New business growth accelerates to four-month high

KEY FINDINGS

New orders and business activity rise at moderate rates

Business expectations strengthen

Selling prices broadly unchanged

July data signalled a stronger expansion in business activity across the Italian service sector. The faster upturn was supported by an accelerated increase in new business. Firms were broadly optimistic of a rise in output over the coming year with confidence picking up to the highest level since March 2018. Greater positive sentiment was reflected in a further moderate increase in employment. Job creation came alongside the first rise in backlogs since March.

Meanwhile, price pressures strengthened amid greater wage costs. Firms, however, left charges broadly unchanged from June.

The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 51.7 in July, up from 50.5 in June. The latest data signalled a moderate expansion in output across the Italian service sector that was the fastest for four months. Panellists attributed growth to greater client demand and new service line launches.

A stronger expansion in business activity was largely driven by a quicker upturn in new orders. The rate of increase in new business was the fastest for four months and above the series average.

Greater client demand was largely supported by the domestic market, as firms signalled a renewed contraction in new export orders. The decline was linked by panellists to difficulties in the automotive sector including a reduction in new car sales. The decrease was only fractional overall, but the quickest since March.

At the same time, service providers indicated a stronger degree of confidence towards output over the coming year. Greater marketing, new product launches and hopes of renewed export growth reportedly drove optimism. Moreover, the level of positive sentiment was the highest since March 2018.

On the price front, costs rose at a strong rate in July. The increase in input prices was the quickest for three months and panellists attributed the accelerated rise to greater fuel and purchase prices. Some firms also stated that an increase in workforce numbers had led to higher wage costs.

Despite an uptick in new business growth, firms registered broadly unchanged selling prices in July following seven consecutive months of falling output charges.

Meanwhile, more robust business expectations for the year ahead supported a sixth successive increase in employment in July. The upturn in workforce numbers was modest overall and linked to greater business requirements. In line with a faster increase in new business, backlogs of work rose for the first time since March, albeit only fractionally.
The Composite Output Index* posted at 51.0 in July, up from 50.1 in June to signal the fastest expansion across the Italian private sector since March. Although the manufacturing sector continued to contract at a marginal pace, a faster expansion in the service sector supported overall growth.

At the same time, new business growth rebounded in July, with the expansion accelerating to a ten-month high. A stronger upturn across the service sector outweighed a moderate decline seen in the manufacturing sector. In contrast, new export orders received by private sector firms remained in contractionary territory for the third month running.

Employment continued to increase among Italian private sector firms. The rate of job creation softened slightly following a further fall at goods producers and a slower increase at service providers. Meanwhile, firms were able to clear backlogs further in July, thereby extending the current sequence of decline that began in July 2018.

On the price front, cost burdens faced by private sector firms rose at a solid and faster rate in July. A moderate fall in cost burdens across the manufacturing sector was outweighed by a quicker increase in service sector input prices. Input price inflation was commonly linked by service providers to higher fuel and wage costs.

In contrast, composite output charges fell in July. Broadly unchanged selling prices in the service sector were dragged down by discounting among manufacturers.

Finally, business confidence across the Italian private sector remained strong and picked up to the highest since April 2018. Manufacturers and service providers alike were optimistic towards output over the coming year.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Italy Composite Output Index is a weighted average of the Italy Manufacturing Output Index and the Italy Services Business Activity Index.
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Methodology

The IHS Markit Italy Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and 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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the “Services PMI” but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the “Composite 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.

July 2019 data were collected 12-26 July 2019.

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