

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Italy Manufacturing PMI[®]

Italian manufacturing sector in deepening downturn

Key findings:

Output and orders fall sharply during June
Input prices and purchasing register considerable declines
Employment growth weakens

Data were collected 12-23 June 2023.

Italy's manufacturing sector rounded off a challenging second quarter of the year by registering its worst fall in output since the height of the COVID-19 pandemic in 2020. New orders were down sharply, whilst firms cut back on their purchasing to a severe degree. A lack of demand and a rapidly improving supply-side picture meant that input prices fell at a rate not seen since April 2009. Firms continued to take on additional staff, but growth slipped to a marginal pace as confidence in the outlook fell since May.

After accounting for seasonal factors, the **HCOB Italy Manufacturing Purchasing Managers' Index[®] (PMI[®])** declined to 43.8 in June. Posting below the 50.0 no-change mark for a third month in a row, the index was down from 45.9 and indicated the steepest deterioration in operating conditions since April 2020.

The PMI was undermined by accelerated falls in both production and new orders. For output, the decline was the steepest since the dramatic lockdown induced fall of April 2020. The contraction of sales was the sharpest recorded by the survey in eight months. Firms overwhelmingly reported a lack of market demand. Uncertainty and destocking amongst clients, high inflation and budget cuts were reported to have weighed on order books. New export sales fell for a third month in a row, and to the greatest degree since last October. The strength of the drop in overall sales caught some manufacturers by surprise to some extent, leaving them with a surplus of warehouse inventories at their plants.

In response to the deepening downturn, manufacturers cut back sharply on their purchasing activity, choosing instead to utilise inventories wherever possible. The decline in buying was also the steepest in over three years and extended the run of contraction to 13 months. Suppliers to Italian manufacturers benefited from reduced demand, with any pressure on supply chains further dissipating during the month. Amid reports of excess inventories at vendor units, average lead times improved markedly and for the fourth survey period in a row.

Prices for inputs were down dramatically in June, falling to the steepest degree recorded since the depths of the global financial crisis in 2009. A wide range of goods were reported to have fallen in cost as vendors cut prices in response to reduced market demand. Firms themselves cut their own charges, passing on lower input prices to clients wherever possible. However, some panellists signalled that clients were now choosing to postpone orders in expectation of further price cuts in the coming months.

The steep fall in orders ensured that firms were easily able to clear existing backlogs of work during June. The fall in work outstanding was again steep, highlighting the extent of the recent decline in new business and the emergence of excess capacity in the Italian manufacturing sector. Sustained employment growth helped firms to keep on top of workloads as well, although the net rise in jobs was again marginal. Several firms reported not replacing leavers given an increasingly uncertain

outlook. Whilst firms generally retain a positive outlook, confidence was noticeably down since May and the weakest recorded by the survey for six months.

Comment

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

"The recession in Italian industry, which the sector entered in the second half of 2022, seems to be deepening. With an index value of 43.8 for June, the HCOB PMI for the manufacturing sector is as low as during the outbreak of the Corona pandemic in spring 2020. Together with the figures for industrial production in April., this points to an even sharper slump in the sector in the current quarter.

"This statement is also supported by the HCOB PMI sub-indices for output and quantity of purchases, which also fell sharply. A major reason for the weakness of this capital-intensive sector is likely to be the sharp rise in borrowing costs as a result of the ECB's interest rate hikes.

"The enthusiasm for falling input prices and backlogs of work is likely to be muted because it has become primarily an expression of a pronounced weakness in demand. The accelerated decline in output prices over the past four months points in the same direction, indicating a weakening of companies' pricing power.

"Not only the present but also a look into the future is not convincing. Domestic and foreign orders declined in June and are now shrinking substantially, with the manufacturing sector broadly supported only by existing orders. The duration of production secured by the current order backlog according to the DG ECFIN Survey is still just under 7.5 months, which is, however, very high by historical standards. In the coming months, the industry could, however, be supported by funds under the NextGenerationEU program, which are currently awaiting release due to disagreements between Rome and Brussels."

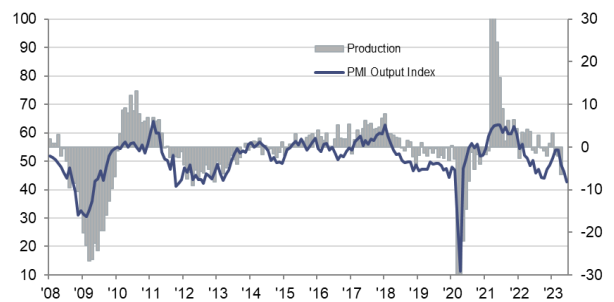
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HCOB Italy Manufacturing PMI
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index and **Manufacturing production**
sa, >50 = growth since previous month (PMI Output Index); %yrlr (Manufacturing production)



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

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Note to Editors

The HCOB 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.

Hamburg Commercial Bank AG

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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