

Embargoed until 0930 CEST (0730 UTC) 6 June 2019

IHS MARKIT ITALY CONSTRUCTION PMI®

Construction activity declines for first time since March 2018

KEY FINDINGS

Inflows of new business and purchasing activity contract

Employment growth joint-fastest since March 2007

Business confidence highest since April 2018

Italian construction activity declined for the first time since March 2018 during May, amid a contraction in new business. Purchasing activity also dipped midway through the second quarter. Despite this, firms took on additional workers at the joint-fastest rate since March 2007 in an effort to replace leaving staff. Meanwhile, in spite of the declines in activity and new work, confidence in future output increased to the highest since April 2018.

At 49.8 in May, down from 52.5 in April, the seasonally adjusted IHS Markit Italy Construction Purchasing Managers' Index® (PMI®) signalled the first contraction in Italian construction activity since March 2018. Despite this, the rate of decline was marginal and the latest reading compared favourably with the long-run average of 47.6.

At the sector level, for the third month running residential construction activity increased at the fastest rate of the three broad sectors. Despite this, the rate of expansion was modest. Meanwhile, civil engineering activity contracted for the sixth consecutive month and at the fastest pace since March 2018. Activity in the commercial sector increased marginally during May, with the rate of growth easing to the slowest in the current 14-month sequence of expansion.

The contraction in overall activity was linked to a decline in inflows of new business. Italian construction firms recorded the first reduction in new orders since February 2018. The rate of contraction was marginal, however. Panellists stated that they had observed weaker overall demand conditions.

In spite of the declines in activity and new orders, Italian

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



construction firms increased their workforce numbers at a solid pace during May. Moreover, the rate of job creation was the joint-fastest since March 2007. Anecdotal evidence from panellists indicated that greater workforce numbers stemmed from the replacement of previously departed staff.

For the first time since March 2018, purchasing activity across the Italian construction sector declined in May. However, the rate of contraction was marginal. Panellists commented that they had decreased buying levels in response to receiving fewer customer orders.

Amid widespread reports of greater raw material prices (notably cement and oil), input costs rose sharply during May, with the rate of inflation quickening from April to a three-month high.

Meanwhile, average lead times lengthened again in May, though the rate of deterioration was the least marked in three months. Panellists attributed the deterioration in vendor performance to suppliers running out of stock of key items.

Looking ahead, business confidence increased during May to the highest since April 2018, with around 35% of survey respondents anticipating activity to increase over the coming 12 months. Expectations of an increase in customer orders as well as company investment plans were among the reasons for positive sentiment.

COMMENT

Amritpal Virdee, Economist at IHS Markit, which compiles the survey:

"The health of the Italian construction sector worsened during May, as firms experienced the first reduction in activity since March 2018. Moreover, inflows of new business and purchasing activity also contracted, albeit at marginal rates. A deterioration in performance was also recorded at the sector level, with weaker growth data for the residential and commercial sectors and the fastest decline in civil engineering activity since March 2018.

"In contrast to the bleak headline figures, employment showed the fastest increase in construction hiring in three months. Companies took on additional workers to replace leaving staff and bolster capacity.

"Moreover, Italian construction firms are highly upbeat about their prospects for output growth. More than four times as many construction companies (35%) anticipate an upturn in output over the year ahead as those that expect a reduction (8%). Positive sentiment was linked to expectations of greater customer orders and business investment efforts. However, concerns over Italian economic conditions and the entrenchment of weaker demand were also present among survey respondents in May."

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Methodology

The IHS Markit Italy Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 200 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.

May 2019 data were collected 13-31 May 2019.

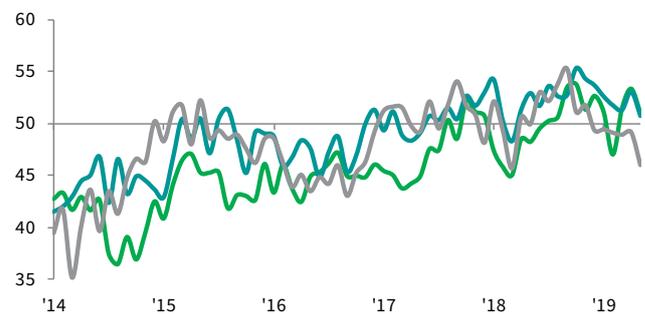
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Activity Index by construction category Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



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