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IHS Markit Italy Services PMI®

Including IHS Markit Italy Composite PMI®

Services output rises sharply in September, but loss of growth momentum signalled

Key findings

Business activity rises sharply, but at slowest rate since May

Growth of new work eases as new export orders stagnate

Input price inflation accelerates to rapid pace

Data were collected 13-27 September 2021.

Italian services firms registered another solid performance during September. Output continued to increase sharply, amid reports of strong client demand, although the rate of expansion eased to the slowest since May. This was due, in part, to a similar slowdown in growth of new work in September, which rose at the slowest pace in the current five-month sequence of expansion - although still sharply overall - amid a broad stagnation in inflows of new business from abroad.

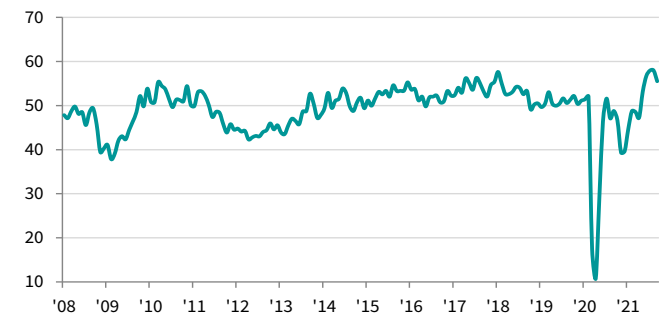
Cost pressures continued to spillover into the services sector, as the rate of input price inflation accelerated to the second-fastest for nearly a decade.

At 55.5 in September, the headline seasonally adjusted IHS Markit Italy Services PMI® Business Activity Index signalled a fifth straight monthly expansion of services output, and one that was sharp overall. Falling from 58.0 in August, the latest reading was indicative of a slowdown in growth momentum, however, with the rate of expansion the weakest since May.

Nonetheless, across the third quarter as a whole, the average reading for the index (57.2) was the highest since the second quarter of 2006.

Overall growth was driven primarily by a sustained uplift in order book volumes. The level of new business rose for the fifth month in a row and sharply, with panellists attributing the latest rise to strong sales and the sustained release of pent-up demand following the loosening of lockdown measures. That said, the rate of increase slowed noticeably since August to the weakest in the current sequence, in

Italy Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

part due to a broad stagnation in inflows of new work from abroad.

September data also pointed to stronger cost pressures. Average input prices continued to increase, extending the current sequence of higher costs which began in June 2020. The latest rise was the second-fastest recorded for nearly 10 years and rapid overall.

Nonetheless, average charges levied by Italian service providers decreased for the first time in five months during September, albeit only fractionally. Panellists noted that some firms were offering discounts to attract business.

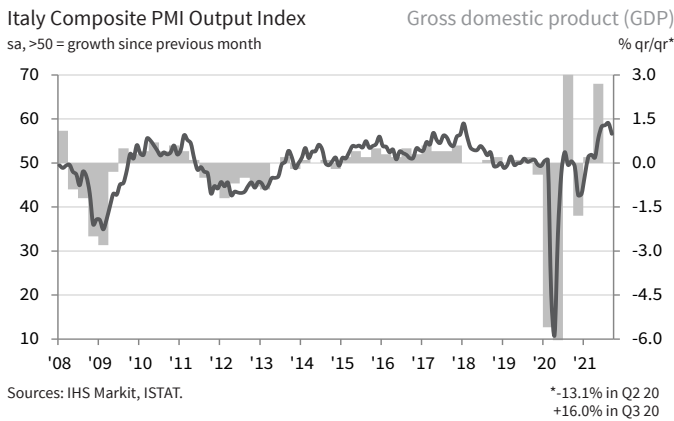
At the same time, Italian service providers registered a renewed rise in outstanding business in September, following no-change in the previous survey period. According to respondents, companies were struggling to find capacity to keep up with new business. The rate of backlog accumulation was modest, however.

As a result, firms continued to take on additional staff in September. The latest rise was the slowest since May, the first month of the current sequence of job creation, but still moderate overall.

Finally, business confidence remained robust during September. In fact, the level of positive sentiment edged up to a three-month high, and was elevated in the context of historical data, with over half (54%) of respondents expecting business activity to be higher by September 2022, compared to just 5% who predict a decrease.

IHS Markit Italy Composite PMI®

Private sector output growth remains sharp, but loses momentum



The seasonally adjusted Italy Composite Output Index posted 56.6 in September, to signal an eighth straight monthly expansion in Italian private sector output and one that as sharp overall. The latest reading was down from August's 15-year peak of 59.1, however, indicating a slight moderation of growth momentum.

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

Goods producers continued to lead the expansion at the end of the third quarter, recording a quicker upturn than the service sector, although both saw the rate of increase in output slow on the month.

Driving the overall upturn was a further sharp rise in inflows of new work to Italian companies. Order book growth did slow to a five-month low, but remained sharp nonetheless.

September data also highlighted a further round of job creation, extending the current sequence to five months. The latest rise was moderate, albeit the slowest since May.

Cost pressures intensified further in September, with the rate of input price inflation accelerating since August to a rapid pace. Subsequently, firms raised their selling prices sharply.

Finally, business confidence edged up to a three-month high and remained historically elevated.

*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.

Comment

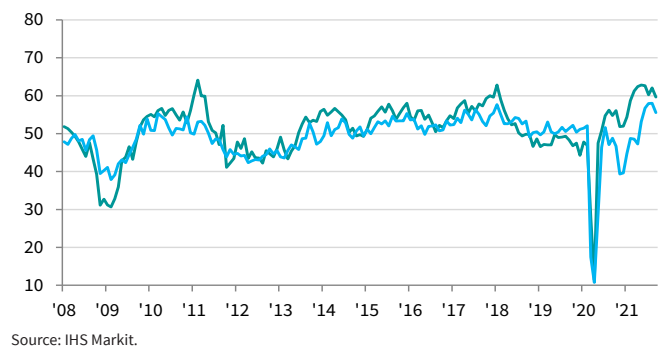
Lewis Cooper, Economist at IHS Markit, which compiles the survey:

"Italy's service sector recorded another strong performance during September as business activity continued to rise sharply, although the rate of expansion eased to the slowest since May in line with a similar slowdown of inflows of new work amid a broad stagnation in new export business."

"A similar trend was seen for the private sector, where output growth was the slowest for five months but still sharp overall. Goods producers again led the overall upturn at the end of the third quarter, but also saw a slower rate of output growth than in August. Nonetheless, this represents only a slight slowdown at the end of the strongest quarter for private sector output growth activity since mid-2006."

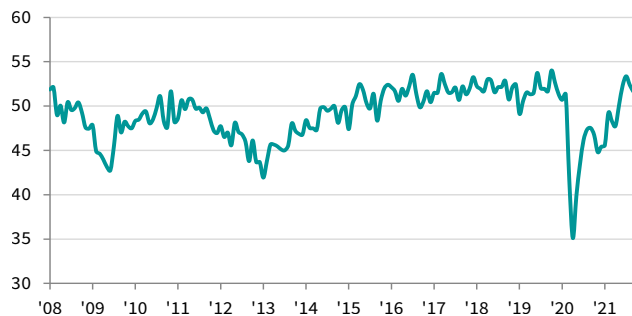
"Inflationary pressures remain a key downside risk, with cost burdens facing Italian companies rising rapidly again as surging input costs in manufacturing continued to spill over into the services sector. All in all, however, the Italian economy remains on an expansionary footing with firms widely expecting this to continue over the coming months."

Manufacturing Output Index / Services Business Activity Index
sa, >50 = growth since previous month



Italy Services PMI Employment Index

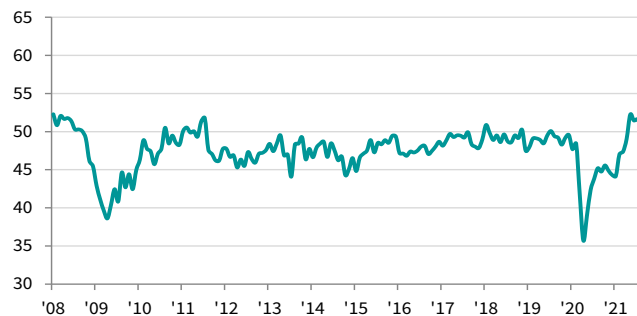
sa, >50 = growth since previous month



Source: IHS Markit.

Italy Services PMI Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

Contact

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

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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 services 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 13-27 September 2021.

Survey data were first collected January 1998.

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