

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit Italy Services PMI®

Service sector activity falls for first time since May 2016

Key findings:

- Marginal fall in business activity
- Weakest new business expansion in 44 months
- Employment growth slows

Data collected October 12-26

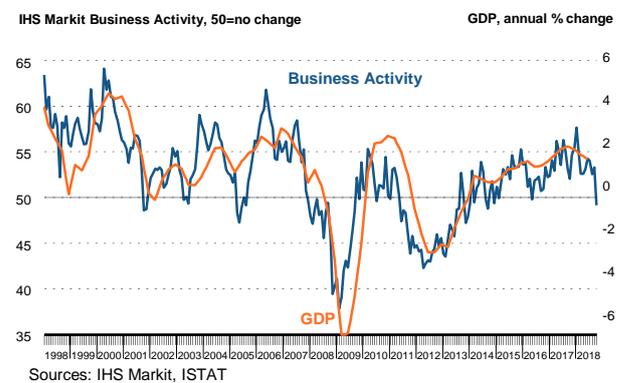
Italy's service sector experienced a first deterioration in business activity in almost two-and-a-half years during October. The sudden drop occurred alongside the slowest increase in new business in the current 44-month sequence of expansion. Meanwhile, services companies continued to feel the squeeze on profit margins as selling prices declined for the ninth consecutive month, while operating costs rose solidly. Nevertheless, business confidence remained solid.

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 49.2 in October. This was down sharply from September's reading of 53.3 and marked the first decline in business activity since May 2016.

Parallel to the drop in overall activity, new business at Italian service providers grew only marginally in October. This represented the weakest expansion in new orders for over three-and-a-half years, with a number of firms reporting subdued client demand.

As a result, job creation eased in October after strong rises in the prior quarter. Panellists frequently linked the weaker increase in employment to the non-replacement of retirees and productivity improvements. Jobs growth was at a 14-month low.

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Backlogs of work continued to rise in October. The increase was slightly quicker than in September, albeit marginal overall. Some panellists who saw backlogs rise blamed capacity pressures and insufficient staff numbers.

Meanwhile, service providers continued to reduce selling prices in October, extending the current run of price discounting to nine months. The latest drop was faster than in September and came amidst falling business activity and competitive conditions. That said, the pace of price reduction was marginal overall.

As a result, margins were squeezed further as input prices rose at a solid pace in October. However, the rate of cost inflation was weaker than September's 40-month high. Many respondents attributed the latest price surge to rising fuel costs.

Finally, business confidence remained solid in October with over a third of businesses expecting activity to be higher in a year's time. Many hoped to see an upturn in new business and market activity. That said, the level of optimism was weaker than seen on average in the year-to-date, with 10% of businesses expecting a reduction in activity over the coming 12 months.

Comment:

David Owen, Economist at IHS Markit which compiles the *Italy Services PMI*® survey, said:

“Italy’s service sector suffered a drop in performance during October, with business activity falling for the first time in over two years. This was partly due to the weakest expansion in new business in 44 months.

“After a period of solid growth in activity, the latest survey data marked a substantial reversal of fortunes for the service sector, raising worries that economic growth may ease in Q4.

“On the positive side, workforce numbers continued to expand, building on the slow improvement in jobs in the nation. The more worrying trend is the nine-month sequence of falling selling prices that threatens to curb business profits across the sector. With input prices rising solidly and demand moving close to stagnation, firms may be prepared to continue to lower charges in order to bring in new work.”

-Ends-

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Notes to Editors:

The Italy Services PMI® (Purchasing Managers' Index®) is produced by IHS Markit. The report features original survey data collected from a representative panel of around 400 companies based in the Italian service sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index*® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first

published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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