

IHS MARKIT ITALY CONSTRUCTION PMI®

Renewed upturn in construction activity

KEY FINDINGS

Two out of three broad sectors record growth

Sustained increase in new order inflows

Supply delays push input cost inflation to 22-month high

Data were collected 04-23 December 2020.

Following a two-month sequence of decline, latest PMI® data highlighted a renewed upturn in Italian construction activity in December, with output rising in both the housing and civil engineering sub-sectors. New order growth was sustained at the close of the final quarter, although the rate of increase remained only mild. Meanwhile, coronavirus disease 2019 (COVID-19) related measures continued to hinder supply chains in December, with lead times for inputs lengthening markedly again. Supplier shortages reportedly drove costs higher, with the rate of input price inflation the sharpest since early-2019.

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 rose above the crucial 50.0 threshold from 49.8 in November to 50.5 in December, signalling a renewed expansion in construction activity following a brief two-month downturn. Panellists attributed growth to government tax relief schemes and a greater number of working sites. That said, the rate of increase was only fractional and slightly slower than the third quarter average (50.9).

At the sub-sector level, growth was recorded in both the housing and civil engineering segments, with the former seeing the quicker rate of increase. The upturn in civil

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



Source: IHS Markit.

engineering activity was notable nonetheless, ending a two-year sequence of decline. Commercial activity fell further, although the rate of contraction remained mild.

December data also highlighted sustained growth of order book volumes, extending the current sequence of increase to seven months. As was the case for activity, respondents predominantly linked the latest rise in new work, which was mild, to the government ecobonus scheme.

Meanwhile, firms again pared back on purchases in December, with the latest reduction the quickest since last April. COVID-19 restrictions and subsequent material shortages continued to disrupt supply chains however, as average lead times for inputs lengthened markedly again.

Shortages at suppliers were also associated with another round of input price inflation in December, alongside greater costs for raw materials. The latest rise in cost burdens was the sharpest since February 2019. Sub-contractor fees also increased, albeit at the slowest pace for three months.

Concurrently, firms trimmed workforce numbers for the second month running in December, with the pace of job shedding quickening but still only modest overall.

Finally, business confidence strengthened in the final month of the fourth quarter, and was slightly higher than the historical series average. Panellists linked optimism with government tax relief schemes and hopes of a robust economic recovery.

COMMENT

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

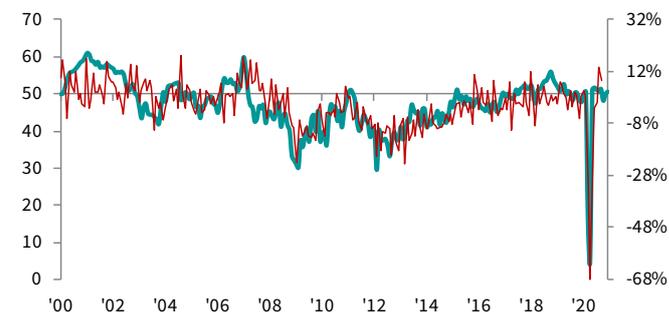
"PMI data provided some positive news for the Italian construction sector at the end of 2020. Total activity rose slightly, following a two-month downturn, amid growth in both the housing and civil engineering sub-sectors. New orders increased further, with the latest upturn attributed to the government ecobonus scheme.

"Italian constructors also registered stronger confidence with regards to the year-ahead outlook in December, with the level of positive sentiment slightly above the average over the series history. Optimism was linked to the tax relief schemes, as well as hopes of a robust economic recovery.

"Overall, the latest data are promising as we enter 2021, with the sector seemingly back on the road to recovery. Government tax relief schemes have been vital to the rebound, and if improvements in client demand can be sustained in the face of stricter lockdown measures, we should see ongoing growth into the first quarter of the year."

Total Activity Index

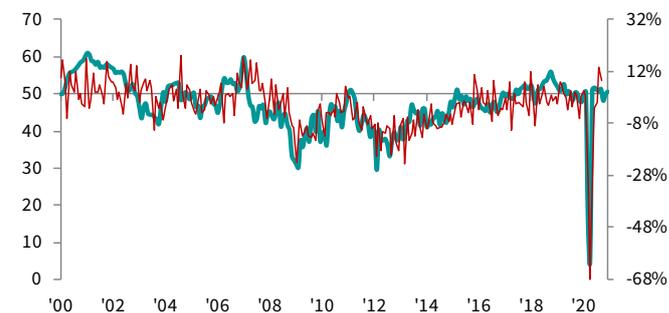
sa, >50 = growth since previous month



Sources: IHS Markit, ISTAT

Construction Output

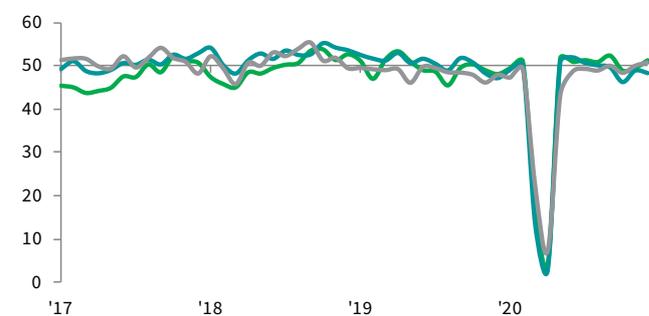
%yr/yr



Activity Index by construction category

Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



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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 04-23 December 2020.

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

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