

Embargoed until 0945 CEST (0745 UTC) 1 April 2020

IHS MARKIT ITALY MANUFACTURING PMI®

Output contracts at record pace amid COVID-19 shutdowns

KEY FINDINGS

Factory production falls at fastest pace on record

Quickest reduction in order books since March 2009

Output expectations sink to record low

Efforts to battle the Coronavirus disease (COVID-19) pandemic in Italy weighed heavily on manufacturing performance during March, with operating conditions deteriorating at the sharpest pace for nearly 11 years. Output contracted at the most marked rate since the survey began in June 1997, amid the fastest decline in total order book volumes for 11 years. In light of shutdowns and lower sales, goods-producers cut workforce numbers at the quickest rate since August 2012. Meanwhile, confidence dropped during March, with sentiment among firms the lowest on record.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – fell from 48.7 in February to 40.3 in March, to signal a deterioration in the health of the Italian manufacturing sector for the eighteenth month running. Moreover, the headline figure was the lowest recorded since April 2009, a time in the midst of the financial crisis.

Key to the marked deterioration were considerable falls in both output and new orders. Production contracted at the sharpest rate in nearly 23 years of data collection, whilst the decline in order book volumes was the quickest since March 2009. Panellists associated reductions in both output and new business to shutdowns and travel restrictions amid the COVID-19 pandemic.

Sub-sector data highlighted consumer goods as the worst effected segment, reporting survey record declines in both output and new orders.

Meanwhile, foreign demand for Italian manufactured goods was also hit, as new export orders decreased at the fastest rate since March 2009.

Italy Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

In line with weak sales, firms reduced their staffing levels for the tenth month in a row. Moreover, the rate of job shedding was the quickest since August 2012 and solid overall.

Concurrently, firms pared back on buying activity during the latest survey period, with input buying falling at the most marked rate for nearly 11 years. Nonetheless, firms reported higher inventories during March. Stocks of pre-production goods increased for the first time in seven months, whilst holdings of manufactured items rose mildly. According to panellists, travel restrictions and shutdowns meant customers were unable to collect orders.

Intense pressure of global supply chains was reflected in Italian vendor performance. Delivery times lengthened to the greatest extent in the series history.

On the price front, cost burdens declined at the fastest pace since May 2009 and markedly overall, amid reports of lower raw material costs. Smaller costs were passed to clients, as selling prices fell moderately.

Severe disruptions and emergency measures surrounding the COVID-19 outbreak dented sentiment in March. Expectations regarding output over the next year were the lowest since the series began in July 2012. That said, firms remained on balance optimistic overall of a rise in activity from present levels.

COMMENT

Lewis Cooper, Economist at IHS Markit, which compiles the Italy Manufacturing PMI survey, commented:

"The downturn in the Italian manufacturing sector continued during March, with operating conditions deteriorating at the sharpest rate since April 2009 amid COVID-19 related shutdowns. The Output index contributed considerably to the dive in the PMI in March, falling a record 19.1 points since February, and the rate of contraction the sharpest in nearly 23 years of data collection. Incoming new business also declined, with the reduction the quickest since March 2009 amid reports of a collapse of client demand.

"Coronavirus disruptions, emergency measures and substantial uncertainty surrounding the pandemic also understandably dented expectations in March. Sentiment regarding output over the next year was the lowest since the series were first compiled in July 2012, although firms remained, on balance, optimistic of a rise in activity from present levels.

"Overall, March data highlighted one of the worst performances of the sector on record. With the Italian economy effectively shut down, it is unlikely that any recovery from the significant COVID-19 disruptions will be swift."

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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.

March 2020 data were collected 12-24 March 2020.

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

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit, ISTAT.

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