

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

Strong gain in new orders drives further growth of service sector

Key findings:

- Best recorded gain in new work since June 2006
- Jobs added to greatest degree since March
- Margins come under pressure, while optimism down to lowest in almost a year

Data collected December 5-18

Italy's service sector rounded off 2017 in a positive fashion, recording strong gains in activity and new orders amid reports of positive market conditions. As a number of companies grappled with capacity pressures at their units, staffing levels were raised to the strongest degree since March.

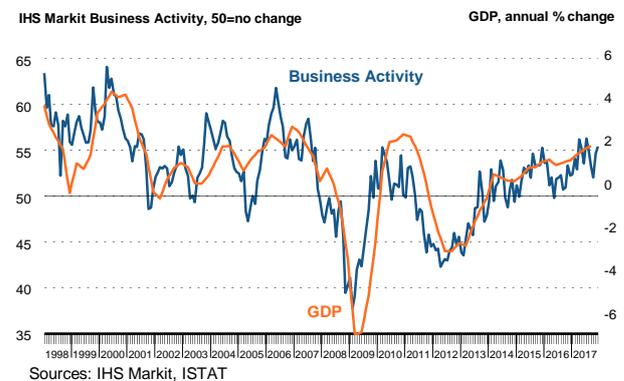
Less positive was an acceleration of input price inflation to a three-month high, whilst output charges remained under pressure. Business expectations were positive, but slipped to the lowest recorded by the survey since the start of the year.

After accounting for seasonal factors, the headline 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 – improved to a level of 55.4 in December. That was up from November's 54.7 and the best reading since July. Growth has now been recorded for 19 months in a row.

December's strong gain in activity was closely correlated to a sharp rise in new business. Latest data showed that the gain in new work was the best recorded since June 2006 amid reports of positive market conditions. Increased promotional and marketing activities also helped firms to secure new business.

With growth of new work far outstripping that of activity in December, capacity came under pressure.

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Backlogs of work rose for a fifteenth successive month, although the increase was marginal and the weakest since October 2016.

Increased job numbers helped companies to keep on top of workloads. December's survey showed that staffing levels rose to the greatest degree since March. Company investment and expansion plans were noted as reasons to hire additional staff.

On the price front, average operating costs rose to the greatest degree since September amid reports of higher supplier prices and increased fuel costs. Companies were on average unable to pass on any of their higher costs, with latest data showing a slight fall in prices charged.

Finally, business confidence remained inside positive territory during the latest survey period, although optimism was the lowest recorded since January 2017. Nonetheless, over 35% of the survey panel indicated expectations of a rise in activity from present levels, with a number forecasting positive new business gains over the coming 12 months.

Comment:

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

“The Italian service sector carried strong momentum through the end of 2017, growing at a rate not seen since the summer as positive demand conditions led to the greatest increase in new work for well over a decade.

“However, growth in part was again underpinned by a touch of discounting, whilst expectations softened to their lowest since January and suggestive of some concern amongst service providers whether recent positive trends will be fully maintained.

“Nonetheless, with industry continuing to expand at a tremendous clip into the year end, Italy’s economy seems set to have recorded in Q4 a similar-sized increase in GDP to the one seen in the previous quarter.”

-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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