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IHS MARKIT ITALY SERVICES PMI®

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Business activity increases at fastest rate for three months

KEY FINDINGS

Output and new orders rise for eighth month running

Expectations strengthen to six-month high

Selling prices decline at fastest pace since December 2018

January data signalled a stronger expansion in business activity across the Italian service sector, with further and faster new orders growth supporting the sharper upturn. Firms were broadly optimistic of a rise in output over the coming year, with sentiment strengthening to the highest since July 2019. However, amid reports of competitive pressures, output charges continued to fall, with the decline the quickest for over a year.

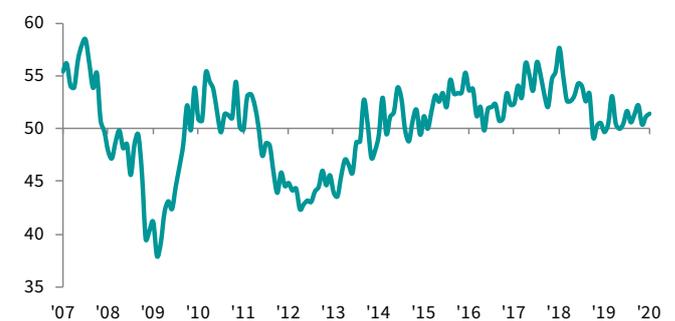
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – posted 51.4 in January, rising from 51.1 in December, to signal an eighth consecutive increase in Italian service sector activity. Moreover, the latest index reading was the best since last October. Anecdotal evidence linked the rise, which was modest overall, with greater client demand.

The latest survey showed an eighth consecutive rise in new orders during January, amid reports of firms winning new clients. That said, the rate of increase in new business slowed from December and was only modest overall.

Concurrently, foreign demand for Italian services declined, as has been the case in each month since July 2019. Survey respondents linked the reduction to subdued global demand conditions. Moreover, the latest fall was the sharpest since February last year and solid overall.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Meanwhile, service providers indicated a stronger degree of confidence towards output over the coming 12 months, with panellists noting that expectations for new orders and the progression of new projects drove optimism. That said, the level of positive sentiment remained subdued in context of the series long-run average.

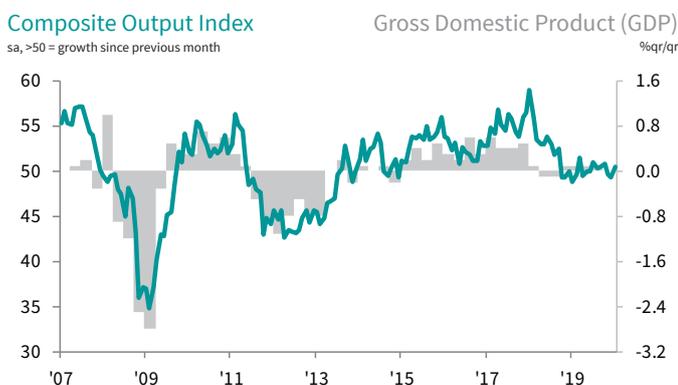
On the price front, input costs continued to rise markedly during January, with anecdotal evidence linking inflation to higher fuel prices and greater staff costs. The net increase in operating expenses was the softest for six months, however.

In contrast, average prices charged by Italian service providers continued to fall during the latest survey period, as has been the case in each month since last August. Moreover, the rate of decline was the sharpest since December 2018 and solid overall. Firms attributed discounting to competitive pressures and efforts to secure sales.

In spite of rising order levels, Italian services firms were able to cope with workloads during January. The level of outstanding business declined following a month of stabilisation in December. Backlogs have now fallen in eight of the past ten months.

IHS MARKIT ITALY COMPOSITE PMI®

Service sector drives overall output growth



The Composite Output Index* rose back above the 50.0 no-change mark in January, posting 50.4 from 49.3 in December. The readings signalled a marginal monthly increase in business activity, ending a two-month sequence of contraction.

The overall rise in activity was centred on the service sector, where growth picked up to a three-month high. Manufacturing output remained in contraction, although the pace of reduction eased to the weakest since September last year.

New orders also returned to growth in January, after having been unchanged at the end of 2019. As was the case with activity, an expansion in new business in the service sector contrasted with a decline at manufacturers. There was further negativity with regards to new export orders, which decreased across both monitored sectors.

Although new orders increased in January, the rate of expansion was only marginal and insufficient to impart pressure on capacity at Italian companies. As a result, backlogs of work continued to fall, and at a broadly similar pace to that seen in December.

As has been the case on a monthly basis throughout the past year, staffing levels rose in January. That said, the rate of job creation was marginal and little-changed from the final month of 2019. A modest increase in employment at service providers outweighed further job cuts in the manufacturing sector.

Input costs continued to increase at a solid pace. Services input prices rose markedly, while manufacturing input prices were broadly unchanged. Despite higher cost burdens, companies lowered their output prices for the seventh month running. Moreover, the rate of decline quickened to the sharpest since January last year.

Business confidence improved to a six-month high at the start of the year, with stronger optimism seen across both monitored sectors.

COMMENT

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

"Italian service providers signalled a positive start to 2020, with business activity expanding at the fastest rate for three months and new order growth continuing for the eighth month in a row. Improved demand conditions predominately stemmed from the domestic market, however, as new export orders declined at the sharpest rate since February last year.

"Business confidence ticked up to a six-month high during January, with optimism commonly linked to expectations for new orders. Meanwhile, selling prices continued to tumble, with the rate of reduction the quickest since December 2018 as services firms continue to discount amid competitive pressures.

"Private sector activity returned to growth during January, with a sharper increase in services activity outweighing a further, albeit softer, decline in the manufacturing sector. Official GDP data, currently updated to quarter three, highlighted near stagnant growth of only 0.1% (q/q) with PMI data pointing to ongoing softness throughout the final quarter of 2019 and into the start of the new year."

*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.

January 2020 data were collected 13-28 January 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. To learn more go to ihsmarkit.com/products/pmi.html.

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