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IHS MARKIT ITALY MANUFACTURING PMI®

Italian manufacturing conditions deteriorate at softer pace in August

KEY FINDINGS

Output and new orders fall for thirteenth month in a row

Input prices and output charges increase slightly

Business confidence lowest in four months

The downturn in the Italian manufacturing sector continued in August as firms recorded a thirteenth consecutive decline in both output and new orders. That said, the rate of deterioration in operating conditions softened to the weakest in three months. Following declines observed in July, both input costs and output charges increased for the first time in three and two months, respectively. Meanwhile, business confidence fell to the lowest in four months, but was nonetheless positive.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – registered 48.7 in August to signal the softest deterioration in business conditions in three months. That said, despite improving from 48.5 in July, the latest reading indicated an eleventh successive monthly deterioration in the health of the Italian manufacturing sector.

For the sixth consecutive month, the consumer goods sector was the only category to see an improvement in operating conditions in August. Meanwhile, steep deteriorations in business conditions were observed at intermediate and investment goods producers.

Underpinning the improvement in the headline PMI was a softer decline in output. August data indicated that the latest fall in manufacturing output was marginal and the least pronounced since May.

In contrast to the picture for output, inflows of overall new business declined sharply and at the fastest pace in five months. Panellists stated that they had observed a weakening of overall demand conditions. New business from

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



abroad also decreased, amid reports of lower demand from companies based in Germany.

In line with the reductions in output and new orders, Italian manufacturers reduced their headcounts again during August. That said, the rate of job shedding was marginal and the slowest in the current three-month sequence of contraction. Firms attributed the decline in employment to weaker demand conditions and the non-renewal of client contracts. Meanwhile, backlogs of work fell for the seventeenth consecutive month, with the latest reduction the slowest since April.

Purchasing activity decreased in August, extending the current sequence of contraction to 14 months. The rate of decrease, though steep, dipped slightly from July. Meanwhile, the lack of pressure on supply chains did not feed through to vendors as average lead times for inputs increased for the first time since April.

Driven by greater raw material prices and a pick-up in import costs, overall cost burdens increased in August for the first time since May. As such, manufacturers raised their selling prices marginally.

Finally, business expectations remained in positive territory, although overall sentiment dipped to its lowest in four months. Forecasts of a recovery in customer numbers and investments in new products were cited as reasons to be optimistic.

COMMENT

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

“The downturn in the Italian manufacturing economy continued in August, with output and new orders decreasing for the thirteenth month running.

“Whilst the downturn in part reflects a challenging global economic environment, especially in key export markets such as Germany, the eleventh successive monthly deterioration in manufacturing conditions is also symptomatic of the need for broader structural changes.”

Output Index

sa, >50 = growth since previous month

Manufacturing production

%yr/yr



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.

August 2019 data were collected 12-22 August 2019.

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

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