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IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

Business activity declines for second time in four months

KEY FINDINGS

Activity dips amid slower new order growth

Employment falls for first time since September 2016

Output charges decrease for second consecutive month

Business activity among Italian service providers declined at the start of 2019, amid weaker new order growth and a drop in new business from abroad. Inflows of new business from abroad fell for the seventh consecutive month during January amid weaker international demand. As a result of softer demand conditions, service providers reduced their payrolls for the first time since September 2016. On the price front, selling prices fell for the second successive month amid reports of price discounting.

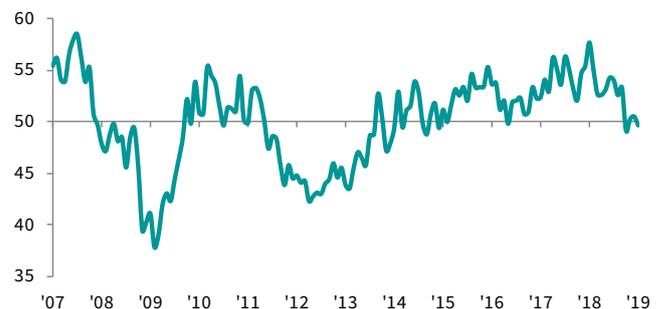
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 49.7 in January, down from 50.5 in December, signalling a marginal decrease of Italian service sector activity. The latest fall interrupted two consecutive months of growth.

Central to the decline in business activity was slower overall new business growth. The pace of new order growth eased from December and was just above November's 45-month low. New export sales among Italian service providers contracted for the seventh consecutive month as firms reported an overall reduction in international demand for their services.

Italian service providers reduced their headcounts for the first time since September 2016 in January. Firms indicated that they had reduced payrolls as a result of softer demand conditions and a reduction in business activity.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

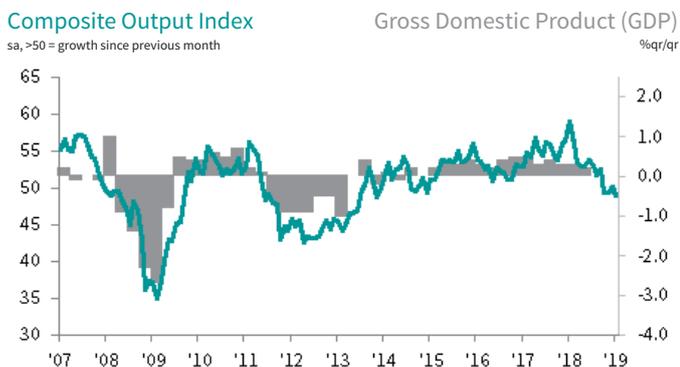
Capacity pressures among panellists eased at the start of 2019, with backlogs of work declining for the first time in six months. The rate of backlog depletion was solid and the greatest since June 2016. Service providers attributed reduced outstanding business to slower new order growth.

On the price front, cost inflation quickened during January. Companies noted in particular that rising commodity and staffing costs were behind the increase in input prices. Despite the quickening of input cost inflation, selling prices among Italian service providers declined in January for the second consecutive month. The pace of reduction was solid, though softer than December's decline.

Finally, sentiment among Italian service providers softened from December to the weakest in five months. Close to 35% of panellists were confident of a rise in business activity from present levels in 12 months' time against around 14% who predicted a fall. Expectations of greater customer demand, improved marketing efforts and a recovery of business activity were cited as reasons to be optimistic.

IHS MARKIT ITALY COMPOSITE PMI®

Output contracts for third time in four months



Sources: IHS Markit, ISTAT.

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. The Composite Output Index posted at 48.8 in January, signalling a modest contraction in output from December, when activity had been unchanged.

Service sector activity declined for the first time in three months, whilst manufacturing output registered its sixth straight month of contraction. Moreover, the pace of reduction in manufacturing output quickened to the joint-fastest since April 2013.

In line with the trend for output, inflows of new business fell. A marginal increase of new orders among service providers was recorded, whilst manufacturing order book volumes contracted at the fastest pace in three months.

A contraction of new business enabled firms to work through their backlogs. Work outstanding fell for the seventh consecutive month and at the fastest pace since March 2016.

For the first time since September 2015, private sector staffing levels declined. The rate of job shedding was modest, but the fastest in four years. Both service providers and manufacturers reduced headcounts in January.

Input price inflation eased for the second month running to a 27-month low during January. Output charges declined for the second month in a row.

Optimism regarding output in 12 months' time weakened to its lowest in five months at the start of 2019. Manufacturers were more confident than in December, whilst service providers saw a reduction in optimism.

COMMENT

Commenting on the PMI data, Amritpal Virdee, Economist at IHS Markit said:

"Italian service providers experienced a reduction in business activity at the start of 2019, underpinned by weaker new order growth and a drop in international demand. As a result, staffing levels contracted for the first time since September 2016 and business confidence shrank to a five-month low. Overall, the PMI data shows an Italian economy that is undergoing a sustained slowdown. This bodes ill for the rest of 2019 as the Italian government tries to stimulate economic growth."

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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 2019 data were collected 11-28 January 2019.

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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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