

## IHS MARKIT SPAIN SERVICES PMI®

INCLUDING IHS MARKIT SPAIN COMPOSITE PMI®

### Pandemic and snowstorms weigh on service sector in January

#### KEY FINDINGS

Rapid falls in activity and new business

Job losses mount

Cost inflation accelerates markedly

January 2021 data were collected 12-26 January 2021.

Spain's service sector endured a challenging start to 2021 as local restrictions related to dealing with the global coronavirus disease 2019 (COVID-19) pandemic and inclement weather conditions served to restrict activity. Demand from both home and abroad was again down, and a lack of new work meant firms chose to cut employment numbers at their units for an eleventh successive month. Nonetheless, operating expenses increased at an accelerated rate, but the difficult business environment led to another round of falling output charges.

January's headline Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, declined sharply to 41.7 in January, from 48.0 in December. By posting below the 50.0 no-change mark for a sixth successive month, the latest index again indicated another month of declining activity in Spain's service sector and to a considerable degree.

In line with recent months, the effects of local restrictions related to dealing with COVID-19 continued to have a noticeable and negative impact on the performance of the services economy. Moreover, the situation was exacerbated by recent snowstorms, which reportedly further weighed on market activity. Subsequently, volumes of new business were also down for a seventh month in succession, with the rate of contraction accelerating since the end of last year. Both domestic and foreign sales were lower: new export business declined for a twenty-first month in a row, and at the sharpest rate since October.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

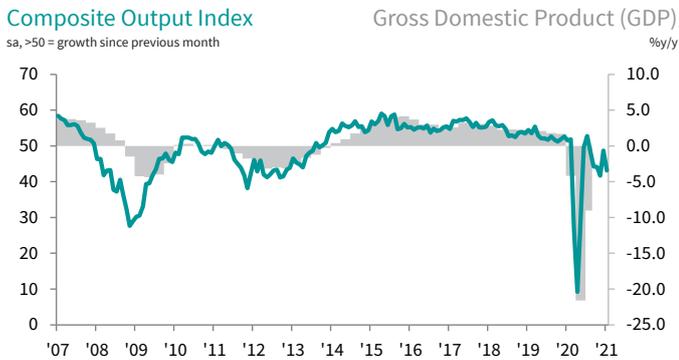
A lack of incoming new business meant firms were able to comfortably deal with current workloads. Backlogs of work declined during January for an eleventh successive month, with the rate of contraction again marked. Moreover, firms were able to do this despite making cuts to their staffing levels. Employment has now fallen in each month since last March, although the rate of decline in January was the weakest seen in this sequence. Firms reported a combination of forced redundancies and the extensive use of furlough schemes.

Operating expenses increased markedly during January, extending the current period of inflation to eight months. Moreover, the rate of increase was the sharpest since last June amid reports of price increases for a variety of goods and services. However, firms were unable to pass these increased costs on to clients as the challenging business environment weighed on pricing power. According to the latest data, output charges were cut modestly and for the eleventh month in succession.

Service providers retained a reasonable degree of confidence that activity will increase over the coming 12 months, although overall optimism was at its lowest in three months amid worries over the long-term economic impact of the pandemic. However, there remained hopes that vaccine rollouts will provide the platform for a return to economic normality and business growth in a year's time.

## IHS MARKIT SPAIN COMPOSITE PMI®

## Accelerated decline in private sector output



Sources: IHS Markit, INE.

Led by the sharp deterioration in services activity, Spain's private sector experienced a noticeable contraction during January. After accounting for seasonal factors, the Composite Output Index\* declined to a level of 43.2, from 48.7 in December and extending the current period of decline to six months.

There was also a fall in manufacturing output with the sector – like the services economy – being hampered by a lack of demand relating to the pandemic and the temporary effects of Storm Filomena.

Indeed, new business volumes were reduced for a sixth successive month, with concurrent declines in new work across the manufacturing and services economies. A lack of new work resulted in another fall in employment as firms were forced into redundancies or placing staff on furlough.

Meanwhile, there was another acceleration in input cost inflation, which reached its highest level since last February. Manufacturers especially suffered from delays in shipments and a lack of stock at suppliers which served to raise the price of many goods.

Despite the bleak near-term outlook, firms across Spain retain a degree of optimism about the future, although growth in business operating remains predicated on the successful rollout of vaccines and a return to some form of economic normality in the coming year.

*\*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:

*“It was a tough start to 2021 for the Spanish service sector as the negative impacts on market activity of the pandemic plus unseasonably poor weather conditions weighed on the services economy.*

*“Given the challenging near-term outlook, firms are understandably again being forced into employment cuts especially as new business volumes remain weak and operating expenses are rising.*

*“There is of course some positivity amongst firms over the medium-term, with vaccine rollouts widely viewed as being key to unlocking demand and providing the platform for rapid expansion - but only once conditions return to some form of normality.”*

## CONTACT

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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.

January 2021 data were collected 12-26 January 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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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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