News Release

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IHS MARKIT ITALY CONSTRUCTION PMI®

Stronger decline in construction work in December

KEY FINDINGS

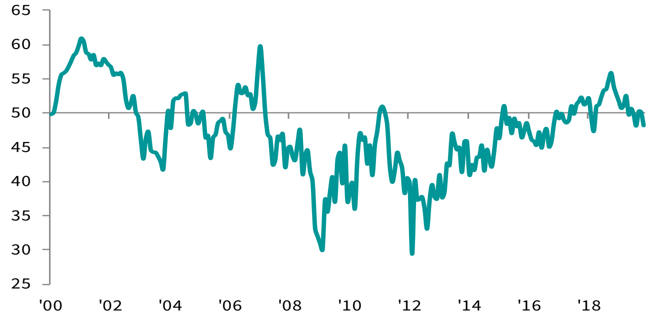
Total Activity Index falls to 21-month low at end of 2019

Sharpest drop in new orders since April 2017

Business expectations pick up but remain subdued

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit.

The Italian construction sector ended 2019 on a weak note, with total building work declining at the strongest rate since March 2018. The volume of new orders fell at a faster rate, leading to a further cut in purchases of construction inputs and an end to the survey's second-longest running sequence of job creation. Looking ahead, firms expect growth of activity over the course of 2020, but sentiment remains relatively subdued.

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.

The Total Activity Index remained below 50.0 in December, falling to 47.7 from 48.2 in November. The latest figure signalled the steepest rate of decline in construction activity since March 2018, and the fifth contraction in 2019.

The index averaged 50.1 in 2019, below both the trends shown in both 2017 and 2018 (50.4, 52.3). That said, it was still the third-highest annual figure since 2006.

For the second month running, all three sub-sectors of construction posted lower activity levels. Moreover, residential and commercial activity both dropped at faster rates than in November. Civil engineering work fell for the thirteenth consecutive month, the longest downturn in three years.

New orders received by construction firms in Italy fell for the second month running in December, the first back-to-back decline since mid-2017. Moreover, the rate of contraction was the sharpest since April 2017.

Lower demand in the sector led to retrenchment in terms of the purchasing of new materials and hiring activity. The volume of construction inputs fell the most since July 2017 while employment was cut for the first time since January, ending the longest run of workforce growth for over 17 years.

Meanwhile, the use of sub-contractors was unchanged compared with November, following a five-month sequence of decline. Sub-contractors increased their rates at the strongest rate in eight months, even though the standard of their work was adjudged to have deteriorated further.

More expensive sub-contractor rates were partly offset by a slower rate of inflation for construction inputs. December data indicated the weakest increase for four months, and one that remained well below the long-run survey average.

Italian construction firms were confident of growth of workloads over the next 12 months. Sentiment improved from October and November, but remained subdued in the context of historic survey data.

PMI® By IHS Markit

COMMENT

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

"The Italian construction industry posted a sharper fall in activity in December, as new orders dropped at the strongest rate in over two-and-a-half years.

"Although the annual trend for the Total Activity Index in 2019 was the third-strongest since 2006, this largely reflects a strong first half of the year, when the index averaged 51.1. The second half of 2019 saw a renewed downturn, with the Index trending at 49.0, the lowest since the second half of 2016.

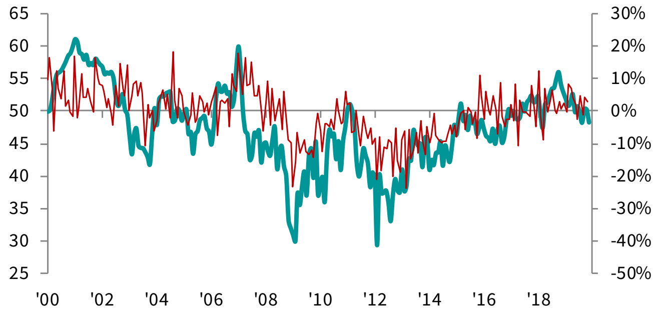
"Subsequently, firms were back in retrenchment mode at the end of the year, cutting both input purchases and employment. The outlook for activity picked up slightly but remained subdued overall, suggesting a challenging start to the new decade."

Total Activity Index

sa, >50 = growth since previous month

Construction Output

%yr/yr

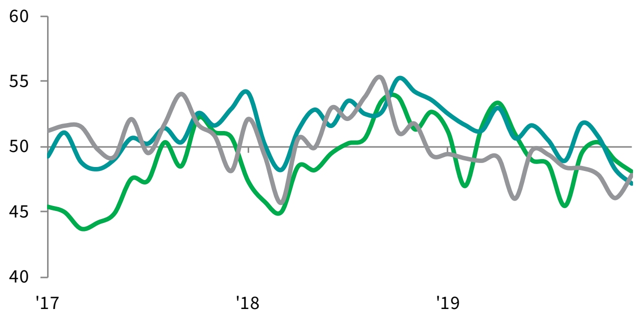


Sources: IHS Markit, ISTAT

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.

December data were collected 5-23 December 2019.

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

About IHS Markit

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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.