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IHS MARKIT ITALY SERVICES PMI®

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Further substantial, but slower, drop of business activity during May

KEY FINDINGS

Business activity and new orders fall at slower rates

Job cuts continue at unprecedented pace

Output expectations pick up slightly

Data were collected 12-26 May 2020.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Italy's services economy remained in contraction territory during May, as the coronavirus disease 2019 (COVID-19) pandemic continued to impact the sector. Both activity and total new business declined further, although the rates of decline softened from April as some parts of the economy began to reopen amid loosening lockdown restrictions. Job cuts continued, however, with the reduction in staff numbers among the quickest on record. Meanwhile, activity expectations improved further from March's nadir, but remained among the weakest in the series history.

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 28.9 in May. This was up from April's record low of 10.8, reflecting the loosening of restrictions and the slow reopening of the economy, but nonetheless indicative of a substantial reduction in business activity.

Central to the continued downturn was another reduction in total new business in May. The rate of contraction eased notably from April's low, but was still the third-quickest since the survey's inception in January 1998. Foreign demand for Italian services also dropped, with the rate of decline among the quickest on record, albeit softer than in the previous survey period.

In line with weak demand conditions, Italian service providers

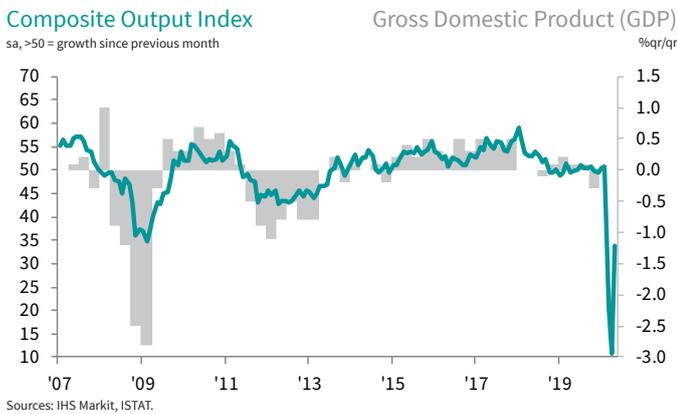
continued to reduce staff numbers in May. The rate of job shedding was the second-fastest in over 22 years of survey history. The drop in employment was partially reflective of continued spare capacity, as the level of outstanding business at Italian services firms continued to fall. The rate of backlog depletion was not as quick as March or April, but was among the most marked on record nonetheless.

Meanwhile, average input costs facing Italian services firms fell for the third successive month in May, with respondents linking the latest reduction to lower fuel and staff costs. The rate of decline was the softest in the aforementioned sequence of decline, however. At the same time, service providers continued to discount selling prices to encourage sales. Average charges dropped for the tenth month running and at the second-quickest pace since April 2009.

Following two months of pessimism, expectations with regards to activity over the year ahead returned to a positive footing in May. Looser quarantine restrictions, businesses reopening and hopes of improved client demand were frequently linked to optimism. Sentiment remained among the weakest on record, however.

IHS MARKIT ITALY COMPOSITE PMI®

Rapid decline in private sector activity



The Composite Output Index* posted 33.9 in May, to signal a further substantial contraction in Italian private sector output. Although up from April's nadir of 10.9, the rate of reduction was among the quickest on record.

At the sector level, services saw the sharpest decline, with manufacturers registering only a modest drop in output.

Driving the overall downturn in May was a further reduction in incoming new business. Order book volumes fell for the third month running, with the fall amongst the quickest on record despite softening from April. Foreign demand for Italian goods and services also declined, with the fall remaining historically marked, albeit the softest for three months.

In line with weak demand conditions, firms cut workforce numbers further during May. The rate of job shedding was marked overall. Nonetheless, companies were able to work through outstanding business. Backlogs fell for the twenty-third month running and sharply.

At the same time, Italian private sector firms recorded a third consecutive reduction in input prices during May. Subsequently, average selling prices fell again, with the rate of deflation among the quickest in over 22 years of data collection.

Sentiment with regards to output over the year ahead improved during May. The Future Output Index posted above the 50.0 neutral mark for the first time since February. That said, expectations remain among the weakest in the series history (since mid-2012).

COMMENT

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

"The COVID-19 pandemic and associated lockdowns continued to weigh heavily on the performance of the Italian service sector during May, with further substantial reductions in both business activity and new orders. With the economy beginning to reopen and restrictions loosening, however, the falls softened from April's records.

"Meanwhile, job cuts continued, with staff numbers falling at the second-quickest rate on record. Firms registered renewed optimism with regards to activity over the year ahead, but sentiment remained among the lowest in the series history.

"A similar trend was seen in the manufacturing sector, where the downturn continued, albeit at a softer pace. Nonetheless, the Italian economy remains in an extremely challenging period. Preliminary GDP estimates for the first quarter of 2020 recorded a decline approaching 5% on a quarterly basis, and PMI data for the second quarter so far point to another considerable contraction."

**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.

May 2020 data were collected 12-26 May 2020.

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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