

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit Italy Retail PMI®

Sharpest drop in retail sales since April

Key points:

- Rate of decline in retail sales accelerates for second straight month
- Stocks levels fall amid sharp drop in retailers' purchasing activity
- Purchase price inflation dips to modest rate

Historical overview:



Summary:

The downturn in Italy's retail sector gained further momentum in July. The level of trade fell at a faster rate, leading to an accelerated decline in retailers' purchasing activity and contributing to a deterioration in business sentiment. There were also further notable reductions in profitability, employment and inventory levels on the month. Cost pressures in the retail sector meanwhile remained only mild, with the rate of inflation in purchase prices having slowed slightly since June.

July saw an acceleration in the month-on-month rate of decline in Italian retail sales, as highlighted by a drop in the headline Markit Italy Retail PMI® from 40.7 in June to 38.2. This was its lowest reading since April, and one that was indicative of a sharp pace of contraction overall. The level of trade has fallen continuously on a monthly basis for almost two-and-a-half years.

Retail sales in July were down sharply on the level observed one year previously, with the annual rate of decline also more marked than those recorded in both May and June. Firms linked the downturn to lower purchasing power and political instability in the intervening period.

The gap between actual and planned sales was the widest for four months in July, as almost half of businesses missed their targets. Firms attributed their underperformance to a combination of uncertainty and pessimism among consumers.

Retailers' expectations regarding the prospects for trade in the month-ahead are (on average) the lowest in 2013 so far. Firms predicting sales to fall short of previously-set plans in August well outnumber those anticipating overachievement.

In accordance with a faster contraction in sales, the rate of decline in purchasing activity among retailers accelerated in July. The decrease in items purchased was the most marked since April, and also reflected attempts made by a number of businesses to contain stock levels. Inventories fell for the third consecutive month in July, but at the slowest pace in this sequence.

Italian retailers meanwhile maintained a preference for lower staffing numbers in July. The degree to which employment levels fell was solid, albeit less marked than in the previous survey period. Where staff were shed during the month, this was sometimes linked by businesses to lower revenues.

Decreased revenues – a consequence of both lower sales and discounted selling prices – also contributed to a reduction in retailers' gross margins in July. Furthermore, the rate of decline in profitability was little-changed from the rapid pace observed one month earlier.

Average purchase prices facing retailers in Italy rose during July, although the rate of inflation remained only modest in the context of historical

survey data and was slightly slower than in June. Those firms that reported higher purchasing costs sometimes linked this back to higher fuel prices.

Comment:

Phil Smith, economist at Markit and author of the Italian Retail *PMI*[®], said:

“Italy’s retail sector remained in decline at the start of the third quarter and, rather than easing, the pace of contraction accelerated for a second straight month. Panel member reports suggested that consumers are still taking a cautious approach to spending, having seen their purchasing power weaken significantly following an extended period of falling real wages and with political uncertainty continuing to weigh on sentiment.

“The general response to lower sales among retailers was as expected, with businesses often pausing their own purchasing activity to allow stocks to fall to levels more consistent with lower demand and cutting excess staff.

“Official figures have meanwhile shown consumer confidence on the rise. However, this was from a very low base and one that had been at odds with even the rapid pace of decline in retail sales seen in recent months. Should sentiment continue to strengthen, we may begin to see an improving trend in trade.”

-Ends-

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Notes to Editors:

“*PMI*” is an acronym for *Purchasing Managers’ Index*, a type of survey originally developed for tracking business conditions in the manufacturing sector. Markit now uses ‘*PMI*’ to describe the methodology used for surveys also undertaken in the services, construction and retail sectors.

For the Italy Retail *PMI*, Markit recruited a representative panel of retail companies. The panel includes large chain retailers as well as smaller retailers to ensure balanced representation of the true structure of the Italian retail sector. Similarly, the composition of the panel by classification of retailer (i.e. type of good sold) is monitored to ensure accurate representation.

Markit ensures the correct structure remains in place over time and that response rates remain sufficiently high to generate reliable economic data.

Data collection occurs via the completion of questionnaires by survey panel members during the second half of each month.

The percentage figures of companies reporting an improvement, deterioration or no change for each survey variable are converted into a single-figure “diffusion index” for each variable. Diffusion indexes vary between 0 and 100, with a reading of 50.0 signalling no change on the previous month. Readings above 50.0 signal growth on the previous month and readings below 50.0 signal contraction. The greater the divergence from 50.0, the greater the rate of change signalled.

The methodology includes the automatic weighting of each survey response in order to ensure that the effect of each response on the final figure is proportional to the size of the responding company.

Where appropriate the indices are seasonally adjusted to take into consideration expected variations for the time of year.

The use of the diffusion index methodology means that the results for the Retail *PMI* will be directly comparable with *PMIs* for other sectors, such as manufacturing, services and construction.

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 Markit. Please contact economics@markit.com.

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About PMIs

Now available for 32 countries and key regions including the Eurozone, *Purchasing Managers' Indexes*[®] (*PMIs*[®]) have become 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 www.markit.com/economics.

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