

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

## Service sector growth continues to slow in June

### Key findings:

Sales rise again, but limited by uncertain business environment

Solid employment growth

Cost and charges rising at slower rates

Data were collected 12-27 June 2023

Italy's service sector continued to expand during June. However, amid reports that client uncertainty and increased interest rates were weighing on sales, activity rose at the slowest rate in four months. Confidence in the future remained positive, and firms took on extra staff though also at a slower rate compared to May. Disinflationary pressures were apparent as signalled by concurrent falls in input and output price inflation.

The headline index from the report, the **HCOB Italy Services PMI Business Activity Index** recorded 52.2 in June. Although indicating another period of above trend growth, the index was down from 54.0 in May to signal the slowest expansion of the sector since February.

Concurrently there was a similar slowdown in new business growth during June to its softest of the year so far. Firms noted that market activity was being limited by heightened caution amongst firms given the backdrop of rising interest rates and wider economic uncertainty. Still, new business rose solidly since May, and firms signalled some success in tapping into client interest through promotional/marketing activities.

Moreover, firms took on additional workers during June to deal with higher workloads and incoming new work. This strategy largely worked, as evidenced by a modest fall in backlogs of work in June for the fourth time in 2023 so far. However, in line with the broader slowdowns of activity and new business growth, the net rise in employment was also weaker. There were some reports of the non-replacement of leavers given an uncertain outlook.

Confidence in the future indeed took a knock in June, with sentiment dropping to a six-month low. Worries over the impact on activity over higher borrowing costs were reported. Fears of recession and the persistence of inflation were also signalled, with some firms noting that the business environment was not presently conducive to investment. Where growth is forecast, and a higher proportion of the survey panel are expecting a rise in activity in 12 months' time compared to a decline, optimism was linked to business expansion plans and scheduled client events.

There were also some positive signs that price pressures are continuing to wane in June. Input cost inflation fell to its lowest level for over two years, amid reports of lower fuel costs. Wages were reported to have risen, however, and firms commented that suppliers were pushing price increases. This ensured that overall operating expenses continued to rise in June at an elevated pace.

Firms sought to pass on much of their cost increases to clients, but average output price inflation weakened since June to reach its lowest level since October 2021. Market competition was widely reported to have restricted firms' pricing power during the

latest survey period.

## Comment

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

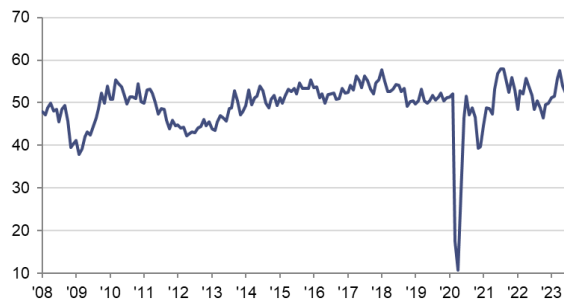
*“Two things are particularly clear in the June figures for the HCOB PMI for the Italian services sector: on the one hand, the sector grew for the sixth month in a row, painting an overall positive picture for the southern European economy. Secondly, the pace at which the sector is expanding slowed for the second month in a row and now stands at 52.2 points. It could well be that the pace will continue to slow in the coming months, as recession fears are also gradually spreading in Italy's tertiary sector - according to reports from individual companies. Higher interest rates are also cited as a burdening factor.”*

*“If one disregards a “dip” in the final quarter of last year, Italy's services sector has shown a robust rate of expansion since 2022. The HCOB PMI documents slower growth not only in output but also, for example, in new business, making it more likely that Italy is headed for stagnation or even contraction in this sector in the second half of the year.*

*“Unlike in manufacturing, input prices in the services sector continued to rise, according to the HCOB PMI. Even though the pace has slowed again, the corresponding HCOB PMI index reading is well above 50.0. Companies surveyed cited higher wages and increased supplier costs as the main reasons for the price increases.”*

**HCOB Italy Services PMI Business Activity Index**

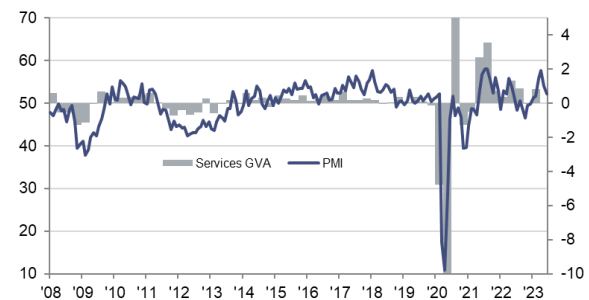
sa, > 50 = growth since previous month



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.

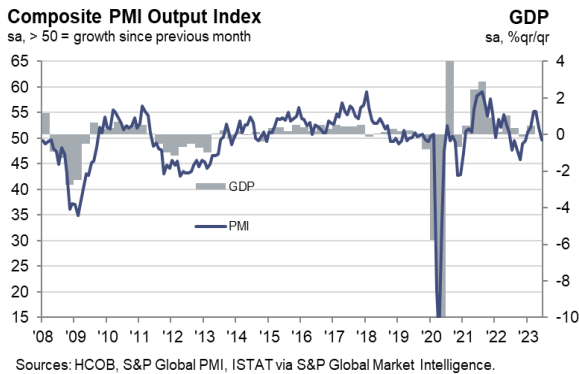
## HCOB Italy Composite PMI<sup>®</sup>

### First fall in private sector output since last December

Italy's private sector economy slipped into contraction territory during June as a rapid deterioration in manufacturing output served to more than offset modest growth in services. After accounting for seasonal factors, the HCOB Italy Composite PMI Output Index\* moved down to 49.7, from 52.0 in the previous month. It was the lowest reading of the year so far.

Similar trends were seen in new orders – service sector new business growth was offset by a decline in sales at goods producers – whilst both categories experienced a fall in backlogs. Nonetheless, firms across the private sector economy added jobs, extending the run of composite growth to 26 months.

Prices data meanwhile showed a rapid fall in input prices at manufacturers, but ongoing wage pressures in services ensured that overall private sector costs continued to rise. That said, the rate of inflation was the lowest for nearly three years. Moreover, this provided some room for firms to typically cut charges for the first time since February 2021.



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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.

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