

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Italy Services PMI®

## Business activity down in August

### Key findings:

- Concurrent drops in output and new orders
- Accelerated fall in employment
- Input price inflation picks up

Data were collected 10-25 August 2023

Italy's service sector suffered concurrent declines in activity and new work during August for the first time this year amid reports of a challenging business environment. Confidence in the future also softened as firms signalled some concerns that high prices and elevated interest rates will hit demand, whilst there was a drop in employment for a second successive month. Input prices rose at an elevated and accelerated pace, although output charges rose only modestly.

The headline index from the report, the **HCOB Italy Services PMI® Business Activity Index** slipped below the 50.0 no-change mark in August. Posting 49.8, down from 51.5 in the previous month, the index signalled a marginal fall in activity and the first recorded contraction in 2023 so far.

Panellists linked the weak underlying trend in activity to softness in demand. There were reports from the survey panel that client interest in services had cooled, linked in part to elevated prices and inflation. It was the first time that a fall in overall new business has been registered since November 2022. Although there were reports of positive tourism numbers supporting foreign new business in August, overall export sales also dipped. This marked the first fall since February.

Against the backdrop of falling demand and activity, firms were understandably circumspect with their staffing decisions during August. According to the latest data employment fell for a second month running as firms chose not to replace leavers or sought productivity improvements at their units. Overall, the drop in employment was the steepest recorded by the survey since January 2021. This reduction in capacity went some way to explaining the slight rise in work outstanding experienced by Italian service providers over the month.

Latest prices data revealed the continuation of rising operating costs in August. Moreover, inflation accelerated, reaching its highest level for four months. It also remained historically elevated, despite being well down on rates seen throughout 2022 and the start of this year. There were reports that a suite of operating expenses had risen. This included fuel and food, the latter in part linked to flooding in parts of the country earlier in the year. Employee costs were also cited as a source of inflation.

Firms tried to pass on a proportion of their higher costs to clients via an increase in their own average tariffs during the month. August therefore marked the twenty-third month in a row that output prices have risen, although the latest increase was modest and well below that of input prices.

Finally, confidence in the future remained positive amid hopes of economic recovery in the coming year. However, sentiment slipped since July and hit its lowest level since last December. Worries over the impact of higher interest rates were signalled. Cost pressures in general also remained a concern.

## Comment

Commenting on the flash PMI data, Dr Tariq Kamal Chaudhry, Economist at Hamburg Commercial Bank, said:

*"The Italian services sector is now firmly in the grip of a recessionary threat. We're seeing most probably the beginning of a recession in the services sector, in line with the manufacturing sector, which has seen a decline in output since the second half of last year. The HCOB Services PMI has fallen by 1.7 index points to 49.8 for the month of August, in comparison to the preceding month. This marks the poorest reading since November 2022 and is a continuation of a four-month-old downward trend in the index.*

*"Companies do not seem to harbour belief in a swift recovery of the Italian services sector. New orders both domestically and abroad are now dwindling. In addition, the business outlook has taken a hit compared to the previous month and, despite growth projections, confidence lags significantly behind its long-term average. Service providers continue to express concern over rising interest rates and their adverse impact on market activity.*

*"Given bleak prospects, services companies, along with those in the manufacturing sector, are now trimming their workforce numbers. The historically low unemployment figures recently published by ISTAT for Italy, at 7.3% in June, are likely to see an increase in the near future.*

*"In addition to subdued business activity, service providers are grappling with high prices. Currently, input costs are on the rise and even speeding up. This contrasts with output prices, which could only be increased at a lower pace than the month before, and means that profit margins continue to suffer."*

**HCOB Italy Services PMI Business Activity Index**

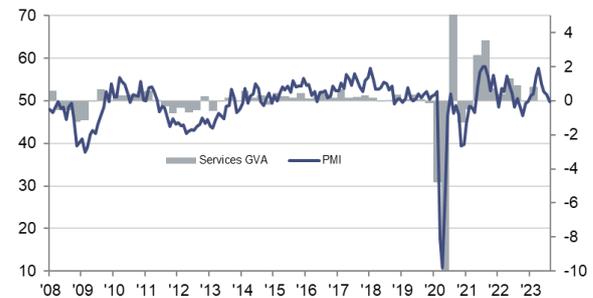
sa, > 50 = growth since previous month



Sources: HCOB, S&P Global PMI.

**Services PMI Business Activity Index**

sa, > 50 = growth since previous month



Sources: HCOB, S&P Global PMI, ISTAT via S&P Global Market Intelligence.

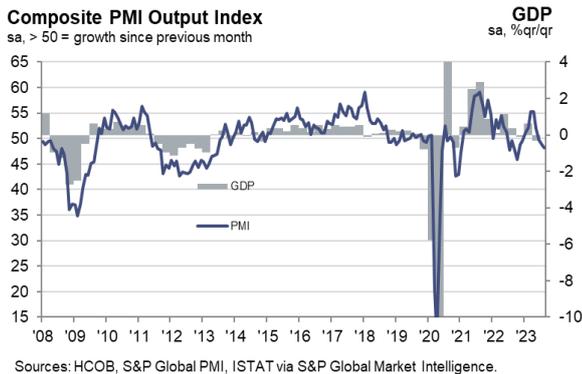
## HCOB Italy Composite PMI<sup>®</sup>

### Accelerated contraction of private sector economy in August

Alongside a marginal drop of service sector output, there was a fifth successive, and considerable, decline in manufacturing output during August. Overall, this ensured that private sector output was down for a third month running, and to the greatest extent since October 2022. This was highlighted by the HCOB Italy Composite PMI Output Index\* which recorded 48.2 in August, down from 48.9 in July.

Weakness in activity was closely aligned to the sharpest fall in new orders since October 2022, with both sectors experiencing declines in new business. Firms across both industries responded by reducing their staffing levels, leading to the first net drop in private sector employment since April 2021.

There as a sharp pick-up in overall input cost inflation during August, with latest data showing the steepest increase for three months. However, output charges overall fell marginally for a third successive month.



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## Note to Editors

The HCOB Italy Services PMI<sup>®</sup> is compiled by S&P Global 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. Data collection began in January 1998.

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.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### Hamburg Commercial Bank AG

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping. The bank is one of the pioneers in European-wide project financing for renewable energies and is also involved in the expansion of digital and other areas of important infrastructure. HCOB offers individual financing solutions for international corporate clients as well as a focused corporate client business in Germany. The bank's portfolio is completed by digital products and services facilitating reliable, timely domestic and international payment transactions as well as for trade finance.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

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