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IHS MARKIT ITALY SERVICES PMI®

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Services recovery picks up pace during June as COVID-19 restrictions ease

KEY FINDINGS

Fastest rise in business activity since January 2018

New orders increase sharply again

Business confidence highest in over eleven years

Data were collected 11-25 June 2021.

The revival of Italy's services sector continued at an accelerated rate, according to the latest PMI® data. Business activity increased at the quickest rate since January 2018, amid another sharp upturn in client demand, with panellists citing looser COVID-19 restrictions and the subsequent reopening of many companies. As a result, the year-ahead outlook for services output strengthened, with firms the most upbeat since January 2010.

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 56.7 in June, up noticeably from May's reading of 53.1, and signalled a back-to-back increase in services output. Moreover, the rate of growth was the strongest for more than three years and sharp overall.

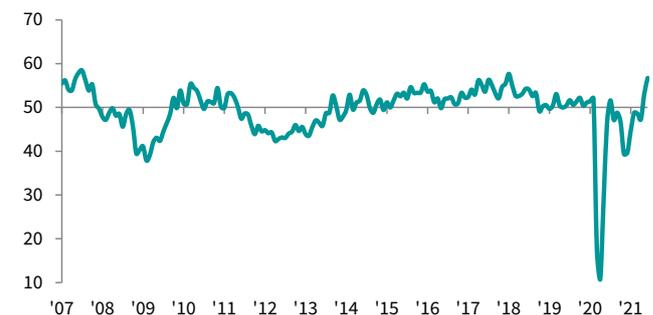
A further upturn in client demand was key to stronger services growth during June. Inflows of new work rose for the second month in a row, with the rate of expansion remaining sharp, despite easing. According to respondents, looser lockdown restrictions and company reopenings had boosted sales and client confidence.

Improved demand conditions also stemmed from foreign markets during June, as new export orders increased for the first time in two years, albeit only mildly overall.

Rising sales placed more intense pressure on capacity, however, as the level of outstanding business rose for the third straight month and at the strongest pace since May

Italy Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

2006.

Subsequently, firms again increased their workforce numbers during June. The rate of job creation was the fastest since November 2019 and moderate overall.

Turning to prices, the sustained recovery also brought further inflationary pressures in June. Costs facing Italian services firms rose for the thirteenth successive month, with the rate of inflation the steepest since the opening month of 2012. Greater variable costs, as well as higher outgoings for utilities and staff, were the main drivers of inflation according to respondents.

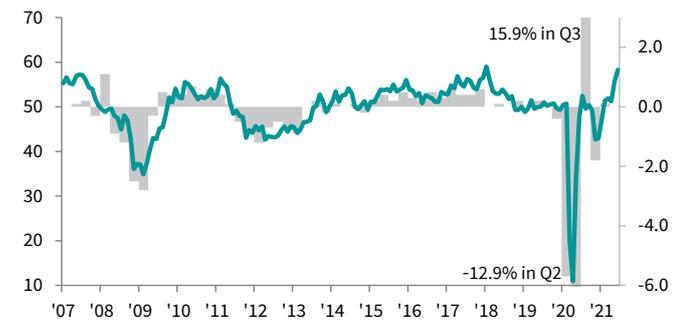
Companies also upped their average charges again during June. The latest rise was attributed through anecdotal evidence to the partial pass-through of greater costs to clients, although there were also mentions that some firms had increased charges as part of efforts to recoup lost revenue due to closures. That said, the rate of inflation slowed from May and was only marginal overall.

Looking ahead, confidence towards the year ahead outlook for activity surged during June. Sentiment was the strongest for over eleven years, with optimism linked by panellists to improved client demand and hopes of a robust economic recovery as COVID-19 restrictions ease and the vaccine roll-out continues.

IHS MARKIT ITALY COMPOSITE PMI®

Output rises at strongest rate since start of 2018

Italy Composite PMI Output Index Gross Domestic Product (GDP)
 sa, >50 = growth since previous month %q/q



Sources: IHS Markit, ISTAT.

The Composite Output Index* registered 58.3 in June, rising from 55.7 in May, and signalled the fastest upturn in Italian private sector output since January 2018.

Growth was again led by manufacturing, which again saw a near record rate of increase, although the net private sector gain was spurred on by the quickest upturn in services activity for nearly three-and-a-half years.

Inflows of new work to Italian private sector companies also rose in June, extending the current sequence of expansion to five months. Despite easing since May, the rate of increase was the second-quickest since January 2018 and rapid. Firms also recorded a further upturn in new export orders, with growth the fourth most marked in the series history.

Meanwhile, capacity pressures intensified, as the level of outstanding business rose at the strongest rate on record. As a result, firms took on additional staff at the fastest pace since March 2017.

June data also highlighted a further surge in input costs faced by private sector firms, with the rate of inflation the sharpest seen for 15 years. Goods producers registered a much steeper increase in costs than their services counterparts, however.

In response, firms increased their average charges for the fourth straight month in June. The rate of charge inflation eased from May's record, but was still the second-fastest in the series history and sharp. As was the case with input costs, manufacturers raised their selling prices at a much quicker pace than service providers.

COMMENT

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

"The Italian services sector continued on its recovery path during June, with the rebound gathering pace amid the easing of COVID-19 restrictions. Business activity rose at the fastest rate since January 2018, amid another sharp upturn in new work, while business confidence was the strongest for more than eleven years.

"As a result, the latest expansion in private sector output was the quickest since early 2018 and marked. Manufacturing led the upturn, with another sharp increase in output, but a strong services performance also spurred on growth. Inflationary pressures remain a concern, however, as Italian firms recorded their steepest rise in costs for 15 years during June. The strongest pressure came from the goods producing sector, which continues to face shortages and substantial supply woes, but services too saw a rapid rate of cost inflation.

"Overall, the closing month of the second quarter brought with it mostly good news for the Italian economy. The recovery remains strong, according to the latest PMI data, with client demand continuing to strengthen as lockdown measures were eased. Despite intense inflationary pressures, firms remain highly optimistic of output growth over the coming year."

**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.

June 2021 data were collected 11- 25 June 2021.

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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