

IHS Markit Italy Manufacturing PMI®

Output rises sharply in August amid further revival of client demand

Key findings

Headline PMI highest since June 2018

Domestic new orders rise sharply, but foreign demand remains muted

Output expectations strongest on record

Data were collected 12-21 August 2020.

Latest PMI® data highlighted the quickest improvement in Italian manufacturing conditions for over two years during August, with growth in both factory production and total new orders the sharpest since February 2018, as looser lockdown restrictions and the reopening of the economy continued to revive client demand. Export orders remained a drag on the sector, however, as foreign order books declined again. Meanwhile, the 12-month outlook for output improved again, with sentiment the strongest in the series history. Hopes of an economic recovery and improved sales forecasts fuelled firms' confidence.

The seasonally adjusted IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI) – a single-figure measure of developments in overall business conditions – posted 53.1 in August, climbing from 51.9 in July, to signal a second consecutive monthly improvement in operating conditions. Moreover, the headline figure was the highest for more than two years.

Central to the quicker improvement in conditions was further growth in both output and order books during August. Factory production rose for the third month running, with looser lockdown measures, improved client demand and a higher volume of advanced orders all linked by panellists to the rise in output.

New orders also increased sharply as domestic demand conditions improved again. Moreover, the rate of expansion in both order books and output was the sharpest recorded since

Italy Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Lewis Cooper, Economist at IHS Markit, said:

"Manufacturing conditions across Italy continued to improve during August, with the headline PMI the highest since June 2018.

"Both output and new orders rose at the quickest rate for over two-and-a-half years, with panellists reporting a revival in domestic demand. Foreign demand remained muted, however, with new export orders falling again.

"Job cuts appear to be winding down, as the rate of job shedding was the slowest since January and mild, with only limited mentions of redundancies and shorter working hours. Improved sales and hopes of a swift recovery fuelled firms' confidence, with output expectations the strongest on record.

"Overall, August data provided some very encouraging signs for Italian goods producers, with indications that a recovery from the worst effects of the pandemic is now well underway. However, export orders remain a key drag, and with employment still falling, domestic demand on its own is unlikely to provide enough momentum to really drive the recovery."

continued...

February 2018.

Foreign demand remained muted, however, with coronavirus related restrictions still relatively severe in some parts of the world. New export orders fell for the sixteenth month in a row, with the decline accelerating to a solid rate.

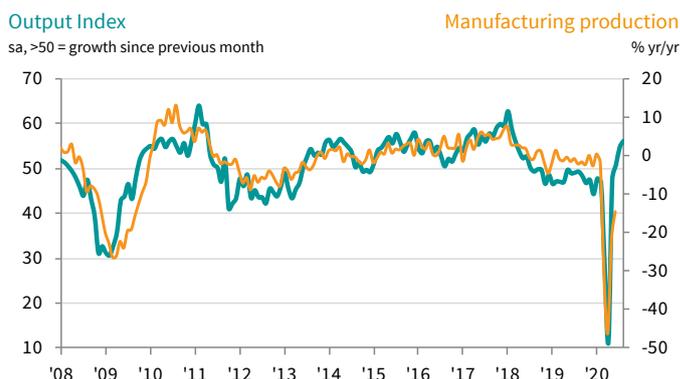
With domestic client demand recovering and total sales improving, firms remained optimistic with regards to the year ahead outlook for output. In fact, the level of positive sentiment was the highest recorded since the series began in mid-2012. Hopes of a quick economic recovery was frequently cited as a reason to be confident.

At the same time, August data highlighted another round of job cuts, with some panellists mentioning redundancies and shorter working hours. The rate of reduction was the slowest since January and only fractional, however. Capacity pressures remained weak nonetheless, with the level of outstanding business falling again, although the rate of backlog depletion was the softest for four months.

August highlighted the first increase in purchasing activity since June 2018, amid reports of greater production requirements. Both stocks of purchases and finished goods declined at a quicker rate, however, with respondents citing the deliberate utilisation of stocks in production and a higher volume of sales as reasons.

Concurrently, lead times lengthened further, although the deterioration in vendor performance was only fractional.

Cost burdens continued to rise during August, with panellists primarily linking the uptick to greater raw material costs. Average charges fell again, however, as firms sustained discounting efforts. That said, the rate of charge deflation was only fractional.



Sources: IHS Markit, ISTAT.

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Survey 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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 12-21 August 2020.

Data were first collected June 1997.

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About PMI

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. ihsmarkit.com/products/pmi.html