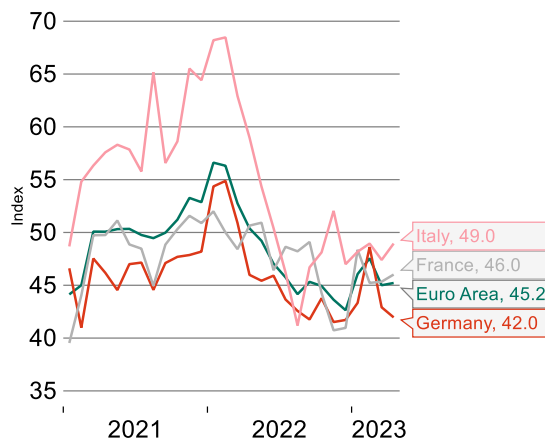


Eurozone: Pronounced weakness in the construction sector

In the construction sector, activity declined again according to the HCOB PMI, continuing the phase of weakness that has lasted for some time and was briefly interrupted at the beginning of the year.

Activity in the eurozone construction sector is **weakening**, according to the HCOB PMI survey. **Rising interest rates** have impacted all sectors, with the residential sector being the hardest hit. Germany's construction sector in particular stands out here with an accelerated decline in construction activity, while **Italy** is **relatively stable**.

HCOB Construction PMI Total Activity Index (Apr 2023)

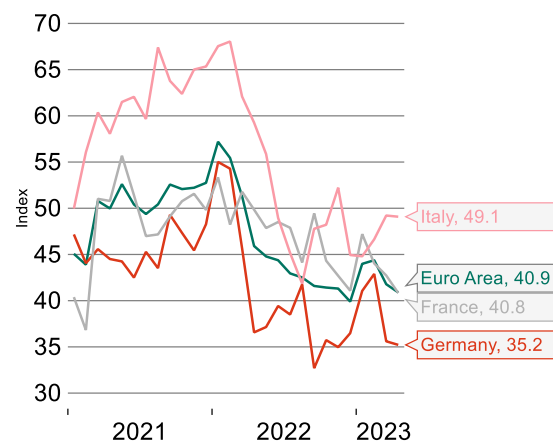


Source: Macrobond, HCOB Economics, S&P Global

What can also be observed is a continued **decline** in **new orders**, which already started a year ago. Here, too, Germany has taken the lead, where the corresponding PMI index has fallen again from a low level. The situation is **similar** in **France**. In Italy, on the other hand,

this index remains above the long-term average.

HCOB Construction PMI New Orders Index (Apr 2023)



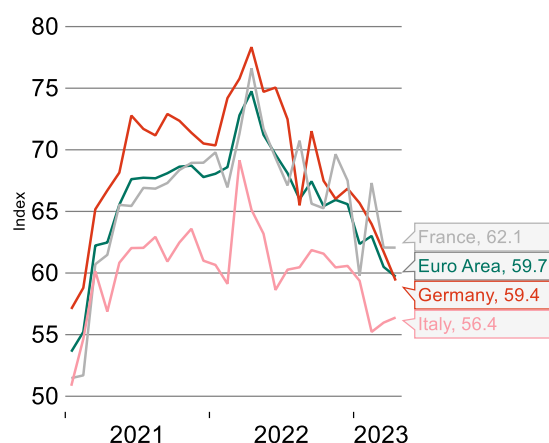
Source: Macrobond, HCOB Economics, S&P Global

This means that the **strong growth** in the **construction** sector reported by Eurostat for the first two months of the year is **unlikely** to **continue**, at least not in the two largest eurozone countries, Germany and France. Looking at the eurozone as a whole, we expect output in the construction sector to decline in the second quarter, mainly as a consequence of **higher interest rates**, to which this sector tends to be particularly sensitive.

It is noticeable that **prices** for **subcontractor** services in Germany, France and Italy, as well as in the Eurzone as a whole, **increased** at almost the same rate as in the previous month. For **input prices**, the increase has **slowed**, but even here **price pressure** remains relatively **high**, considering that real estate prices are falling significantly almost everywhere. We interpret this to mean that certain supply problems persist. This is also supported by the fact that, although **supply bottlenecks** have

eased somewhat, the easing according to the PMI delivery time index is less pronounced than in industry. With **construction activity** likely to **weaken**, **supply problems** are most probably to ease further in the coming months.

HCOB Construction PMI Prices Subcontractors Index (Apr 2023)



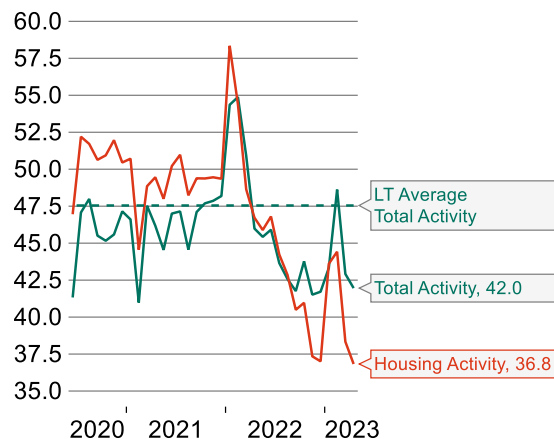
Source: Macrobond, HCOB Economics, S&P Global

Germany: Housing sector under particularly strong pressure

The **weakness** in **Germany's** construction sector **continued** in April, according to the HCOB PMI survey. For example, the **PMI** activity index continued to **fall** from its low level and, at 42 points, is well below its long-term average.

The combination of **higher interest rates** and continued **high construction prices** are causing an accelerated **slump** in **activity**, particularly in the residential construction sector, according to the HCOB PMI survey. Construction **activity** is also **declining** in the **commercial** real estate sector.

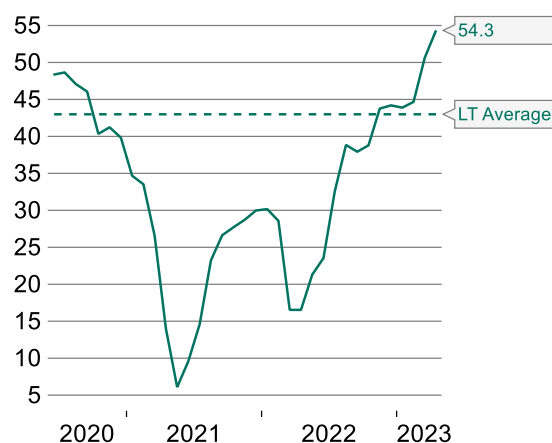
HCOB Germany Construction PMI, Total Activity vs. Housing Activity (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

The lower construction activity means that the easing in supply chains, which has been evident for several months, continued at an accelerated pace in April. Accordingly, it has become much easier to engage subcontractors for construction projects. However, despite the weaker demand, subcontractors are hardly willing to concede on prices. It also appears from the HCOB PMI survey that clients are even less satisfied with the quality of subcontractor performance than before.

HCOB Germany Construction PMI, Suppliers' Delivery Times (Apr 2023)

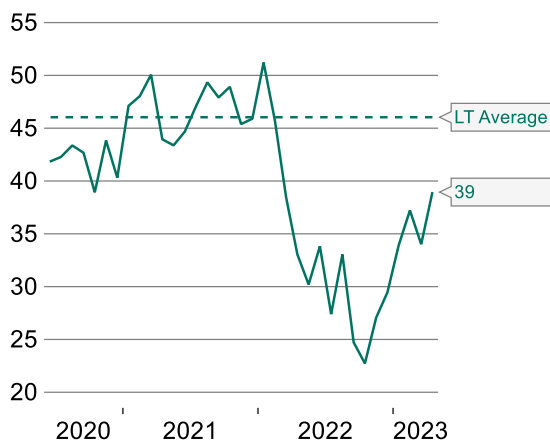


Source: Macrobond, HCOB Economics, S&P Global

There are some vague signs of stabilization in the PMI survey set. For example, reports of job losses are continuing, but at a slower rate. New

orders are declining at about the rate of the previous month, and pessimism about future business activity has diminished somewhat in recent months. However, there can certainly be no talk of an imminent turnaround.

HCOB Germany Construction PMI, Future Business (Apr 2023)



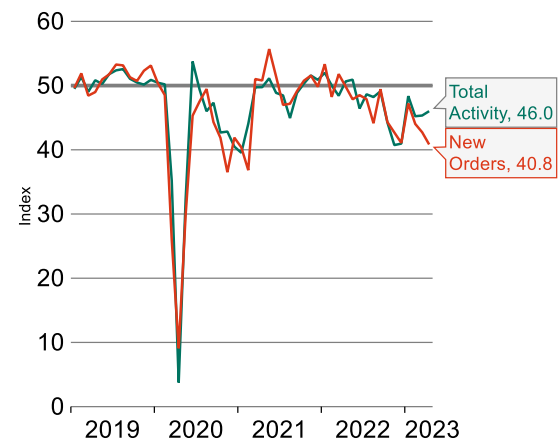
Source: Macrobond, HCOB Economics, S&P Global

France: difficult times

Construction **activity** in France has already been **weakening** since the second half of 2022. In the fourth quarter and the first two months, the index published by INSEE gave hope that the sector could recover. However, the HCOB Construction Activity PMI for April shows that the construction sector continues to **face difficult times**.

New orders in particular are a **concern** for companies, which **fell** at the **fastest pace** since February 2021, according to the PMI survey. In particular, the current market environment characterized by **high input prices**, exacerbated by the ECB's interest rate hikes, caused a **decline** in **demand** from customers, according to the companies surveyed.

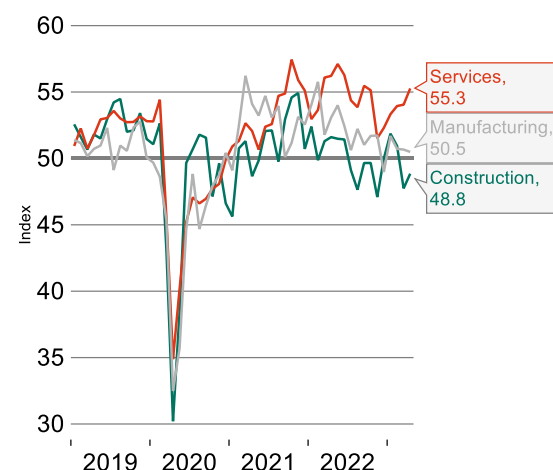
HCOB France Construction PMI, Total Activity vs. New Orders (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Against this background, it is not surprising that companies **reduced** their **staff** for the second month in a row. Given the historically **low unemployment rate** of 7% and increased employment in the manufacturing and service sectors, according to the HCOB PMIs, people who lost their jobs with the right skills should **find employment again** relatively quickly.

HCOB France Employment PMIs (Apr 2023)



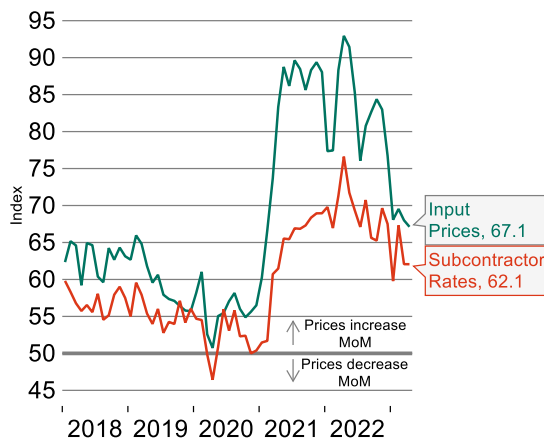
Source: Macrobond, HCOB Economics, S&P Global

While **supply chains** are improving in the manufacturing sector, **issues** are **still present** in the construction sector. This is reflected in the HCOB Suppliers' Delivery Times PMI, which, with an increase to 43.0, merely

suggests that **tensions** are **building** at a slower rate than the previous month.

Similar to the services sector, construction firms continue to **report high persistent input prices**. While only about 3% of surveyed firms reported a decrease in their input prices from the previous month, 37% reported an **increase** in their **costs**. Meanwhile, **rates** for **subcontractors** have **risen** at a consistently high rate.

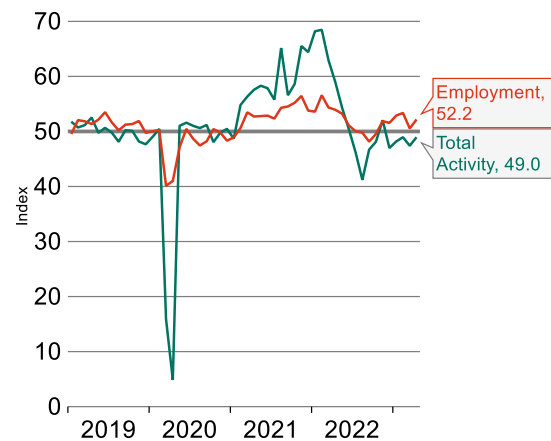
HCOB France Construction PMI, Price Indexes (Apr 2023)



Italy: Relatively robust

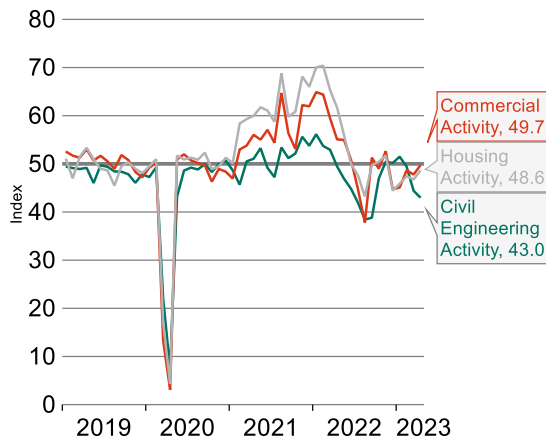
The HCOB PMI for activity in Italy's construction sector **rose above** its **long-term average** in April, but remained below the crucial 50.0 no-change mark. Nonetheless, given that official data has signaled a **strengthening in sector performance** since the final quarter of last year, the rise in the HCOB PMI means this underlying improvement has been sustained the start of the second quarter despite higher interest rates. This is also supported by the **rise** in **employment** reported by the PMI survey.

HCOB Italy Construction PMI, Total Activity vs. Employment (Apr 2023)



In relative terms, according to the PMI survey, the **commercial sector** is showing **greater stability** than residential. Companies surveyed in both types of real estate state that they are struggling with more **difficult refinancing conditions**, especially in the form of sharply increased interest rates. However, greater **weakness** can be observed in **civil engineering**. The corresponding HCOB PMI index surveyed by S&P has **fallen** for the **third time** in a **row** and is deep in contraction. The Meloni government planning a controversial **bridge** across the **Strait of Messina** to connect Sicily with the mainland, implementation of the nearly 5 billion euro project could provide some much needed support.

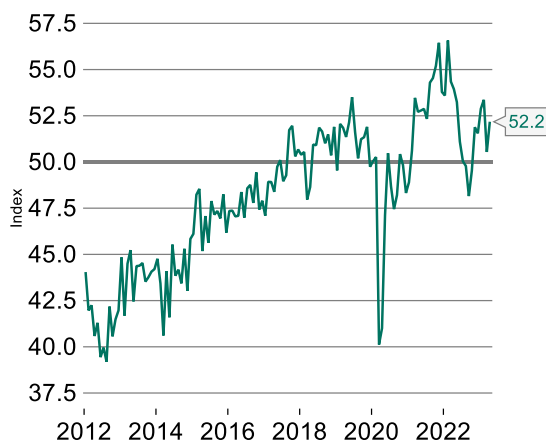
HCOB Italy Construction PMI, Sectoral components (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Construction companies are being **relieved** somewhat by a **better** trend in **prices**, which again rose less sharply in April than in March, according to the PMI survey. The **availability** of **subcontractors** has also **improved**. The values for the **construction cost index** for residential properties collected by Istat fit this picture. This **fell** by around 0.2% MoM in March, and this trend is likely to continue in April according to the latest HCOB PMI figures.

HCOB Italy Construction PMI, Employment (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global



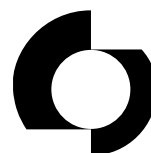
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