

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Italy Services PMI<sup>®</sup>

## Service sector contraction strongest in a year amid falling new business

### Key findings:

Output down for third straight month as new orders contract solidly

New business from abroad declines at fastest pace since January 2022

Backlogs of work depleted for first time in three months

Data were collected 12-26 October 2023

October survey data signalled a notable weakening of the Italian service sector as both activity and new orders fell at their quickest rates in a year. Firms also indicated that uncertainty towards both the economic and geopolitical climate had led to a marked contraction in sales to non-domestic markets. Given lower incoming new orders, companies worked through their outstanding business and also reduced their payroll numbers.

Elsewhere, October survey data signalled a cooling of cost pressures across the Italian service sector. Output charge inflation subsequently slowed to its weakest in two years.

The headline index from the report, the **HCOB Italy Services PMI<sup>®</sup> Business Activity Index** fell further below the 50.0 no-change mark in October to 47.7, from 49.9 in September, to signal a third consecutive decrease in services output. This also indicated a worsening of the downturn, with overall activity levels falling at the fastest pace in 12 months.

Panellists linked the fall in output to weaker incoming new business volumes and uncertainty surrounding raised geopolitical tensions.

Indeed, new work intakes also fell at the most rapid pace in a year at the beginning of the fourth quarter, and at rate that was solid overall. Anecdotal evidence often blamed the drop in order numbers on the poor economic climate, which led client appetite to wane.

In addition, foreign demand for Italian services continued to deteriorate in October, with the decline in new export business the quickest since January 2022.

Geopolitical tensions also reportedly weighed on firms' expectations regarding output over the coming 12 months. According to October survey data, sentiment was subdued when compared to the historical average. That said, on balance, companies expect activity levels to rise in the year ahead, with some panellists attributing the positive outlook to hopes of a recovery in demand conditions.

Meanwhile, excess capacity was signalled by Italian service sector companies, as firms posted the first month of declining work-in-hand since July. That said, the rate of depletion was only marginal.

With activity, new orders and backlogs all decreasing during the latest survey period, companies dropped their workforce numbers. This marked only the third monthly reduction in Italian service sector employment in the past two-and-a-half years. Furthermore, some firms also noted that they struggled to find suitably skilled staff.

Finally, on the price front, although the trend of inflation continued in October, as firms were faced with rising fuel, energy, raw material and labour costs, the rate was softer on the month and among the weakest since early 2021. Where respondents registered lower input cost, job cuts were noted.

Prices charged for Italian services rose only modestly in October, however, and at the softest pace in two years. Although some firms passed on higher input costs to customers, others offered discounts, often at the request of clients.

### Comment

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

*"Italy's service industry is really in a tough spot with no quick fix on the horizon. The HCOB PMI took a bigger dive in October, hitting just 47.7."*

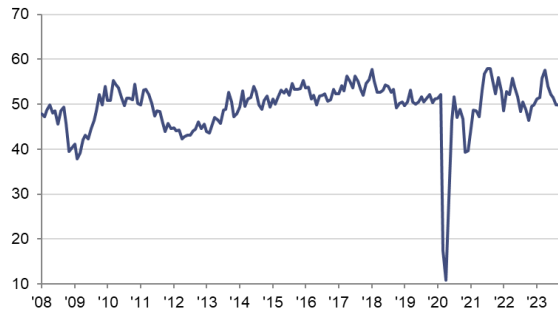
*"Hiring has ground to a halt, thanks to less business and not enough skilled people to hire. In August, the unemployment rate was at 7.3%. According to the PMI, it is unlikely there will be any significant change in unemployment figures for September."*

*"In the Italian service sector, declining activity is coupled with rapidly rising input prices. Companies are struggling to pass on these price increases to customers, putting downward pressure on profit margins and thereby exacerbating the crisis."*

*"The future's looking pretty murky for Italian services, with orders both overall and internationally taking a nosedive amid global uncertainty. Even though some companies are hoping for a bounce back in output levels, the Future Activity Index is clearly below the long-term average."*

**HCOB Italy Services PMI Business Activity Index**

sa, > 50 = growth since previous month



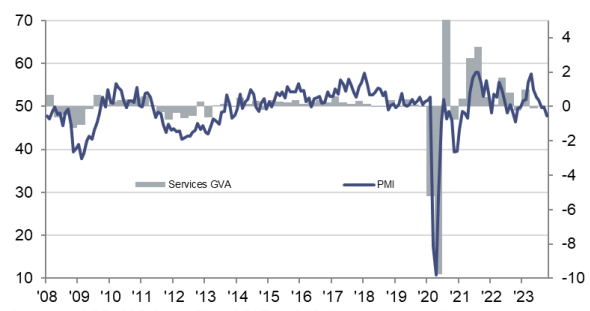
Sources: HCOB, S&P Global PMI.

**Services PMI Business Activity Index**

sa, > 50 = growth since previous month

**Services GVA**

sa, %q/qr



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

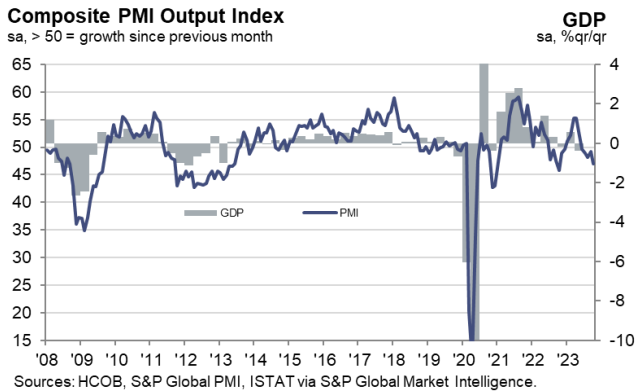
## HCOB Italy Composite PMI<sup>®</sup>

### Private sector falls deeper into downturn as activity falls at fastest pace in a year

The Italian private sector fell deeper into contraction territory in October, with both manufacturing and service sectors experiencing faster declines in output. As a result, after adjusting for seasonal factors, the **HCOB Italy Composite PMI Output Index\*** moved down to a one-year low of 47.0 in October, from 49.2 in September, extending the current sequence of consecutive decreases to five months.

The downturn in activity was closely aligned to that of new business, with the private sector experiencing the strongest fall in demand over the past 12 months. Further evidence of spare capacity was provided as both sectors recorded a depletion of outstanding work, alongside marginal job shedding.

On the prices side, overall operating costs rose strongly, led by marked input cost inflation in the service sector. Conversely, the manufacturing sector registered a ninth consecutive month of falling expenses. However, private sector selling prices fell fractionally in October and for a fifth successive month, driven by solid deflation in the manufacturing sector.



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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@spglobal.com](mailto:economics@spglobal.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.

### S&P Global (NYSE: SPGI)

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