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IHS MARKIT ITALY SERVICES PMI®

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Italian service sector returns to growth as demand strengthens

KEY FINDINGS

Business Activity Index at highest level since March 2019

Strongest upturn in new work for over three years

Employment stabilises

Data were collected 12-25 May 2021.

Italy's service sector returned to growth during May, according to the latest PMI® data, with business activity rising for the first time in nearly a year and at the fastest rate since March 2019, amid the strongest uplift in new work for over three years. Stronger capacity pressures and company re-openings amid looser COVID-19 restrictions also led to a broad stabilisation of employment.

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 above the 50.0 mark for the first time since July 2020 to signal an expansion in service sector output. Anecdotal evidence linked the rise with improved demand conditions. Moreover, at 53.1, the headline figure pointed to the strongest growth since March 2019.

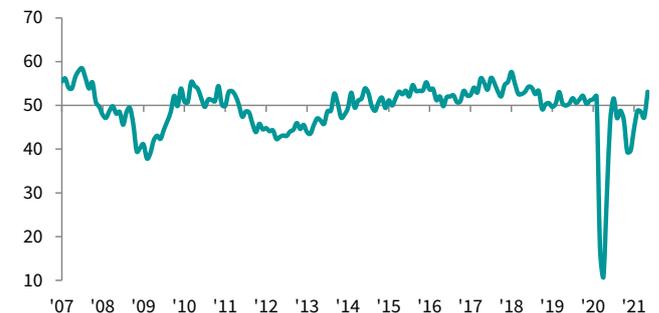
Central to the renewed upturn in the sector was the first increase in new business for three months. According to panellists, stronger consumer confidence and looser COVID-19 measures had led to firmer client demand. The rate of growth in new work was the most marked for over three years.

Gains to demand came solely from domestic markets during May, however, as new export orders continued to decline. The rate of reduction slowed since April, but was still moderate overall.

May data also highlighted a broad stabilisation of services employment, following a 14-month sequence of reduction.

Italy Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Respondents noted that some firms were taking on staff to alleviate capacity pressures.

Indeed, the level of outstanding business rose for the second month in a row during May, with the rate of backlog accumulation the fastest since June 2018.

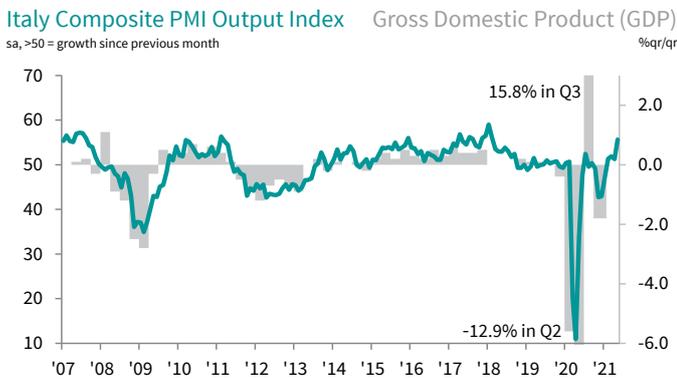
Meanwhile, inflationary pressures strengthened, as cost burdens facing Italian services firms rose at the quickest rate since April 2012 and sharply. According to panellists, greater fuel, utility, and materials costs were the primary drivers of cost inflation.

As a result, Italian service providers increased their average charges for the first time in nearly two years. Respondents linked the increase to the pass-through of greater input costs to clients. Moreover, the rate of charge inflation was the quickest since January 2008 and moderate overall.

The rebound in services activity also corresponded with a noticeable lift in business confidence during May. The level of positive sentiment was the strongest for over 11 years, with anecdotal evidence attributing optimism to hopes of improved client demand, looser COVID-19 restrictions, and a robust economic recovery.

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Output growth fastest since February 2018



The Composite Output Index* registered 55.7 in May, rising from 51.2 in April, and signalled the quickest expansion in Italian private sector output for over three years. At the sector level, manufacturing growth remained amongst the strongest on record, while services saw the first upturn since last July.

Key to the stronger rate of growth in May was a further increase in new work at Italian private sector firms. The rate of expansion was the fastest for nearly 15 years, driven by record growth at manufacturers and a sharp rebound in new work at service providers.

Foreign demand also strengthened in May, with the latest increase in new export orders the fastest recorded since the series began in 2014.

Capacity pressures strengthened during May, with backlogs accumulating at the second-quickest pace on record. As a result, firms took on additional staff, with the rate of job creation the strongest since October 2019.

May data also highlighted a further rise in cost burdens, with the rate of inflation the fastest for over a decade and rapid overall. Price pressures were driven mostly by the goods producing sector, which saw a near record rate of inflation. In response, private sector firms increased their average charges to the greatest extent since the series began in October 2002 during May.

Looking ahead, Italian companies recorded the strongest ever level of confidence towards output for the coming year.

COMMENT

Commenting on the PMI data, Lewis Cooper, Economist at IHS Markit said:

"Italy's service sector saw its first signs of a recovery during May. Business activity rose for the first time since last July and at the strongest rate since March 2019, amid the fastest upturn in new business for over three years as companies reopened and demand began to recover as COVID-19 restrictions eased. Subsequently, services employment stabilised following a 14-month sequence of job shedding.

"The rebound in services activity during May was joined with a near record upturn in factory production and as a result, data highlighted the fastest rate of private sector output growth since February 2018. This bodes well for the Italian economy, which has been, so far, held back by the weak performance of services. With COVID-19 lockdown measures much looser, we should expect to see further growth over the coming months as the economy continues on its recovery path."

**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.

May 2021 data were collected 12- 25 May 2021.

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

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