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IHS MARKIT SPAIN MANUFACTURING PMI®

Slower growth of manufacturing economy signalled during December

KEY FINDINGS

Sector ends 2018 with softest growth since August 2016

Economic instability and ongoing weakness in autos industry weighs on growth

Job creation weakens despite uptick in confidence

Spain's manufacturing sector continued to expand during December, albeit at the slowest rate since mid-2016. The slowdown reflected weaker gains in both output and new work, whilst there was only a slight increase of employment as previous capacity pressures subsided. Confidence improved, however, reaching a three-month high.

Meanwhile, there was a notable slowdown in input price inflation as the recent fall in global crude oil prices helped to limit overall cost increases. Output charges were little changed as a result.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – declined to 51.1 in December. Down from November's 52.6, the latest PMI reading was the lowest recorded by the survey since August 2016 although, by remaining above the crucial 50.0 no-change mark, the headline index was able to extend its run of growth to over five years.

Output and new orders continued to increase during December, but at the slowest rates recorded by the survey in around two-and-a-half years. Whilst demand conditions remained positive, helped in part by the introduction of new product lines, there were reports from the survey panel that economic instability and ongoing weakness in the autos sector was weighing on growth.

That said, foreign sales held up well at the end of 2018, with growth in new export work remaining solid and maintaining a run of monthly gains that extends to over five-and-a-half years. Demand from North and Central America was reported

Manufacturing PMI
sa, >50 = improvement since previous month



to have supported new export order wins during the latest survey period.

Meanwhile, staffing levels continued to increase during December, albeit at a marginal rate that was amongst the slowest recorded by the survey in the past five years. Several panellists indicated that capacity was sufficient to broadly deal with current workload requirements. This was reinforced by data on backlogs of work, which showed a slight reduction in unfinished business at the end of 2018.

On the purchasing front, manufacturers signalled a slight contraction in purchasing activity during December, instead signalling a preference to use current inventories in production wherever possible. Stocks of raw materials and semi-manufactured goods subsequently fell for the fourth time in the past five months. Despite the weaker trend in buying activity, average lead times continued to lengthen amid reports of transport disruption emanating from deliveries routed through France.

Price pressures eased markedly in December. Input prices rose at the slowest rate recorded by the survey since September 2016. Whilst prices for metals (especially steel) were reported to have increased, these were in part offset by a decline in the cost of oil-based products. This reduced pressure to raise output charges, with latest data indicating near stagnation of average tariffs.

Finally, confidence about the future strengthened at year end amid positive projections for sales, especially from foreign clients, in the coming 12 months.

COMMENT

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

"The manufacturing sector ended 2018 on a rather muted note, expanding at a rate that remained in stark contrast to the strong levels seen at the start of the year.

"Indeed, the underlying erosion of growth has been a key feature of 2018's sector performance. This was in part a natural reaction to the unsustainable levels of expansion seen in late 2017, although the downward trend was exacerbated by rising economic and political instabilities, especially in relation to global tariffs. Most recently, disruption in the autos sector has added to downward pressure on manufacturing expansion.

"All of these aforementioned headwinds to growth were again reported by Spanish manufacturers at year end and, although confidence improved in December, there is little in the latest survey results to remove the suspicion that growth will remain stuck in a soft-patch during the early part of 2019."

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Methodology

The IHS Markit Spain Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. 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 Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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.

December 2018 data were collected 5-14 December 2018.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, %ytr/yr



Source: IHS Markit, INE.