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IHS MARKIT ITALY SERVICES PMI®

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Service sector activity falls at unparalleled pace in April

KEY FINDINGS

Record contractions in activity and total new business

Jobs cut at sharpest rate in series history

12-month outlook for output remains negative

Data were collected 7-27 April 2020.

The Italian service sector continued to contract during April, as the economic fallout from the coronavirus disease 2019 (COVID-19) virus intensified. Business activity and new business both declined at the sharpest rates in more than 22 years of data collection, with panellists linking the falls to lockdown measures and muted client demand stemming from the pandemic.

Workforce numbers continued to decline, with the rate of job shedding accelerating to the most marked on record. Meanwhile, expectations with regards to output remained negative, although sentiment picked up slightly from March's nadir.

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 – dropped to an all-time survey low at 10.8 in April, surpassing March's recent record of 17.4, to signal an unprecedented contraction in Italian service sector activity.

Driving the marked decline was a second consecutive reduction in incoming new business, with the rate of contraction the sharpest in over two decades of data collection. Foreign demand also fell further with the respective seasonally adjusted index signalling the sharpest drop in foreign sales since data were first available in September 2014.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

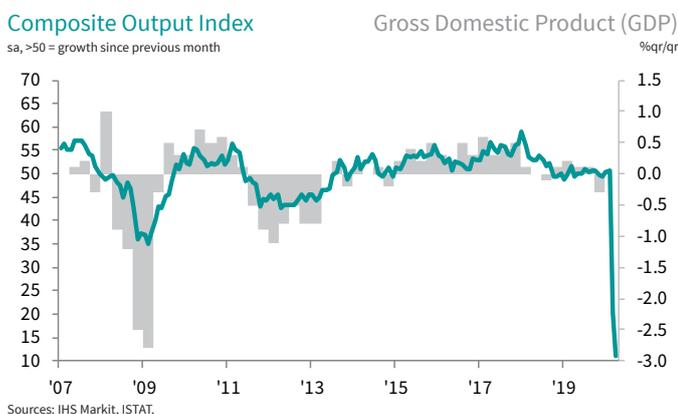
Amid the considerable contraction in client demand, firms reduced staffing levels further, with the rate of job shedding the sharpest on record. Panellists frequently mentioned that lower activity requirements stemming from the coronavirus pandemic had led them to cut jobs. Nonetheless, companies were able to direct remaining resources to clear outstanding business. The rate of backlog depletion was the sharpest on record.

Meanwhile, cost burdens facing Italian service providers fell for the second month in a row, with the decline the quickest since the series began in early-1998. With respondents linking the contraction to lower prices for raw materials and oil, in addition to discounting at suppliers. Average selling prices also declined, extending the current sequence of deflation to nine months. The rate of reduction was the most marked in over 22 years of data collection.

Amid uncertainty regarding the COVID-19 pandemic and subsequent economic fallout, the 12-month outlook for output remained negative in April, with firms expecting activity to fall further from current levels in the year ahead. That said, sentiment picked up from March's low.

IHS MARKIT ITALY COMPOSITE PMI®

Unprecedented drop in private sector output



The Composite Output Index* dropped to a fresh series low of 10.9 in April, down from 20.2 in March, to signal a further unprecedented contraction in Italian private sector output, with the drop the most marked in more than 22 years of data collection.

At the sector level, the downturn was most severe in services, although both manufacturers and service providers recorded their quickest reductions in output on record.

Central to the overall decline was a back-to-back fall in order book volumes, with the decline the fastest in the survey history amid reports of substantial falls in client demand both domestically and abroad.

Meanwhile, firms reduced workforce numbers for the second month running, with the rate of job shedding the most marked on record. Nonetheless, outstanding business continued to fall. Moreover, the rate of backlog depletion was the quickest since February 2002.

Cost burdens facing Italian private sector firms fell for the second month running, with the decline accelerating to a marked pace. Average selling prices also dropped as firms continued to discount, with the rate of reduction the quickest since April 2009.

Firms remained pessimistic with regards to output over the coming 12 months in April. The 12-month outlook for activity picked up from March's recent low, although sentiment remained negative overall.

COMMENT

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

"The Italian services sector continued to suffer in the face of the COVID-19 pandemic in April, with latest survey data highlighting a further unparalleled reduction in activity.

"New business also declined at a record pace, with firms reporting that widespread lockdown measures and the economic fallout from COVID-19 had led client demand to deteriorate rapidly.

"With the manufacturing sector suffering a similar fate to services, the latest data highlight the substantial blow from the pandemic on the Italian economy. With the gradual easing of restrictions planned to begin in early May, next month's data will give the first indication on how fast we can expect activity to recover in the short term."

**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.

April 2020 data were collected 07-27 April 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.

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