

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Italy Manufacturing PMI[®]

Italian manufacturing sector growth weakens again in May

Key points:

- Slowest expansion since November 2016
- Output and new orders undermined by softer trend in underlying demand
- Further rise in jobs leads to marked cut in backlogs

Data collected May 11-23

Italy's manufacturing sector continued to expand during May, but again at a slower rate as signs of softer demand, especially from abroad, translated into weaker gains in output and new orders. Companies nonetheless took on extra staff and were able to make notable inroads into their backlogs of work.

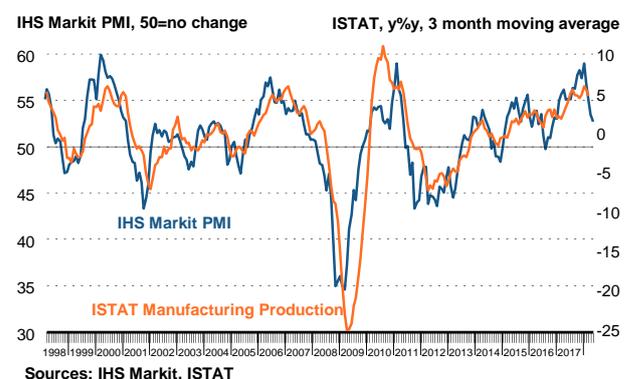
On the price front, cost pressures continued to intensify as shortages of stock and rising demand empowered suppliers. Output charges were raised again, but at the slowest rate of the year so far.

The headline IHS Markit Italy Manufacturing *Purchasing Managers' Index*[®] (PMI[®]) – a single-figure measure of developments in overall business conditions – fell to 52.7 during May, down from 53.5 in the previous month and the lowest level for a year-and-a-half. Having hit a near seven-year high of 59.0 at the start of the year, the PMI continues to lose noticeable momentum.

Underpinning the slowdown in the PMI were weaker gains in both output and new orders. Both indicators posted their lowest readings since October 2016, amid reports of softer underlying demand. This was especially the case in export trade, where growth in new orders from abroad was at its weakest level since August 2016. Panellists reported that sales to China and the USA were the most notable sources of weakness.

Despite the setbacks in growth of both output and new work, Italian manufacturers continued to add to their workforce numbers during May. Latest data showed that employment rose for a forty-first month in succession as firms sought to bolster capacity.

IHS Markit Italy Manufacturing PMI



This enabled companies to keep on top of their workloads as signalled by the strongest decline in backlogs of work for two-and-a-half years.

Meanwhile, latest prices data showed average input costs rising sharply again in May. Commodities and raw materials were reported to be generally higher by the 30% of the survey panel that recorded an increase in prices. Just over 13% of manufacturers responded to their higher operating costs by raising their own charges. However, the overall rate of output price inflation was the lowest recorded by the survey since last year.

Higher raw material prices were linked to ongoing stock shortages at suppliers. May data showed that vendor performance deteriorated markedly again during the month, in part also driven by rising demand. Purchasing activity rose further during May, and contributed to the greatest accumulation of input inventory since April 1998.

Finally, business optimism remained high during the latest survey period amid positive projections for demand and investment.

Comment:

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

“Growth in Italy’s manufacturing sector spluttered during May, with both output and new orders rising at rates not seen since late 2016.

“The latest data add to a startling trend since the turn of the year, when the sector expanded at its strongest rate since early 2011 but, as was the case seven years ago, lost considerable momentum in successive months ever since.

“Whilst a number of temporary factors (such as poor weather in the first quarter) have exacerbated the downward trend, the slowdown continues to be primarily linked to global capacity constraints, which has led to sharply rising delivery times and difficulties in sourcing inputs for production. Subsequent rises in costs are not helping either, with commodities and raw materials widely reported to be up in price.

“With similar issues being reported elsewhere around the world, demand from abroad has also softened in recent months and thereby undermining what has been the principal driver of Italy’s recent industrial growth – foreign demand for its high end capital goods.”

-Ends-

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Notes to Editors:

The IHS Markit Italy Manufacturing PMI Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to Italy GDP, and by company workforce size.

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 IHS Markit Italy *Manufacturing Purchasing Managers' Index*® (PMI®) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

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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About PMI

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