Business activity rises at faster pace during September

KEY FINDINGS

Total new business growth quickens
Further decline in output charges
Business confidence improves since August

Business activity in Italy’s service sector increased at a faster pace in September, driven by quicker new business growth. On the price front, in order to stimulate additional sales and remain competitive, service providers reduced their selling prices for the second month running and at the fastest pace since May. Meanwhile, sentiment towards output over the coming 12 months improved markedly from August’s one-year low, amid expectations of greater sales activity.

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 51.4 in September, up from 50.6 in August and signalled a faster increase in Italian service sector activity. Business activity has now increased for four consecutive months.

Underpinning the faster rise in service sector business activity was an improvement in domestic demand conditions. The rate of overall new order growth, though modest, quickened from August. In contrast, new export sales among Italian service providers contracted for the third successive month as firms reported an overall softening of foreign demand.

On the employment front, job creation among Italian service providers was sustained in September. However, the rate of increase was modest and the slowest since May. Surveyed firms attributed the faster rise in headcounts to greater activity requirements.

Capacity pressures among panellists continued to ease during September, with backlogs of work declining for the second consecutive month. Moreover, the rate of backlog depletion was steep and the fastest since March 2016.

On the price front, input cost inflation quickened to a ten-month high during September. The rate of inflation was sharp and companies noted in particular the inflationary effect of exchange rate fluctuations and greater wage bills.

In contrast to the quicker rise in cost burdens, selling prices among Italian service providers declined in September for the second month in a row and at the fastest pace since May. Anecdotal evidence from panellists indicated that they had reduced their charges in response to pressures to boost sales.

Finally, sentiment among Italian service providers improved from August’s one-year low in September. Panellists linked optimism to new product developments and expectations of greater sales activity.
The Composite Output Index* posted at 50.6 in September, up from 50.3 in August and signalling the fourth successive month of rising Italian private sector output. Though marginal, the rate of expansion quickened since August.

Central to the quicker rise in Italian private sector output was a faster expansion of service sector activity, which picked up from August. This, in turn, outweighed a sharper contraction in manufacturing production, which declined for the fourteenth month in a row during September.

Inflows of new business were unchanged in September, a relative recovery from August's slight fall. Manufacturing order books declined for the fourteenth straight month and at the fastest pace since March. Meanwhile, service sector new business increased for the fourth consecutive month, with the rate of growth quickening from August.

Backlogs of work fell for the fifteenth consecutive month in September. Furthermore, the rate of depletion was the fastest since December 2014.

Employment growth eased slightly on the back of weaker service sector job creation. Manufacturers, meanwhile, saw a slight reduction in their headcounts. At the composite level, payroll numbers expanded modestly.

For the third successive month, selling prices fell across the Italian private sector in September. The rate of decline, though marginal, was the fastest since May. Meanwhile, the rate of input cost inflation was solid and unchanged from August.

Sentiment regarding future activity among Italian firms improved during September, with stronger optimism centred on service providers. Manufacturing sentiment, on the other hand, sank to the lowest in the nine months.

**COMMENT**

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

“There was a welcome improvement in Italian service sector conditions during September, with both activity and overall new work registering stronger gains relative to the previous month.

“The data raise hopes that the services economy is recovering from the general slump that has been observed since the start of this year.

“However, whilst demand conditions remained resilient at home, service providers are still exposed to the trade-induced downswing that has affected their peers in the manufacturing sector, with a third consecutive monthly fall in export sales recorded in September.

“Indeed, the near-term threats of rising global protectionism and political uncertainty show no sign of easing up.

“Such factors continue to weigh on service sector business confidence, which despite improving from August’s one-year low, remains weak. With that in mind, and following the lacklustre Q2 growth figures, GDP growth in the final months of 2019 is likely to remain in a fairly subdued range.”

*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.
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.

September 2019 data were collected 12-25 September 2019.