

IHS MARKIT ITALY MANUFACTURING PMI®

Manufacturing operating conditions deteriorate for first time in over two years

KEY FINDINGS

New orders post sharpest fall since May 2013...

...leading to further reduction in production

Exports post first fall in almost six years

Manufacturing conditions in Italy worsened in October, as a sharp reduction in new orders led to a further decline in output. In addition to falling total new work, export sales slipped into negative territory. On the price front, input prices rose at a sharp pace, but charges increased at a slower rate.

The headline IHS Markit Italy Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – registered 49.2 during October to signal a slight deterioration in overall business conditions. Down from 50.0 in September, the index was below the critical 50.0 mark for the first time since August 2016 and at its lowest overall level for 46 months.

Weighing on the PMI were declines in both output and new orders. Latest data indicated that Italian manufacturing output fell in October. Although negligible, the decline in production was the third in successive months as the downturn in order books gathered pace.

Anecdotal evidence indicated that the slowing domestic economy continued to hamper new business. Not only did total sales decrease for the third month in a row, but also to the greatest extent in almost five-and-a-half years. Additionally, new business from abroad fell in October, interrupting an almost six-year sequence of expansion. There were reports from panellists of weaker demand from key export partners, especially in Asia.

Despite the setbacks in output and new work, Italian manufacturers continued to add to their workforce numbers in October. The rate of job creation was modest, though

Italy Manufacturing PMI
sa, >50 = improvement since previous month



quicker than seen in September. Firms attributed growth to hopes of a recovery in domestic demand. Meanwhile, backlogs of work fell for the seventh successive month in October, with the latest contraction again marked.

In October, manufacturers added to their inventories of finished goods for the fourth month in a row. Despite being modest, the rise was the strongest recorded in four years. Holdings of inputs also increased in October.

Due to weaker underlying trends in output and new work, manufacturers decreased their purchasing activity. October marked the fourth successive monthly fall of input purchases, with the latest reduction accelerating since September. The lack of pressure on supply chains contributed to an improvement in average lead times for inputs, with vendor performance improving for the first time in 25 months.

Amid reports of increasing raw material prices (most notably oil-based products), cost burdens rose in October. The rate of inflation was marginally higher than in September. In response, firms raised their own charges, albeit at a weaker pace compared to the previous month.

Finally, optimism regarding the year ahead outlook for output was sustained in October, but worries over political stability and future export trade meant sentiment weakened from September.

COMMENT

Amritpal Virdee, Economist at IHS Markit, which compiles the Italy Manufacturing PMI survey, commented:

"Italy's manufacturing sector showed signs of deterioration in October, with the PMI dropping below 50.0 for the first time since August 2016. New orders decreased at the quickest pace in 65 months, reflecting a combination of weaker domestic demand and export sales.

"This deterioration in underlying performance was manifested in many of the survey's other indicators; supplier lead times improved as demand for inputs fell and backlogs of work sharply declined for the seventh month in a row as new orders decreased.

"Contrastingly, employment growth picked up as Italian manufacturers hired additional staff in expectation of a resurgence in customer demand in the next 12 months.

"However, this optimism was tempered by fears of a slowdown in key export markets, particularly in Asia, and political uncertainty. This may lead to Italy's industrial base dragging down wider economic growth in the last quarter of 2018."

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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.

October 2018 data were collected 12-24 October 2018.

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit, ISTAT.

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