Service sector growth strengthens in November on the back of firmer demand

Spain’s service sector continued to expand during November in line with another monthly gain in new business. As confidence about the future also picked up to a four-month high, service providers again added to their staffing numbers.

On the price front, input costs increased at a firmer pace as higher wages added to operating expenses. However, competitive pressures meant firms cut their own charges for a fourth month in succession.

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, edged up to 53.2 in November, from October’s 52.7. By remaining above the 50.0 no-change mark, the index has now signalled growth of activity in each month for just over six years.

Supporting the upturn in activity was another net increase in new business volumes. Growth was also firmer than in October, with firms reporting a general pick up in demand.

Gains in new work occurred in spite of a reduction in foreign work, implying domestic markets were the principal source of sales wins during November. However, whilst the current business environment at home remained generally positive, and was helping support sales gains, several firms reported worries around the formation of a new government and its unknown impact on areas related to regulation, wages and general economic activity. With this in mind, business confidence remained historically muted in November, despite picking up to a four-month high.

The net increase in sales was also in part driven by another month of discounting amongst service providers. According to the latest data, output charges were reduced for a fourth survey period in succession, with firms cutting their charges modestly in response to ongoing strong market competition.

With input costs increasing, margins came under pressure in November from a sharp increase in input costs. According to the latest data, operating expenses rose at the strongest rate since July, and have now been increasing throughout much of the past five years. Firms commented on higher transportation and utility costs at their units.

There were also reports from the survey panel that operating expenses were being driven higher by increased labour costs. This in part reflected the continued growth in demand for staff as highlighted by another net increase in employment. Although modest in November, the latest increase in payroll numbers extended the current run of growth to 62 months.

Companies took on additional staff in the main to deal with higher present workloads. This was highlighted by a rise in workloads in November for the fourth time in the past five months.
Service sector drives overall growth of private sector in November

Private sector growth improved during November in line with a slight pick up in new orders. After accounting for seasonal factors, the Composite Output Index* improved to 51.9 in November, up from 51.2 in October and its best reading for three months.

Stronger growth was linked to a better performance from the services economy, which expanded at a faster rate. Manufacturing, in contrast, continued to contract, albeit at the slowest rate since July.

Similar trends were seen for new orders, with service providers enjoying stronger sales growth, but manufacturers again recording a notable contraction in new work. However, in both instances, sales to foreign clients declined compared to October.

On the jobs front, employment growth was again recorded, albeit driven by the services economy as payroll numbers in manufacturing declined for a seventh successive month.

Rising wage pressures again contributed to an increase in overall operating expenses, which rose in the private sector to the greatest degree in three months. Despite this, output charges were reduced in November for a fifth month running.

Finally, private sector business confidence improved to a four-month high, but remained historically muted.

*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.

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

“Against an uncertain political backdrop, the modest improvement in growth during November was a welcome development following October’s weakest effort for around six years.

“There remained a notable imbalance across the private sector economy, however, as services expanded again, but manufacturing continued to drag on output, albeit to a lesser degree.

“Moreover, all is not necessarily well in the services economy despite the pick ups in growth of output, new business and employment.

“Sales were in part only supported by discounting, putting margins under pressure and having an adverse impact on corporate profitability.

“Moreover, confidence over the future remains historically muted, with the impacts of a new government on areas such as regulation and labour costs remaining uncertain, according to companies contributing to the latest survey.”
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.
November 2019 data were collected 12-26 November 2019.
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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