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IHS MARKIT GERMANY CONSTRUCTION PMI®

COVID-19 outbreak drives steepest drop in construction activity for seven years

KEY FINDINGS

All areas of construction activity hit by virus disruption

New orders fall at fastest rate since February 2010

Staff numbers cut for first time in almost five years amid record drop in confidence

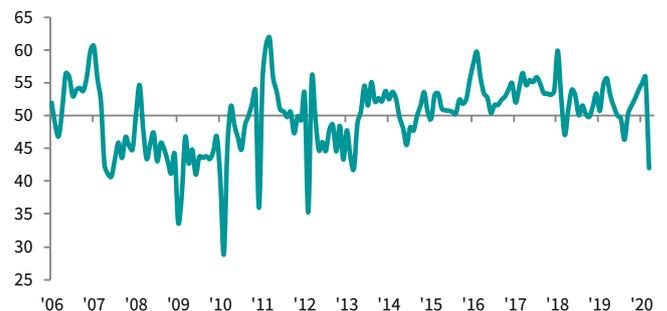
Germany's construction sector suffered a steep fall in activity in March, latest PMI® data from IHS Markit showed, as the coronavirus disease 2019 (COVID-19) outbreak caused building site closures and led to a widespread postponement of client orders. Constructors scaled down their workforce numbers for the first time in almost five years, having signalled their lowest confidence towards future activity since the height of the global financial crisis.

March saw the headline seasonally adjusted IHS Markit Germany Construction Purchasing Managers' Index® (PMI®) – a measure of month-on-month changes in total industry activity – plunge to 42.0, its lowest for seven years. The steep drop in activity followed a six-month sequence of growth, which had culminated in the PMI reaching a 25-month high of 55.8 in February.

The disruption caused by the COVID-19 outbreak affected all broad construction categories. Housing activity, which has been the strongest performing sub-sector throughout most of the past year, registered its steepest decline since March 2013. Commercial activity meanwhile returned to contraction after two months of growth, falling to the greatest extent for more than eight years. However, the deepest downturn in activity was in civil engineering which, after nearing stabilisation in February, recorded its sharpest decline since early-2010.

Data showed a collapse in incoming new orders across the construction sector in March, amid reports of clients postponing new work due to the uncertainty surrounding

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



Source: IHS Markit.

the COVID-19 crisis. The decline was the steepest seen since February 2010.

A lack of activity and site closures led constructors to cut staff numbers during March. This ended a survey-record sequence of continuous job creation stretching back to mid-2015. The drop in construction employment was the most marked since December 2010, and it coincided with reports from some firms of staff being placed on short-time hours.

A willingness among constructors to trim staff numbers was consistent with a sharp slide in confidence towards the outlook for activity. The month-on-month drop in expectations was the greatest in the survey's 20-plus-year history, and it left sentiment at the lowest since late-2008, following the collapse of Lehman Brothers.

Elsewhere, March's survey showed a sharp decrease in purchases of raw materials and other building products by constructors, alongside a reduction in the use of sub-contractors. However, amid disruption to supply chains and reports of transport issues (including border checks), constructors faced a marked increase in input lead times. Delivery delays were the worst since October 2017.

Supply shortages meanwhile contributed to an increase in average purchases prices. The rate of inflation ticked down to a three-month low, but was still solid by historical standards.

COMMENT

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

"The near 14-point fall in the headline Construction PMI in March is somewhat comparable to those seen previously during times of inaccessible conditions on site during very heavy snowfall, in late-2010 and early-2012 for example, which gives some context as to the severity of the collapse in building activity brought on by the COVID-19 outbreak. The difference now is that constructors aren't expecting a swift recovery – business confidence towards future activity has shown an unprecedented collapse and firms have begun cutting staffing numbers for the first time in almost five years."

"The uncertainty surrounding the outlook has caused customers to press pause on any decisions, resulting in the steepest drop in new orders for more than a decade. Any work that is currently going ahead is being hit by disruption on the supply-side, with firms reporting delivery delays of the likes rarely seen during the survey's history."

Total Activity Index

sa, >50 = growth since previous month



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.

March data were collected 12-30 March 2020.

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

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