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IHS MARKIT ITALY SERVICES PMI®

INCLUDING IHS MARKIT ITALY COMPOSITE PMI®

New order growth picks up in December

KEY FINDINGS

Activity and new business rise at fastest rates in three months

Solid reduction in charges

Optimism highest in eight months

Business activity in Italy's service sector grew at the fastest pace in three months during December, as a faster rise in new orders encouraged panellists to increase business activity. New order growth was also the fastest in three months, driven by greater customer demand and positive market conditions. That said, rates of expansion remained modest. The increases in business activity and new business helped drive job creation, while business confidence reached an eight-month high.

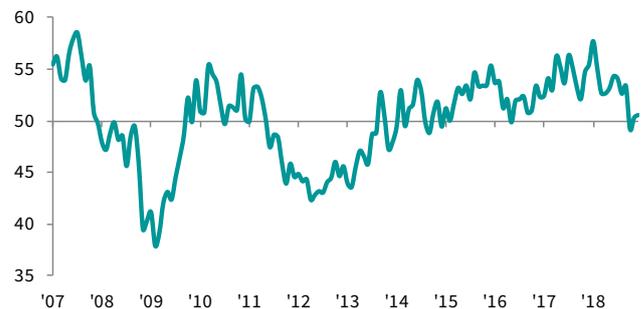
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 50.5 in December, up from 50.3 in November. The latest reading signalled a marginal increase in activity at Italian service providers. Growth has now been recorded in two successive months following October's decline.

Underpinning the faster rise in service sector business activity was an acceleration in new business growth. The rate of expansion in new work quickened from November to the fastest in three months. Panellists stated that greater customer demand contributed to the rise in new business. In contrast, new export sales among Italian service providers contracted for the sixth consecutive month as firms reported an overall reduction in overseas demand for their services.

On the employment front, job creation among Italian service providers quickened in pace during December. The rate of growth was solid and the latest reading marked the twenty-

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

seventh consecutive month of payroll expansion. Surveyed firms highlighted business expansion plans as a factor behind the increase in staffing levels.

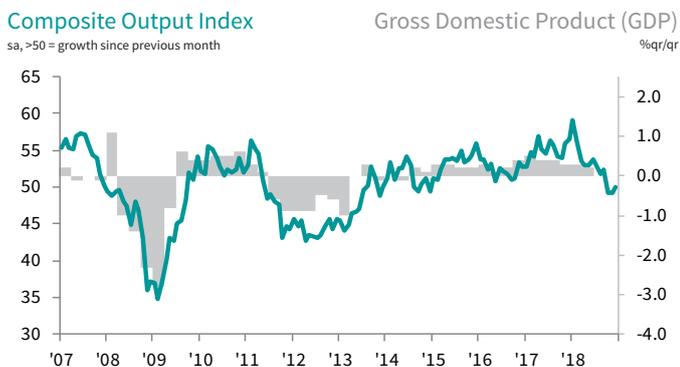
Rising levels of outstanding business also contributed to faster employment growth in December. Work outstanding among Italian service providers increased at the joint-fastest rate in six months, with increases in new orders cited as causing the latest rise in incomplete business.

Driven by soft demand and price competition, selling prices fell solidly among service providers in December, and at the most pronounced rate in 26 months. Similarly, input cost inflation weakened to the slowest in nine months. Where input prices did rise, panellists mentioned increases in food prices, wages and compliance costs.

Sentiment among service providers improved during December, with exactly 37% of panellists confident of a rise in business activity from present levels in 12 months' time. Optimism was the highest in eight months, as firms were hopeful of greater sales activity and increased economic growth over the coming year.

IHS MARKIT ITALY COMPOSITE PMI®

Output unchanged in December



Sources: IHS Markit, ISTAT.

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. The Composite Output Index posted at 50.0 in December, signalling no change in output from November.

As in November, manufacturing output declined (the fifth successive monthly fall) whereas services activity increased for the second consecutive month. However, manufacturing output contracted at a less marked rate and services activity growth quickened.

Incoming new business grew in December, with manufacturing order book volumes contracting at a less marked rate. New order growth among service providers quickened.

Despite higher new orders, volumes of unfinished business fell for the sixth consecutive month. However, the rate of contraction was fractional.

Employment growth quickened in December on the back of accelerated service provider job creation. Conversely, payroll expansion among manufactures was marginal. At the composite level, headcounts have grown on a monthly basis since October 2015.

Selling prices fell across the private sector in December, ending a three-month sequence of inflation. Meanwhile, input cost inflation eased to a 26-month low.

Sentiment regarding future trading conditions among Italian firms improved in December, with optimism rising to a five-month high. Stronger optimism was centred on the service sector.

COMMENT

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

“Business conditions for Italian service providers improved in December, underpinned by faster new order and business activity growth. Moreover, job creation quickened in pace to a three-month high as confidence around future activity led to increased hiring efforts. All in all, December’s survey points to an improvement in Italian private sector business conditions, setting the stage for a stabilisation in Italian GDP for early 2019.”

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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.

December 2018 data were collected 5-18 December 2018.

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