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IHS MARKIT ITALY CONSTRUCTION PMI®

Renewed fall in construction activity at start of fourth quarter

KEY FINDINGS

Decline reported in each of the three broad segments

Noticeably slower growth of new work

Lead times lengthen to greatest extent since May

Data were collected 12-30 October 2020.

Latest data PMI® signalled a setback for the Italian construction sector. Total activity declined for the first time since April, with the downturn broad-based across the three monitored segments, amid a noticeably softer uptick in inflows of new work. Supply chain disruptions worsened, with lead times for inputs lengthening to the greatest extent since May amid reports of shortages and logistical issues arising from the coronavirus disease 2019 (COVID-19) pandemic.

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 fell from 51.2 in September, dropping below the crucial 50.0 threshold, to register 48.1 in October and signal a renewed contraction in Italian construction activity. Panellists attributed the fall to the COVID-19 pandemic. The rate of decline was only mild, however, and much less severe than those seen in March and April.

At the sub-sector level, the reduction in activity was broad-based. Commercial activity registered the fastest contraction, with the fall in housing activity being the weakest.

A much slower increase in inflows of new work also weighed on the performance of the sector in October. Where an expansion was recorded, this was linked to the government's ecobonus and superbonus schemes. Some respondents

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



Source: IHS Markit.

noted weak sales due to COVID-19, however.

Meanwhile, Italian construction firms pared back on purchases in October. Buying activity fell for the first time since July, albeit marginally. Shortages and transport delays lead to a further lengthening of lead times, however, with the latest deterioration in vendor performance the sharpest for five months.

At the same time, panellists linked shortages, price hikes for fuel and plastics, and higher staff costs to another round of cost inflation. Input prices rose at a quicker rate than in September and solidly overall. Higher prices were also charged by sub-contractors during October. The sharp rate of inflation was the fastest since September 2008.

Despite lower activity requirements, employment in the Italian construction sector rose for the first time since June. The rate of job creation was only fractional, however, with some firms noting further redundancies and lay-offs due to still muted sales. Meanwhile, building companies signalled a further decline in their usage of sub-contractors.

Looking ahead, the 12-month outlook remained positive during October. Construction firms overwhelmingly attributed their optimism to the government ecobonus and superbonus schemes. Sentiment was elevated in the context of the long-run series history, despite moderating slightly from September.

COMMENT

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

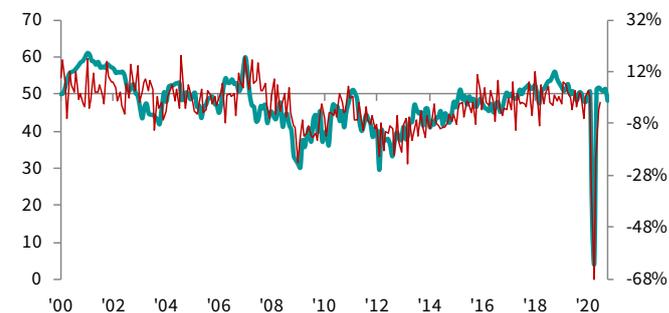
"Italy's construction sector began the fourth quarter on a noticeably weaker footing. October data highlighted a renewed decline in total construction activity amid reports that projects were being delayed amid heightened uncertainty, with the fall broad-based across each of the three monitored broad segments. Inflows of new work did rise, but at a much softer rate than in September."

"Nonetheless, the government ecobonus and superbonus schemes provided a key source of optimism across the sector. The 12-month outlook remained robust, although sentiment did moderate slightly on the month."

"But, restrictions to tackle the pandemic are being tightened amid a "second wave" of COVID-19 cases in Italy and across Europe, with the likelihood of a national lockdown increasing. Measures will further suppress client demand, and if rules mean construction sites are closed, the already wavering recovery will likely grind to a halt until such restrictions are loosened."

Total Activity Index

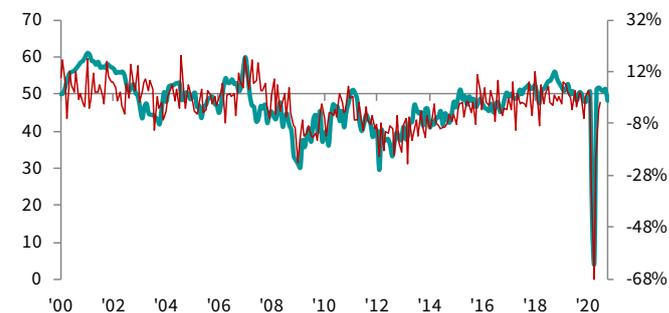
sa, >50 = growth since previous month



Sources: IHS Markit, ISTAT

Construction Output

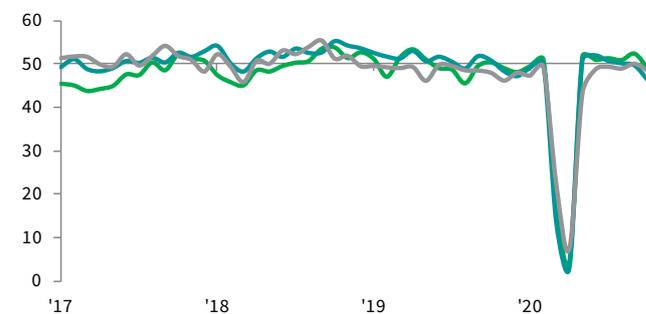
%yr/yr



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.

October data were collected 12-30 October 2020.

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

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