# News Release

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# S&P Global Italy Manufacturing PMI®

## Factory production declines for first time in two years

### Key findings

Output falls amid weak demand and supply issues

First reduction in order book volumes since November 2020

Sentiment ticks up, but remains historically muted

The latest PMI® data from S&P Global pointed to the first reduction in Italian manufacturing output for two years during May, amid reports that firms were struggling to produce due to material shortages, and weak client demand. Indeed, order book volumes decreased for the first time since late 2020, with the same trend evident for new export orders.

Meanwhile, business confidence remained muted in the context of historical data, although the level of sentiment edged up further from March's two-year low, with goods producers hopeful of a rebound in demand and easing supply disruptions.

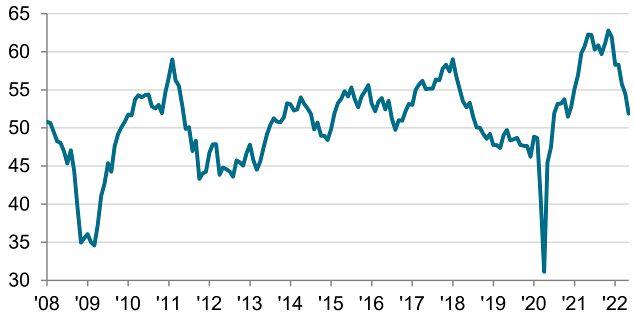
The seasonally adjusted S&P Global Italy Manufacturing Purchasing Managers' Index® (PMI®) fell from 54.5 in April to 51.9 in May. Although still above the neutral level of 50.0, the latest reading was indicative of the weakest improvement in manufacturing conditions for 18 months and only marginal growth overall.

The weaker upturn was driven primarily by falls in output and new orders during May. Factory production decreased for the first time since May 2020, with panellists reporting that shortages of inputs and weak client demand had weighed on output. The rate of reduction was marginal overall.

Meanwhile, both total order book volumes and new orders from abroad declined for the first time since November 2020 in May. Weak demand conditions, driven in turn by heightened uncertainty and higher prices, were cited by respondents as causes of the respective falls. The rate of contraction in total new work was solid and outpaced that for export order books.

Elsewhere, goods producers recorded a further uplift in buying activity during May. Anecdotal evidence attributed the latest increase with higher order books in prior months and efforts to secure materials due to ongoing shortages.

Italy Manufacturing PMI
sa, >50 = growth since previous month




Source: S&P Global.
Data were collected 12-24 May 2022.

### Comment

Lewis Cooper, Economist at S&P Global Market Intelligence, said:

"Italy's manufacturing sector felt the combined effects of sustained supply issues and weak demand conditions during May. Production declined for the first time in two years, amid reports of weak inflows of new work and issues sourcing the required inputs. Following a 17-month sequence of growth, order book volumes fell at a solid pace, with new export orders also contracting on the month. According to survey respondents, weak demand conditions were the result of heightened uncertainty and higher prices.

"Inflationary pressures were again evident in the latest data, with the rates of increase in both input costs and factory gate charges amongst the strongest on record, albeit easing to three-month lows respectively.

"Some positive news came from business confidence at Italian goods producers, which ticked up further from March's two-year low amid hopes of a rebound in demand and the easing of supply issues. That said, sentiment remained muted in the context of historical data, as the war in Ukraine and surging costs continues to concern manufacturers.

"The sector is on rocky ground mid-way through the second quarter of the year, as goods producers feel the effects of multiple headwinds including supply issues, surging inflation, rising levels of uncertainty and the subsequent knock-on impact to client demand. Should these headwinds not let up, Italy's manufacturing sector is likely set for further challenges in the months ahead."

PMI® by S&P Global

Material shortages were also reflected in a back-to-back reduction in stocks of purchases at Italian goods producers in May, as delivery delays led to the non-receipt of inputs. That said, rate of inventory decline eased since April and was marginal. Subsequently, inventories of finished goods fell sharply amid reports that stocks had been used to fulfil orders.

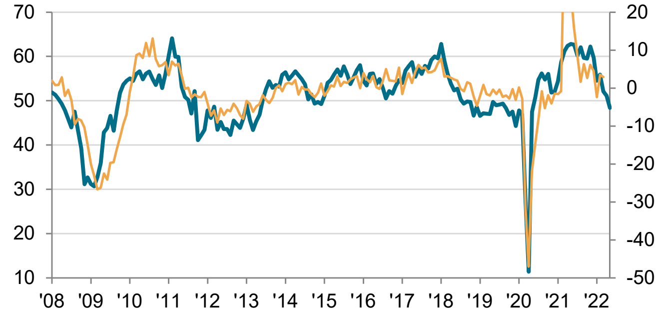
Supply disruptions showed tentative signs of easing during May, however. Although still severe, delivery delays were the least widespread since February 2021. Where firms reported longer lead times, this was attributed to material shortages and logistical problems.

More positively, Italian goods producers recorded sustained job creation during May, extending the current sequence to 21 months. Hiring was linked to efforts to alleviate capacity pressures, which persisted in May. Backlogs of work rose for the seventeenth month in a row, albeit at the slowest pace for over a year.

May data also pointed to an easing of inflationary pressures across the manufacturing sector. Average costs faced by firms rose steeply, amid reports of surging material and transport costs, but the rate of inflation slowed to a three-month low.

A similar trend was recorded with respect to factory gate charges in May, with the rate of inflation remaining amongst the highest on record but retreating from recent highs. Where price hikes were reported, panellists linked these to the pass through of greater costs to clients.

Finally, business confidence ticked up further from March's two-year low during May. Optimism was attributed through anecdotal evidence to hopes of strong demand, easing supply disruptions and a general improvement in economic conditions.




Sources: S&P Global, ISTAT.

*+ 43.3% in Mar '21
+ 90.3% in Apr '21
+ 24.8% in May '21

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**Survey methodology**

The S&P Global Italy Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in June 1997.

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 Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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.

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**About PMI**

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. ihsmarkit.com/products/pmi.html.



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