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IHS MARKIT ITALY SERVICES PMI®

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Service sector activity picks up during November

KEY FINDINGS

Marginal increase in business activity

New order growth slows to 45-month low

Selling prices increase for first time in ten months

Business activity in Italy's service sector returned to slight growth during November, as greater customer numbers fed through to higher new orders. However, the rate of new business growth was the slowest in 45 months and business confidence dipped.

On the price front, input costs rose sharply and at a faster pace than in October, whilst output charges increased for the first time in ten months.

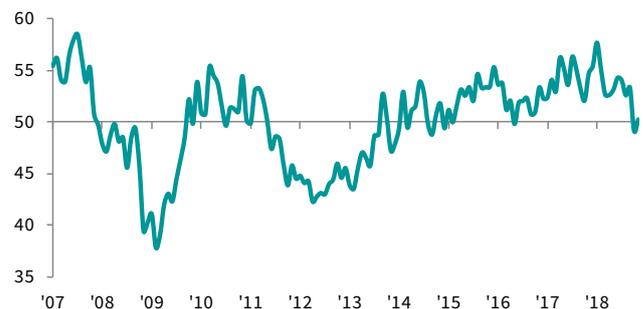
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 50.3 in November, up from October's reading of 49.2 and indicated a marginal increase in business activity in Italy's service sector. This followed a first reduction in almost two-and-a-half years during the previous month.

Behind the rise in business activity was a further increase in new orders. That said, growth of new work eased from October and was the slowest in 45 months, with a number of firms reporting a slowdown in demand. New export business, meanwhile, fell in November, though to a lesser degree than in the previous month. New work from foreign customers has now fallen in five successive months.

On a more positive note, the rate of job creation among Italian service providers increased in November. Some panellists reportedly added staff in expectation of increased customer orders in the coming months.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

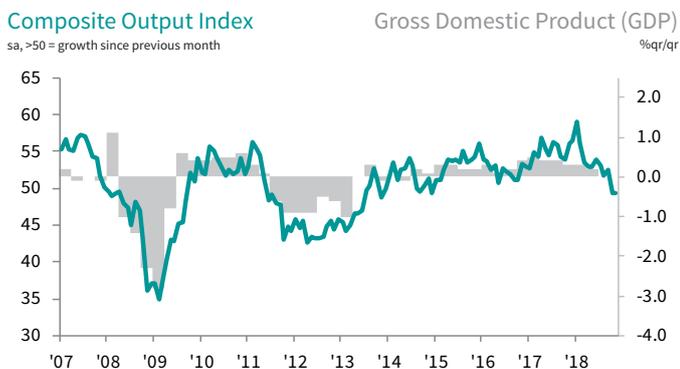
Work on existing orders was also a factor behind increased employment in November. Outstanding business increased for the fourth month in a row, although the rise in backlogs was slightly slower than in October and marginal overall.

On the price front, input costs continued to rise at a sharp pace and one that was faster than in October. Panellists reported higher costs for materials and items such as diesel. Selling prices rose for the first time in ten months, as panellists stated that they were able to pass on additional cost burdens to customers. That said, charge inflation was modest amid competitive pressures.

Looking ahead, around 32% of panellists were confident of a rise in business activity from present levels in 12 months' time. Optimism was linked to increased R&D investment, new product lines and increased sales from online platforms. However, positive sentiment was the lowest for three months as economic and political uncertainty and fears of lower customer orders, weighed on the confidence of panellists. Sentiment was also well below the series average.

IHS MARKIT ITALY COMPOSITE PMI®

Output falls for second month running



Sources: IHS Markit, ISTAT.

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. The Composite Output Index posted at 49.3 in November, unchanged from October and signalling a second consecutive monthly fall in output.

Manufacturing output contracted again in November, the fourth successive monthly decline, whereas services activity increased. That said, the rate of services activity growth was marginal.

In line with output, incoming new business fell in November. Order book volumes among manufacturers fell at a slightly less marked rate than in October.

Meanwhile, services new order growth eased to the slowest in 45 months. At the composite level, new business inflows declined for the second month running. In turn, work outstanding decreased for the fifth consecutive month, as firms were able to catch up on unfinished business.

On the employment front, modest increases were seen across both monitored sectors. At the composite level employment growth picked up on the back of faster service sector payroll expansion.

Inflation of both input costs and output charges across the private sector accelerated in November. Output charge inflation ticked up to a seven-month high, whilst input costs rose sharply.

Looking forward, Italian companies were confident that output would increase over the coming year. However, optimism was at a three-month low.

COMMENT

Commenting on the PMI data, Amritpal Virdee, Economist at IHS Markit said:

“Activity in Italy's service sector expanded marginally in November, driven by persistent new order growth and lower than expected declines in new business from abroad. With a fall in manufacturing output recorded, overall Italian private sector growth has weakened considerably from the start of the year and November's data is consistent with a negative out-turn for GDP in Q4 2018.”

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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.

November 2018 data were collected 12-27 November 2018.

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