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IHS MARKIT ITALY SERVICES PMI®

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Service sector downturn continues to ease in June

KEY FINDINGS

Softer reductions in business activity and new orders

Further marked job cuts

Sentiment improves, but remains historically subdued

Data were collected 12-25 June 2020.

The Italian service sector continued to contract during June, although the downturn eased markedly as restrictions to combat the coronavirus disease 2019 (COVID-19) pandemic were loosened and further parts of the economy reopened. Incoming new business declined further, with the reduction remaining sharp despite easing. Amid muted demand conditions, service providers reduced staff numbers markedly.

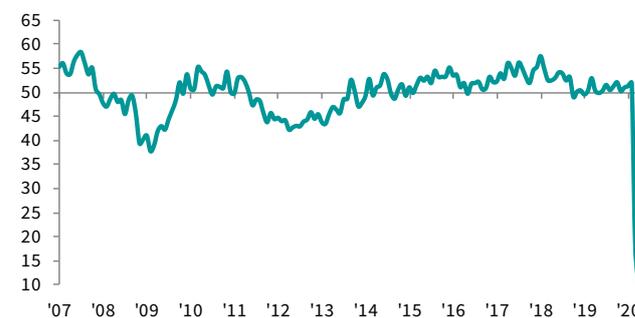
Encouragingly, activity expectations improved, but the level of positive sentiment remained subdued in the context of historical data.

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 – registered 46.4 in June, to signal a fourth consecutive reduction in service sector activity. That said, the headline figure rose from 28.9 in May to indicate a notably softer rate of decline, with some respondents noting that looser restrictions had allowed firms to reopen.

June data also highlighted another fall in new business, stretching the current sequence of contraction to four months. Panellists attributed the latest drop to weak client demand, and frequently mentioned the adverse impact of lockdown restrictions to control the coronavirus pandemic. The rate of reduction eased from May, but remained sharp

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

overall. Similarly, foreign demand for Italian services declined, as has been the case throughout much of the past two years.

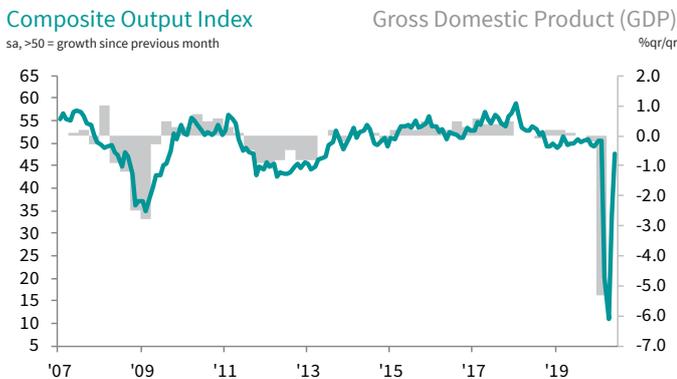
Concurrently, service sector employment fell again, amid reports of ongoing redundancies and lay-offs, as well as the use of government furlough schemes. The rate of job shedding, albeit still sharp, softened from May. Weak demand conditions allowed firms to direct resources to outstanding business, which fell at the slowest rate for four months.

On the price front, Italian service providers recorded a renewed increase in cost burdens during June, linked by panellists to the purchasing of safety and security equipment to control the pandemic as well as higher staff costs. Firms continued to discount selling prices to drive sales, however. The rate of reduction in average charges was marked, despite softening from the previous survey period.

On a positive note, service providers indicated continued optimism with regards to activity over the coming 12 months. The Future Activity Index posted above the 50.0 neutral mark for the second month running, with anecdotal evidence linking confidence to looser restrictions and subsequent hopes of an economic recovery. However, confidence still remains well below its long-term trend.

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Substantial easing of downturn in June



Sources: IHS Markit, ISTAT.

The Composite Output Index* registered 47.6 in June, to signal a fourth consecutive reduction in Italian private sector output. That said, the headline figure was up from 33.9 in May, indicative of a substantially softer rate of decline, as the lockdown to contain the coronavirus pandemic was loosened further.

At the sector level, services remained the primary drag on output, as manufacturers recorded a return to marginal growth.

Meanwhile, incoming new business fell for the fourth successive month in June, with the rate of reduction solid, despite softening. Amid weak demand conditions, private sector employment fell further. The rate of job shedding eased slightly, but was marked nonetheless. The level of outstanding business declined again, although the rate of backlog depletion was the slowest since February.

On the price front, cost burdens were broadly unchanged in June, with a solid reduction at manufacturers cancelling out the first increase for four months at services firms. Average selling prices dropped further, however, as companies sought to revive demand through discounting. The rate of deflation softened, but remained marked overall.

Italian private sector firms remained optimistic with regards to activity over the year ahead in June. The Future Activity Index picked up further and was broadly in line with the survey's long-run average.

COMMENT

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

"The Italian services economy saw a notably softer contraction in business activity in June as more parts of the economy reopened as a result of looser lockdown restrictions. Activity still declined on the month, however, with new business falling again and the rate of decline remaining sharp, despite easing. Subsequently, firms made further marked job cuts, with panellists frequently mentioning redundancies and lay-offs."

"The goods producing sector saw a similar picture, with the downturn easing from May amid the first increase in factory production for nearly two years. As a result, the private sector as a whole recorded a substantially softer contraction in output, but a drop, nonetheless."

"With weak demand conditions domestically and around the world, any meaningful recovery from the brutal economic blow dealt by the pandemic is likely to remain slow."

**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.

June 2020 data were collected 12-25 June 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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