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IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

Service sector downturn continues in September

KEY FINDINGS

Further declines in business activity and new orders

Foreign demand drops markedly again

Rate of job shedding slows, but remains moderate

Data were collected 11- 25 September 2020.

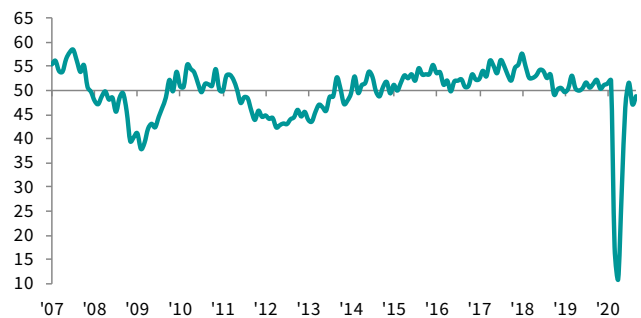
The downturn in the Italian services sector continued in September, according to the latest PMI® data. Business activity declined for the second month running, while the level of total new business fell marginally again. International demand remained weak, as new export orders fell at a slightly quicker pace and markedly. Subsequently, firms reduced their workforce numbers again. The rate of job shedding was the slowest in the current seven-month sequence of job cuts, but nonetheless remained solid.

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 48.8 in September. The headline figure climbed slightly from 47.1 in August, but remained below the crucial 50.0 mark to signal another contraction in Italian service sector output. Still muted demand conditions were primarily linked by panellists to the latest contraction in activity.

Indeed, the level of new business at services firms declined for the seventh consecutive month, amid reports of weak client demand. The rate of reduction was unchanged from August and marginal. New export orders also fell, with the latest decline marked. As was the case for total new business, respondents associated the latest reduction in export orders to muted sales amid the coronavirus disease 2019 (COVID-19) pandemic.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Meanwhile, September data provided further evidence of weak capacity pressures, as backlogs of work fell again. The latest reduction in outstanding business was solid.

Subsequently, services firms made further cuts to their staffing levels during September. Albeit the slowest in the current seven-month sequence of falling employment, the rate of job shedding was still moderate overall.

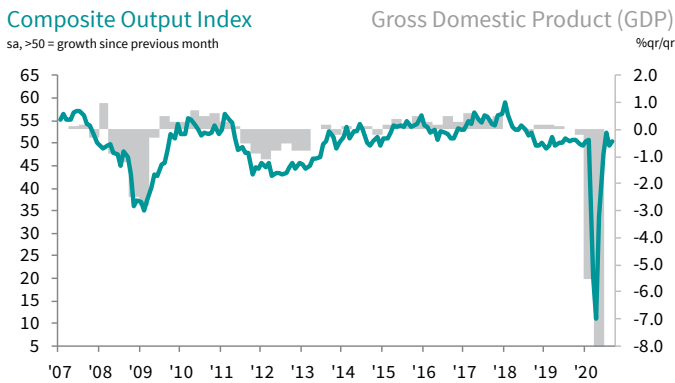
Amid frequent reports of greater personal protective equipment (PPE) costs and higher COVID-19 related expenditure, cost burdens facing Italian service providers rose for the fourth successive month. The rate of input price inflation was little-changed from August and marginal.

Greater costs were absorbed by companies however, as competitive pressures and weak demand conditions led to further discounting. Average charges levied by services firms declined at a quicker rate and sharply overall.

The survey's principal forward-looking indicator provided some positive signs in September, with the Future Activity Index the highest since March 2018 and signalling a robust level of confidence with regards to output over the coming 12-months. Anecdotal evidence linked optimism to hopes of improved demand conditions and of a global recovery from the economic blow dealt by the pandemic. Sentiment remained subdued in the context of the long-run series history, however.

IHS MARKIT ITALY COMPOSITE PMI®

Renewed rise in private sector output



The Composite Output Index* rose from 49.5 in August to 50.4 in September to signal an increase in Italian private sector output on the month, albeit one that was only fractional overall. At the sector level, the uptick was driven solely by manufacturing, as services firms recorded a back-to-back reduction in business activity.

Output growth was aided by a further uptick in the level of new business, although the rate of expansion in new business eased further and was only slight. As was the case with output, Italian goods producers drove the increase, registering a solid uptick in order book volumes, whilst new business in services fell.

Meanwhile, Italian private sector firms reduced their staffing levels for the seventh month in a row during September, although the rate of job shedding eased again. Nonetheless, capacity pressures remained weak, as indicated by a further fall in the level of outstanding business. The rate of backlog depletion, albeit moderate, was the slowest since February.

September data also highlighted a fourth successive increase in cost burdens facing private sector firms, with the rate of inflation quickening from August. Discounting efforts continued, however, as average charges across the private sector fell sharply again.

Finally, the Future Output Index climbed to a near five-year high in September, and signalled a robust degree of confidence regarding the year-ahead outlook for activity.

COMMENT

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

"The Italian services sector remained in contraction territory in September, with business activity declining for the second month in a row whilst new orders fell moderately again. International demand remained a key source of weakness, as the latest data pointed to a further marked reduction in new export orders."

"Job shedding continued into September, although the latest round of job cuts was the least widespread in the current seven-month sequence of falling employment. One positive sign came from the Future Activity Index, which signalled the strongest sentiment since March 2018, with firms confident of a global economic recovery."

"Goods producers were the saving grace of the Italian private sector in September, as a solid increase in factory production drove the fractional uptick in output at the composite level. Nonetheless, data make it clear that there are still major challenges for the Italian economy to overcome before a full-on recovery can be called, given the service sector is yet to see any sustained improvement in conditions following the pandemic."

**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.

September 2020 data were collected 11 - 25 September 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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