

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit Italy Services PMI®

Growth of Italy's service sector strengthens in June

Key findings:

- Fastest rises in activity and new work since February
- Backlogs increase at fastest rate in over eight years
- Input price inflation rises to highest level since June 2016

Data collected June 12-26

Italy's service sector experienced an uplift in growth at the end of the second quarter, driven by improved demand and subsequent gains in new work. Capacity came under renewed pressure, with backlogs of work rising to the strongest degree since March 2010. Companies increased employment at a modest pace.

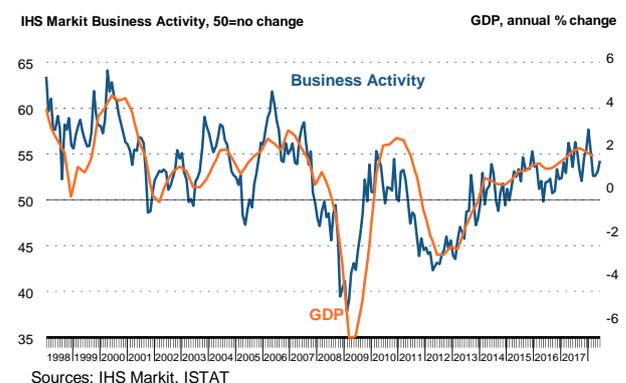
Less positive were developments on the price front, where average operating expenses increased to the greatest degree for two years but output charges were lowered marginally. Business confidence remained close to a near two-year low.

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 – came in at 54.3 in June. That was up from 53.1 and represented the strongest growth of the sector since February. Activity has risen throughout the past 25 months.

Supporting June's upturn in activity was another increase in new business. Companies commented that demand was generally firmer, with sales to foreign clients reported to be stronger. Latest data showed that the net gain in new work was the best recorded by the survey for four months.

Increased growth in new work served to test operating capacity during the latest survey period, as evidenced by a rise in work outstanding.

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June's survey showed that backlogs rose to the greatest degree in over eight years.

A number of panellists blamed backlog accumulation on a lack of suitable staff and were subsequently encouraged to add to their staffing levels. Latest data showed net jobs growth in the sector for a twenty-first month in succession, although the latest gain was the lowest recorded by the survey since last October.

Increased staff numbers added to operating expenses during the month, with a number of firms reporting an increase in average salaries. With fuel and oil-related products reported to be up in price, overall input costs rose to the strongest degree since June 2016. In contrast, market pressures meant that average output charges were cut slightly for a fifth successive month.

Finally, business confidence was little changed in June, rising only slightly on May's near two-year low. Whilst the planned introduction of new services, expected rewards from past investments, and forecasts of general business expansion should all bolster activity, political instability and worries over tighter credit conditions undermined optimism in the latest survey period.

Comment:

Paul Smith, Economics Director at IHS Markit which compiles the *Italy Services PMI*® survey, said:

“There was a welcome upturn in service sector expansion during June, with both activity and new work registering stronger gains relative to the previous month.

“The data raise hopes that the services economy is recovering from the general growth slump that has been observed since expansion hit a multi-year high at the start of the year.

“Whilst less exposed to the trade-induced downswing that has hit manufacturing – and in that respect rising global protectionist measures – political instabilities and the potential for tightening credit conditions are notable headwinds to growth in the coming months.

“Indeed, such factors continue to weigh on service sector business confidence, which hovered close to a two-year low in June. With that in mind, and following an expected rise of around 0.1% in Q2, GDP growth in the second half of the year is likely to remain in a fairly subdued range.”

-Ends-

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Notes to Editors:

The Italy Services PMI® (Purchasing Managers' Index®) is produced by IHS Markit. The report features original survey data collected from a representative panel of around 400 companies based in the Italian service sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index*® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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