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IHS MARKIT ITALY SERVICES PMI®

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Business activity rises at faster rate as domestic demand improves

KEY FINDINGS

Seventh consecutive increase in business activity

Further and faster rise in new orders

Joint-slowest rate of job creation since February

Italian service sector activity rose for the seventh month in a row in December, amid a further and faster uptick in new business. As a result of higher activity and order book volumes, workforce growth continued for the eleventh month running. The rate of job creation was the joint-softest since February and only mild overall, however.

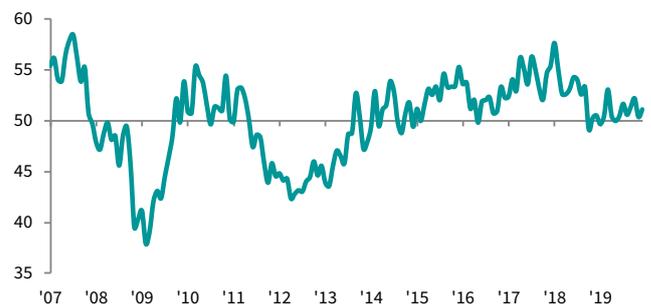
The headline index from the report, the seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – posted 51.1 in December, up from 50.4 in November, to signal a seventh consecutive monthly increase in service sector output with growth accelerating to a marginal rate.

The stronger expansion in service sector business activity was driven in part by a further rise of new orders in December. Order book volumes have now increased in each month since June, with panellists linking the latest uptick to stronger demand conditions. The increase gathered pace from November, but was only mild overall.

Improved demand was mostly due to conditions in the domestic market, however, as new orders from abroad continued to decrease in the latest survey period. Foreign demand for Italian services has now fallen for seven successive months, with the latest reduction the fastest since September.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Meanwhile, Italian service sector firms continued to increase workforce numbers during December, extending the current sequence of expansion to nearly a year. The rate of job creation softened and was only mild overall, however, and the weakest since April.

Capacity pressures were stable during December. The level of outstanding business was unchanged on the month, as signalled by the respective seasonally adjusted index registering at the 50.0 no-change mark.

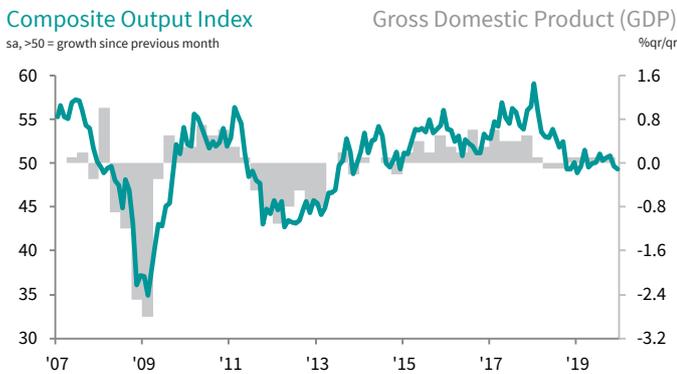
On the price front, cost burdens faced by Italian service providers continued to rise during the latest survey period, as has been the case in each month since August 2008. The rate of cost inflation was the fastest for two months, but remained subdued in the context of historical data.

Concurrently, average prices charged by services firms fell further during December, thereby extending the current sequence of deflation to five months. That said, the rate of decline was the softest in the aforementioned sequence of falls and only marginal overall.

Finally, Italian service providers remained optimistic with regards to business activity over the coming 12 months during the latest survey period, with expectations strengthening from November. The level of positive sentiment remained below the long-run series average, however.

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Output contracts for second month running



Sources: IHS Markit, ISTAT.

The Composite Output Index* posted at 49.3 in December, down from 49.6 in November, to signal a second consecutive fall in Italian private sector output. Moreover, the decline quickened to a marginal pace.

Underpinning the latest downturn was the fastest fall in manufacturing production for nearly seven years in December, which was sharp overall. In contrast, service sector activity rose for the seventh month running, with growth quickening from November.

Order book volumes were unchanged on the month in December, with quicker growth in services offset by the sharpest decline in new business for three months in the manufacturing sector. Meanwhile, foreign demand for Italian goods and services fell for the eighth consecutive month, albeit moderately and at a slightly softer rate than in November.

Stagnant new business allowed firms to work through backlogs during the latest survey period, with outstanding business falling for the eighteenth month running. That said, the rate of backlog depletion was notably slower than the long-run series average.

Workforce numbers rose further during December, although the rate of job creation was the softest in the current 11-month sequence of growth. By sector, job shedding continued at manufacturers, with employment falling at the fastest pace since mid-2013, while services recorded an uptick, albeit the softest for three months.

On the price front, cost burdens at Italian private sector firms continued to rise, as has been the case in each month since May 2013. However, input price inflation, despite quickening, remained historically subdued. Selling prices fell for the sixth month running, with declines recorded across both sectors.

Finally, firms remained confident that output would rise over the coming year. The level of positive sentiment strengthened to a three-month high.

COMMENT

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

"The Italian service sector recorded a seventh consecutive improvement in business activity at the end of 2019, with an improvement in domestic demand contributing to faster growth."

"New business rose in December, as has been the case in each month since June, with the rise accelerating amid reports of stronger client demand. That said, the uptick was only mild overall."

"The stronger performance of the service sector was offset by the fastest fall in manufacturing production for seven years, however, with private sector output falling marginally overall. Meanwhile, order book volumes were unchanged during December and firms increased workforce numbers at the softest pace in the current 11-month sequence of growth."

"Latest official GDP data, which is currently updated to the third quarter, highlighted broadly stagnant growth at only 0.1%, and recent PMI data point to further subdued conditions in the Italian private sector at the end of the year."

**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.

December 2019 data were collected 05-18 December 2019.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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