Falling new orders contribute to further deterioration in Italian manufacturing performance

KEY FINDINGS

- Production falls amid fifth successive drop in new orders
- Slowest rise in employment for four years
- Confidence at six-year low

Business conditions in the Italian manufacturing sector deteriorated again in the final month of 2018, with output and new orders continuing to fall. Although firms maintained job creation, the pace at which employment rose eased to a four-year low. Meanwhile, business confidence deteriorated further, hitting the lowest in six years.

On the price front, the rate of input cost inflation eased to the slowest since September 2016, with output prices increasing at a slower pace as a result.

The headline IHS Markit Italy Manufacturing Purchasing Managers’ Index® (PMI®) – a single-figure measure of developments in overall business conditions – posted below the 50.0 no-change mark for the third month running in December. At 49.2, the reading was up from 48.6 in November and signalled a slight monthly decline in the health of the sector.

The consumer goods sector was the only category to see operating conditions improve. A deterioration was recorded at intermediate goods firms, while investment goods business conditions were broadly unchanged.

New orders decreased for the fifth successive month in December, and at a solid pace. New business from abroad also declined, and at the same pace as total new orders.

Manufacturers responded to lower new orders by scaling back production, the fifth successive month in which this has been the case.

Also linked to lower new order volumes were a reduction in backlogs of work as firms transferred spare resources to work on existing projects and an increase in stocks of finished goods.

Despite further reductions in output and new orders, manufacturers continued to increase their staffing levels in December. That said, the rate of job creation slowed to the weakest in the current four-year sequence of rising employment, and was marginal.

Inflationary pressures showed further signs of abating during the month, with input costs rising at the slowest pace since September 2016. The rate of output price inflation also eased, and was the weakest in almost a year-and-half.

Manufacturers lowered their purchasing activity markedly again during December as firms responded to lower output requirements. This fed through to a fourth reduction in stocks of purchases in the past five months. That said, the pace of depletion was only marginal amid falling output.

Suppliers’ delivery times lengthened amid reports of capacity issues at vendors and difficulties in sourcing some raw materials.

Confidence among manufacturers continued to fall in December, dropping for the third consecutive month to the lowest in six years. While expectations of increasing customer numbers and planned entry into new markets led a number of firms to be optimistic regarding the outlook, sentiment was dampened by recent signs of demand weakness.
COMMENT

Andrew Harker, Associate Director at IHS Markit, which compiles the Italy Manufacturing PMI survey, commented: "December PMI data completed a worrying end to the year for Italian manufacturers, with firms continuing to struggle to secure new business. This is in marked contrast to the start of 2018 when the sector was experiencing strong growth. Moreover, with business confidence at a six-year low, there appears little sense of optimism that the current soft patch will come to an end in the near future."

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Methodology

The IHS Markit Italy Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. 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 Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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 2018 data were collected 5-14 December 2018.

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