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IHS MARKIT ITALY MANUFACTURING PMI®

Manufacturing operating conditions deteriorate at greatest extent in over five-and-a-half years

KEY FINDINGS

Output and new orders contract for sixth straight month

Employment falls for first time in over four years

First decline in selling prices since October 2016

Manufacturing conditions in Italy worsened to the greatest extent since early 2013, as a sharp reduction in new orders led to a quicker decline in output. Furthermore, workforce numbers declined for the first time in over four years. On the price front, selling prices fell for the first time since October 2016 on the back of the weakest rise in input costs in the current 29-month sequence of inflation.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – registered 47.8 in January, below the 50.0 no-change threshold for the fourth month running. The reading dipped from 49.2 in December to signal the sharpest deterioration in the health of the sector since May 2013.

The worsening of business conditions was broad-based, with all monitored sectors posting PMI readings below the 50.0 no-change mark. Moreover, output, new orders, export sales and employment declined across the consumer, intermediate and investment goods sectors during January.

Anecdotal evidence indicated that ongoing deteriorations in demand conditions continued to hamper inflows of new business. New orders decreased for the sixth month in a row. New business from abroad registered its fourth successive monthly decrease amid reports of weaker demand from key export partners, especially Europe.

Italian manufacturers reduced their headcounts for the first time in over four years during January. Firms indicated that voluntary leavers had not been replaced and that temporary

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



contracts were not renewed.

At the start of 2019, inventories of finished goods decreased for the first time since June 2018. Despite being modest, the fall was the joint-fastest in nine months.

Due to falling new orders, panellists lowered their purchasing activity. January marked the seventh successive monthly decline of input buying. The resulting lack of pressure on supply chains contributed to an improvement in average lead times, with vendor performance improving for the second time in four months.

Amid reports of greater raw material prices, overall cost burdens rose in January. Despite this, the rate of inflation was marginal and the slowest in the current 29-month stretch of rising prices. In response, firms lowered their own charges for the first time in 27 months.

Sentiment among Italian manufacturers improved from December's six-year low at the start of 2019. Expectations of greater customer demand, new product initiatives and a recovery in overseas markets were cited by panellists as reasons to be optimistic.

COMMENT

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

“January's PMI data signalled another deterioration in Italian manufacturing conditions, with firms struggling in the face of a sixth consecutive monthly fall in new business. Decreases in output, purchasing activity and employment (the first in over four years) were recorded, marking a weak start to 2019.”

"There was a bright spot, though, with a significant weakening in input price inflation which enabled manufacturers to lower selling prices for the first time in 27 months in an effort to boost sales."

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.

January 2019 data were collected 11-24 January 2019.

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