Italian manufacturing conditions deteriorate for tenth month running during July

**KEY FINDINGS**

- Output and new orders fall again
- Input prices and output charges decrease
- Business confidence lowest in three months

Manufacturing business conditions in Italy continued to worsen in July as a marked reduction in new orders led to a further decline in output. On the price front, both input costs and output charges decreased in July, with the latter posting the first fall since January. Meanwhile, as a result of lower production and order book volumes, optimism regarding year-ahead output fell to a three-month low.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – posted below the 50.0 no-change mark for the tenth month running in July. At 48.5, the index was up from 48.4 in June but still signalled a modest deterioration in the health of the manufacturing sector.

The consumer goods sector was the only category to see operating conditions improve in July, whilst sharp deteriorations in business conditions were recorded at intermediate and investment goods manufacturers.

Central to the fall in the headline PMI were declines in output and new orders. The latest contraction in output, though modest, marked one year of falling production among manufacturers.

Anecdotal evidence indicated that demand conditions continued to deteriorate in both domestic and foreign markets. Inflows of new orders declined sharply amid reports of softer demand from steel and automotive customers. Total new sales have decreased on a monthly basis for exactly one year. Export sales also fell, though the rate of decrease softened from June. Panellists stated that they had seen a general decrease in foreign demand, particularly among customers based in Turkey and North Africa.

Employment in Italy’s manufacturing sector declined for the second month running in July. However, the rate of job shedding was modest and dipped slightly from June. Meanwhile, backlogs of work declined further in July, stretching the current sequence of falls to 16 months. Moreover, the rate of depletion was the fastest since August 2018.

Manufacturers added to their inventories of finished goods for the fifth consecutive month in July. However, the rate of accumulation was marginal and the slowest in three months. Firms attributed the rise in post-production inventories to lower customer orders.

Due to weaker trends in output and new orders, manufacturers decreased their purchasing activity. Latest data marked the thirteenth successive monthly fall of input purchases, with the latest reduction the sharpest in three months.

Amid reports of lower prices paid for raw materials, cost burdens declined for the second month in a row during July. The rate of decrease was solid but eased slightly from June. In response, manufacturers lowered their own charges for the first time since the start of 2019. Panellists attributed this to attempts to keep up with price discounts from competitors and boost flagging demand.

Optimism regarding the year ahead outlook for output was sustained in July, amid expectations of increased sales activity later this year. However, the degree of optimism softened from June to a three-month low.
COMMENT

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

“The Italian manufacturing economy started the third quarter in contraction territory, with output and new business marking their one-year anniversary of continuous decline. A solid reduction in employment and exports were also recorded.

“The immediate prospects for the sector look insecure, with declining backlogs pointing to further spare capacity and scope for further reductions in output and employment. Moreover, manufacturers’ year-ahead production expectations waned to the lowest in three months, amid concerns from firms of further sales reductions in the coming year.

"Easing price pressures remained another key feature of the survey, with input costs falling for the second month running, providing some respite for firms. Similarly, output charges also decreased, which could help stimulate additional business at a time of falling demand.

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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.

July 2019 data were collected 12-24 July 2019.

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

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