Spanish service sector suffers record fall in activity

KEY FINDINGS

COVID-19 outbreak leads to unprecedented declines in demand and activity

Job losses sharpest since the height of the financial crisis

Confidence sinks to survey record low

Spain’s services economy recorded unprecedented contractions in activity and new work during March as many firms were either forced to temporarily close or struggled to conduct business in the face of the COVID-19 pandemic and related government measures to control the outbreak.

Faced with deteriorating workloads and considerable uncertainty about the future, many companies cut operating expenses wherever possible, including turning to job shedding measures.

The headline Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, fell way below the 50.0 no-change mark in March. Posting 23.0, down nearly 30 index points on February’s 52.1, the headline index pointed to an unprecedented drop in activity.

Activity was driven lower by a broad-based pause in demand for services and wider economic activity related to the COVID-19 pandemic, both inside Spain and from key trading markets. March’s survey showed that the subsequent decline in overall new business was by far the sharpest recorded in over 20 years of survey history. Foreign sales declined to the greatest degree since export figures were first collected in September 2014.

At the sub-sector level, the Hotels & Restaurants sector was especially hard hit, with activity and sales down substantially in line with the widespread shutdowns designed to control the COVID-19 outbreak. Only Financial Intermediation companies recorded any growth in activity, with all other categories recording substantial contractions.

Facing unprecedented declines in activity and new work, Spanish service sector companies were unsurprisingly concerned about the future. Confidence about the year ahead fell sharply to a level unseen in the survey history. There were considerable concerns over the longer-term impact of the COVID-19 pandemic on activity, investment and employment in the next 12 months.

With this high level of uncertainty, combined with severe falls in workloads – as evidenced by a record decline in work outstanding – many companies chose to reduce their levels of employment during March. The degree to which employment was cut was the second fastest recorded by the survey to date, surpassed only by a decline seen at the height of the financial crisis in February 2009.

Reduced employment helped to reduce pressure on operating expenses in March. Although still rising, overall input costs were up only slightly and to the weakest degree in over five years. However, faced with sharp declines in demand, many companies chose to cut their own output charges in the latest survey period. The result was the greatest monthly overall decline in average tariffs charged by Spanish service providers since April 2013.
Private sector suffers considerable fall in activity in March

A period of nearly six-and-a-half years of uninterrupted growth of the Spanish private sector ended during March as the COVID-19 pandemic and associated company shutdowns led to an unprecedented drop in activity. After accounting for seasonal factors, the Composite Output Index* recorded a low of 26.7 in March, down from 51.8.

The deterioration in activity was primarily driven by the services economy, where output fell at the sharpest rate in over 20 years of data collection. Manufacturers also recorded a steep decline in production, the sharpest seen since mid-2012.

With many businesses reported to be closed due to the COVID-19 outbreak, there was an associated reduction in new work. Latest data showed a record fall in composite new business, with the contraction again driven by service providers.

Looking ahead to the coming 12 months, business sentiment was at record low levels across the manufacturing and services sectors as uncertainty mounted about the longer term impacts of the pandemic. Such worries led to job losses at a number of companies, with the rate of contraction the sharpest since March 2009.

Finally, for the first time in over five years, average input prices were down slightly in March. Deflation was driven by falling costs in manufacturing. Overall output charges were reduced to the greatest degree in nearly seven years.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Spain Composite Output Index is a weighted average of the Spain Manufacturing Output Index and the Spain Services Business Activity Index.

Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

“The March survey laid bare the scale of the COVID-19 pandemic and associated effort to contain the outbreak, with services companies registering unprecedented falls in activity, new work and confidence. The impact was unsurprisingly centred on sectors dependent on social contact, such as Hotels & Restaurants.

“Already the pandemic is having a severe adverse impact on the labour market, with job losses running at a rate only surpassed during the heights of the financial crisis as firms are faced with little option but to let staff go in the face of huge economic and societal upheaval.

“At this juncture, trying to put a number on the scale and duration of the pandemic in terms of falls in GDP and employment is extremely challenging, but on balance there is a high probability that the severity of the downturn in the second quarter will exceed anything we saw during the great recession of 2008/2009.”
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Methodology

The IHS Markit Spain Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 350 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.

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.

March 2020 data were collected 12-26 March 2020.

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.

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