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IHS MARKIT ITALY SERVICES PMI®

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Service sector activity increases marginally during April

KEY FINDINGS

New order growth slows down noticeably

Employment growth slows

Fifth consecutive month of declining selling prices

Italian service providers registered a marginal increase in business activity during April as the rate of new order growth weakened notably from March. The slower increases in business activity and new orders contributed to a softer rise in service sector employment. On the price front, output charges fell for the fifth consecutive month as panellists responded to competitive pressures.

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 50.4 in April down from 53.1 in March, and signalled a marginal increase of Italian service sector activity. That said, April marked the third consecutive month of business activity growth.

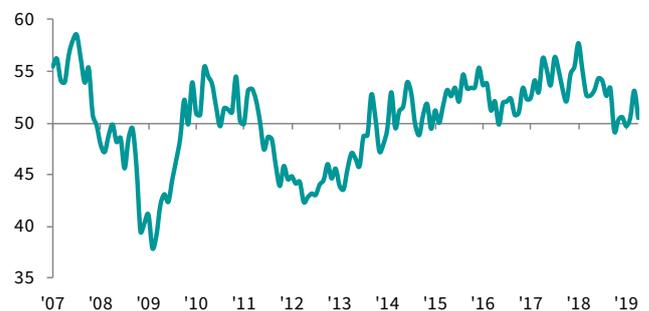
Central to the softer rise in business activity was weaker overall new business growth. Latest data showed only a marginal expansion during April. That was despite inflows of work from abroad returning to growth after nine consecutive months of decline, as firms reported an overall improvement in overseas demand conditions.

Italian service providers increased their workforce numbers for the third consecutive month in April. Despite this, the rate of job creation was modest and eased slightly from March. Firms indicated they had increased the size of their payrolls as a result of greater workloads.

Capacity pressures among panellists continued to ease during April, with backlogs of work declining for the third

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

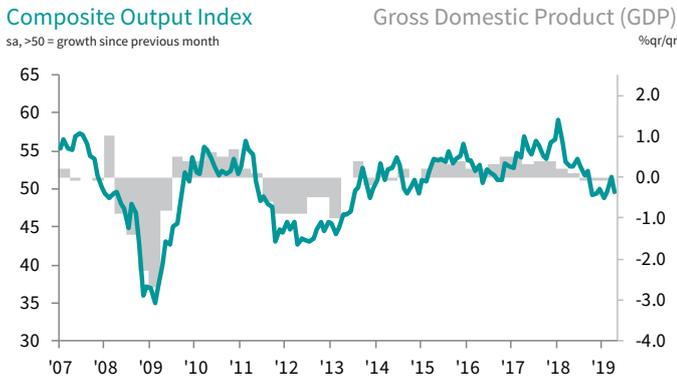
time in the past four months. That said, the rate of backlog depletion was marginal. Service providers attributed reduced outstanding business to slower new order growth.

On the price front, cost inflation softened to a four-month low during April. Nonetheless, the rate of inflation was sharp and companies noted in particular rising fuel and staffing costs. In line with the slower rise in cost burdens, selling prices among Italian service providers declined in April for the fifth successive month. Moreover, the pace of reduction was solid and the most marked in three months.

Finally, sentiment among Italian service providers dipped slightly in April, but remained in positive territory. Just over 34% of panellists were confident of a rise in business activity from present levels in 12 months' time against exactly 9% who predicted a fall. Expectations of greater export sales activity and planned business expansions were cited as reasons to be optimistic.

IHS MARKIT ITALY COMPOSITE PMI®

Output fails to expand for sixth time in seven months



The Composite Output Index* posted at 49.5 in April, down from 51.5 in March and signalling the sixth time in the past seven months that Italian private sector output had failed to increase.

Underpinning the latest downturn was a marked slowdown in service sector activity growth in April, whilst manufacturing output recorded its ninth straight month of contraction. The latest decrease was the sharpest in three months.

In line with the trend for output, overall inflows of new business failed to increase in April. A much slower rate of contraction in manufacturing orders was offset by a marked easing of new business growth at service providers. Export sales, on the other hand, expanded for the first time since September 2018, driven by a pick-up in overseas demand for manufactured goods.

A contraction of new business enabled firms to work through their backlogs. Work outstanding fell for the tenth consecutive month and at the same pace as in March.

Employment growth quickened in April on the back of accelerated job creation at manufacturers, which rebounded from the contraction recorded in March. At the composite level, headcounts grew at the fastest pace in four months.

Selling prices fell across the private sector for the fifth consecutive month during April. Meanwhile, the rate of input cost inflation was marked and quickened slightly from March.

Sentiment regarding future trading conditions among Italian firms dipped to a three-month low in April. Both manufacturers and service providers registered lower levels of optimism.

COMMENT

Commenting on the PMI data, Amritpal Virdee, Economist at IHS Markit said:

"Italy's services economy moved down a gear in April, with the PMI easing markedly to show only a marginal increase in business activity. What's particularly worrying is the backdrop of weaker demand, with new orders rising fractionally, indicating that already slow growth may subside further."

"The stand-out positive news was overseas export demand, which returned to growth after nine consecutive months of decline."

"However, the latest survey also confirmed the absence of any serious pricing power amongst firms, with prices charged for goods and services declining for the fifth month in a row."

**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.

April 2019 data were collected 10-25 April 2019.

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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.

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