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IHS MARKIT ITALY SERVICES PMI®

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First month of 2021 sees service sector downturn ease noticeably

KEY FINDINGS

Slower, but still sharp, decline in business activity

Inflows of new work fall at weakest rate in four months

Business confidence ticks higher amid hopes of end to restrictions

Data were collected 12-26 January 2021.

The downturn of Italy's service sector continued into 2021, albeit at a slower pace, according to the latest PMI® data. Business activity and new orders continued to fall, although the rates of decline eased to the slowest for three and four months respectively. Meanwhile, sentiment with regards to activity over the next year ticked higher, with confidence attributed by panellists to hopes of looser restrictions and a solid economic recovery.

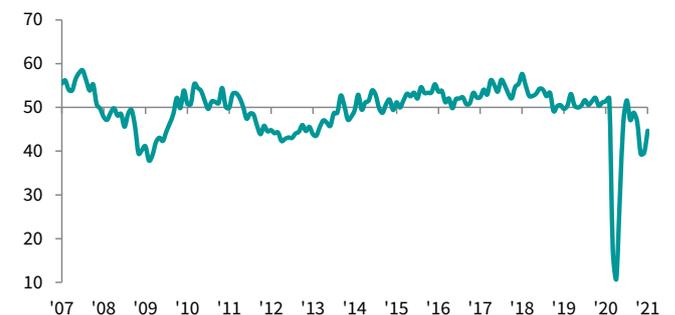
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – posted 44.7 in January, the sixth consecutive month for which the headline figure has been below the crucial 50.0 mark, and signalled a sharp fall in service sector output. That said, rising from 39.7 in December, the latest index reading pointed to a much softer rate of contraction.

The persistent downturn in output was again linked to falling inflows of new work amid weak client demand and ongoing coronavirus disease 2019 (COVID-19) related measures. The latest reduction in new orders was the slowest since last September, but still solid. Demand conditions abroad also remained weak at the start of 2021, as new export business decreased for the nineteenth month straight and markedly overall.

Meanwhile, the level of outstanding business decreased again, with the rate of backlog depletion quickening slightly on the month. Panellists reported they were able

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

to direct resources to unfulfilled orders due to weak sales. Subsequently, Italian service providers trimmed their staffing levels again in January. The rate of job shedding was little-changed from December and remained sharp. Lower employment was mostly attributed to the non-replacement of leavers and use of the government furlough scheme, however.

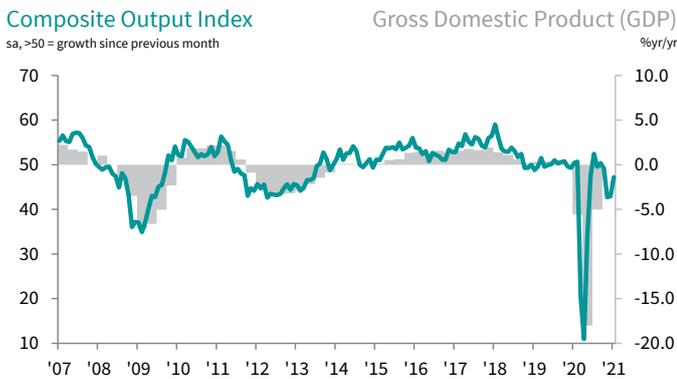
At the same time, firms registered another round of cost inflation during January, with the rate of increase the quickest for three months, albeit still well below the long-run average. Respondents cited greater utility and fuel costs, as well as additional coronavirus related expenditure as the main drivers of inflation.

In spite of rising costs, service providers continued to provide discounts to customers during January in an effort to stimulate sales. Average charges levied by services firms decreased at a slightly quicker pace than in December, and one that was solid overall.

Although conditions in the sector remained challenging at the start of the year, companies registered the strongest level of confidence with regards to activity over the next 12-months since January 2018. Optimism improved on the back of vaccine roll-outs and due to hopes pent-up demand will be released once restrictions are eased and a subsequent economic recovery takes hold.

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Private sector output falls at slower pace



Sources: IHS Markit, ISTAT.

The Composite Output Index* posted 47.2 in January, up noticeably from 43.0 in December, to signal a softer reduction in Italian private sector output at the start of 2021. That said, the rate of decline was still moderate overall, due in part to a sharp drop in services activity, which more than offset a quicker expansion in factory production.

Meanwhile, inflows of new work declined further, extending the current sequence of falls to four months. The rate of contraction in new business eased to the slowest since last October and was marginal, however. Foreign demand for Italian goods and services improved, meanwhile, with growth quickening on the month.

At the same time, Italian firms made further cuts to their staffing levels. The rate of job shedding was little changed from December and solid, as a sharp fall in services staff numbers outweighed a further upturn in manufacturing.

Turning to prices, cost burdens rose sharply during January. The rate of input price inflation was the quickest since November 2018. Nonetheless, average charges in the private sector continued to fall, with the latest reduction the steepest for four months.

Finally, business confidence strengthened during January, with the level of positive sentiment the highest since last September. Both manufacturers and services firms recorded a greater level of optimism with regards to output over the next 12-months than in December.

COMMENT

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

"Italy's service sector remained mired in a downturn into 2021, although the latest contraction in services activity was much softer than those recorded in the closing months of last year. Inflows of new work also declined in January, but similarly, the rate of reduction was the slowest for four months."

"The latest data highlighted a much stronger level of business confidence, however, with firms' hopeful that now the vaccine roll out is underway, restrictions will soon be loosened, allowing for the release of pent up demand and an economic recovery."

"Nonetheless, service providers are still in the midst of a very challenging time, and as long as restrictions remain in place it is unlikely demand will be fully revived. Although data are moving in the right direction, we are still some way off any recovery."

*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.

January 2021 data were collected 12-26 January 2021.

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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