Services growth eases noticeably in October

Key findings

Business activity rises at weakest rate in current six-month sequence

Growth of new business slows, but remains solid

Pace of job creation picks up amid stronger capacity pressures

Data were collected 12-26 October 2021.

Italy’s service sector remained in expansion territory during October, according to the latest PMI® data, although growth eased further from the multi-year highs of July and August amid a slightly weaker uplift in new business. Nonetheless, capacity pressures continued to build, with firms taking on additional staff at a quicker rate as a result.

At 52.4 in October, the headline seasonally adjusted IHS Markit Italy Services PMI® Business Activity Index signalled a sixth consecutive monthly increase in services output, although the rate of growth was the weakest in this sequence, with the index falling noticeably from September’s 55.5.

Overall growth was driven by a sustained uplift in new business received by Italian service providers, stretching the current sequence of expansion that began in May. Stronger client demand, in part due to the easing of COVID-19 restrictions were attributed by panellists to the latest increase. The rate of expansion was solid, but eased to the slowest in the current sequence.

This partly reflected a renewed reduction in foreign business, which declined for the first time since May and mildly overall.

Nonetheless, capacity pressures intensified further, as the level of outstanding business increased again. Panellists noted that logistical issues and shortages had led to a rise in unfulfilled orders. Furthermore, the rate of backlog accumulation accelerated to a modest pace.

At the same time, companies continued to take on additional staff, as has been the case in each month since May. According to respondents, firms were bulking out workforce numbers due to capacity pressures and rising sales. The rate of job creation accelerated since September to a moderate pace but was still slower than seen over the summer.

October data also highlighted further severe inflationary pressures. Cost burdens facing Italian services firms rose again, with the rate of increase the steepest since July 2008. Greater variable costs, such as fuel and utilities, as well as material shortages, were the main drivers of inflation in October, according to panellists.

Subsequently, following a slight decrease in September, average charges levied by Italian service providers rose in October. Respondents attributed the upturn to the partial pass through of greater costs to clients. The rate of charge inflation was only marginal overall, however.

Finally, Italian services firms maintained an upbeat outlook towards activity over the coming year in October. Optimism was linked by respondents to improved sales, the easing of lockdown restrictions and hopes of a sustained economic recovery. Despite moderating since September, the level of sentiment remained elevated in the context of historical data.
The seasonally adjusted Italy Composite Output Index registered 54.2 in October, to signal a ninth successive monthly upturn in Italian private sector output. That said, the latest reading was down from 56.6 in September and the lowest since April, indicative of a loss of growth momentum.

The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Both manufacturing and services recorded weaker expansions in October. The slowdown was much more evident in the latter, however, which saw growth ease to a modest rate, while factory production continued to rise steeply, albeit at a slightly reduced pace.

Overall growth was supported by a further uplift in new business during October, with the rate of increase quickening slightly on the month and sharp overall, due primarily to a stronger expansion of manufacturing order book volumes.

October data also pointed to sustained capacity pressures at Italian companies, as backlogs rose at the fastest rate since June. Subsequently, firms raised staffing levels at a quicker pace and moderately overall.

Meanwhile, input costs increased further, with the rate of inflation the second-fastest on record and rapid. Inflationary pressures came primarily from the goods producing sector. Average charges levied by Italian firms rose sharply as a result.

*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.
**Survey 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.

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

**Survey dates and history**

Data were collected 12-26 October 2021.

Survey data were first collected January 1998.

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