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IHS MARKIT ITALY SERVICES PMI®

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Business activity rises at faster pace as domestic demand improves

KEY FINDINGS

New business growth at seven-month high

Employment rises at stronger pace

Output charges decrease for third consecutive month

Italian service sector activity rose at the fastest pace since March during October, with overall new order growth the most-marked in seven months. As a result of the quicker rises in business activity and total new business, service providers took on additional staff at a stronger pace.

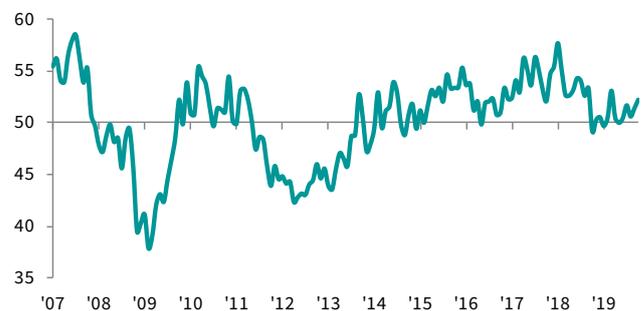
Meanwhile, on the price front, service providers reduced their output charges for the third consecutive month in a continued effort to match discounting efforts from competitors. This was despite input costs rising at the sharpest pace in 11 months.

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 52.2 in October, up from 51.4 in September and signalling the fastest increase in Italian service sector activity since March.

Central to the quicker rise in service sector business activity was a further improvement in domestic customer demand conditions. Overall new orders increased for the fifth month running and at the fastest pace in seven months. Meanwhile, inflows of new business from abroad declined for the fifth time in the past six months as firms reported a softening of foreign demand, especially among automotive customers.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Italian service providers increased their headcounts for the ninth consecutive month in October. The rate of job creation was marked and the sharpest since August 2007. Firms indicated that they had increased payrolls as a result of stronger sales and increased activity.

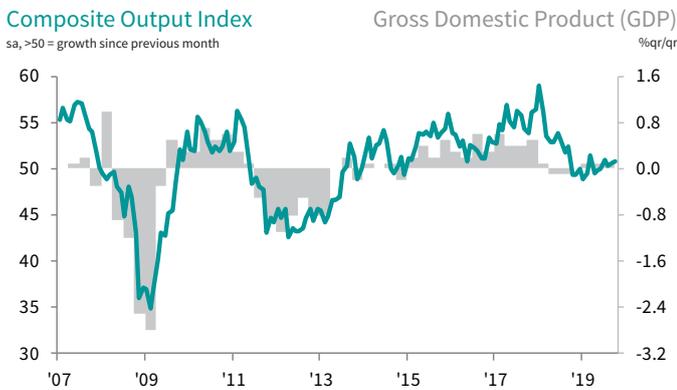
Capacity pressures among panellists eased during October, with volumes of unfinished orders falling for the third month in a row. That said, the rate of backlog depletion was marginal.

On the price front, input cost inflation quickened to an 11-month high during October. Companies noted in particular that rising energy and staffing costs were behind the increase in cost burdens. Despite the quickening of input price inflation, selling prices among Italian service providers declined in October for the third consecutive month. The pace of reduction was solid and the most-marked since the start of this year.

Looking forward, sentiment among Italian service providers dipped slightly in October. That said, around one-third of panellists were confident of a rise in business activity from present levels in 12 months' time against just over 9% who predicted a fall. Expectations of greater customer demand and investments in new products were cited as reasons to be optimistic.

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Output expands at fastest pace in three months



The Composite Output Index* posted at 50.8 in October up from 50.6 in September and signalled the fastest increase in Italian private sector output in three months. That said, the rate of growth was only marginal.

Central to the pick-up in Italian private sector growth was a faster rise in service sector activity, which grew at the quickest pace since March. This acceleration in services activity outweighed a further contraction in manufacturing output, which fell for the fifteenth successive month in October.

New business inflows rose at the fastest pace since September 2018. Divergent trends were again noted at the sector level, however, with manufacturers recording a fifteenth successive monthly drop in order book volumes. Meanwhile, new orders among service providers increased at the sharpest pace since March.

Italian private sector employment growth quickened in October on the back of the fastest rise in service sector payrolls since August 2007. Manufacturers, on the other hand, saw a further reduction in their headcounts. At the composite level, payroll numbers grew at the fastest pace since July 2018.

With capacity expanded, backlogs of work fell for the sixteenth consecutive month in October. That said, the rate of depletion was the least marked in three months.

For the fourth successive month, selling prices fell across the Italian private sector in October. Despite being marginal, the rate of contraction was the fastest since May. Meanwhile, input cost inflation picked up from September to a six-month high.

Sentiment regarding future activity among Italian firms dipped slightly in October, but was nonetheless positive. Both manufacturers and service providers recorded a slight weakening of optimism.

COMMENT

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

"Italian service providers recorded a solid rise in business activity during October, unlike their peers in the manufacturing sector who recorded a further steep contraction in output.

"Nonetheless, the October surveys remain consistent with GDP growing at a slight pace of around 0.1% as we head into the final months of 2019, albeit with a little momentum picking up from the slump seen in the first half of the year.

"Hiring appears to have picked up in recent months with private sector job creation the most-marked since July 2018.

"Growth may weaken in coming months, however, with firms' expectations of output over the coming year ticking down from September amid concerns over the underlying health of the Italian economy."

**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.

October 2019 data were collected 11-28 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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