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IHS MARKIT ITALY SERVICES PMI®

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Service sector downturn worsens during October

KEY FINDINGS

Business Activity Index drops to four-month low of 46.7

New business declines at quickest pace since June

Rate of job shedding accelerates

Data were collected 12-27 October 2020.

The Italian service sector remained mired in a downturn during October, with business activity declining at a quicker pace, according to the latest PMI® data. Central to the sustained downturn was the quickest reduction in new business since June, with panellists linking declines in both output and new orders to weak client demand amid ongoing restrictions to tackle the coronavirus disease 2019 (COVID-19) pandemic. As a result, firms continued to cut staffing levels, with the pace of job shedding accelerating on the month.

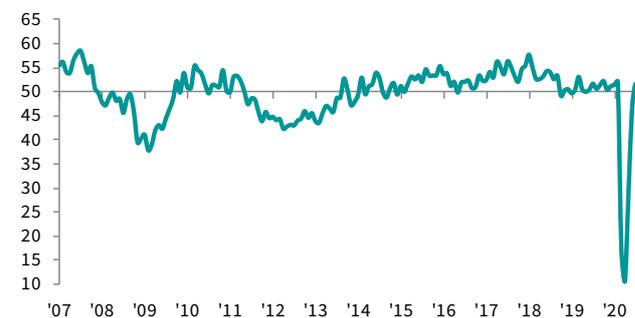
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – fell from 48.8 in September to a four-month low at 46.7 in October, and signalled a solid contraction in service sector output.

Weak demand conditions weighed on services activity, as inflows of new business declined for the eighth month running and at the sharpest pace since June. Anecdotal evidence attributed the latest reduction in new orders to weak client demand amid the COVID-19 pandemic.

New export orders also remained a drag on sector performance, as foreign demand for Italian services fell markedly. Panellists noted that export demand remained weak due to ongoing lockdown measures around the globe.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

The rate of decline was the slowest since February, however. Subsequently, firms continued to reduce their staffing levels in October. The rate of job shedding accelerated on the month and was the fastest since July. Respondents predominantly attributed the latest drop to the non-replacement of leavers, however.

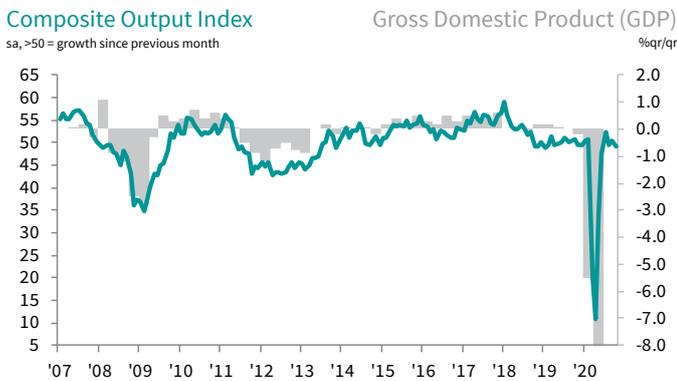
Nonetheless, the level of outstanding business continued to fall in October, amid reports that weak sales had allowed companies to direct resources to completing outstanding orders. Moreover, the rate of backlog depletion was the quickest since May and solid.

Meanwhile, profit margins came under further strain in October, as firms continued to discount their average charges in efforts to stimulate sales, despite rising cost burdens. The rate of charge deflation was solid, albeit the slowest for eight months, while the latest increase in input prices was the quickest since July and moderate overall.

Looking ahead, Italian service providers remained, on balance, optimistic with regards to activity over the coming 12 months. Although still above the crucial 50.0 mark, the Future Activity Index fell noticeably from September's 30-month high and was the lowest since May. Panellists cited concerns about the longevity of the pandemic and subsequent lockdown measures, in addition to the timeliness of any economic recovery.

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Private sector output contracts in October



The Composite Output Index* fell from 50.4 in September to 49.2 in October and signalled a renewed contraction in Italian private sector output. At the sector level, a faster reduction in services activity outweighed a sharp uptick in manufacturing output.

Central to the overall contraction was a renewed drop in inflows of new business during October, with the rate of reduction marginal overall.

Amid weak demand conditions, private sector firms reduced their staff numbers at a quicker pace than in September. Nonetheless, the level of outstanding business declined for the twenty-eighth month in a row, with the rate of backlog depletion solid overall.

At the same time, cost burdens facing Italian private sector firms rose at the quickest pace in the current five-month sequence of inflation and one that was solid overall. Average charges declined again, however. The rate of decline in charges was the slowest since February, but still sharp.

Looking ahead, firms' confidence with regards to output over the next 12 months moderated in October. Although still optimistic overall, the level of sentiment was the lowest since May and subdued in the context of the long-run series history.

COMMENT

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

"The downturn in the Italian services sector continued into October, with the headline Business Activity Index falling to a four-month low and signalling a quicker rate of contraction. Demand conditions remained muted, as total inflows of new business fell at the quickest pace since June, in part due to a marked reduction in new orders from abroad.

"Subsequently, firms made further cuts to their staffing levels during October. The rate of job shedding was the fastest since July. The ongoing downturn also dented confidence, as the level of positive sentiment dipped noticeably to a five-month low with panellists citing concerns about the longevity of the pandemic and timeliness of the economic recovery.

"The services sector continued to drag on the private sector as a whole, with the decline in services activity outweighing a faster uptick in manufacturing production to push the private sector back into contraction territory. With stricter lockdown measures now in force across Italy, this trend is set to continue in the near-term."

**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.

October 2020 data were collected 12- 27 October 2020.

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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