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IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

Business activity increases slightly despite fall in sales

KEY FINDINGS

Activity rises slightly in February

New orders fall for first time since February 2015

Third consecutive fall in selling prices

Business activity among Italian service providers increased slightly during February, although new orders slipped into negative territory for the first time in four years as both domestic and international demand deteriorated in February. As a result of softer market conditions, service providers reduced their output charges for the third consecutive month in an effort to stimulate sales.

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 50.4 in February, up from 49.7 in January, signalling a marginal increase of Italian service sector activity. Business activity has now risen in three of the past four months.

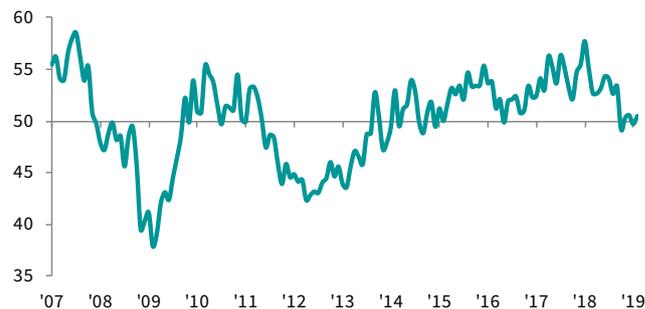
New business among service providers declined in February for the first time in four years. Despite contracting at a marginal rate, firms indicated that they had observed an overall deterioration in demand both in domestic and international markets. Indeed, inflows of new business from abroad declined for the eighth consecutive month, and at an accelerated rate.

Work outstanding among Italian service providers declined for the second consecutive month. That said, the rate of depletion was marginal and eased from the start 2019, amid reports from some panellists of a build up in backlogs due to greater than expected sales in February.

Meanwhile, employment increased from a slight reduction

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

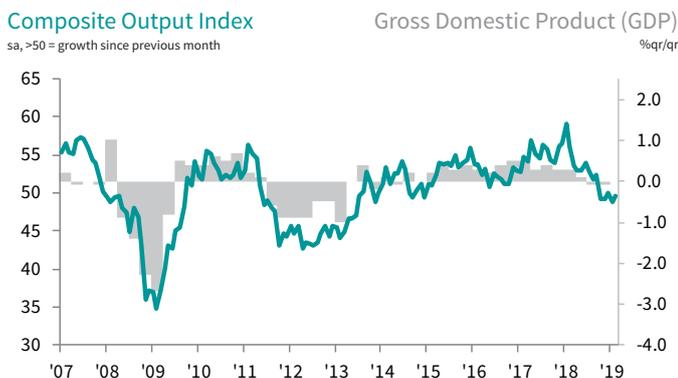
observed at the start of 2019. Anecdotal evidence from panellists indicated that they had taken on additional staff as a result of greater business activity.

Driven by faster rises in raw material prices, input cost inflation was the fastest in three months during February. Firms especially noted higher energy prices as well as greater costs associated with increased levels of activity. In contrast, selling prices fell for the third month running in February, reflective of efforts to stimulate customer demand and keep up with competitors. That said, the pace of reduction was marginal and eased from the start of 2019.

Looking ahead, sentiment among Italian service providers improved during February, with just over 35% of panellists confident of a rise in business activity from present levels in 12 months' time. Expectations of increased sales activity from both domestic and international customers, as well as new product initiatives, were listed as reasons to be optimistic.

IHS MARKIT ITALY COMPOSITE PMI®

Output contracts for fourth time in five months



The Composite Output Index* posted at 49.6 in February, up from 48.8 at the start of 2019 and signalling the second consecutive month of falling Italian private sector output.

Central to the more modest contraction in the Italian economy was a rise in service sector activity, which returned to growth after falling slightly in January. Moreover, despite contracting for the seventh successive month, the latest reduction in manufacturing output was less marked than at the start of 2019.

For the second consecutive month, inflows of new business contracted. Reductions in customer demand were observed among manufacturers and service providers, with the latter recording the first decline in new orders in four years and the former posting the seventh consecutive monthly fall in new customer orders. Moreover, the pace of contraction in private sector new business was the fastest since January 2015.

Falling levels of new business enabled firms to work through their backlogs. Work outstanding fell for the eighth consecutive month in February.

On the employment front, Italian private sector staffing levels increased marginally. Both manufacturers and service providers increased headcounts at the same rate.

Input price inflation ticked up to a three-month high during February, whilst output charges contracted for the third successive month.

Optimism regarding output in the year ahead picked up in February. Both manufacturing and service sector sentiment increased, with the former posting its highest reading in five months.

COMMENT

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

"With the Italian economy currently in a recession (its third in the past ten years), February's Italian Services PMI data did not provide much sign of relief.

"Inflows of new business contracted for the first time in four years, amid the third month of falling output charges, signalling that attempts by service providers to stimulate customer demand are not always proving effective.

"Despite positive signs in the form of an increase in payroll numbers and an up-tick in optimism, the latest PMI data indicates that the private sector remains on course for a further contraction in the first quarter 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.

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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.

February 2019 data were collected 12-25 February 2019.

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