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IHS MARKIT ITALY CONSTRUCTION PMI®

Construction activity slips back into decline in January

KEY FINDINGS

Total industry activity falls following a mild upturn in December

Inflows of new work stagnate

Cost inflation surges to near nine-year high

Data were collected 12-29 January 2021.

The Italian construction sector dipped back into contraction territory during the first month of the year, according to the latest PMI® data. Following a mild rise in December, total activity declined marginally, amid reports that ongoing coronavirus disease 2019 (COVID-19) restrictions had stymied demand. Order book growth stalled, following a seven-month long upturn, while cost pressures intensified to a near nine-year high.

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 headline index declined from 50.5 in December, through the crucial 50.0 mark, to register at 48.7 in January and signal a renewed fall in Italian construction activity. According to respondents, COVID-19 restrictions had constricted demand and stalled work authorisations. That said, the latest reading was indicative of a much slower drop in activity than those seen last spring.

At the sub-sector level, the commercial segment saw the steepest fall in output, with the reduction the quickest for three months. Meanwhile, civil engineering activity dipped marginally following a slight upturn in December, and output in the residential sub-sector was broadly stagnant.

New orders across the sector were unchanged from December's levels during the first month of the year. The

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



Source: IHS Markit.

respective seasonally adjusted index posted on the 50.0 mark to signal a stagnation in new work and bring a seven-month long sequence of growth to an end. Where lower order book volumes were reported, this was linked to the COVID-19 pandemic.

Subsequently, firms pared back on purchases at an increased pace during January. The latest reduction was the steepest since last April. Nonetheless, supply chains continued to struggle, as lead times for inputs lengthened to the greatest extent for three months.

Meanwhile, the rate of input cost inflation surged to a near nine-year high, with the latest upturn in input prices attributed by panellists to greater raw material costs and price hikes at suppliers. Sub-contractors also upped their rates during January, albeit only mildly.

In the face of muted demand and squeezed margins, construction firms trimmed their staff numbers again in January. That said, the rate of job shedding eased to a marginal pace. Firms also cut back on their sub-contractor usage for the fifth straight month.

The unfavourable conditions in January did not knock firms' confidence about the coming year, however. Business confidence climbed to the highest since March 2011, with optimism linked to ongoing government tax relief schemes.

COMMENT

Lewis Cooper, Economist at IHS Markit, which compiles the survey:

"January PMI data highlighted a renewed dip in Italian construction activity, amid reports that ongoing COVID-19 restrictions had stymied demand. Indeed, the level of incoming new work stagnated during the first month of 2021, with some panellists noting that containment measures had dampened sales and resulted in lengthier waits for work authorisations.

"Supply chain disruptions continued into the new year, with price hikes at suppliers and greater raw material costs amid shortages contributing to the quickest rate of cost inflation for nearly nine years.

"Despite the more challenging conditions in January, construction firms recorded the strongest confidence regarding output over the coming 12 months since March 2011. The government tax relief schemes were frequently cited as reasons to be optimistic, and it's clear that these initiatives will continue to provide a real lifeline to firms in the coming months. The drop in activity during January was only mild, and may be just a bump in the road to recovery: as the vaccine rollout progresses and restrictions are loosened, the sector should see a return to growth and companies themselves predict a strong recovery in 2021."

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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.

January data were collected 12-29 January 2021.

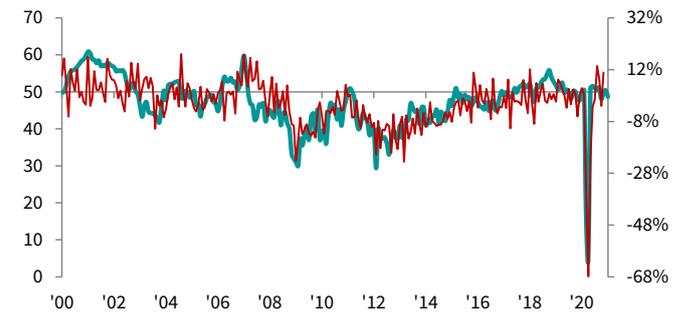
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Total Activity Index

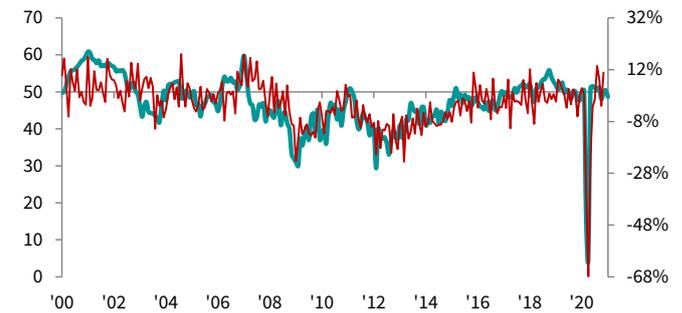
sa, >50 = growth since previous month



Sources: IHS Markit, ISTAT

Construction Output

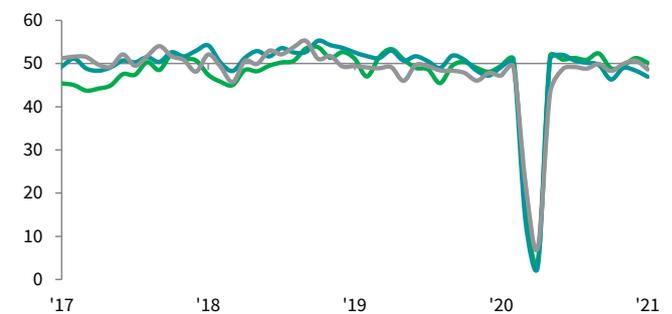
%yr/yr



Activity Index by construction category

Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



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