Awaiting an Italian aggregate demand renaissance

Aggregate demand in Italy is slowly recovering but economic and political uncertainty is not helping its progress, as Guy Woodford reports.

Demand has remained low in Italy ever since the global financial crisis hit in 2008. While demand is slowly recovering, particularly in the north of the country, it’s from a very low ytd, with few major infrastructure projects digger-ready. Furthermore, the political events of recent years, coupled with a binacer national economic forecast, will have done nothing to encourage aggregate material suppliers’ hopes of more rapid growth.

Paolo Gentiloni is Italy’s new Prime Minister, after former PM Matteo Renzi lost the country’s constitutional referendum on 4 December 2016. However, just a month after being sworn in, 61-year-old Gentiloni fell ill and was rushed to hospital where he underwent emergency heart surgery. While he was, at the time of writing, making a good recovery, Gentiloni’s delicate health acts as a fitting metaphor for the fragile state of growth within his country’s aggregate industry.

January 2017 also saw the International Monetary Fund (IMF) cut its growth forecasts for Italy for 2017 and 2018. It expects Italy’s GDP to rise 0.2% this year, down 0.2% from its October 2016 estimate. It sees growth of 0.8% in 2018, down 0.3% on the previous forecast. The IMF gave the figures as it updated its World Economic Outlook. It said the Italian economy grew by 0.9% in 2016. IMF chief economist Maurice Obstfeld has called on Italy to do more for its troubled banking sector, including tackling the issue of non-performing loans.

While Italy has the political and fiscal issues, given the country’s 6.5 trillion euros plus annual aggregate production output, it remains an important European market for quarrying equipment OEMs, such as Volvo Construction Equipment, a leading player in the international leading and hauling market.

“The Italian aggregates sector is slowly recovering after a long and deep depressed period,” says Stefano Tacchini, managing director of Volvo CE Italy. “It is still suffering, however, from the lack of new big projects and the immobility of the real estate market for new buildings. A positive trend we registered was focused in the quarter, where mobile, industrial and lime stone are extracted either for industrial reasons or for export (notably marble). The north area benefits from a more capitalised industrial presence.”

Speaking of Italian aggregate demand in the near couple of years, Tacchini says: “It will not significantly grow in the next two years, as investments in civil works such as roads and public buildings are not significantly expanding, this is due to constraints on Italian debt. The real estate market is therefore also not expected to...

TOP: Volvo EC46E excavator loading blast onto a Volvo A30G articulated hauler.

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have a strong recovery in the next two years."

Poznanski points to high-speed train construction, new airports, refurbishing roads and a school rehabilitation programme as being among the most important future Italian infrastructure projects. He also notes some encouragement in terms of quarrying and construction equipment unit sales, and welcomes moves towards greener mine/mines material production.

"During the last year, the market has allowed for a new wave of replacements for obsolete machinery, this has been a key factor for the new growth. Public subsidies (primarily 143% fiscal depreciation) favoured this process.

"The case for environmentally friendly production is growing, with many municipalities and contractors asking for it in their tenders.

Global mining and screening giant Metso is another major quarrying OEM keeping a very close eye on Italian aggregate demand.

"2015 aggregates demand in Italy was approximately 146 million tonnes per year. We presume that in 2016 it will be the same," says Pietro Poznanski, senior vice president Europe, Metso Mining and Construction. "The real estate sector is recovering but again, but not for new buildings, just for restoring old existing ones. Demand for second-hand (holiday) homes dramatically plunged years ago due to new housing taxes and has not rebounded. We could estimate that 60% of aggregate demand is coming from the north, while 40% from the south."

Poznanski notes that while Italian GDP pro capita has lost 10.4 percentage points in the last eight years, with some southern regions dropping by 13.1%, there were modest signs of recovery in 2016, matching from +3.5% in the southern region of Calabria, to +1.1% in Emilia Romagna in the north.

Of major infrastructure projects likely to influence Italian aggregate demand levels, Poznanski says quotas set to supply aggregate materials for the COVIV project - the high-capacity railway line between Genoa and Milan - have already been identified and equipped. Meanwhile, the proposed Tav-liner high-capacity railway line is in the early planning stage. Poznanski describes it as a very long-term project with a "lot of political conflict."

"There has been a reduction of demand in Italy for sand and aggregates for concrete because of the decrease in concrete demand. Demand for aggregate for asphalt is quite stable," adds Poznanski. "Italian producers are quite sensitive to prices, production, but recently there’s been more interest in automated innovation systems."

Salutair 2017, the 30th International Earthmoving & Building Machinery Exhibition, taking place in Verona 22-25 February was due to attract many leading global quarrying and construction OEMs and ambitious small to medium manufacturers, with visitor numbers likely to give an indication of whether Italian construction equipment growth, however slight, and its concurrent positive impact on aggregate demand, is likely to continue in 2017.

 Ahead of the showcase event, a report from Satis/Ter-Verona-Veronafiere (SVO) revealed that 7,541 construction machines were sold in Italy from January-September 2016, up 3% from the same period in 2015. SVO, a construction sector observatory developed in partnership with international consulting firm Deloitte, with the support of Unacera, the Italian Association of construction machinery and equipment builders, also estimated an increase of 3% in construction unit sales in Italy in the period 2017-2018, compared to 2016-17.

Unacera says that while it welcomes construction equipment sales growth recorded over 11 consecutive quarters, Italy still has to rectify issues in a sector that, following the economic crisis in 2008, shrunk by more than 60%.

As part of a global rise in construction equipment demanded for the next two years, SVO predicts that earthmoving machinery in Italy will continue along a recovery path started in 2014, leading to 15,400 units being sold in 2018 - up 37% on 2016 sales – while generating a European market share of 10%.

It seems the rise, however slow and steady, in aggregate demand, is more encouraging rise in construction equipment sales, generally linked to new infrastructure projects, is offering some hope of brighter times ahead for Italian aggregate producers.