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IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

Slowest increase in business activity since May

KEY FINDINGS

Overall new business rises at marginal pace

Employment growth eases

Fourth consecutive month of declining selling prices

Italian service providers registered a marginal increase in business activity during November as the rate of new order growth eased to the slowest since August. The weaker expansions of business activity and total new orders contributed to a softer rise in service sector employment. Meanwhile, output charges fell for the fourth consecutive month as panellists responded to competitive pressures.

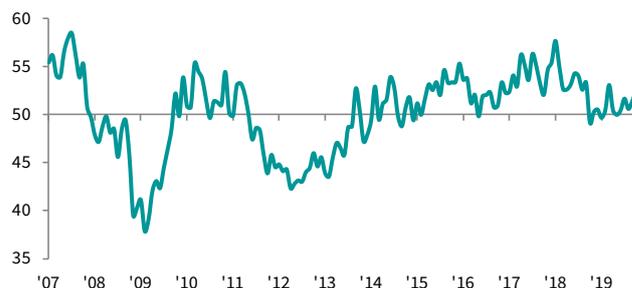
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – posted 50.4 in November, down from 52.2 in October and signalling the weakest expansion in output across the Italian service sector since May.

The weaker expansion in business activity was largely driven by a slower upturn in new orders. The rate of increase in new business was marginal and the softest since August. Anecdotal evidence from panellists that signalled growth indicated a positive response from customers to advertising and promotional campaigns.

Greater client demand was largely supported by the domestic market, as firms signalled a further contraction in new export orders. The rate of decrease was solid amid reports of lower demand from foreign automotive clients as well as customers based in China.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Italian service providers increased their workforce numbers for the tenth consecutive month during November. That said, the rate of job creation, whilst solid, eased from October's multi-year record. Firms indicated that they had increased their payrolls as a result of greater workloads.

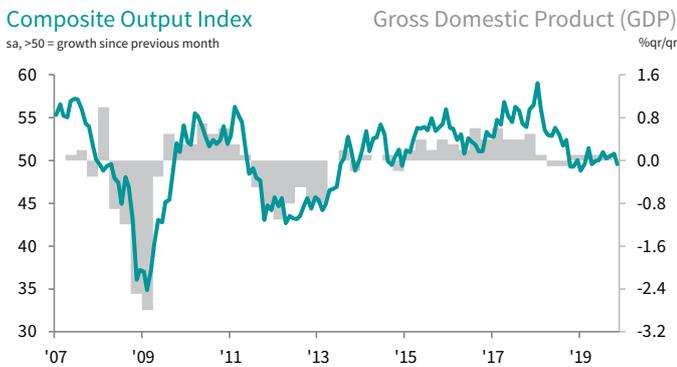
Capacity pressures among panellists continued to ease during November, with backlogs of work declining for the fourth month running. However, the rate of depletion was modest. Service providers attributed reduced outstanding business to slower new order growth.

On the price front, cost inflation softened to a four-month low during November. Nonetheless, the rate of inflation was sharp and companies noted in particular greater fuel, staffing and advertising costs. In line with the slower rise in cost burdens, selling prices among Italian service providers declined in November for the fourth consecutive month. The pace of reduction was marginal, however.

Finally, sentiment among Italian service providers dipped to the lowest in three months during November, but remained in positive territory. Just over 31% of panellists were confident of a rise in business activity from present levels in 12 months' time. Expectations of a pick-up in sales activity and planned business expansions were cited as reasons to be optimistic.

IHS MARKIT ITALY COMPOSITE PMI®

Output falls for first time since May



Sources: IHS Markit, ISTAT.

The Composite Output Index* posted at 49.6 in November, down from 50.8 in October and signalling the first decline in Italian private sector output since May. Despite this, the rate of contraction was marginal.

Underpinning the latest downturn was a marked slowdown in service sector activity growth during November, whilst manufacturing output recorded its sixteenth consecutive month of contraction. The latest decrease was sharp but eased slightly from October.

In line with the trend for output, overall inflows of new business decreased in November. A faster rate of contraction in manufacturing orders was coupled with a marked easing of new business growth among service providers. Export sales, meanwhile, contracted for the seventh month in a row and at the fastest pace since composite data was compiled in September 2014.

A contraction of new business enabled firms to work through their backlogs. Work outstanding fell for the seventeenth consecutive month and at the same pace as in October.

Employment growth slowed in November on the back of weaker job creation at service providers which outweighed a softer decline in manufacturing payrolls. At the composite level, headcounts grew modestly, though at a faster pace than the long-run series average.

Selling prices fell across the private sector for the fifth consecutive month during November. Meanwhile, the rate of input cost inflation, though solid, eased to a four-month low.

Sentiment regarding future trading conditions among Italian firms dipped to a three-month low in November. Both manufacturers and service providers registered lower levels of optimism.

COMMENT

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

"From the start of the year, the worry to outside observers is that the weakness in the manufacturing sector would eventually spread to the rest of the economy, and the service sector is definitely showing signs of the malaise having spread."

"Growth of business activity and total new orders have eased markedly from October and are essentially stagnant. Meanwhile, export sales continue to fall."

"Concerns about the health of the economy have been present in anecdotal evidence for many months now and, confidence remains historically subdued."

"That said, job creation across the service sector remains a brightspot for the economy, at least for now, while ongoing cuts to selling prices should prove to be another supportive factor for domestic demand as we head into 2020."

*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.

November 2019 data were collected 12-26 November 2019.

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