



Italy

Country Insights and Commodity Report

Q3 2022



Italy

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Given its reliance on Russian fuel imports, Italy is expected to see an economic contraction of 0.2% in 2023, according to the International Monetary Fund's (IMF) latest release. It revised its 2022 forecast upwards by 0.2 percentage points from July, to 3.2%. September saw inflation hit 8.9%, according to ISTAT, with the full year figure expected to be 7.45% before dropping to a still-elevated 4.02% next year. Energy costs, in particular, are weighing on economic performance.

With a huge expansion of 21.3% in real terms recorded in 2021, the construction industry saw a strong start to 2022, with H1 growth of 17.4%. Full-year 2022 industry output growth is expected to stand at 9.6%. In the following years, contraction is expected, as the residential sector is expected to drop relatively sharply. The above-mentioned reliance on fuel imports poses a key risk to the industry, in terms of energy costs, and while material costs are moderating, they remain elevated, with supply chain constraints and labour market tightness also at play.



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Lumber

Financial incentive schemes to support residential construction works have driven a surge in investment up to Q2 2022, which contributed to further upward pressure on key building materials, including lumber. However, the boom in construction has come to an end, according to recent indicators of buying activity.



Cement and aggregates

High demand and rising production costs have driven up prices for cement and aggregates. The sharp rise in energy costs has heavily impacted producers' bottom line, and cement production levels have been dropping in recent months.



Concrete blocks and bricks

Production costs have soared this year, up by 53% year-on-year in August, and these increases have been passed on to buyers, demand from whom had been strong up to the first half of the year. With uncertainty over the future of generous financial support packages for the residential sector, price pressures are expected to ease from the demand side, but energy costs are set to remain elevated.



Steel (rebar and structural)

Steel production in Italy has been on the decline amid the sharp rise in production costs, which producers have struggled to pass on to buyers. There has also been a worsening in the trade balance with non-EU markets, with exports falling and imports rising – an outcome that reflects the tightening in domestic supplies.



Copper

Copper prices have trended downwards, reflecting the relatively gloomy outlook for the economy, weaker demand and a pick-up in stocks. The potential for shocks on the supply side will mean there will be continued volatility, and demand over the long term will be solid.



Italy – Commodity Report



	Q4 2022 (f)	Q4 2021 - Q4 2022 (f)	Q2 2022 - Q3 2022 (e)
Materials	€	€	2021-22* % change
Copper (€/MT)	7,649	8,929	-14.33% ↓
Steel rebar (€/MT)	961	682	40.93% ↑
Steel flat (€/MT)	1,160	800	45.02% ↑
Lumber (€/M3)	111	109	2.04% ↑
Asphalt (€/MT)	105	85	23.35% ↑
Limestone (€/MT)	52	42	25.27% ↑
Cement (€/MT)	215	138	55.89% ↑
Concrete (€/M3)	154	130	18.77% ↑
Welded mesh (€/unit (a))	49	39	26.77% ↑
Bricks (€/’000 unit)	798	599	33.15% ↑
Plasterboard (€/unit (b))	13	10	31.78% ↑
Diesel (€/litre)	1.84	1.59	15.87% ↑

(a) 3mx2m, dia.-6mm
(b) 13mmx200x120cm (LxWxT)

● Q2 to Q3 2022 % change greater than estimation in our Q2 report
■ Q2 to Q3 2022 % change less than estimation in our Q2 report

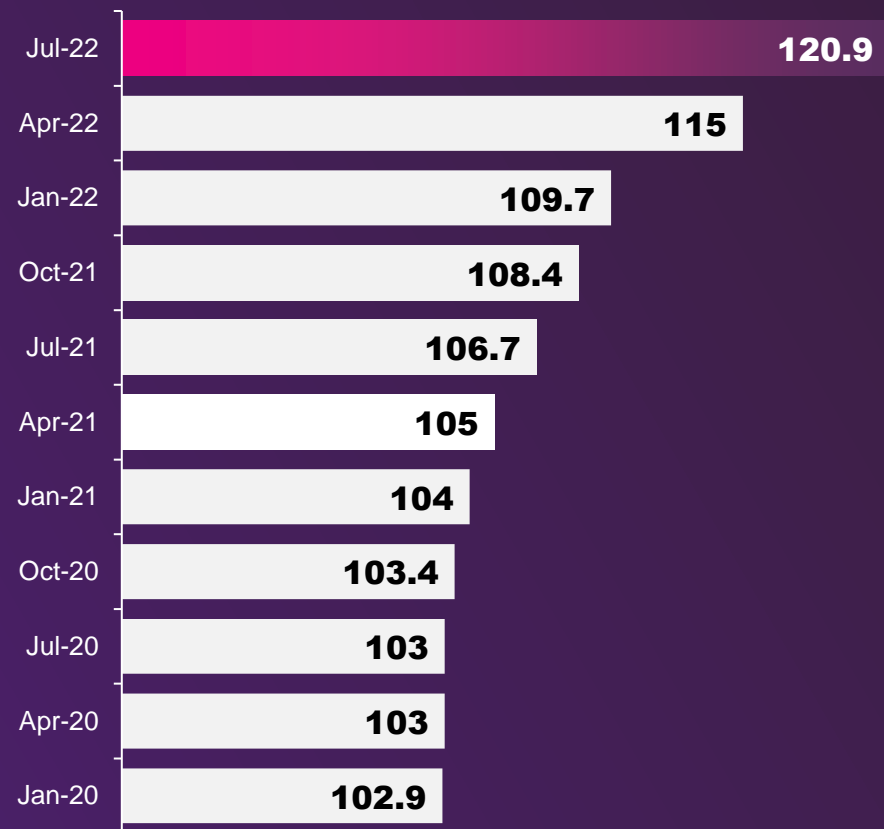
Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
Copper	-1.0% ↓	High Copper prices have dropped back from the record highs set in the middle of the year, and there is an expectation that prices will remain around current levels. Weaker global demand will be a key factor in containing upward pressure.
Steel prices - Steel rebar - Flat steel	-1.5% ↓ -1.5% ↓	Moderate Steel production has slumped in Italy in recent months, as producers have faced surging electricity costs that have pushed up overall production costs amid a backdrop of weak demand and low finished products prices. In August 2022, crude steel output was down by 42% year-on-year, pulling output in the first eight months of the year down by 10% year-on-year. There has been a stand-off between producers and buyers, with the former trying to push up prices but the latter placing orders below such levels.
Lumber	-1.0% ↓	Moderate Owing to rapid expansion in building construction in the first half of the year, supported by incentive schemes in the residential sector, lumber prices remained high. Factors on the supply side have also had an impact, notably high production and transportation costs. Demand is expected to subside, reflecting the sharp drop recently in some leading indicators for the construction industry, and this will contribute to an easing in prices from recent highs.
Asphalt	-1.0% ↓	Moderate Asphalt prices have been high this year, which can be attributed to high raw materials costs stemming from the jump in crude oil prices, as well as demand from road investment projects. Further road development is in the pipeline. In August 2022, the Italian National Autonomous Roads Corporation (ANAS) announced a plan to invest €2 billion in developing road infrastructure across six different regions of Italy, and this will support demand for asphalt, keeping prices relatively high.
Limestone	+1.0% ↑	Low Limestone prices picked up in Q3 2022 and are set to remain relatively high. Limestone demand is primarily met through domestic production, the costs of which have faced upward pressure this year.











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 2020-2022

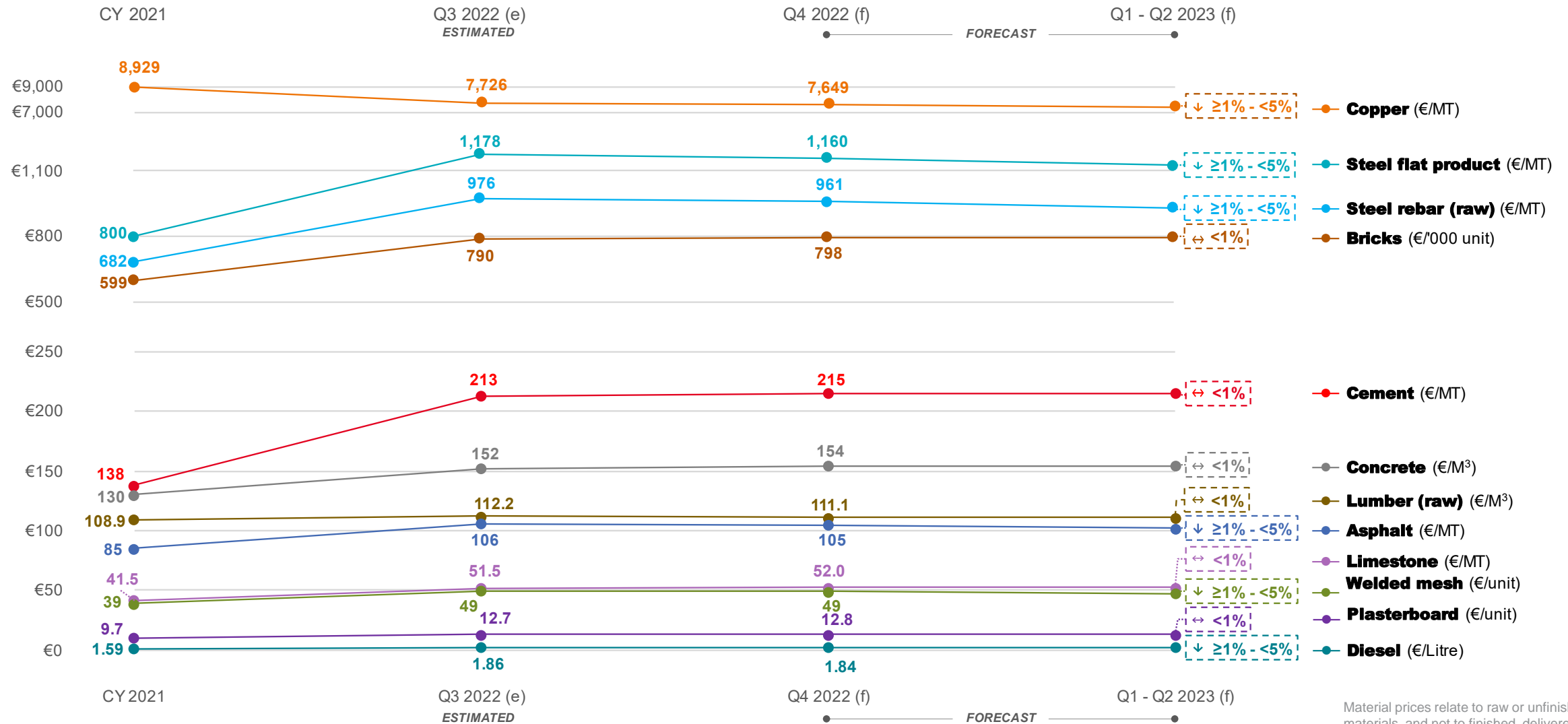


Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
 Cement Concrete	+1.0% ↑ +1.5% ↑	 High	Cement prices have continued on a steep upward trend, reflecting high demand and cost-push pressures. Production levels have also been declining given the challenges facing producers amid high energy costs. In August 2022, producer prices for cement manufacturing were up by 50% year-on-year. As construction activity slows, this will alleviate only some of the pressure on prices.
 Welded mesh	-1.0% ↓	 Moderate	After rising sharply in Q2 2022, welded mesh prices have eased back, a trend that reflects the drop in steel prices in recent months.
 Bricks	+1.0% ↑	 Low	High demand amid the jump in residential construction works alongside rising production costs pushed up brick prices in the first half of the year. While the uplift from the demand side will fade, energy costs are set to remain high.
 Plasterboard	+1.0% ↑	 Low	Plasterboard products have been in high demand amid the expansion in residential renovation projects over the past year or so, bolstered by EU-funded financial incentive schemes. There is expected to be a drop off in construction activity in the coming quarters, which will help to stabilise prices.
 Diesel	-1.0% ↓	 Moderate	Diesel prices have dropped from the June highs of over €2 per litre, but the recent decision in early October by OPEC+ to cut production will likely prevent prices from falling further in the coming quarters.

* 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



2.93%

GDP growth in 2022 (f)
and **6.64%** in 2021



7.45%

inflation rate in 2022 (f)
and **1.87%** for 2021



22.39M

people employed in 2022 (f)
and **22.38M** in 2021



9.26%

unemployment rate for 2022 (f)
and **9.5%** in 2021



120.9

Consumer Price Index in
2022 (f) and **112.52** in
2021



156.4

Producer Price Index in
Aug 2022 and **111.6** in Aug
2021

National holidays



**12 public
holidays**

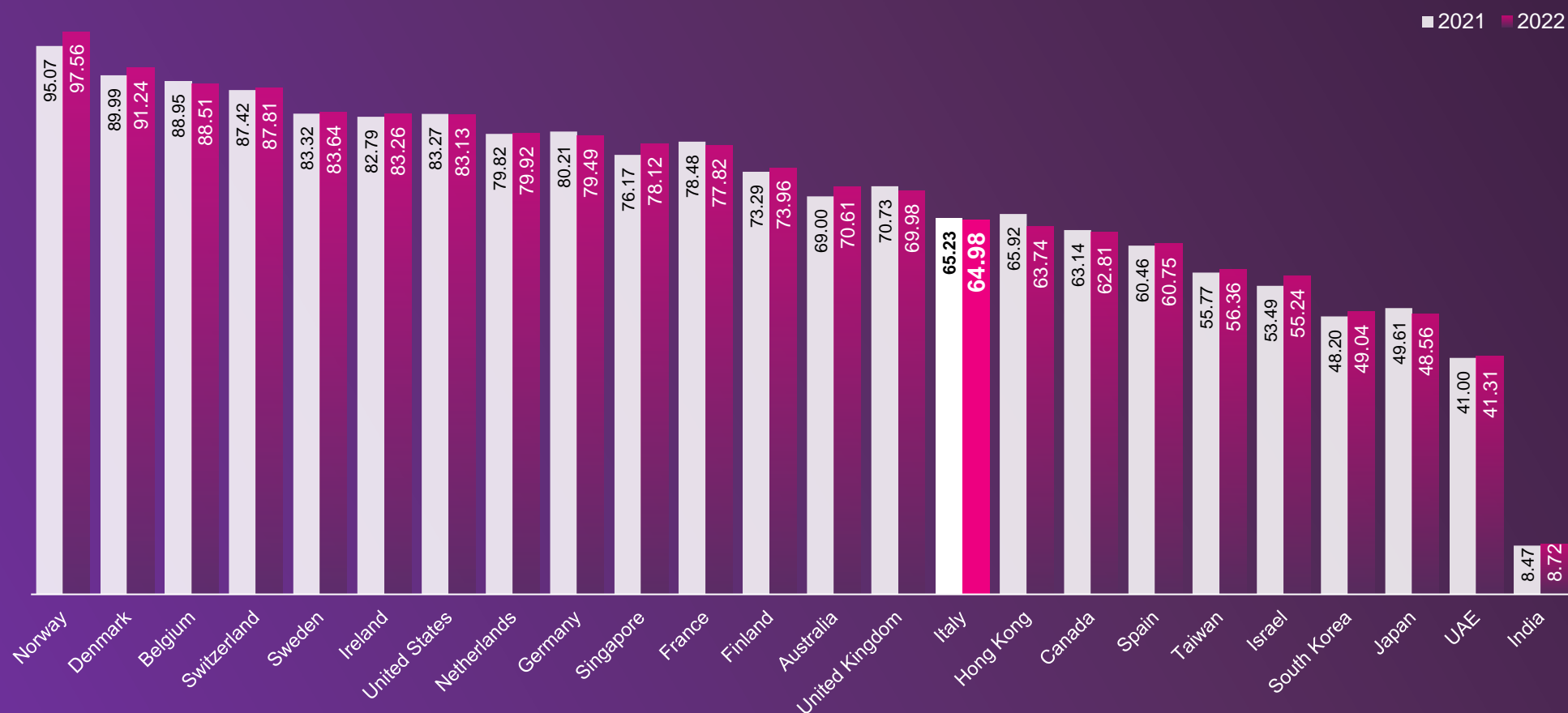
in Italy each year.

- New Year's Day (1 January)
- Epiphany (6 January)
- Easter Sunday
- Easter Monday
- Liberation Day (25 April)
- Labour Day (1 May)
- Republic Day (2 June)
- Assumption Day (15 August)
- All Saints' Day (1 November)
- Immaculate Conception (8 December)
- Christmas Day (25 December)
- Saint Stephen's Day (26 December)

Italy – Macroeconomic overview



Labour productivity



Labour costs



3%







annual change in index of labour costs in July 2022 compared to -4.3% in July 2021.

Labour productivity per hour worked in 2021 international dollars, converted using Purchasing Power Parities

Italy – Macroeconomic overview



Output 2021 and 2022 (in millions)

Sector	Total 2021	Total 2022 (f)	% change
Commercial 	€24,949	€24,331	-2.5%
Energy and Utilities 	€12,133	€12,593	3.8%
Industrial 	€7,585	€7,573	-0.2%
Infrastructure 	€40,821	€41,340	1.3%
Institutional 	€17,628	€18,368	4.2%
Residential 	€148,685	€171,802	15.5%

Long-lead equipment (LLE) and Supply Chain narrative

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 continued to increase in Q3 2022. More data centre and crypto mining providers are joining the market, and this continued demand far outweighs the capacity of the supply chain. Entry onto the production line remains a significant challenge, with suppliers reporting fully booked capacity until Q2 2024. There has been some growth in the development of Tier 2 and Tier 3 suppliers to support this demand. However, it will take time to build an extended supply chain. There has also been no sign of a decline in demand yet in early Q4 2022.
- Material shortage:** Just as material availability started to improve, the further threat of escalation with the Russia-Ukraine conflict has cast further uncertainties of future material stocks and reserves. The supply chain has continued to seek alternative sources of raw materials, and although this has been with partial success, market lead times remain conservative.
- Freight durations and costs:** Heightened by the increase in fuel costs, and compounded by the instability of labour and container availability, freight durations have been particularly volatile in recent times. Early indications from Q4 2022 suggest some stabilization in shipping durations is returning to the market, but the associated costs remain volatile due to the global fuel crisis. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to these increasing fuel costs.

Construction Health and Safety practices and culture



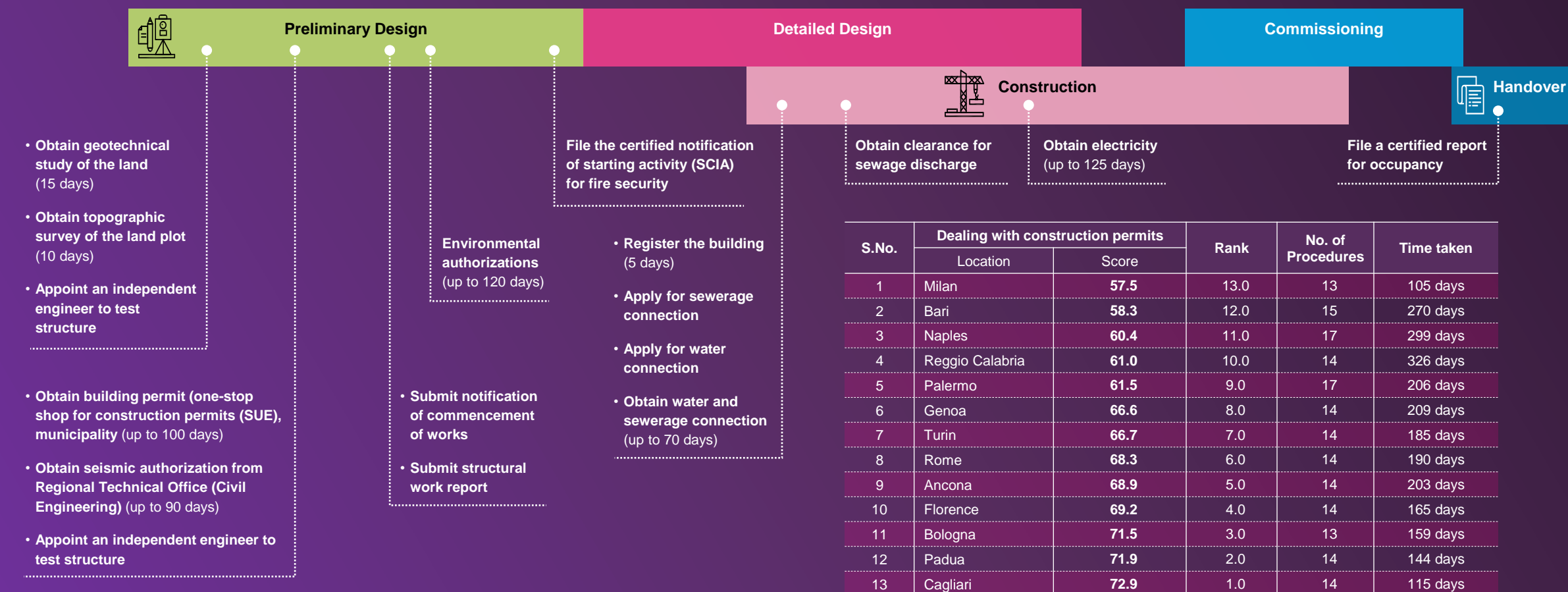
Health and safety with regards to construction is regulated by Legislative Decree No. 81 of 9 April 2008 (Safety Law).

Italy – Construction overview



Typical Delivery Programme

Note: Please note that the programme and phase duration will depend on project type, project specifics and the procurement method – please speak to your Linesight contact directly if you have a query in this regard related to a particular project



S.No.	Dealing with construction permits		Rank	No. of Procedures	Time taken
	Location	Score			
1	Milan	57.5	13.0	13	105 days
2	Bari	58.3	12.0	15	270 days
3	Naples	60.4	11.0	17	299 days
4	Reggio Calabria	61.0	10.0	14	326 days
5	Palermo	61.5	9.0	17	206 days
6	Genoa	66.6	8.0	14	209 days
7	Turin	66.7	7.0	14	185 days
8	Rome	68.3	6.0	14	190 days
9	Ancona	68.9	5.0	14	203 days
10	Florence	69.2	4.0	14	165 days
11	Bologna	71.5	3.0	13	159 days
12	Padua	71.9	2.0	14	144 days
13	Cagliari	72.9	1.0	14	115 days

Source: The World Bank Group, 'Dealing with Construction Permits – Italy' tracking the procedures and time to build a medium size warehouse on different Italian regions

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
- ISTAT
- GlobalData's Construction Intelligence Center (CIC)

