News Release

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IHS MARKIT ITALY MANUFACTURING PMI®

Italian manufacturing downturn eases as COVID-19 restrictions loosened

KEY FINDINGS

Output declines at a softer rate as factories reopen...

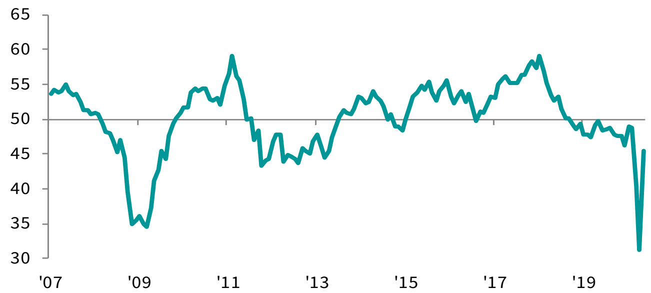
...but new orders continue to drop at a historically sharp pace

Further substantial cuts to workforce numbers signalled

Data collected 12-21 May 2020.

Italy Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

The downturn in the Italian manufacturing sector continued during May, as parts of the economy remained locked down to contain the coronavirus disease 2019 (COVID-19) pandemic. Both output and new orders declined for the twenty-second month running, although the declines softened from April's records as restrictions were loosened and factories reopened. Demand conditions remained weak, however, with order books falling at one of the quickest rates seen for over 11 years and markedly overall. Meanwhile, firms continued to cut staff numbers in May, with the rate of job shedding the second quickest since mid-2009.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – registered 45.4 in May to signal a twentieth consecutive monthly deterioration in the health of the Italian manufacturing sector. The headline figure rose from April's nadir of 31.1, however, indicating a much softer rate of decline.

Driving the latest contractions were further falls in both output and new orders. The rate of reduction in order book volumes eased from the record pace in April, but was still among the fastest since the depths of the financial crisis in mid-2009. The decline in output also softened from April and was relatively moderate, as some firms reported the restarting of production lines.

The volume of incoming new business from abroad fell during May, extending the current sequence of contraction to just over a year. Respondents noted that the coronavirus pandemic had resulted in muted demand from within key export markets.

Reflecting weak demand both domestically and abroad, manufacturers reported another round of lay-offs during May. Despite softening from April, the rate of job shedding was marked. Meanwhile, although there was a further reduction in capacity, outstanding business declined further, with the rate of depletion the quickest since September 2019 and sharp.

Buying activity dropped further, with the decline the third-sharpest since mid-2009. This was partly reflective of firms holding excess inventories. Both inputs and finished goods stocks rose at survey record rates as companies experienced limited production requirements and challenges related to the shipping of products. Supply chain disruptions also continued to be widely reported.

Cost burdens fell again during May, with anecdotal evidence linking the decline to lower oil and raw material costs. At the same time, firms continued to discount selling prices in order to attract custom. Average charges fell at the quickest rate since July 2009.

Finally, Italian goods producers remained confident with regards to output over the coming 12 months during May. Respondents linked optimism to easing lockdown restrictions globally and hopes of improved demand. Moreover, the level of positive sentiment was the highest since March 2017.

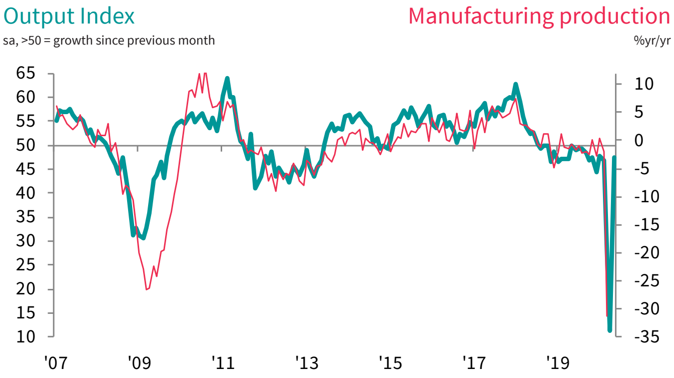
COMMENT

Lewis Cooper, Economist at IHS Markit, which compiles the Italy Manufacturing PMI survey, commented:

"The downturn in the Italian manufacturing sector continued during May, as the impact of the COVID-19 pandemic weighed further on production and new orders. The rates of decline eased, however, as parts of the economy began to reopen and lockdown restrictions were lifted, suggesting that the downturn likely bottomed out in April.

"With demand conditions still weak and growing excess capacity, firms continued to make substantial job cuts during May. The drop in workforce numbers was the second-quickest recorded since mid-2009, rivalled only by April's recent record.

"Latest official data, updated to March, showed a substantial drop in manufacturing production, with the decline in excess of 30% on an annual basis, and PMI data point to further large falls in April and May. Although latest figures highlighted a softer rate of deterioration, conditions across the sector remain extremely challenging as firms struggle to revive demand both domestically and abroad. A recovery from such a colossal downturn will inevitably take some time."



Source: IHS Markit, ISTAT.

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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.

May 2020 data were collected 12-21 May 2020.

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

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.