Italian services firms recorded a further increase in business activity during February, extending the current sequence of growth to nine months. Moreover, the expansion was the quickest since October last year, as order book volumes rose at the fastest rate for four months. Signs of improved demand led firms to take on more staff and job creation accelerated to a moderate pace. Meanwhile, selling prices declined for the seventh consecutive month as panellists responded to competitive pressures.

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 52.1 in February, rising from 51.4 in January, to signal a ninth successive increase in Italian service sector output. Moreover, the rise was the quickest since October last year.

February data highlighted the quickest expansion of new business for four months. Panellists linked the uptick, which was modest, to improved demand conditions. Foreign demand conditions were less favourable, however, with new export orders falling for the eighth month running. Anecdotal evidence linked the decline to the impact of the COVID-19 outbreak on demand.

Concurrently, Italian service sector firms increased workforce numbers during February, stretching the current sequence of increase to over a year. The rate of job creation gathered pace from January and was moderate overall.

In spite of higher staffing levels, capacity pressures were stable during February. The level of outstanding business was unchanged for the second time in three months, as signalled by the respective seasonally adjusted index posting at the 50.0 no-change mark.

On the price front, cost burdens rose during February, extending the current sequence of inflation to over a decade. The latest increase in prices was the quickest since last October and sharp overall, with firms linking inflation to greater utility and staff costs.

Higher input costs were not passed on to clients during the latest survey period, however, with average selling prices falling, as has been the case in the majority of the past eight years. According to panellists, competitive pressures had led them to continue discounting. That said, the rate of decline was only mild overall.

Finally, firms remained confident output would rise over the next 12 months, with anecdotal evidence linking optimism to hopes of improved sales. Sentiment moderated slightly from January, however.
Output rises for second month running

The Composite Output Index* posted 50.7 in February, up from 50.4 in January, to signal a back-to-back expansion in Italian private sector output. The reading signalled a modest monthly increase in business activity.

The service sector drove the expansion, recording the quickest increase in activity for four months. In contrast, manufacturing production fell for the nineteenth consecutive month, with the decline quickening to a sharp rate.

Central to the overall increase was the joint-quickest uptick in new business since September 2018. As was the case with output, further and faster growth in the services sector was partially offset by a decline at manufacturers. Foreign demand for Italian goods and services declined for the tenth month running, however, with the fall quickening to a modest rate.

Despite the uptick in new business, firms continued to reduce outstanding business during February. The rate of backlog depletion was unchanged from January and mild overall. Meanwhile, workforce numbers across the Italian private sector increased, with the rate of job creation marginal, but nonetheless the fastest for three months.

Concurrently, input costs rose during February, as has been the case in each month since May 2014. Moreover, the rate of cost inflation was the fastest since last April. Higher costs were not passed through to clients, however, as average selling prices fell further. Albeit only marginal, the decline was the joint-quickest since October 2016.

Finally, firms remained confident that activity would increase over the coming 12 months in February. That said, the level of positive sentiment moderated from January and was below the series long-run average.

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

“The Italian service sector recorded a ninth successive improvement in business activity during February, with the rise the quickest since last October.

“New business also rose at the fastest pace for four months, with panelists reporting improved client demand. Meanwhile, firms continued to expand their workforce, with job creation accelerating to a moderate pace.

“Meanwhile, Italian private sector output rose for the second month in a row during February, but only modestly, as the manufacturing sector remained a key drag on growth following a nineteenth consecutive fall in output.

“Nonetheless, Italian private sector growth remains historically subdued. Moreover, several firms have already reported that the COVID-19 outbreak had a negative impact on demand, especially abroad, with the full effect of the outbreak yet to be determined.”

*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.
CONTACT

IHS Markit

Lewis Cooper
Economist
T: +44-1491-461-019
lewis.cooper@ihsmarkit.com

Katherine Smith
Corporate Communications
T: +1-781-301-9311
katherine.smith@ihsmarkit.com

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 2020 data were collected 12-25 February 2020.

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

About IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

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.

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

Disclaimer
The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit’s prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“Data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.