

IHS MARKIT GERMANY CONSTRUCTION PMI®

Homebuilding leads rebound in construction activity in October

KEY FINDINGS

Total industry activity rises the most since April

Growth driven exclusively by increase in homebuilding

Job creation moderates to one-year low

Construction activity in Germany rose at strongest pace for six months in October, led by an upturn in homebuilding, latest PMI® data showed. However, there was ongoing weakness in both commercial and civil engineering activity, while expectations towards future output remained subdued amid concerns about the outlook for the industrial sector in particular.

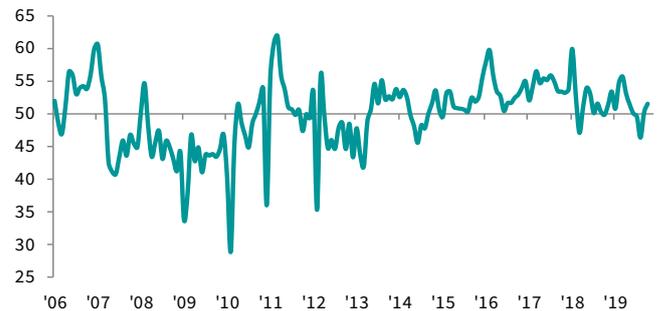
October saw the headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – climb to 51.5, up from 50.1 in September and rebounding further from a five-year low in August. Though the highest reading since April, it signalled only a modest rate of growth overall.

The upturn in activity in October was driven exclusively by homebuilding, which rose for the second month in a row and at the fastest rate since April. By contrast, commercial activity recorded a further – and slightly accelerated – contraction to extend the current sequence of decline in this category to four months. The steepest drop in activity was again seen in the civil engineering sub-sector, which saw output fall for the seventh month in a row, albeit at the slowest rate since July.

The weakness in both commercial and civil engineering activity was partly attributable to a recent soft patch in new orders. Latest data showed construction order books decreasing for the sixth straight month, though the decline in October was only marginal and the weakest in this sequence.

Constructors' buying levels rose in line with the increase in

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



Source: IHS Markit.

activity in October, exhibiting the strongest growth in six months. Employment also increased, though only modestly as the pace of job creation moderated to a one-year low. At the same time, there was a renewed decline in the use of sub-contractors, following the first (albeit only marginal) rise in usage for five months in September.

On the supply side, latest data showed a further notable lengthening of lead times on building materials and products. The degree of supply chain pressures remained much weaker than seen over the first half of the year, however. This was also reflected in a relatively subdued rate of input cost inflation.

Though ticking up slightly since September, the rate of increase in prices paid for raw materials and other inputs was still the second-slowest over the past three-and-a-half years. Sub-contractor rates meanwhile showed one of the smallest rises since the start of 2017.

Lastly, latest data showed that constructors remained cautious about the outlook for activity. Expectations remained close to August's near four-year low, as surveyed businesses reporting ongoing concerns about the impact of the manufacturing slowdown on demand for new commercial building projects in the year ahead.

COMMENT

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

"Back-to-back increases in September and October mean the construction PMI has recovered from August's recent low and moved back into growth territory. The details of the survey, however, reveal that homebuilding is doing all the heavy lifting in terms of driving activity. Residential work has been the stand-out performer for most of 2019 so far, while the rest of the data for commercial and civil engineering activity remain pretty weak."

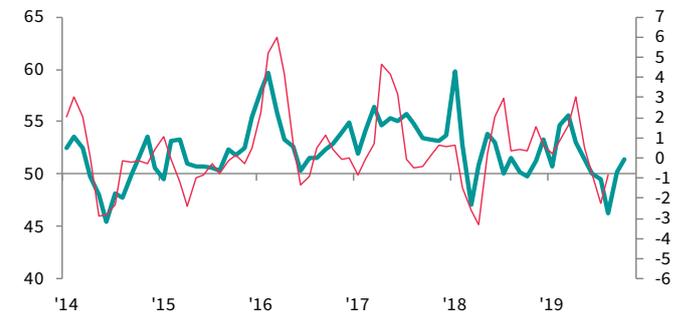
"Efforts among constructors to expand capacity continue to support employment growth – though much like in the service sector the rate of job creation has slowed markedly compared with earlier in the year. With much uncertainty around future developments in the manufacturing sector and business investment in general, it seems building firms are being more conservative in their hiring amid doubts about the number of new project starts in the coming months."

Total Activity Index

sa, >50 = growth since previous month

Total Construction Output

sa,% 3m/3m



Sources: IHS Markit, Eurostat.

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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.

October 2019 data were collected 11-30 October 2019.

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

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