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IHS MARKIT SPAIN SERVICES PMI®

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Service sector growth improves in June

KEY FINDINGS

Firmer gain in new business helps to drive activity higher

Employment growth weakest in over two-and-a-half years

Prices rise, but at slower rate

Spain's services economy expanded at a firmer rate during June, supported by stronger gains in new work. Additional staff were subsequently taken on, albeit at the weakest rate for over two-and-a-half years as companies signalled sufficient capacity to cope with overall workloads.

Meanwhile, prices data indicated that rising employment expenses continued to drive overall input costs higher during June, albeit at the slowest pace since September 2017. Competitive pressures meant that output charges increased only slightly.

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, improved marginally in June to 53.6. That was up from May's 52.8 and represented a solid increase in activity that was the best recorded by the survey in the past three months.

Supporting the latest rise in activity, which extended the current run of growth to over five-and-a-half years, was a firm gain in levels of new work. Firms commented on successful commercial initiatives, which helped to support their efforts to secure new clients. However, growth was predominately driven by the domestic market. New export orders were down for a second successive month and at the fastest pace since November 2016. There were reports from panellists that economic and political uncertainties were weighing on foreign demand during June.

In response to higher levels of new work, and to support increased activity, service providers took on additional

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

staff in the latest survey period. However, growth was the weakest seen since October 2016 as firms signalled sufficient capacity to deal with overall workloads. Indeed, backlogs of work declined for the first time in three months during June.

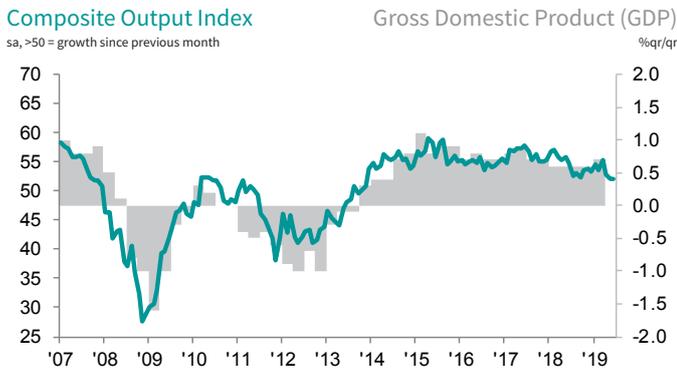
Rising employee expenses remained the primary driver of higher operating costs during the latest survey period. June marked a fifty-second successive monthly increase in input costs, although the latest rate of inflation was the weakest for 21 months.

This helped to reduce pressure on firms to increase their own charges in June. With strong market competition also signalled, Spanish service providers were subsequently able to raise their own output charges only marginally during June. Latest data showed that charge inflation was the lowest recorded by the survey since last October.

Finally, confidence regarding future activity remained in positive territory. According to the latest data, optimism was at its highest level for three months in June, though remained well below trend. Panellists are generally banking on activity in the next year being driven higher by a general upturn in market conditions and subsequent improvement in sales volumes.

IHS MARKIT SPAIN COMPOSITE PMI®

Growth unmoved at five-and-a-half year low in June



Spain's private sector economy expanded at a rate unchanged on May's five-and-a-half year low during June. After accounting for seasonality, the Composite Output Index* registered 52.1, unmoved on May's reading.

There was a notable divergence between the performance of the manufacturing and service sectors during June. Whereas service sector growth strengthened to a three-month high, manufacturing production declined in June for the first time since November 2013.

The weakness of the manufacturing economy was closely linked to under-performing order books. Manufacturers signalled the sharpest fall in new work since April 2013 amid weakening domestic and international trade. In contrast, service providers registered solid growth of incoming new work in spite of a notable reduction in foreign demand.

Composite employment levels increased during June but at the slowest rate since November 2014. Again, there was a notable divergence between manufacturing (job losses) and services (sustained employment growth).

Prices data, meanwhile, revealed that rising employment expenses more than offset falling metals prices for manufacturers in June. Competitive pressures, however, weighed on the pricing power of firms.

Confidence about the outlook was relatively subdued.

*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.

COMMENT

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

"Although Spain's service sector showed some improvement during June, this merely offset a downturn in manufacturing that has likely pulled wider economic growth down to a lower level in the second quarter.

"Indeed, there was a notable divergence in performance between the two sectors covered by the PMI surveys in June. Whilst services enjoyed further gains in activity, new business and employment, manufacturing is suffering in the face of an increasingly challenging international economic environment.

"The fear is that the industrial downturn, if sustained, will inevitably spillover into services and lead to further economic growth weakness in the second half of 2019."

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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.

June 2019 data were collected 12-25 June 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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