

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit Italy Retail PMI®

July sees another steep fall in retail sales

Key findings:

- Headline PMI up only fractionally from June's 31-month low
- Rate of job losses quickens
- Purchase price inflation eases to lowest in 20 months

Historical overview:



Summary:

Latest PMI® survey data showed another steep decrease in retail sales in Italy at the start of the third quarter. The decline contributed to further job cuts and the scaling back of retailers' spending on goods for resale. Meanwhile, cost pressures were relatively subdued, amid reports of supplier promotions.

July's decrease in retail sales was the seventh in as many months. Moreover, the rate of contraction was sharp, as highlighted by the headline seasonally adjusted Markit Italy Retail PMI® – which tracks month-on-month changes in retail sales – registering 40.3, up only slightly from June's 31-month low of 40.2. Any reading below 50 signals falling sales, and the greater the divergence from 50, the faster the rate of change.

Among those businesses that recorded a decrease in sales, the most frequently cited reason was lower

footfall. Measured on a year-on-year basis, sales fell at the fastest rate seen since December 2014.

Retail sales were generally below firms' targets in July, which they themselves put down to overly optimistic forecasts for the month. The degree of underperformance was considerable, albeit the least marked since March.

Retailers' expectations for future performance moved in negative territory in July, with more companies expecting actual sales to be lower than plans in the month ahead (almost 20%) than those predicting some degree of overachievement (5%).

In line with the ongoing downturn in sales and a corresponding drop in turnover, retailers continued to reduce their staffing numbers during July. That extended the current sequence of decline in employment to five months, with rate of job losses the fastest since September last year.

Falling sales also weighed on retailers' buying levels in July, with the value of goods bought for resale dropping for the ninth straight month. Although easing from June's 18-month record, the rate of decline in purchasing activity remained marked and faster than the average recorded over the series history.

Items for resale continued to accumulate at retailers during July, marking six straight months of inventory growth. However, having eased to the weakest in this sequence, the rate of expansion was only marginal.

Average purchase prices facing retailers rose in July, though the rate of inflation was relatively modest by historical standards and the weakest recorded since November 2014. While there were some reports of a lack of availability of raw materials leading input prices to rise, supplier promotions acted to subdue overall cost pressures.

Retailers' gross margins were squeezed further during July, due to a combination of lower sales

and discounting. The rate of decline was unchanged from the sharp pace seen in June.

Comment:

Phil Smith, economist at Markit which compiles the Italian Retail *PMI*® survey, said:

"It seems the retail sector is in the midst of a renewed downturn. After falling to its lowest level for more than two-and-a-half years in June, the retail PMI signalled another steep monthly drop in sales at the start of the third quarter. The recent downturn has led retailers to pare back staff numbers, with July seeing an acceleration in job losses to the fastest since September last year. Another sharp decrease in gross margins in a relatively low-cost environment demonstrates how hard retailers are finding it to drum up sales."

-Ends-

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Notes to Editors:

"PMI" is an acronym for *Purchasing Managers' Index*, a type of survey originally developed for tracking business conditions in the manufacturing sector. Markit now uses 'PMI' to describe the methodology used for surveys also undertaken in the services, construction and retail sectors.

For the Italy Retail *PMI*, Markit recruited a representative panel of retail companies. The panel includes large chain retailers as well as smaller retailers to ensure balanced representation of the true structure of the Italian retail sector. Similarly, the composition of the panel by classification of retailer (i.e. type of good sold) is monitored to ensure accurate representation.

Markit ensures the correct structure remains in place over time and that response rates remain sufficiently high to generate reliable economic data.

Data collection occurs via the completion of questionnaires by survey panel members during the second half of each month.

The percentage figures of companies reporting an improvement, deterioration or no change for each survey variable are converted into a single-figure "diffusion index" for each variable. Diffusion indexes vary between 0 and 100, with a reading of 50.0 signalling no change on the previous month. Readings above 50.0 signal growth on the previous month and readings below 50.0 signal contraction. The greater the divergence from 50.0, the greater the rate of change signalled.

Where appropriate the indices are seasonally adjusted to take into consideration expected variations for the time of year.

The use of the diffusion index methodology means that the results for the Retail *PMI* will be directly comparable with PMIs for other sectors, such as manufacturing, services and construction.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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