News Release

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IHS MARKIT ITALY CONSTRUCTION PMI®

Further decline in construction work at start of 2020

KEY FINDINGS

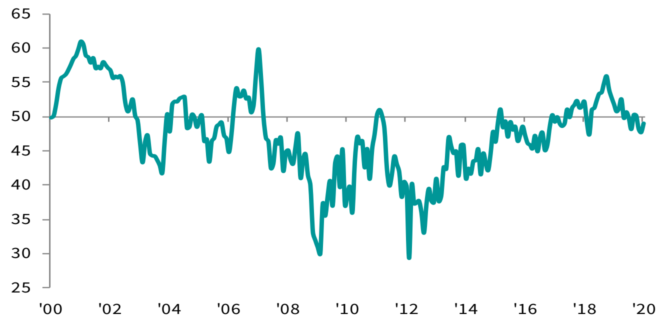
Total construction activity falls at slower pace at start of 2020

New orders decline for third straight month

Business expectations remain subdued

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit.

The start of the year saw a further decrease in building activity in the Italian construction sector. Total building work for each of the three monitored sectors fell further in January, driven by another fall in new sales. Firms remained cautious about hiring and purchasing activity, contributing to a stagnation of employment and a further reduction in the purchase of construction inputs. While positive, business sentiment remained relatively subdued. Meanwhile, input costs accelerated in January, fuelled by higher prices for raw materials.

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 rose from 47.7 in December to 49.0 in January. The latest reading signalled a third successive monthly decline in overall construction activity, albeit one that was slower than that seen in December and only marginal.

All three construction sub-sectors registered lower activity levels. However, the rates of decline for housing and commercial activity were only marginal. By contrast, civil engineering work fell at a quicker pace than that seen in December, with the reduction among the steepest in the current 14-month period of decline.

The volume of new orders received by Italian construction firms fell for the third month in a row during January. However, the pace of decline eased from the solid rate seen in December.

The deterioration in demand conditions across the construction sector contributed to another decline in the purchase of input materials. Quantity of purchases fell for a third straight month, representing the longest period of contraction for just over two-and-a-half years. Despite weak demand for inputs, delivery times continued to lengthen, with anecdotal evidence suggesting that lower inventory levels at some distributors were a key factor behind delays.

Lower sales also weighed on hiring, with staff levels unchanged from the previous month following a fall in December.

Meanwhile, Italian construction firms remained positive about the growth of workloads in the year ahead, though overall sentiment remained relatively subdued in the context of recent years.

At the same time, the use of sub-contractors rose at the start of the year, with the rate of increase the fastest since May 2018. The availability of sub-contractors on the other hand continued to decline. With demand exceeding supply, sub-contractors raised their rates further in January. That said, the standard of their work was perceived to have deteriorated further at the start of 2020.

COMMENT

Annabel Fiddes, Principal Economist at IHS Markit, which compiles the survey:

"The downturn across Italy's construction sector softened at the start of 2020, with weaker declines in activity across both the housing and commercial sectors helping to offset a sharper reduction across civil engineering. As a result, overall construction activity fell only slightly in January after falling at the steepest rate for 21 months at the end of 2019.

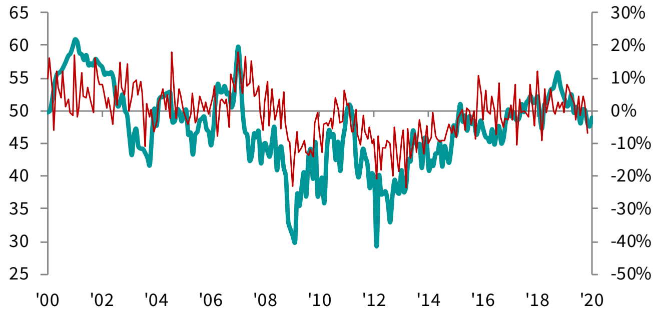
"Nonetheless, the sector continued to record lower sales while confidence regarding the year ahead remained subdued. Combined with lower buying activity and a stagnation in workforce numbers, the latest PMI data suggest that the sector will continue to struggle in the months ahead unless we see demand conditions strengthen."

Total Activity Index

Construction Output

sa, >50 = growth since previous month

%yr/yr

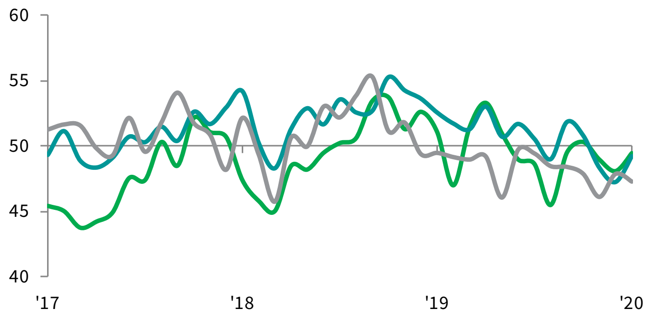


Sources: IHS Markit, ISTAT

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.

January data were collected 13-31 January 2020.

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.