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## IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

### Services output falls rapidly again amid COVID-19 lockdown

#### KEY FINDINGS

Further substantial fall in business activity

Demand ebbs as new orders decline again

Vaccine news boosts business confidence

Data were collected 04-18 December 2020.

The Italian services sector closed out the final quarter of the year mired in a downturn, according to the latest PMI® data. Business activity dropped rapidly again as coronavirus disease 2019 (COVID-19) related measures continue to take their toll on the sector. Inflows of new work also declined, with the rate of contraction easing only marginally and remaining marked overall. Positive news of a vaccine and hopes of a strong economic recovery boosted sentiment, however, with confidence climbing to a three-month high.

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 39.7 in December to signal a fifth straight monthly reduction in Italian services output. The headline figure did rise slightly from 39.4 in November, but nonetheless signalled a rapid drop in activity.

Principal to the ongoing downturn was a further notable reduction in new orders at services firms, attributed by panellists to COVID-19 related measures. The latest fall was softer than in November, but still marked. Weakness in demand was not constrained to domestic clients, as inflows of export orders also declined markedly.

Subsequently, companies continued to trim their staff numbers during December, although job cuts stemmed mainly from the non-replacement of leavers, according to

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

respondents. Despite slowing from November, the latest fall in employment was solid.

At the same time, the level of outstanding business at Italian service providers fell again, extending the current sequence of reduction to ten months. Respondents attributed the latest fall to excess capacity amid weak sales. That said, backlog depletion eased to a moderate pace.

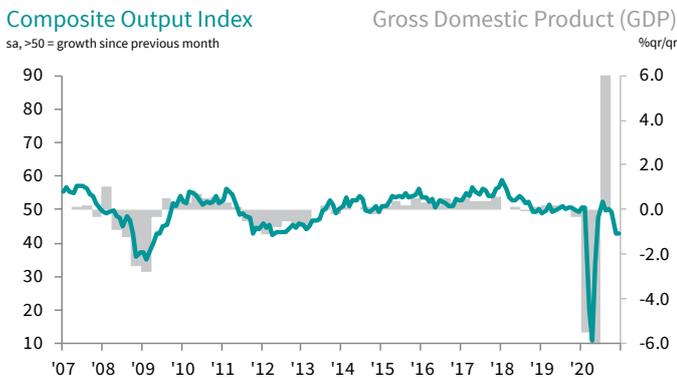
December data also highlighted a further rise in cost burdens facing services firms, with the latest round of inflation attributed to greater utility and staff costs. The rate of increase remained only mild, however.

In spite of higher costs, service providers continued to cut their average charges during December, amid reports of discounting as part of efforts to attract clients. The rate of charge deflation was the sharpest since July.

Positive news came from the survey's principal forward looking indicator in December, which pointed to improved confidence at Italian services firms with regards to output over the next 12 months. Anecdotal evidence linked sentiment to hopes of improved demand once restrictions are lifted and expectations of a solid economic recovery. The Future Activity Index climbed to the highest for three months, but was still slightly subdued in the context of historical data.

## IHS MARKIT ITALY COMPOSITE PMI®

## Further rapid drop in private sector output



The Composite Output Index\* posted 43.0 in December to signal a third successive contraction in Italian private sector output. The index figure was little-changed from November's 42.7 and signalled another marked decline overall, which was again driven by the services sector.

A further reduction in new orders at Italian companies was also recorded in December. The rate of decline eased noticeably on the month, but was still sharp. Positive news came from foreign demand for Italian goods and services, however, as export order book volumes increased for the second time in three months, albeit only slightly.

Amid ongoing weakness in demand, firms made further cuts to their staffing levels during December, extending the current sequence of falling employment to ten months. That said, the rate of job shedding eased since November and was modest.

On the price front, input costs rose for the seventh straight month, with the rate of inflation solid. Pressure on margins continued at the close of the fourth quarter, however, as private sector companies again discounted their average selling prices. Moreover, the rate of charge deflation was the quickest for three months.

Despite the ongoing downturn, firms registered improved confidence with regards to activity over the coming 12-months in December. Sentiment was the strongest since September. At the sector level, manufacturers registered more upbeat expectations than services.

### COMMENT

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

*"December PMI data provided little goods news for the Italian services sector, which remained deep in a downturn amid further lockdown measures. Business activity dropped substantially again, with client demand both domestically and abroad stifled further by measures."*

*"Business confidence ticked up at the end of the fourth quarter, however, with sentiment the highest for three months amid positive news of a vaccine and hopes of a strong economic recovery in 2021."*

*"Nonetheless, services remains a substantial drag on Italian economic performance as it stands, with the rapid drop in activity outweighing a further upturn in manufacturing output. Until the restrictions are loosened the downturn in the service sector will weigh heavily on any recovery."*

*\*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.*

## CONTACT

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### IHS Markit

Lewis Cooper  
Economist  
T: +44-1491-461-019  
[lewis.cooper@ihsmarkit.com](mailto:lewis.cooper@ihsmarkit.com)

Katherine Smith  
Corporate Communications  
T: +1-781-301-9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

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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.

December 2020 data were collected 04-18 December 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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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