Marginal rise in construction activity during August

KEY FINDINGS

- Softer increases in activity and new orders
- Employment falls at quicker rate
- Operating costs rise at fastest pace since February 2019

Data were collected 12-28 August 2020.

August data signalled a softer expansion of Italy’s construction sector, with firms recording the slowest increase in activity for four months. At the same time, the rate of new order growth eased to a marginal pace. Although strong overall, business confidence weakened to a three-month low amid concerns over the ongoing coronavirus disease 2019 (COVID-19) pandemic. Employment meanwhile declined for the second month in a row as firms maintained a cautious approach to hiring. Notably, firms faced a further sharp increase in operating expenses, with the rate of inflation accelerating to an 18-month 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 edged down from 51.0 in July to 50.6 in August, to signal a further increase in construction activity across Italy. That said, the rate of growth was the weakest in the current four-month sequence of expansion and only slight.

Sector data indicated that the upturn in overall activity was supported by marginal increases in residential and commercial construction activity. However, civil engineering activity continued to decline in August, and at a quicker rate than in July.

The amount of new work received by Italian construction companies rose for the third successive month in August. As was the case for activity, however, the rate of growth was only slight. Higher sales were linked to firmer demand conditions and the government’s ecobonus scheme, although there were still reports that the pandemic continued to weigh on new business volumes.

After falling in July, Italian construction businesses raised their purchasing activity in August. The rate of growth was modest overall, and largely linked to the sustained increase in new orders and reopening of sites.

Firms maintained a cautious approach to staffing levels, with headcounts falling for the second month in a row and at a quicker rate. Panel members often linked lower payrolls to the non-replacement of voluntary leavers.

At the same time, construction companies saw a sharp increase in average input costs midway through the third quarter. Notably, the rate of inflation was the quickest seen for a year-and-a-half amid reports of higher raw material and transportation costs.

Although businesses were generally confident that construction activity would increase over the next year, concerns around the length and severity of the ongoing pandemic weighed on overall optimism. Though still strong, the degree of positive sentiment slipped to a three-month low in August. Nonetheless, the government’s ecobonus scheme remained a key source of optimism.
"Italy's construction sector expanded only slightly in August, with firms signalling softer rises in both activity and new work midway through the third quarter. Companies continued to report relatively subdued demand conditions and appetite for projects due to the ongoing COVID-19 pandemic and prevailing economic uncertainty. Consequently, business confidence weakened slightly in August, while firms continued to trim their staff numbers in the face of sharply rising costs."

"Nonetheless, the government's ecobonus scheme remains a key source of optimism going forward and is expected to help support growth in the months ahead."

**Contact**

Annabel Fiddes, Associate Director at IHS Markit, which compiles the survey:

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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.

**Activity Index by construction category**

**Housing / Commercial / Civil Engineering**

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