Business activity in Italy’s service sector returned to growth in June, as inflows of new work from both domestic and foreign clients increased. As a result of greater workloads, service providers took on additional staff, with the rate of job creation quickening from May to the fastest since August 2007. In an ongoing attempt by service providers to stimulate customer demand, selling prices fell for the seventh consecutive month.

Meanwhile, amid predictions of greater sales activity, sentiment regarding output over the coming year picked up to a 14-month high during June.

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 50.5 in June, up from 50.0 in May and signalled a slight increase in Italian service sector activity. Central to the increase in business activity was an improvement in demand conditions. Inflows of total new orders improved on May’s decline to post a modest increase during June. Similarly, new export sales among Italian service providers expanded in June, amid reports of greater demand from UK and Eastern European customers.

On the employment front, Italian service providers continued to take on additional staff during June. The rate of job creation was marked and the fastest since August 2007. Anecdotal evidence from panellists attributed the faster rise in headcounts to greater activity requirements.

Work outstanding among Italian service providers declined for the third consecutive month during June. That said, the rate of backlog depletion was marginal and eased from May. Many panellists stated that they were able to meet current sales demand as well as work through any incomplete orders.

In an attempt by panellists to boost sales activity and keep up with competitor’s price discounting efforts, selling prices declined in June. That said, the rate of contraction was marginal and the slowest in the current seven-month sequence of deflation. Similarly, input cost inflation eased to the slowest in six months. Where input prices did rise, panellists mentioned increases in fuel and staffing costs.

Sentiment among Italian service providers improved during June, with just under 38% of panellists confident of a rise in business activity in one year’s months time. Optimism was the highest in 14 months, as firms were hopeful of greater sales activity and a resurgence of foreign orders over the coming year.
Output expands for the first time since March

The Composite Output Index* posted at 50.1 in June, up from 49.9 in May and signalling the first expansion of Italian private sector output since March. That said, the rate of output growth was marginal and slower than the long-run series average.

Underpinning the slight expansion of the Italian economy was a rise in service sector activity, which returned to growth after registering no-change in May. The pick-up in service activity outweighed a faster contraction in manufacturing output, which declined for the eleventh consecutive month.

For the second month running, inflows of new business contracted. At the sector level, a faster contraction in manufacturing order books offset a slight rise in service sector sales. However, the pace of contraction in private sector new business was marginal and eased from May. Export sales, meanwhile, fell for the second consecutive month and at the fastest pace since December 2018.

Falling levels of new business enabled firms to work through their backlogs. Despite being solid, the rate of backlog depletion eased from May. Work outstanding in the Italian economy has decreased on a monthly basis for exactly one year.

On the employment front, Italian private sector workforce numbers increased solidly. Although, manufacturers reduced headcounts for the third time in the past six months, service providers took on additional staff at the fastest pace since August 2007.

Input price inflation eased to a 38-month low during June, whilst output charges were unchanged from May.

Optimism regarding output in the year ahead picked up to a 14-month high during June. Service sector business confidence was the highest since April 2018 whilst manufacturing sentiment dipped slightly.

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

"Italy's service sector ended the second quarter on a much more positive note, with a welcome rise in business activity, fuelled by a return to growth of both domestic and foreign customer orders.

"On the employment side, the picture was even more rosy, as service providers took on additional staff at the fastest pace since August 2007.

"Despite the manufacturing sector suffering a further and more marked contraction, the Italian private sector is expanded for the first time since March. Although, looking at the second quarter as a whole, the economy remains on track to post a slight fall or no-change in GDP.

"Looking further out, with private sector business confidence the highest in 14 months, firms appear to be expecting the economy to turn the corner as we move into the second half of 2019."

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 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.

June 2019 data were collected 12-25 June 2019.