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IHS MARKIT ITALY CONSTRUCTION PMI®

Renewed contraction in construction activity in July

KEY FINDINGS

Input buying falls at joint-fastest pace since August 2017

Employment growth at three-month low

Business confidence lowest in six months

Italian construction activity declined for the second time in the past three months during July, driving the joint-fastest reduction in purchasing activity since August 2017. In line with the reduction in activity, job creation slowed markedly from June's recent high to the slowest in three months. Meanwhile, business confidence towards activity over the coming year, whilst still positive, dipped to a six-month low.

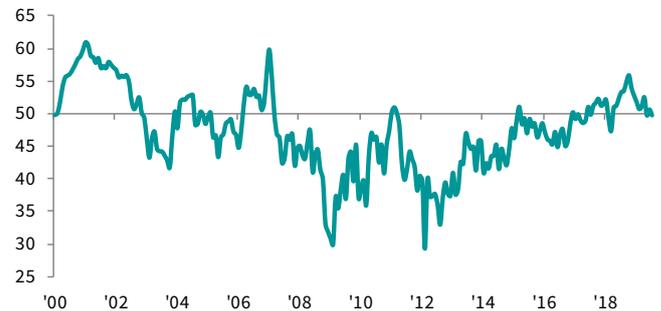
At 49.8 in July, down from 50.7 in June, the seasonally adjusted IHS Markit Italy Construction Purchasing Managers' Index® (PMI®) signalled a renewed decline in Italian construction activity. That said, the rate of contraction was marginal and slower than the long-run series average (47.6).

Of the three monitored sectors, only commercial construction firms observed an increase in activity during July. The rate of contraction in residential building activity was modest and the fastest in five months. Meanwhile, civil engineering activity declined for the eighth month in a row.

A slight contraction in overall activity was recorded in spite of a rise in levels of new business. Italian construction firms recorded a solid increase in new orders in July, with the rate of expansion quickening to a three-month high. Panellists stated that they had observed an overall strengthening of demand conditions which they hoped could lead to increases in activity over the coming months.

Employment in the Italian construction sector increased further during July. Despite this, the rate of job creation was modest and eased notably from June's recent high to the slowest in three months. Nevertheless, construction firms

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



cited greater customer orders as the principal factor behind the latest expansion in workforce numbers.

For the second time in the past three months, purchasing activity among Italian construction firms declined in July. The rate of contraction, though marginal, was the joint-fastest since August 2017. Panellists noted that they had reduced their input buying in response to a slight fall in output levels.

Cost burdens faced by Italian construction firms continued to increase during July, thereby extending the current sequence of inflation that began in July 2016. Despite quickening slightly, the rate of input cost inflation was only just above June's 30-month low. Anecdotal evidence from panellists indicated that increased raw material prices (notably oil) drove input costs up.

Looking forward, business confidence among Italian construction firms eased to a six-month low during July. That said, the overall degree of optimism was still positive with around one-quarter of surveyed firms forecasting output to increase over the coming year. Expectations of greater customer demand was cited as the principal factor behind positive sentiment.

COMMENT

Amritpal Virdee, Economist at IHS Markit, which compiles the survey:

"The Italian construction sector slipped back into contraction territory in July by posting the second decrease in output in the past three months. Moreover, firms reduced their purchasing activity at the joint-fastest pace since August 2017.

"Residential building was the worst performing area of the construction sector, with output in this category falling for the second consecutive month and at the fastest pace since February. Meanwhile, civil engineering saw the eighth successive monthly decline in activity, resulting in commercial construction being the only monitored sub-sector to expand in July.

"There are some encouraging takeaways from the latest survey, however, especially in the resilient degree of new business growth in July and further increase in employment numbers. Moreover, survey respondents noted that they are confident about achieving a recovery in activity levels over the coming year. Though the degree of optimism was at a six-month low and was constrained by political uncertainty."

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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.

July 2019 data were collected 12-31 July 2019.

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

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Activity Index by construction category Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month

