



Italy

Country Insights and Commodity Report

Q1 2022



Italy

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Italy's economy grew by slightly more than Economy Minister Daniele Franco's November estimate in 2021, expanding by 6.5%, with the industrial and services industries performing well. Inflation and investor confidence are putting pressure on the economy this year, as the Russia-Ukraine conflict continues to impact. As a result, slower growth is expected this year, with the Bank of Italy forecasting 3.8%.

Construction recorded a strong 2021 performance, with 21.3% growth in real terms. However, with the Russia-Ukraine conflict exacerbating material price inflation, energy prices and supply chain disruption, growth is expected to slow significantly to a rate of 2.3% in 2022.

As material costs will continue to represent a challenge for the construction industry for the foreseeable future, Linesight will publish quarterly updates to track commodities and provide insights about future projections on movements.



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Lumber

Lumber was generally in short supply in 2021, a situation that was compounded by high demand in major markets following the easing of COVID-19 lockdowns. Prices are set to remain high in 2022, with domestic demand in Italy being buoyed by high levels of residential building activity, with the extension of 'first home bonus' until 2022 and the 'Superbonus 110' scheme to enable construction of affordable housing.



Concrete and aggregates

Domestic cement producers recorded an upturn in sales in 2021, reflecting the sharp recovery in construction output following the 2020 slump and the stimulus stemming from the pandemic. Rising production costs, pushed up by the marked increase in the price of energy, will be a key factor underpinning high cement and concrete prices in 2022. Demand will also be strong, supported by spending on projects funded by schemes under the Next Generation EU plan.



Concrete blocks and bricks

Government support packages and incentives to bolster the residential sector have contributed to stronger demand for building construction materials, including blocks and bricks. Prices jumped in Q1 2022 and are expected to remain high, with production costs set to soar in line with the surge in energy costs.



Steel (rebar and structural)

Italy's domestic steel supply has been volatile, and disruptions caused by the Russia-Ukraine conflict will compound these issues. With steel supply likely to remain tight and energy costs rising, steel prices are expected to remain elevated in 2022.



Copper

Global supply chain issues were expected to ease in 2022, but following the outbreak of the Russia-Ukraine conflict, there are concerns over supply disruptions, and prices will remain on an upward trend.

Italy - Commodity Report



Materials	Q4 2021	Q3 Q4 2022 (f)		Q4 - Q1 (e)
	€	€	2021-22 (f) % change	2022 % change
Copper (€/MT)	8,929	9,630	7.9% ↑	0.1% ↑
Steel rebar (€/MT)	682	924	35.4% ↑	21.3% ↑
Steel flat (€/MT)	800	1,122	40.2% ↑	25.4% ↑
Lumber (€/M3)	109	120	9.8% ↑	8% ↑
Asphalt (€/MT)	85	101	19.3% ↑	13% ↑
Limestone (€/MT)	42	48	16.3% ↑	12% ↑
Cement (€/MT)	138	155	12.7% ↑	7.2% ↑
Concrete (€/M3)	130	146	12.7% ↑	7.2% ↑
Welded mesh (€/unit)	39	47	21.1% ↑	11.4% ↑
Bricks (€/000 unit)	599	733	22.3% ↑	15.2% ↑
Plasterboard (€/unit)	9.7	10.3	5.7% ↑	4.8% ↑
Diesel (€/litre)	1.59	2.06	29.4% ↑	13% ↑

Q3 Q4 2022 (f): Forecasted average
2021-22 % change: % change from Q4 2021 to Q3 Q4 2022 average

Material	% change Q1 – Q2 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
 Copper	+4.6% ↑	High	Copper prices rose sharply on an annual average basis in 2021, reflecting global pressures and remained relatively high in early 2022. An improvement in the supply balance, supported by the commissioning of new projects and expansions at existing mines, will contain further upwards pressure. However, uncertainty stemming from the Russia-Ukraine conflict has already resulted in prices nearing record highs in March 2022.
 Steel prices - Steel rebar - Flat steel	+6.3% ↑ +6.5% ↑	High	High demand and increases in raw materials contributed to a rise in the price of steel products in 2021. The disruption in supply across Europe stemming from the Russia-Ukraine conflict has resulted in renewed upward pressure, which will be compounded by a predicted upturn in mill production costs arising from energy cost inflation.
 Cement Concrete	+2% ↑ +2% ↑	Moderate	Concrete and cement prices rose sharply in Q1 2022, reflecting higher transportation costs and strong demand amid government support packages and incentives to support residential construction. Prices are expected to remain high in the coming quarters, given the likelihood of continued elevated oil prices.
 Asphalt	+2.5% ↑	High	Asphalt demand will remain strong given the expected expansion in investment in road development projects supported by EU recovery funds. Having jumped in 2021, prices are expected to rise further due to the surge in global crude oil prices.
 Limestone	+0.8% ↑	Low	Limestone demand is primarily met through domestic production and the price fluctuation is mainly due to increase in logistics costs.

Please note that commodity prices are based on representative materials available in the respective countries, and as these materials may not be standard across all markets, cross-country comparisons on prices can be ineffective. For example, asphalt types can vary between hot, cold or a bitumen price, and standard unit sizes for materials can vary across countries.

Italy - Commodity Report



Construction cost index 2015-2021



Knoema World Data Atlas

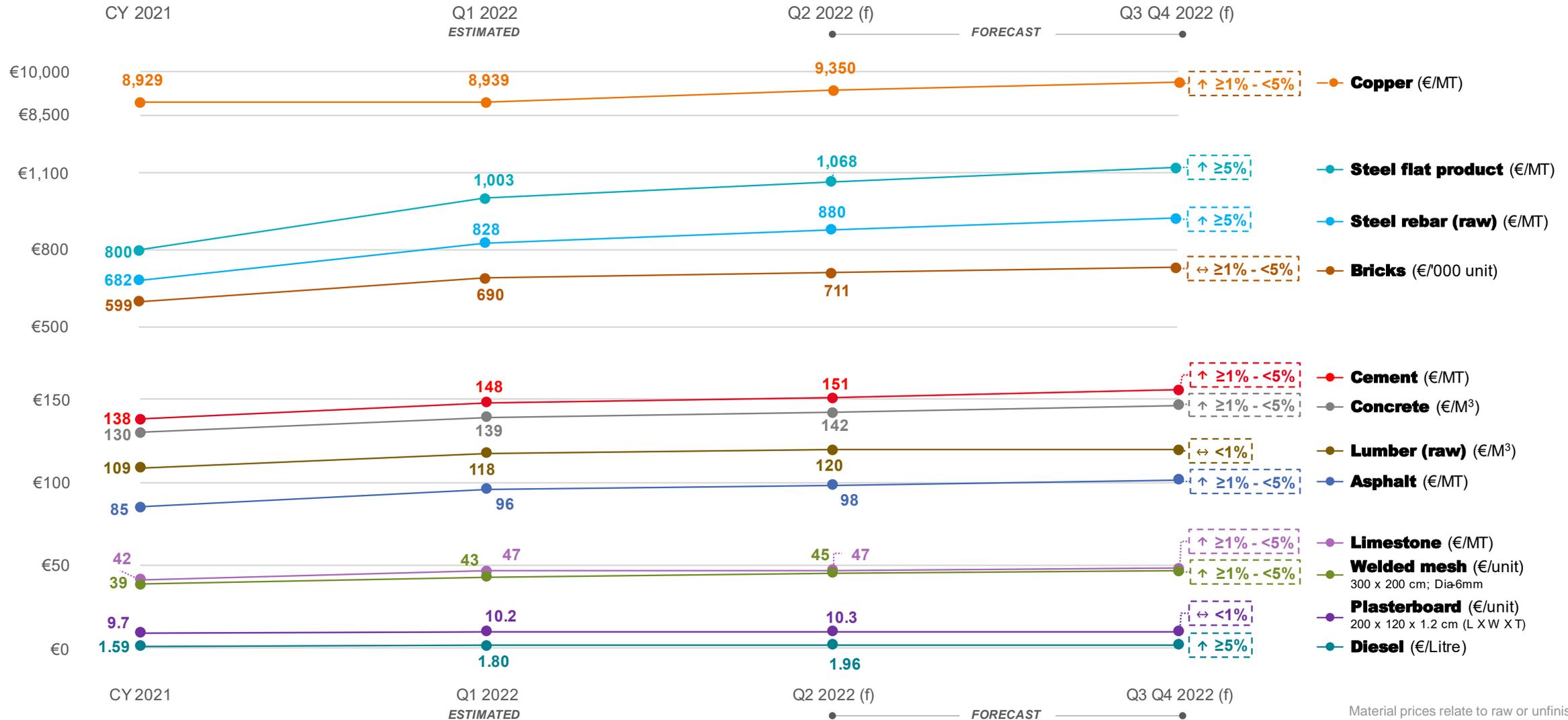
Index of economic freedom **64.9 out of 100**

Material	% change Q1 – Q2 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
 Lumber	+1.7% ↑	 High Lumber prices trends in Italy have mainly been driven by international prices, especially in America and China. In early 2022, prices continued an upward trend, and with rising transport and logistics costs, lumber prices are expected to remain close to current highs in the coming quarters.
 Welded mesh	+5.5% ↑	 High The price trend for welded mesh reflects movements in the price of steel. Hence, a similar price trend is expected for mesh products.
 Bricks	+3.1% ↑	 High Reflecting the surge in energy costs, production costs are rising, while demand is also still strong, particularly stemming from the recovery in residential buildings construction. Prices rose sharply in March 2022.
 Plasterboard	+0.9% ↑	 Low The final price of the finished plasterboard product is forecast to remain at a high level, due to the significant rise in fuel costs, which is impacting mining and logistics costs.
 Diesel	+9% ↑	 High Italy relies heavily on imported energy, particularly from Russia, which accounted for around 12% of its oil and petroleum products imports in 2020. The current sanctions on Russia, as well as trade disruption caused by the Russian-Ukraine conflict, have resulted in a sharp rise in diesel prices.

* Level of impact rating reflects a combination of factors: the price movement and also price level (compared to recent past beyond the last quarter), the importance of the material, and general state of the supply chain in terms of stability.

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Italy - Construction Materials Pricing (2021-2022)



Material prices relate to raw or unfinished materials, and not to finished, delivered and erected on-site prices.

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Italy - Macroeconomic overview



Economic indicators



3.8%

GDP growth in 2022 (f) and 6.5% in 2021



1.79% inflation rate in 2022 (f), and **1.66%** for 2021



22.87M people employed in 2022 (f) and 22.69M in 2021



11.6% unemployment rate in 2022 (f) and 10.30% in 2021



109.3 Consumer Price Index in 2022 (f) and 106.6 in 2021

Weather conditions



3°C to 32°C

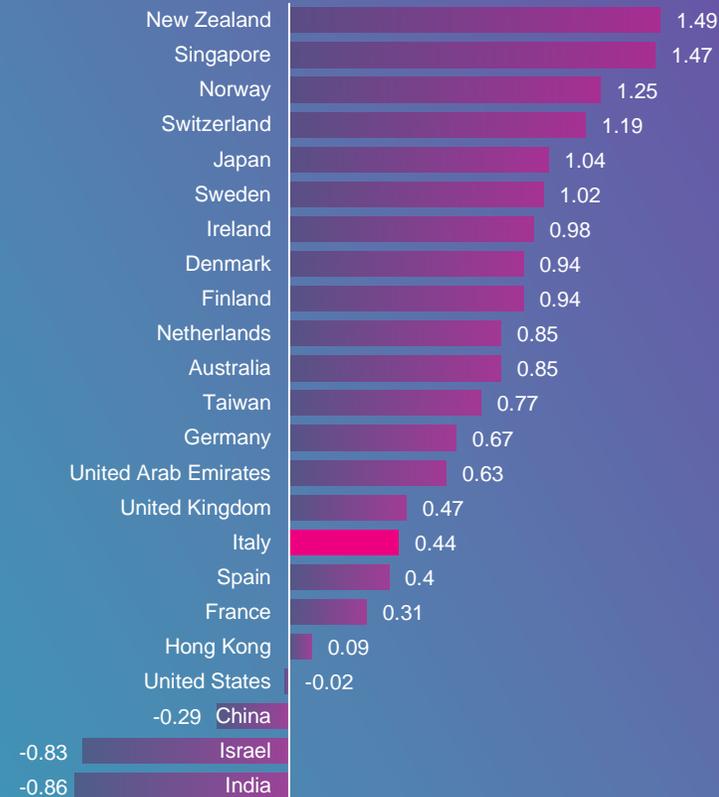
typical temperature range throughout the year



650mm – 1,000mm

range of average annual rainfall

Political stability



Political stability index (-2.5 weak; 2.5 strong)

The index of Political Stability and Absence of Violence/ Terrorism measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

National holidays

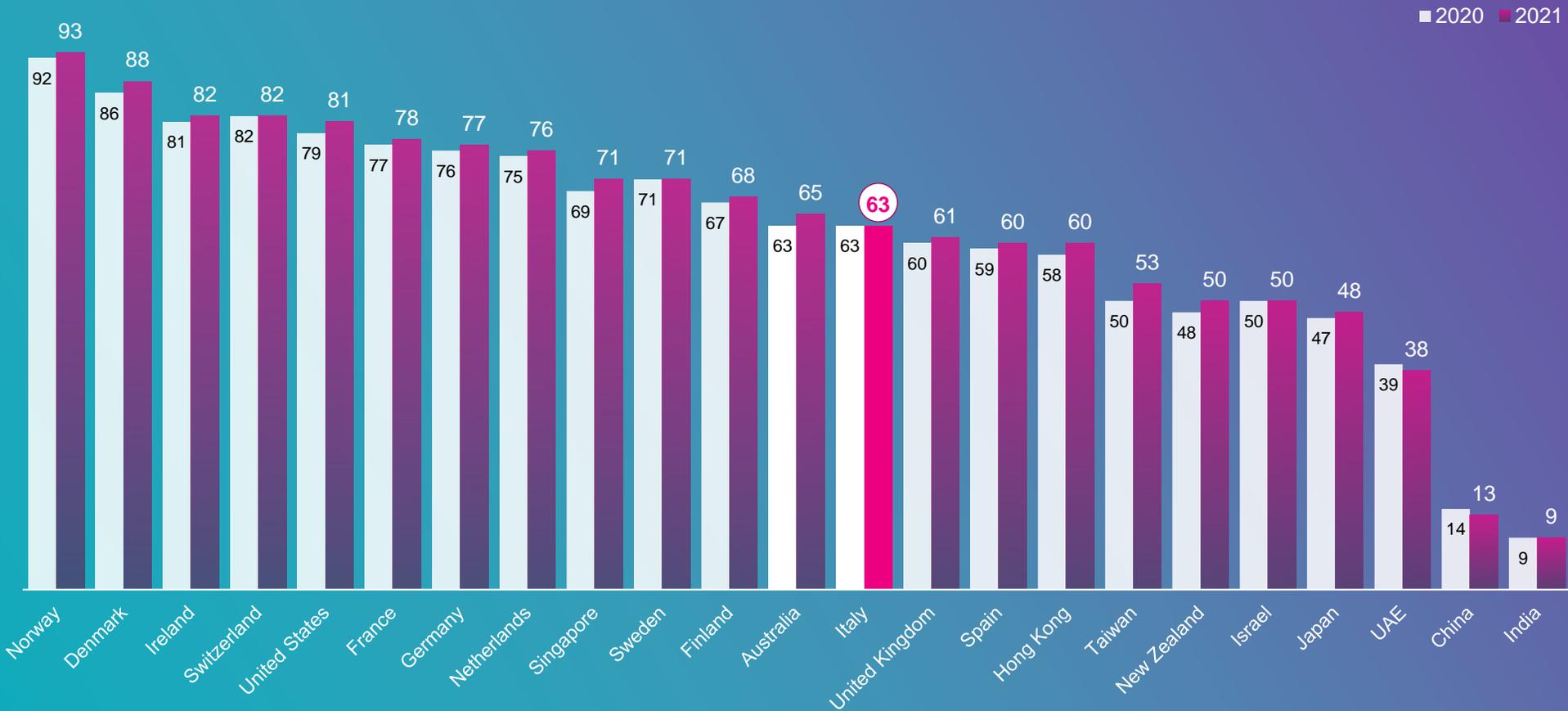


12 public holidays in Italy each year. Most holidays are taken during December.

Italy - Macroeconomic overview



Labour productivity



Labour costs

€30,211

average construction worker gross salary in Italy or an equivalent hourly rate of €15

- An entry level construction worker (1-3 years of experience) earns an average salary of €22,478.
- A senior level construction worker (8+ years of experience) earns an average salary of €36,603.

Labour productivity per hour worked in 2020 international dollars, converted using Purchasing Power Parities

Italy - Construction overview



Output 2021 and 2022 (f) (in millions)			
Sector	Total 2021	Total 2022(f)	% change
Commercial 	€22,665.77	€22,392.26	-1.2%
Energy and utilities 	€11,022.83	€11,178.23	1.4%
Industrial 	€6,891.39	€6,818.76	-1.1%
Infrastructure 	€37,085.61	€37,529.03	1.2%
Institutional 	€16,015.25	€15,736.81	-1.7%
Residential 	€135,079.80	€140,254.79	3.8%
Total output	€228,760.56	€233,909.88	2.3%

Long-lead equipment (LLE) – time risks

Long-lead equipment (LLE) lead times have changed drastically since the start of 2022. Suppliers have seen the implications of material shortages, delays and price hikes throughout the supply chain, which is leading to extended lead times and reduced commitment from suppliers for new projects. The key areas in focus are:

- Demand:** The demand for long-lead equipment in the data centre sector has increased exponentially with the IT boom. More data centre and crypto mining providers are joining the market, and this new demand far outweighs the capacity of the supply chain. Entry onto the production line has become a significant challenge, with suppliers reporting fully booked capacity until Q1 2023. Opportunities exist for the development of Tier 2 and Tier 3 suppliers to Tier 1 status. However, it will take time to develop an extended supply chain.
- Material shortage:** The end of Q1 2022 saw a significant drop in the availability of raw materials used for LLE production. Global factors such as the Russia-Ukraine conflict and the resurgence of COVID-19 has halted production, which is at its lowest levels in recent years. The ethical approach in the supply chain to manoeuvre away from the use of Russian gas and oil has reduced production levels and added longer lead times within the supply chain. The raw material shortages are expected to continue into Q2 2022, whilst there is uncertainty for the security of the supply chain.
- Freight durations and costs:** Heightened by the increase in fuel costs and compounded by the shortage of labour and low supply of shipping containers, freight durations have soared as suppliers look for ways to mitigate these challenges. The demand for freight services has grown across all markets in recent years and the competition amongst industries has had a negative effect on availability and durations. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to increasing fuel costs.

Construction health & safety practices and culture



Health and safety with regards to construction is regulated by Legislative Decree No. 81 of 9 April 2008 (Safety Law).

Italy - Report methodology



Linesight has commissioned independent global research to track construction materials and commodity prices. The approach and methodology for the collection of construction material pricing and other indicators is based on primary and secondary research.

Primary and secondary research

Primary research is conducted on a quarterly basis with stakeholders in the value chain, including manufacturers and suppliers/distributors of the target materials, to ascertain market information on prices in recent quarters, and also on projections for changes in the coming quarter and remainder of the year. The market analysis also involves a thorough assessment of secondary sources of data on materials and labour prices, in addition to underlying demand and supply trends that will impact market prices.

Sources include GlobalData's Construction Intelligence Center (CIC), the World Bank, IMF, OECD, as well as country specific national statistics offices, such as the U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, and also industry specific associations and publications. A more comprehensive list of sources is included below.

Definitions

- Commodity prices are net of taxes for all the countries
- Prices are not customer delivered
- All commodities are raw materials
- Nominal and real data

Nominal data series do not exclude changes in prices and are also referred to as current prices series.

Annual changes in nominal data for construction output will include changes in construction activity, as well as changes in costs for materials and equipment.

Real data series are calculated by keeping prices constant (so, are also referred to as constant price series), and therefore, they reflect changes in activity only. Growth rates in nominal terms can overstate the pace of growth in construction activity if there is high inflation stemming from rising prices for key inputs.

Sample sources - Italy

For Italy, sources for this report include, but are not limited to:

- IMF
- Economy.com
- The Global Economy
- Weather Spark
- I.Stat
- GlobalData's Construction Intelligence Center (CIC)
- Conference-board.org

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