Spain’s service sector continued to expand during July, but at a slower rate than in the previous month as new business growth also softened. Pressure on margins mounted, as rising employment costs pushed up operating expenses sharply but firms struggled to pass these on to clients.

Confidence about the future remained positive, however, and service providers took on additional staff at the fastest rate in three months.

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, remained above the 50.0 no-change mark in July to extend the current period of growth that began in November 2013. Posting 52.9, from 53.6, the latest increase in activity was solid, though slightly softer than in the previous month.

Higher business activity was again closely linked to rising levels of incoming new work. Reportedly reaping the rewards of prior and current commercial activities, service providers indicated a solid, above survey average, increase in new business.

Growth was, however, undermined by a series record contraction in new export business during July. Panellists widely commented on a retrenchment of demand and activity in foreign markets.

Service providers were broadly able to keep on top of their workloads during July as highlighted by only a marginal increase in work outstanding over the month. Part of this ability to successfully manage current and existing orders reflected another notable expansion in employment. July’s survey indicated that job numbers increased at the strongest rate for three months. The current sequence of employment expansion now extends to just under five years.

As service providers demanded and successfully took on new staff they did so at the cost of increased employment expenses. This was reportedly the key factor driving overall operating costs higher in July, with latest data showing an elevated, and above average, increase in input prices.

However, there was only marginal success in passing on higher costs to clients. Service providers’ output prices rose only slightly during July, with efforts to increase charges blighted by strong competition and, in some instances, a desire to stimulate sales demand.

Looking ahead to the next 12 months, nearly 40% of the survey panel are forecasting an increase in activity from present levels. Plans to further bolster commercial activities and hopes of a strengthening of market demand were reported as reasons to be optimistic. That said, there remained some concern over the current economic and political climate ensuring that confidence remained below its historic trend in July.
Reflective of slowing growth in services, plus an ongoing contraction in manufacturing, Spain’s private sector economy expanded at its weakest rate since November 2013, whilst confidence in the future sank to one of the lowest in the past six years.

The Composite Output Index* registered 51.7 in July, down from 52.1. Manufacturing output declined for a second month running, whilst growth in services was amongst the weakest seen in six years of expansion.

Similar trends were observed for new orders, with manufacturers recording a contraction in new work compared to ongoing growth (albeit slower) in the service sector. Softening foreign demand was widely reported, with composite data showing the sharpest fall in exports in nearly five years of data collection.

Meanwhile, ongoing growth of services employment ensured another net rise in overall job numbers (manufacturers recorded a reduction). Higher overall employment meant that firms were able to comfortably keep on top of workloads as highlighted by a fall in backlogs.

A sharp fall in manufacturers’ input costs was more than offset by a sharp rise in service providers' operating expenses during July. However, overall output charges were cut for the first time since April 2016.

*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.
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.

July 2019 data were collected 12-26 July 2019.

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