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IHS MARKIT ITALY SERVICES PMI®

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COVID-19 pandemic leads to record drop in business activity

KEY FINDINGS

Business Activity Index drops by nearly 35 points

Fastest contraction in new business on record

Firms expect activity to fall further in coming 12 months

Impacts stemming from the Coronavirus disease 2019 (COVID-19) pandemic hit the Italian services sector during March, with business activity contracting at the quickest rate since the survey began in January 1998. Respondents linked the downturn to emergency measures and shutdowns designed to restrict the COVID-19 outbreak. Record declines were also recorded in new business and employment, while activity expectations fell to a record low.

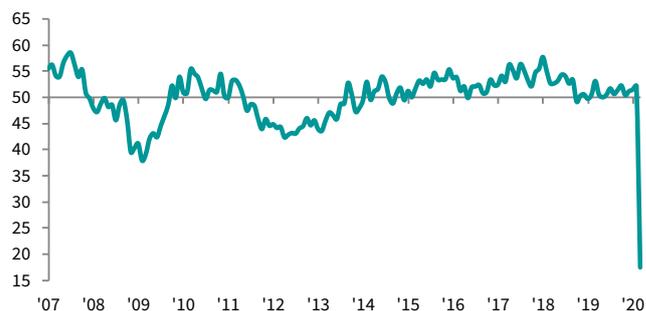
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – posted 17.4 in March, plunging from 52.1 in February, and signalling a contraction in Italian service sector activity for the first time since January 2019. Moreover, the decline was the most marked since data collection began over 22 years ago.

Central to the downturn was the first reduction in incoming new business for ten months during March. The seasonally adjusted New Business Index posted a record month-on-month decline of nearly 40 points and signalled the most marked fall in new work on record. Similarly, foreign demand for Italian services fell at the quickest rate since the series began five-and-half years ago.

In line with weak demand, firms cut workforce numbers during March. The rate of job shedding was the quickest in

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

more than 22 years of data collection and marked overall. Meanwhile, outstanding business declined following no-change in February, with the rate of backlog depletion the quickest in the series history.

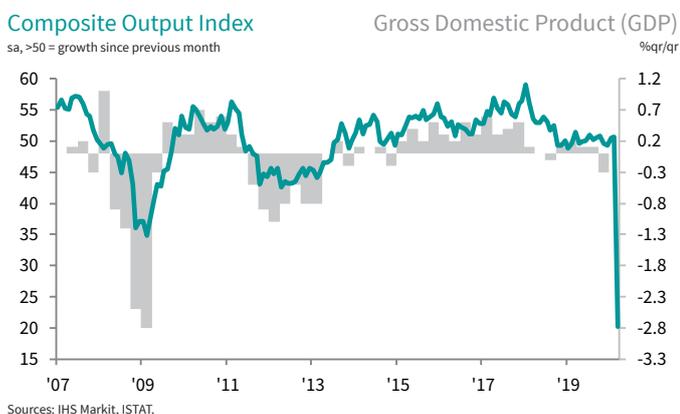
Concurrently, input prices fell for the first time in over a decade in March, amid reports of lower fuel costs and falling prices at suppliers. The rate of decline was the quickest since the series began in January 1998.

Average prices charged by Italian service providers also fell in March. Respondents linked deflation to discounting in order to attract customers. The reduction was the quickest since July 2009 and marked overall.

With substantial uncertainty relating to the coronavirus pandemic, confidence amongst firms with regards to activity over the coming 12 months collapsed in March. The Future Activity Index registered below the 50.0 neutral mark, signalling that service providers expect activity to decline over the coming year. Moreover, sentiment fell to an all-time low.

IHS MARKIT ITALY COMPOSITE PMI®

Private sector output declines at record pace



The Composite Output Index* dropped from 50.7 in February to 20.2 in March, falling a record 30.5 points and signalling the sharpest contraction in Italian private sector output since the series began in January 1998.

The downturn was most marked in the service sector, although both services providers and manufactures reported record reductions in output during March.

Central to the decline was a renewed reduction in new business, which fell at the quickest pace in over 22 years of survey history, as the COVID-19 pandemic weighed on demand and activity. As was the case with output, services reported the sharper contraction. Foreign demand for Italian goods and services also declined, with the reduction the most marked since the series began in September 2014.

In line with falling sales, firms cut workforce numbers for the first time in over a year. Moreover, the rate of job shedding was the quickest since April 2009 and marked overall. Nonetheless, outstanding business fell further as firms were able to direct remaining resources to unfinished orders. The rate of backlog depletion was the fastest for nearly a decade.

On the price front, cost burdens facing Italian private sector firms declined for the first time since April 2014, with the rate of reduction the quickest for more than 11 years. Amid falling input costs, average prices charged by private sector companies fell, as has been the case in 15 of the past 16 months. Notably, the decline in selling prices was the most marked since July 2009.

Amid the impact of the COVID-19 pandemic, the 12-month outlook for activity was the lowest on record in March. For the first time in the series history, firms, on average, expect activity to be lower than present in one year's time.

COMMENT

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

"The Italian services sector was hit substantially by the COVID-19 pandemic in March, with the Business Activity Index dropping by nearly 35 points and signalling the most marked decline in services output since the survey began in January 1998.

"A record rate of contraction in new business was also recorded, with the adverse impact of the coronavirus pandemic and subsequent shutdowns and emergency measures taken by the government to try and limit the outbreak unsurprisingly weighing on the economy.

"With manufacturers also struggling, Italian private sector output also declined at the sharpest rate since the series began in January 1998. Service providers drove the overall downturn, although both sectors reported record declines in output. Furthermore, sentiment with regards to activity over the coming 12 months plummeted to the lowest level on record.

"Overall, March data point to an extremely challenging time for the Italian economy and, for that matter wider society, with the sheer scale of the impact on output, employment and investment likely to be felt for a long time to come."

**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.

March 2020 data were collected 12-26 March 2020.

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.

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