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IHS MARKIT ITALY MANUFACTURING PMI®

Weakest decline in Italian manufacturing operating conditions since September 2018

KEY FINDINGS

Softer reduction of output and new orders

Employment rises but at slower pace

Business confidence at eight-month high

Business conditions in the Italian manufacturing sector deteriorated at the softest pace since September 2018 in May, with output and new orders falling at slower rates. Although firms maintained job creation, the pace at which employment rose eased from April. Meanwhile, business confidence rose to an eight-month high, as manufacturers expected a pick-up in customer numbers over the coming year.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – registered 49.7 in May to signal a marginal deterioration in business conditions. That said, despite improving from 49.1 in April, the latest reading indicated an eighth successive monthly deterioration in the health of the Italian manufacturing sector.

For the third consecutive month, the consumer goods sector was the only category to see an improvement in operating conditions in May. Meanwhile, a modest deterioration in business conditions was observed at intermediate and investment goods producers.

Underpinning the improvement in the headline PMI were softer declines in both output and new orders. May data indicated that the latest fall in manufacturing output was marginal and the least pronounced in seven months.

Inflows of overall new business declined marginally and at the weakest pace since September 2018. That said, panellists stated that they had observed a slowdown in the automotive

Italy Manufacturing PMI
sa, >50 = improvement since previous month



and clothing markets. New business from abroad also decreased, amid reports of lower demand from Poland and the Czech Republic. Some firms noted weaker demand conditions in Central Africa.

Despite the reductions seen in output and new orders, Italian manufacturers added to their workforce numbers in May. Although marginal, the rise in headcounts was the second in as many months. Firms attributed the gain in employment to hopes of a recovery in demand conditions. Meanwhile, backlogs of work fell for the fourteenth consecutive month, with the latest reduction quickening from April.

Purchasing activity decreased in May. Despite this, the rate of decline was marginal and the slowest in the current 11-month sequence of contraction. The easing of pressure on supply chains contributed to the fourth improvement in vendor performance in the past five months.

Meanwhile, latest prices data showed average input costs rising at the slowest pace in four months in May. Greater raw material prices were noted by firms as the principal factor behind elevated cost burdens. Output charges also increased in May, though marginally and at the softest pace since January. Some manufacturers sought to pass on their greater costs to customers.

Finally, confidence among Italian manufacturers regarding the year ahead outlook for output improved to an eight-month high. Product development investment and a hoped recovery of demand conditions were cited by panellists as reasons to be optimistic.

COMMENT

Amritpal Virdee, Economist at IHS Markit, which compiles the Italy Manufacturing PMI survey, commented:

“The Italian manufacturing sector recorded its softest contraction since September 2018, with forward looking indicators suggesting a more positive outlook as we move into summer.

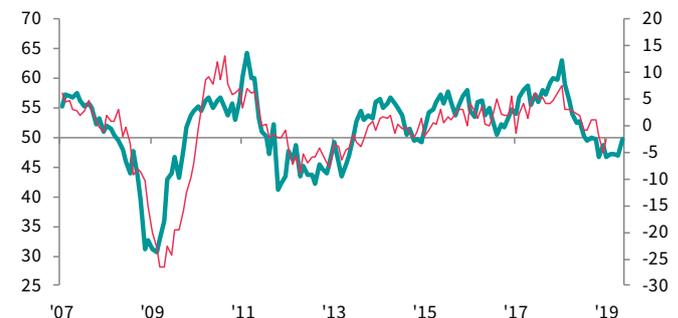
“Most encouraging are the upward trends in the output and new order indices. Both recorded fractional declines, with the rates of contraction the slowest in seven and eight months respectively.

“May data also signalled an easing of inflationary pressures, with both input cost and output charge inflation at four-month lows.

“Looking forward, manufacturers were hopeful of stronger demand conditions over the coming year, with sentiment towards future output the highest in eight months.”

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, ISTAT.

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Methodology

The IHS Markit Italy Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. 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 Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

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 2019 data were collected 13-23 May 2019.

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

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).