Italian service sector returns to growth in July

KEY FINDINGS

Business activity rises for first time since February
Broadly stable inflows of new work
Output expectations climb to six-month high

Italy’s services economy entered the second half of 2020 on a more stable footing, with business activity increasing for the first time since February as restrictions in place to curb the coronavirus disease 2019 (COVID-19) pandemic were loosened. Order book volumes were broadly stable, following five months of successive notable declines, while expectations with regards to activity over the year ahead strengthened to a six-month high.

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 51.6 in July, rising from 46.4 in June, to signal the first expansion of service sector output in five months and one that was marginal overall. Panellists frequently associated the uptick to slightly improved demand conditions and the loosening of lockdown restrictions. The headline figure has now regained nearly 41 points following April’s unprecedented low.

Inflows of new business approached stabilisation, with the respective seasonally adjusted index posting only just below the crucial 50.0 no-change mark in July. That said, some firms continued to report weak client demand as a result of the coronavirus pandemic.

Gains in activity were again supported by existing workloads, however, as the level of outstanding business at Italian service providers declined again. Moreover, the rate of backlog depletion quickened from June and was moderate overall.

Despite the marginal increase in activity, latest data highlighted a further drop in services sector employment. Although the softest in the current five-month sequence, the rate of job shedding was sharp.

With the economy reopening further, increased demand for inputs was reflected in higher costs in July. Input prices rose for the second month running and solidly overall, with respondents citing greater fuel and staff costs, alongside expenditure on personal protection equipment (PPE).

Competitive pressures continued to push down selling prices, however, with average charges levied by Italian service providers falling for the twelfth month in a row. The rate of deflation was the softest since February, but marked nonetheless.

Looking ahead, the 12-month outlook for activity remained positive for a third consecutive month in July. Moreover, the level of positive sentiment improved again and climbed to the highest since January. Improved demand conditions, looser COVID-19 related restrictions and hopes of an economic recovery were all frequently linked by panellists to improved confidence.
The Composite Output Index* registered above the 50.0 no-change mark for the first time since February in July. At 52.5, the latest figure was indicative of the quickest expansion in Italian private sector output since July 2018 and one that was moderate overall.

Central to the uptick was the first increase in incoming new business for five months, although the rate of expansion was only marginal. Foreign demand for Italian goods and services remained weak, however, with export orders falling for a fifteenth month running and moderately.

Firms continued to deplete backlogs in July, with the level of outstanding business falling for the twenty-fifth successive month and at the fastest rate since April. Nonetheless, with demand conditions remaining weak, private sector employment continued to decline. The rate of job shedding was solid, albeit the softest in the current five-month sequence of reduction.

July data also highlighted a second consecutive monthly increase in input costs, with inflation accelerating to a moderate pace. Competitive pressures continued to push down charges, however. Average selling prices dropped, as has been the case in 19 of the past 20 months. The rate of deflation was the slowest since February, but still sharp overall.

Looking ahead, the 12-month outlook for output remained positive for a third successive month, with sentiment climbing to the highest since March 2018.

*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.

July 2020 data were collected 13-28 July 2020.

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

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