

IHS Markit Spain Manufacturing PMI®

Manufacturing sector returns to growth at end of 2020

Key findings

Boost in external demand helps to support production...

...but domestic demand continues to falter

Cost inflation at highest in nearly three years

Data were collected 04-16 December

Spain's manufacturing economy returned to growth in December, although underlying conditions remained challenging. Whilst output rose it did so only marginally, whilst order books continued to deteriorate thanks to weak domestic demand. Lead times for the delivery of inputs continued to falter noticeably, whilst there was an acceleration of input cost inflation to its highest in nearly three years.

That said, hopes were raised in December that market activity will improve noticeably once the coronavirus disease 2019 (COVID-19) pandemic has been brought fully under control. This helped to bolster optimism about the future to its best level since July 2018.

After accounting for seasonal factors, the IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – improved on November's 49.8 to reach a level of 51.0 and indicate a modest improvement in operating conditions.

There was a return to growth of manufacturing output following a slight fall in November. However, the rate of increase was marginal. Whilst there was a noticeable uptick in external demand – as measured by the strongest growth in new export orders since July – weakness in domestic sales weighed on overall demand and subsequently production. New order books fell modestly overall for a second month in succession with demand from tourism and hospitality services especially weak according to firms.

With trends in production and orders again underwhelming, manufacturers left purchasing activity little changed in December and chose to focus primarily on the utilisation of inventories. Both stocks of inputs and warehouse goods were reported to have fallen since November.

continued...

Spain Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Paul Smith, Economics Director at IHS Markit, said:

"December was a mixed bag for Spain's manufacturing sector as a positive uplift in external demand was again offset by sustained domestic weakness. With tourism and hospitality struggling to cope in the face of the pandemic, there has been a considerable knock-on effect for producers supplying these sectors."

"Adding to the challenges facing the manufacturing economy are rising cost pressures, with latest data showing input prices rising to the greatest degree for nearly three years as supply shortages pushed up costs. Faced with a subsequent margin squeeze, several firms saw little option but to increase their own charges."

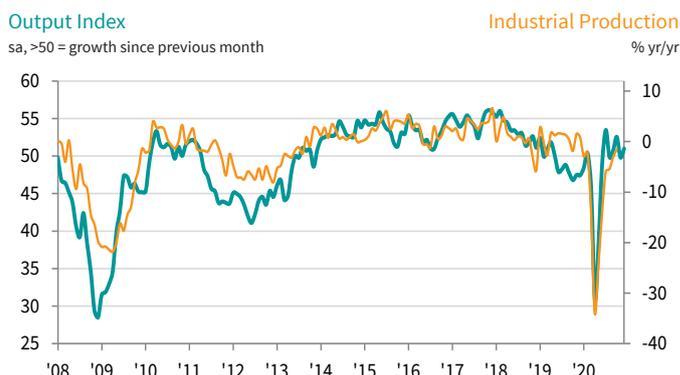
"Despite the ongoing near-term uncertainty, companies are however growing more optimistic about their business performance in 12 months' time. Firms' confidence is centred on hopes that the pandemic will be firmly behind them by the end of next year – with market activity and demand subsequently well on the way to recovery."

Sourcing of inputs also proved to be a challenge in the latest survey period. Average lead times were reported to have deteriorated to the greatest degree for seven months amid reports of a shortage of stocks at vendors, increased global demand for inputs (most noticeably from Asia) and ongoing transport delays related to COVID-19 restrictions.

Supply shortages were widely reported to have had an inflationary impact on raw material prices. Latest data indicated that input price inflation accelerated to its highest since January 2018. There were many reports of an increase in the cost of metals (such as aluminium and steel).

Such was the increase in input prices that firms chose to raise their own charges at a solid rate despite reports of strong competition and challenging market conditions.

Faced with a drop in demand, an uncertain near-term outlook and excess capacity at their plants, a second successive monthly drop in employment was recorded in December. However, firms expressed a higher degree of confidence about the future for the coming year. Optimism was its best since July 2018 amid hopes that the pandemic will have passed by this time in 2021.



Sources: IHS Markit, INE.

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Survey 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.

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

Survey dates and history

December data were collected 4-16 December 2020.

Survey data were first collected February 1998.

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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

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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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