

IHS MARKIT SPAIN SERVICES PMI®

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Downturn in Spanish service sector intensifies

KEY FINDINGS

Resurgence of COVID-19 infections weighs on activity

Job losses mount as employment cut again

Margins under pressure

September 2020 data were collected 11-25 September 2020.

The Spanish service sector suffered in the face of rising global coronavirus disease 2019 (COVID-19) infection numbers and faltering demand during September. Activity declined for a second successive month and at the sharpest rate since May, as sales volumes decreased at an accelerated rate. Falling workloads led to another round of job losses as companies sought to control their cost base. Confidence about the future was however higher than in August.

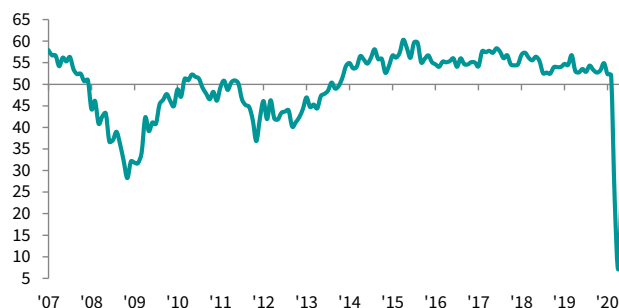
The headline index from the survey, the Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, tumbled to 42.4 during September. Down from 47.7 in August, the index indicated an accelerated rate of contraction that was the sharpest since May.

A lack of incoming new work amid reports of an intensification of the COVID-19 crisis was widely reported to have weighed on activity. Latest data showed that overall new business had fallen for the third successive month and to the greatest degree since May. Demand from foreign clients was again reported to be down, with new export orders down severely and for a seventeenth successive month. Panellists noted quarantine restrictions on travellers from abroad was having a noticeable impact on their business.

With new work continuing to fall, there was little pressure on company capacity as signalled by a seventh successive monthly fall in work outstanding (and the sharpest contraction since May). Job numbers subsequently came under pressure. Latest data showed that staffing levels

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

declined for a seventh successive month and to the greatest degree since June. Companies widely noted that a lack of overall workloads had led to another round of job losses over the month.

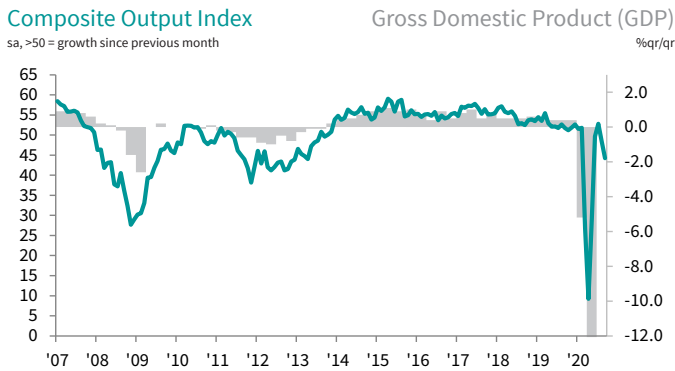
Cost considerations were also a notable factor behind employment cuts, according to panellists. Still, overall operating expenses continued to rise, with monthly inflation registered for a fourth month in succession. There were several reports that the price of items related to COVID-19, such as disinfectant and personal protective equipment, had risen over the month.

Given the challenging business environment, firms were unable to pass on their increased operating costs to clients with output charges declining for a seventh successive month. Weak demand and competitive pressures weighed on company pricing power.

Finally, confidence about the future improved since August to a reach a three-month high (though remaining well below the historical average). Companies that indicated positive expectations were linked to hopes of a strong resumption of activity and sales once the pandemic was brought under control. However, several firms signalled considerable uncertainty about the outlook, with worries over the longer-term impact of the crisis on jobs and consumption.

IHS MARKIT SPAIN COMPOSITE PMI®

Sharpest contraction of private sector for four months



Spain's private sector economy contracted for a second successive month during September, and at an accelerated rate. After accounting for seasonal factors, the Composite Output Index* registered its lowest level for four months, posting 44.3, down from 48.4 in August.

The index belied contrasting trends, however, at the sector level. Whereas manufacturing output continued to rise, extending the current period of growth to three months, there was a severe and accelerated contraction in services activity.

Rising COVID-19 infections served to undermine activity in the services sector through a noticeable deterioration in incoming new business (both from domestic and international clients). Manufacturers also recorded a drop in new work, despite a pick-up in export trade.

Job losses mounted across the private sector during September, although a stabilisation of staffing levels in manufacturing helped to limit the overall fall to the weakest in seven months of job shedding.

Cost considerations remained a key factor for firms when contemplating employment decisions, although input price inflation nonetheless accelerated to a three-month high in September. Margins remained under pressure, however, as output charges declined to the greatest degree since May.

**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:

“September’s services data highlights how the recovery from the most severe impacts of COVID-19 earlier in the year is faltering. With infection numbers rising, demand is again turning downwards, both from domestic and international clients, and weighing heavily on those services industries that are so crucial to Spain’s economy.

“Whilst a considerable technical rebound in third quarter GDP is priced in given the sheer magnitude of the drop in the second quarter, the PMI data showcase that the recovery is unlikely to be sustained at anywhere near strong enough rates to help close the considerable output gap that opened up in the first half of the year.

“Indeed, with job losses mounting, margins under pressure and the potential for greater restrictions to prevent the further spread of COVID-19, the risks of the so-called double dip are mounting.”

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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.

September 2020 data were collected 11-25 September 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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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

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