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IHS MARKIT ITALY CONSTRUCTION PMI®

Decline in construction activity gathers pace in August

KEY FINDINGS

Sharpest fall in construction work since March 2018

All three categories record lower activity

Weakest outlook for nearly three years

Italian construction activity declined further in August and at the quickest rate since early-2018, according to the latest PMI® data from IHS Markit. Moreover, incoming new contracts rose only fractionally, and firms were less confident of growth over the forthcoming year. As a result, purchasing of new inputs and the use of sub-contractors were both cut back, and employment barely rose.

The headline figure from the survey is the IHS Markit Italy Construction Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously, and is adjusted for seasonal variations.

At 48.1 in August, down from 49.8 in July, the Index signalled a decline in Italian construction activity for the third time in four months. Moreover, the rate of contraction was the fastest since March 2018. Prior to May, construction work had risen every month since April 2018, the longest growth sequence since 2002.

The decline in activity in August was reflected in all three monitored categories, the first broad-based contraction since March 2018. The sharpest rate of decline was in residential construction, and the weakest in commercial activity. The latter category registered a drop in work for only the second time in over two years. Civil engineering activity fell for the ninth month running, and at the second-fastest rate in this sequence.

Total construction activity fell despite a rise in new work. That said, the rate of expansion was only marginal and

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



the weakest seen in the current three-month sequence of growth.

Construction firms responded to lower overall workloads by limiting the recruitment of new staff. Employment in the sector was little-changed from July, following six months of continuous job creation.

The volume of inputs ordered by Italian construction companies declined for the third time in four months in August, matching the trend for activity. Despite lower demand for construction materials, suppliers' delivery times lengthened the most since March, suggesting shortages.

Average input prices continued to rise in August, extending the current inflationary sequence to 38 months. That said, the rate of inflation was the weakest since October 2016.

Construction firms cut their use of sub-contractors in August, albeit only slightly. The supply of sub-contractors fell, however, and rates charged by them increased at the strongest rate in four months.

The 12-month outlook for the Italian construction sector dimmed in August. Overall sentiment regarding expected workloads was the weakest since October 2016, partly linked to political and economic instability.

COMMENT

Trevor Balchin, Economics Director at IHS Markit, which compiles the survey:

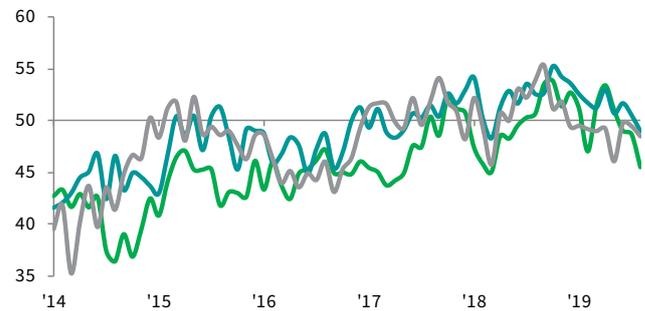
"Italy's construction sector remained on a downward trajectory in August, with activity falling for the third time in four months. This marks a turnaround since a year ago, when the sector was embarking on its longest growth stint since 2002.

"The stronger fall in activity in August reflected declines in all three construction categories, the first broad-based contraction since March 2018. Although new work rose slightly, this was insufficient to replace completed projects. Firms cut back on purchasing but supplier performance actually worsened, symptomatic of the current weakness of European manufacturing.

"Completing the subdued picture, the 12-month outlook for construction activity sank to a 34-month low, suggesting the current soft patch has some distance to run yet."

Activity Index by construction category Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



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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.

August 2019 data were collected 12-30 August 2019.

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

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