



Germany Country Insights and Commodity Report Q3 2022



Germany

Q3 2022

Germany has been one of the countries most impacted by the Russia-Ukraine conflict, particularly with regards to the energy crisis. Modest growth of 1.4% is expected for this year, down from the previous 2.2% forecast. The government has cut its growth forecast in recent weeks, now anticipating a 0.4% contraction next year, rather than the 2.5% previously expected. Q3 and Q4 of this year, as well as Q1 2023, are expected to bear the brunt of the slowdown. Inflation of 8% is expected for the full-year 2022, with a very moderate decrease to a 7% rate in 2023.

Following a subdued H1 with the sharp spike in construction costs as inflation took hold, the latest forecast is for a 1.6% industry contraction in 2022 and 0.7% in 2023. The driving factors behind this are the above-mentioned energy crisis, labour constraints, and elevated material and labour costs. As of September 2022, 71% of construction companies viewed their lack of skilled resources as a major risk to their business compared to 39% a year prior, according to BaulIndustrie.

The increase in interest rates is also having a marked impact on project viability, specifically in non-mission critical sectors. Investor confidence has been hampered, and this is indicated by the subdued industry expectations for the near future.



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Lumber

The lumber trade has been particularly disrupted by the Russia-Ukraine conflict, as Germany imports a significant proportion of its lumber from Russia – in 2021, Russian softwood lumber accounted for 14% of overall imports. Lumber prices in Germany have also been rising in recent months because of higher production costs. However, with demand weakening, price pressures will ease.



Cement and aggregates

Germany is a leading producer of cement within the EU, and despite weakening demand amid the slowdown in the construction industry, prices have remained high owing to the sharp pick-up in production costs. When presenting its results for H1 2022, Heidelberg Cement noted that energy, raw material and transport prices had risen considerably, and that an easing was not expected for the time being.



Concrete blocks and bricks

Brick prices have stayed high in recent quarters, and this has been a result of steady demand and high production costs. Although there will be a weakening in demand (residential building permits have been on a downward trend), production costs are expected to prevent a marked reversal in prices, and there is a prospect of falling supplies as production levels drop because of high energy prices.



Steel (rebar and structural)

Germany's steel production has been down in 2022 from the levels recorded last year, and there has been a disruption in supplies amid the Russia-Ukraine conflict and the EU's ban on steel imports from Russia. Steel prices have been volatile, with high energy costs being a key factor in keeping prices at relatively high levels.



Copper

Copper prices have been on a decline in recent months, from record highs in the second quarter of this year amid uncertainty over the Russia-Ukraine conflict. Although a looming economic recession will contribute to weaker demand in the construction industry, copper demand in general will be backed by the expansion in electric vehicles and renewable energy requirements.

Germany – Commodity Report



	Q4 2022 (f)	Q4 2021 - Q4 2022 (f)	Q2 2022 - Q3 2022 (e)	
Materials	€	€	2021-22* % change	% change
Copper (€/MT)	7,665	8,477	-9.57% ↓	-14.4% ↓ ●
Steel rebar (€/MT)	756	580	30.35% ↑	-8.7% ↓ ●
Steel flat (€/MT)	765	637	20.09% ↑	-10.3% ↓ ●
Lumber (€/M3)	127	107	18.84% ↑	2.2% ↑ ●
Asphalt (€/MT)	75	58	29.07% ↑	5.2% ↑ ●
Limestone (€/MT)	39	34	13.61% ↑	3.9% ↑ ●
Cement (€/MT)	157	122	28.94% ↑	5.2% ↑ ●
Concrete (€/M3)	183	149	22.93% ↑	1.9% ↑ ●
Welded mesh (€/unit (a))	88	70	25.84% ↑	-11.9% ↓ ●
Bricks (€/’000 unit)	694	564	23.02% ↑	1.5% ↑ ■
Plasterboard (€/unit (b))	3	3	37.23% ↑	0.0% ↔ ■
Diesel (€/litre)	1.98	1.55	27.69% ↑	-1.5% ↓ ●

(a) 600x230cm, dia.-6mm
(b) 200x60x1.25cm (LxWxT)

● Q2 to Q3 2022 % change greater than estimation in our Q2 report
■ Q2 to Q3 2022 % change less than estimation in our Q2 report

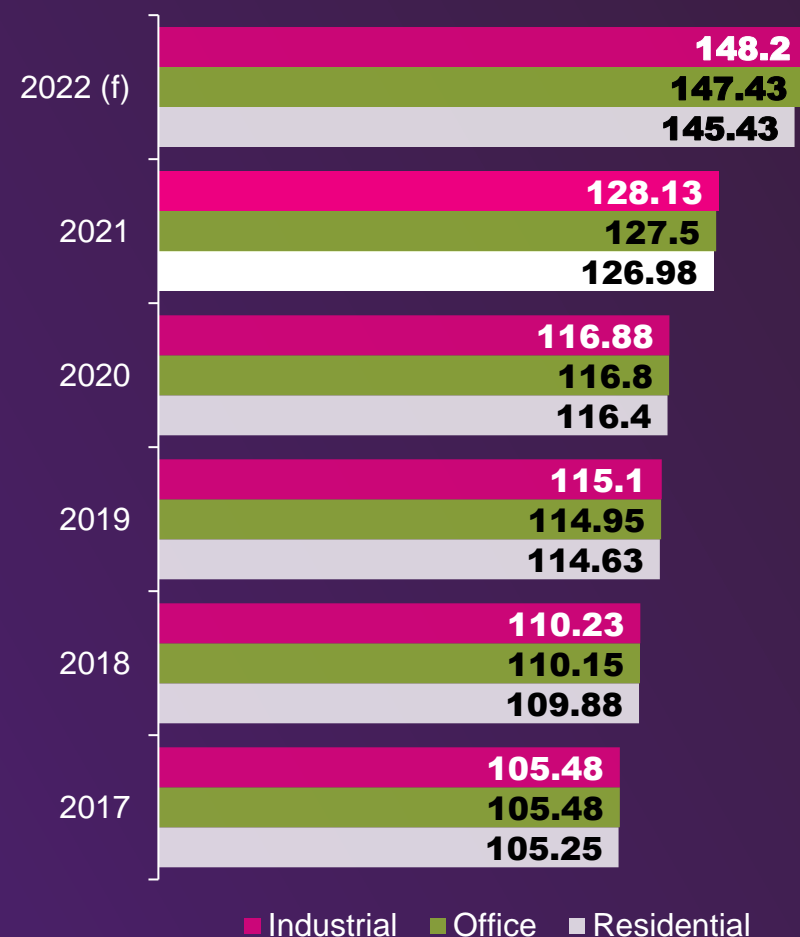
Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
Copper	-1.00% ↓	Moderate	Following the surge in prices early in Q2 2022 amid the onset of the conflict in Ukraine, the copper market has weakened recently, with prices trending downwards because of oversupply and weak demand globally. There will be continued underlying demand for copper stemming from investments in electric vehicle manufacturing and associated charging infrastructure, and given the prospect of continued high energy costs, copper prices are expected to stabilize during the first half of 2023.
Steel prices - Steel rebar - Flat steel	-0.99% ↓ -0.99% ↓	Moderate	Steel prices have been volatile in recent months, but have stayed relatively high. There has been a weakening in demand amid the slowdown in the wider economy, but because of high energy costs, steel producers are still looking to push prices up. Their success in doing so, however, is limited given the growing availability of cheaper imports.
Lumber	+1.01% ↑	Moderate	The price of lumber has come under renewed upwards pressure in recent months because of high production and transportation costs. However, with weakness on the demand side, the price is expected to decline heading into 2023.
Asphalt	+1.00% ↑	Moderate	Asphalt prices came under renewed upward pressure in Q3 2022 amid high oil prices, with some products over 30% higher than they were in the year-earlier period. Although crude oil prices have dropped from the mid-2022 levels, prices remain high, and OPEC+'s plans to cut supply will ensure prices remain elevated.
Limestone	+1.00% ↑	Low	Although demand is weakening amid the slowdown in construction activity, high energy prices will contribute to high production costs, keeping limestone prices close to recent levels.











Please note that commodity prices are based on representative materials available in the respective countries, and as these materials may not be standard across all markets, cross-country comparisons on prices can be ineffective. For example, asphalt types can vary between hot, cold or a bitumen price, and standard unit sizes for materials can vary across countries.

Germany – Commodity Report



Construction price indices 2017-2022(f)

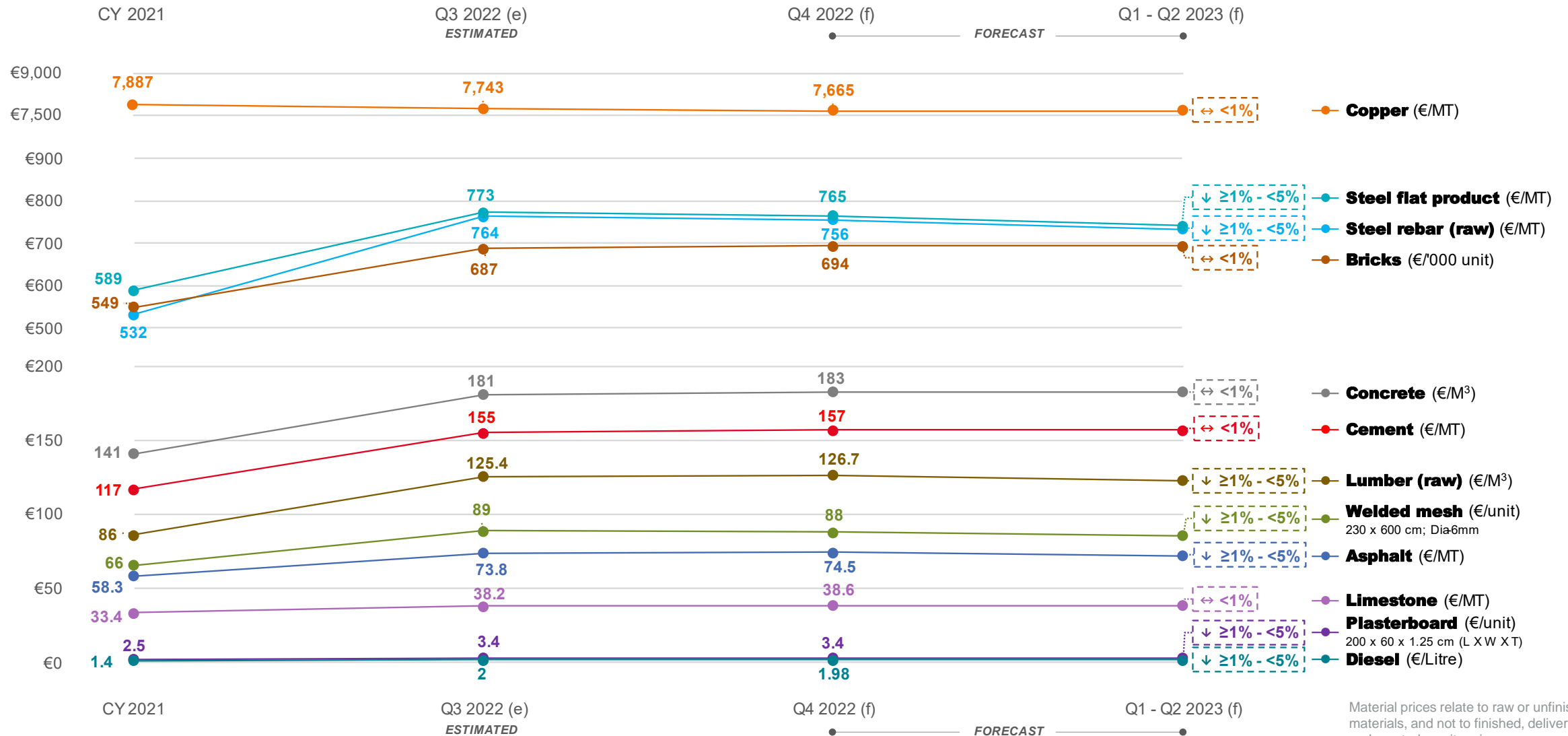


Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
 Cement Concrete	+1.01% ↑ +1.01% ↑	 High The upward trend in concrete and cement prices in the past few months has been driven primarily by the sharp rise in producer prices - in August 2022 producer prices for cement manufacturing were up by 23% year on year. Demand-side pressures will weaken, as the construction industry declines.
 Welded mesh	-0.99% ↓	 Moderate Welded mesh prices have eased back from the highs of Q2 2022, in line with the general trend recording for steel. Prices are expected to decline on the back of a rise in cheaper imports from CIS and Asian suppliers.
 Bricks	+1.00% ↑	 Low Despite a weakening in demand, brick prices have continued to edge upwards because of rising production costs. However, government support packages could help to contain further rises in energy costs.
 Plasterboard	+1.01% ↑	 Low Plasterboard prices have stayed relatively high, reflecting ongoing high production costs.
 Diesel	-0.99% ↓	 Low Although falling back marginally on a quarterly basis in Q3 2022, diesel prices hit a new peak in early September. Crude oil prices have fallen from the highs of mid-2022, but there is a risk of renewed upward pressure given the decision by OPEC+ in early October to cut production levels.

* Level of impact rating reflects a combination of factors: the price movement and also price level (compared to recent past beyond the last quarter), the importance of the material, and general state of the supply chain in terms of stability.

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Germany – Construction Materials Pricing (2021-2022)



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Germany – Macroeconomic overview



Economic indicators



1.44%

GDP growth in 2022 (f)
and **2.89%** in 2021



7.87%

inflation rate in 2022 (f)
and **3.14%** for 2021



40.3M

people employed in 2022 (f)
and **40.14M** in 2021



3.29%

unemployment rate for 2022 (f)
and **3.60%** in 2021



126.25

Consumer Price Index in
2022 (f) and **117.04** in
2021



136.4

Wholesale Price Index in
Aug 2022 and **114.7** in
Aug 2021

National holidays



9 public holidays

in Germany which are dependent on
federal state and region.

Most holidays are taken during December,
typically around the festive period – ten days
(from 23rd December until 3rd January)

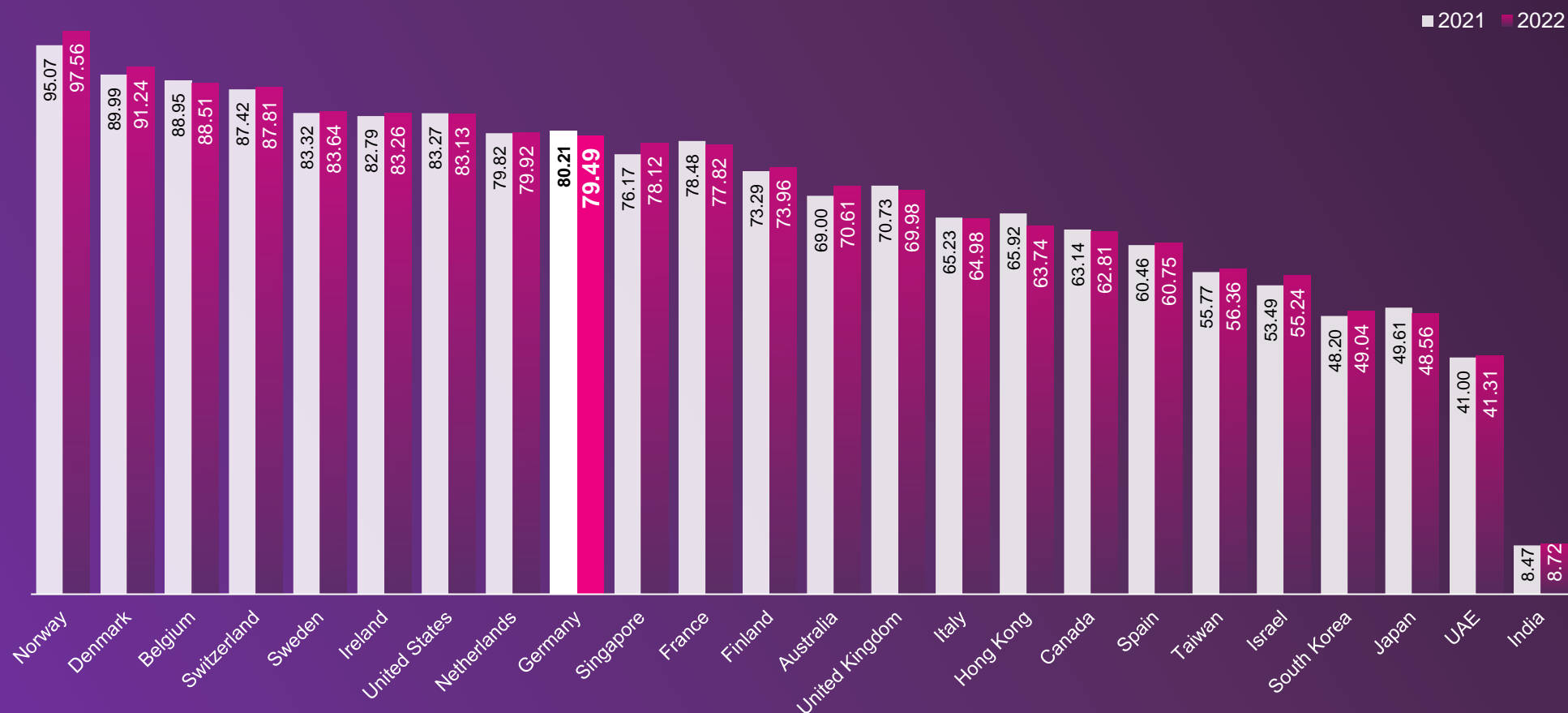
Under the federal states' legislation, the following are
observed:

- New Year's
- Good Friday
- Easter Monday
- Ascension Day
- Whit Monday/Pentecost Monday
- 1 May
- Day of German Unity
- Christmas
- St. Stephen's Day

Germany – Macroeconomic overview



Labour productivity



Labour costs









4.50%

change in index of labour costs for Q1 2022 compared to 1.40% in Q1 2021.

Labour productivity per hour worked in 2021 international dollars, converted using Purchasing Power Parities

Germany – Construction overview



Output 2021 and 2022 (in millions)			
Sector	Total 2021	Total 2022 (f)	% change
Commercial 	€58,408	€57,096	-2.2%
Energy and Utilities 	€19,273	€19,268	0%
Industrial 	€22,054	€21,071	-4.5%
Infrastructure 	€51,032	€51,294	0.5%
Institutional 	€22,258	€22,837	2.6%
Residential 	€183,743	€179,386	-2.4%

Long-lead equipment (LLE) and Supply Chain narrative

Long-lead equipment (LLE) lead times have changed drastically since the start of 2022. Suppliers have seen the implications of material shortages, delays and price hikes throughout the supply chain, which is leading to extended lead times and reduced commitment from suppliers for new projects. The key areas in focus are:

- Demand:** The demand for long-lead equipment in the data centre sector has continued to increase in Q3 2022. More data centre and crypto mining providers are joining the market, and this continued demand far outweighs the capacity of the supply chain. Entry onto the production line remains a significant challenge, with suppliers reporting fully booked capacity until Q2 2024. There has been some growth in the development of Tier 2 and Tier 3 suppliers to support this demand. However, it will take time to build an extended supply chain. There has also been no sign of a decline in demand yet in early Q4 2022.
- Material shortage:** Just as material availability started to improve, the further threat of escalation with the Russia-Ukraine conflict has cast further uncertainties of future material stocks and reserves. The supply chain has continued to seek alternative sources of raw materials, and although this has been with partial success, market lead times remain conservative.
- Freight durations and costs:** Heightened by the increase in fuel costs, and compounded by the instability of labour and container availability, freight durations have been particularly volatile in recent times. Early indications from Q4 2022 suggest some stabilization in shipping durations is returning to the market, but the associated costs remain volatile due to the global fuel crisis. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to these increasing fuel costs.

Construction Health and Safety practices and culture



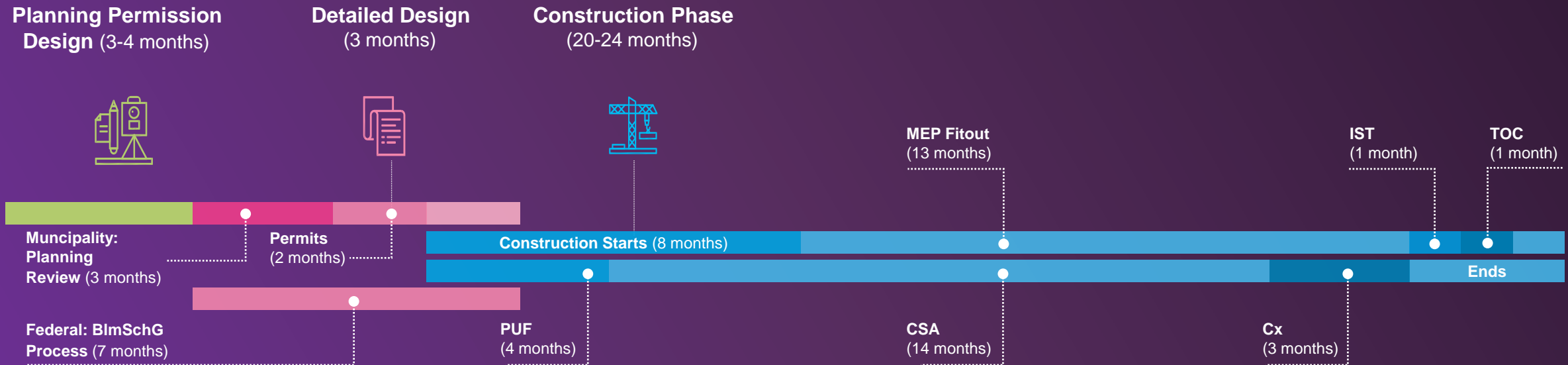
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construction workers had an accident from January-September 2021

Germany – Construction programme considerations



Typical Delivery Programme



Note: Please note that the programme and phase duration will depend on project type, project specifics and the procurement method – please speak to your Linesight contact directly if you have a query in this regard related to a particular project

Germany – Report methodology



Linesight has commissioned independent global research to track construction materials and commodity prices. The approach and methodology for the collection of construction material pricing and other indicators is based on primary and secondary research.

Primary and secondary research

Primary research is conducted on a quarterly basis with stakeholders in the value chain, including manufacturers and suppliers/distributors of the target materials, to ascertain market information on prices in recent quarters, and also on projections for changes in the coming quarter and remainder of the year. The market analysis also involves a thorough assessment of secondary sources of data on materials and labour prices, in addition to underlying demand and supply trends that will impact market prices.

Sources include GlobalData's Construction Intelligence Center (CIC), the World Bank, IMF, OECD, as well as country specific national statistics offices, such as the U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, and also industry specific associations and publications. A more comprehensive list of sources is included below.

Definitions

- Commodity prices are net of taxes for all the countries
- Prices are not customer delivered
- All commodities are raw materials
- Nominal and real data

Nominal data series do not exclude changes in prices and are also referred to as current prices series.

Annual changes in nominal data for construction output will include changes in construction activity, as well as changes in costs for materials and equipment.

Real data series are calculated by keeping prices constant (so, are also referred to as constant price series), and therefore, they reflect changes in activity only. Growth rates in nominal terms can overstate the pace of growth in construction activity if there is high inflation stemming from rising prices for key inputs.

Sample sources – Germany

For Germany, sources for this report include, but are not limited to:

- IMF
- BauIndustrie
- Destatis
- GlobalData's Construction Intelligence Center (CIC)
- Conference-board.org

