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IHS MARKIT ITALY MANUFACTURING PMI®

Italian manufacturing conditions deteriorate at fastest pace since March

KEY FINDINGS

Output declines at sharpest pace in nine months

Cost burdens decrease at fastest rate since April 2016.

Business confidence lowest in ten months

The downturn in the Italian manufacturing sector continued in October, as firms recorded the fastest deterioration in business conditions since March. Output contracted for the fifteenth consecutive month, with the latest fall the most marked in nine months. On the price front, driven by decreases in raw material prices, cost burdens declined at the quickest rate since April 2016.

Meanwhile, business confidence towards year-ahead output dropped to a ten-month low.

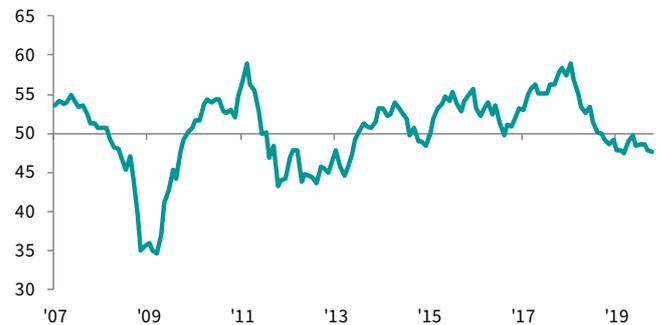
The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – posted 47.7 during October to signal the sharpest deterioration in overall business conditions since March. Falling from 47.8 in September, the index was below the critical 50.0 no-change threshold for the thirteenth month in a row.

For the eighth month in a row, the consumer goods sector was the only category to see an improvement in operating conditions, whilst intermediate and investment goods producers continued to record deteriorations.

Central to the drop in the PMI was a more pronounced fall in manufacturing output. Production decreased for the fifteenth consecutive month, with the rate of contraction the fastest since January. Anecdotal evidence attributed the decline in production to weaker demand conditions both domestically and in export markets, as well as a slowing Italian economy.

In contrast to output, October's PMI data signalled a softer decline in customer demand. Despite falling for the fifteenth

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



consecutive month, the rate of contraction in new orders was the weakest since July. Export sales also decreased at a slower pace than in September. Panellists indicated that they had observed an overall weakening in demand conditions, especially among automotive customers.

In line with the contractions in output and new orders, Italian manufacturers continued to decrease their workforce numbers in October. The rate of job shedding was solid and the fastest since June, as firms sought to reduce capacity in line with lower demand requirements. Weaker demand conditions enabled manufacturers to keep on top of their workloads as signalled by a further reduction of incomplete business in October.

Manufacturers decreased their purchasing activity for the sixteenth consecutive month in October. The rate of contraction was marked and the steepest since March. The lack of pressure on supply chains fed through to vendors as average lead times shortened for the second month running.

Driven by lower raw material prices (notably for steel, carbon and bitumen), cost burdens decreased sharply and at the quickest pace since April 2016. In contrast, output charge inflation picked up to a seven-month high.

Finally, business expectations remained in positive territory during October, although overall sentiment dipped to a ten-month low. Forecasts of greater customer numbers and investments in new machinery 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 continued its recent poor performance into October. At 47.7 the PMI remained below the crucial 50.0 no-change threshold for the thirteenth consecutive month and signalled the sharpest deterioration in business conditions since March."

"Output contracted at a faster rate amid a backdrop of weaker demand conditions, both from domestic and export customers, whilst employment, purchasing activity and backlogs of work all continued to decline."

"There was some respite on the price front, however, with cost burdens falling at the most marked pace since April 2016. Combined with a modest rise in output charges, there may be scope in the future for manufacturers to stimulate additional orders without eroding their profit margins."

"With latest official data signalling a further decline of Italian manufacturing production, the recent downturn does not appear to be ending anytime soon."

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.

October 2019 data were collected 11-24 October 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).