID-19 related disruption. However, reports of delays were well down on the levels reached at the height of the lockdown.

## COMMENT

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

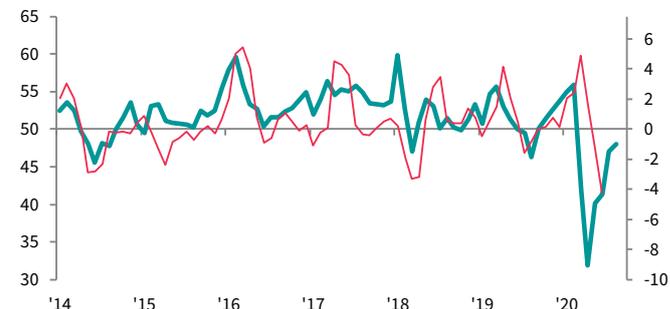
*"The construction data are steadily moving in the right direction, with the PMI indicating that the sector is now on a more stable footing after the slowdown during the spring and summer.*

*"Activity is largely being held back by slower inflows of new work, which was more often than not linked by surveyed businesses to the pandemic, and its impact on clients' spending decisions and budgets. Although building firms are far less worried about the outlook than a few months ago, they still expect activity to be suppressed well into next year. This will continue to hurt job prospects across the sector until businesses begin to see a pick-up in new work that requires them to start hiring again.*

*"Low price pressures are a theme across Germany right now due to a degree of slack in the economy, and this is also seen in the construction sector due to historically subdued rates of inflation in purchase prices and sub-contractor fees."*

### Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

## CONTACT

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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.

August data were collected 12-27 August 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### 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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