

IHS MARKIT GERMANY CONSTRUCTION PMI®

Construction downturn extends into October

KEY FINDINGS

Headline PMI slips to four-month low of 45.2

Job losses continue as outlook darkens

Housing activity remains the only bright spot

Data were collected 12-29 October 2020.

Germany's construction sector remained stuck in a downturn at the start of the final quarter of 2020, latest PMI® survey data from IHS Markit showed, with October seeing sustained declines in activity and new orders. With firms' expectations also deteriorating, there were further cutbacks to both employment and purchasing activity during the month.

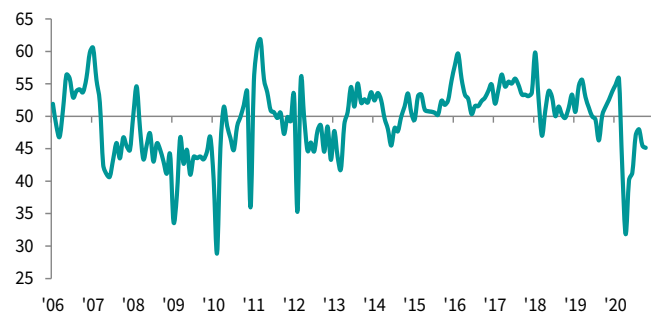
October saw a further slippage in the headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – which measures month-on-month changes in total industry output – from 45.5 in September to 45.2, its lowest since June. It marked the eighth sub-50 reading in a row.

Lower levels of activity were recorded across both the commercial and civil engineering categories in October. The former contracted at a marked pace, but one that was slower than in September, while the latter recorded its steepest decline since July. Housing activity was once again the only category to see growth, rising for the fourth month in a row, albeit only modestly.

October's survey continued to show a drop in new orders across the construction sector, which anecdotal evidence from panellists generally linked to the impact of the coronavirus disease 2019 (COVID-19) pandemic on client budgets and decision-making. Although slower than seen back in the spring, the rate of decline in order book volumes remained marked by historical standards and was little-changed from September.

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit.

Concerns about the pandemic's impact on investment going forward also weighed heavily on constructors' expectations for activity over the year ahead. Sentiment, in fact, worsened for the second month in a row to the lowest since May, although it remained notably higher than March's near-record nadir.

Falling workloads and a bleaker outlook for activity were reflected in a further drop in construction sector employment in October. It was the eighth decrease in payroll numbers in as many months, with the rate of job shedding remaining broadly unchanged from the solid pace seen in September. Data also showed a sustained decline in the use of sub-contractors at the start of the fourth quarter.

The decline in purchasing activity among German constructors evident since March accelerated in October. Buying levels fell sharply and at the quickest rate for four months. Despite the drop in demand for inputs from constructors, lead-times on purchases continued to lengthen, and did so to the greatest extent since April.

On the cost front, latest data showed an increase in average prices paid for construction materials and products. However, the rate of inflation ticked down from September and was relatively low by historical standards. Charges levied by sub-contractors meanwhile rose at the fastest pace since March, though the rate of increase was still comfortably below that seen before pandemic struck, partly weighed down by improved availability.

COMMENT

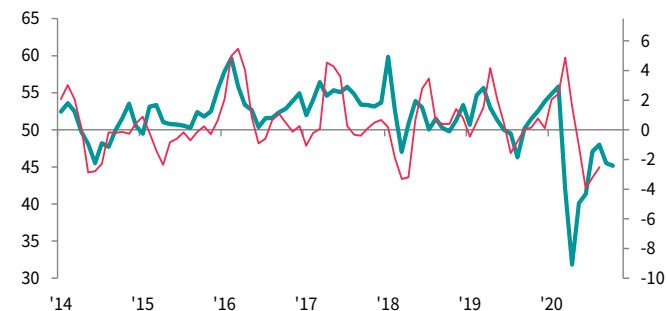
Phil Smith, Principal Economist at IHS Markit, which compiles the survey:

"Construction activity in Germany lost further ground in October, with the PMI signalling a downturn that has now lasted eight months. The residential sector continues to defy the broader slowdown, but its rate of growth is slow and being offset by declines in both commercial and civil engineering activity.

"COVID-19 continues to weigh on demand for building work, and constructors have turned more pessimistic about the outlook for activity over the coming year through growing fears of its impact on investment among businesses, households and local authorities alike. This suggests the pandemic's impact on the construction sector is set to linger on."

Total Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, Eurostat.

CONTACT

IHS Markit

Phil Smith
Principal Economist
T: +44-1491-461-009
phil.smith@ihsmarkit.com

Katherine Smith
Public Relations
T: +1-7813-019-311
katherine.smith@ihsmarkit.com

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 2020 data were collected 12-29 October 2020.

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

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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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