

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Italy Construction PMI[®]

Italian construction downturn persists as output and new orders fall again in May

Key findings:

Activity and sales fall again, but to lesser degrees

Staffing levels cut for the first time in over a year-and-a-half

Future activity expectations at their strongest for two years

Data were collected 10-31 May 2024.

Following a renewed decline in April, the Italian construction sector recorded a further contraction in May, albeit at a softer rate. The downturn was in part driven by a sustained drop in new orders, linked to subdued demand across the sector.

Subsequently, a combination of voluntary leavers and declining new work led firms to cut their workforce numbers in May. The reduction was the first in over a year-and-a-half. Firms also reduced their spending on inputs, with quantities of purchases falling at the sharpest rate for nine months.

Nevertheless, constructors in Italy remained upbeat when asked about their expectations for future output. In fact, firms were their most confident for two years.

The headline **HCOB Italy Construction Purchasing Managers' Index[™] (PMI[®])** – which measures month-on-month changes in total industry activity – picked up from 48.5 in April to 49.0 in May, but remained stuck below the crucial 50.0 mark to signal a further contraction.

The sustained downturn was linked by firms to subdued new order numbers. Some firms also mentioned that activity had been hindered by adverse weather conditions, namely excessive rainfall.

Two of the three monitored sub-sectors of construction registered output declines in May. The worst-performing sector, housing, recorded the sharpest contraction for just shy of a year-and-a-half, while the decline across the civil engineering sector eased during May. Meanwhile, commercial construction activity saw a fresh rise in activity, after just a brief period of decline in April.

Overall activity levels were reportedly downscaled in line with falling incoming new work. May data signalled a second consecutive monthly contraction in new orders, following a six-month spell of growth. The pace of decline eased on the month, however, and was modest overall.

Amid a period of subdued demand, Italian constructors showed increasing signs of protecting cashflow in May, Payroll numbers were reduced for the first time in just over a year-and-a-half and at the quickest rate since September 2022. Anecdotal evidence also revealed that the recent drop in workforce levels was in part caused by voluntary resignations.

Constructors expressed continued caution towards their purchasing activity, which has fallen for three months in a row now. Moreover, buying activity dropped at the quickest rate seen for nine months. At the same time, the performance of vendors

deteriorated again, but at the least pronounced rate for ten months in May.

Meanwhile, the prices paid for inputs continued along an upward trend in May. The latest rise marked exactly four years of monthly increases. Although strong, the rate of inflation in May was notably subdued compared to average over the current period of rising input costs. Panellists mentioned that the main source of inflationary pressure came from raised raw material and transport costs.

Finally, the sustained downturn failed to dampen firms' future expectations during May. In fact, constructors across Italy recorded the strongest degree of optimism seen for two years. Anecdotal evidence suggested that predictions surrounding increased new work and contract wins drove positive sentiment.

Comment

Commenting on the PMI data, Dr Tariq Kamal Chaudhry, Economist at Hamburg Commercial Bank, said:

“The construction sector is struggling to gain momentum. The Italian HCOB PMI Total Activity Index for the construction sector remains in contraction territory for the second consecutive month in May, sitting at 49.0. Although the index value has increased slightly from the previous month, the sector continues to be heavily burdened by high interest rates, which the ECB is expected to reduce soon.

“Commercial activity is the only area providing any support to the Italian construction sector. While civil engineering activity is struggling, it is the residential sector in Italy that is suffering even more. The significant reduction in the Superbonus program, which promised homeowners tax refunds for renovation costs aimed at making their properties more environmentally friendly, clearly remains a drag. Contrary to this trend, commercial activity is showing modest growth, following a contraction in the previous month.

“The Italian construction sector is groaning under rising prices. Although price pressures have eased slightly compared to the previous month, prices are still on the rise. Despite weak demand, both subcontractor rates and input prices continue to grow. For input prices, it appears that the increase is largely due to rising raw material prices and transport costs.

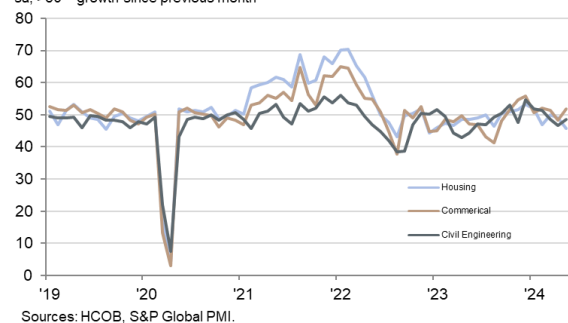
“The outlook is unclear. In the medium term, decreasing orders suggest that momentum is unlikely to pick up, which is also reflected in firms' cautious approach to hiring. However, in the long term, Italian construction companies are quite optimistic. Positive sentiment among the surveyed companies is mostly driven by expected growth in orders and the acquisition of new contracts.”

-Ends-

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



Construction PMI Total Activity Index by sector
sa, >50 = growth since previous month



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Note to Editors

The HCOB Italy Construction PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of over 200 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected July 1999.

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.

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

Hamburg Commercial Bank AG

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