Spain's manufacturing sector returned to growth during July as businesses continued to reopen following lockdown and firms benefited from an associated upswing in demand. Orders, purchasing and production were all reported to be up, with demand higher in both domestic and international markets.

However, less positive was further job losses as firms continue to operate well below capacity. Confidence about the future also remained subdued.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – continued its recent ascent during July and returned to growth territory for the first time since February. After accounting for seasonal factors, the PMI recorded 53.5, up from June's 49.0 and its highest level since April 2018.

There were concurrent returns to growth in both output and new orders during July. In each case, gains were the first recorded by the survey since February and the best since early 2018. Panellists widely reported that the further reopening of the economy following lockdown had led to a further upsing in demand. Similar factors also helped to support a recovery in foreign sales. Latest data showed that new orders from abroad rose solidly and for the first time in over a year.

Manufacturers also chose to increase their purchasing activity, with solid growth a reflection of higher demand and production requirements. However, firms continued to face delays with delivery – average lead times lengthened for an eighth successive month – with firms noting ongoing transportation challenges for suppliers related to the coronavirus disease 2019 (COVID-19). To meet increased production requirements, Spanish manufacturers

**Comment**

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

“Spain’s manufacturing sector finally returned to growth territory during July as the further re-opening of the economy helped to support an upsing in demand and drive higher orders from both domestic and international sources.

“However, there remains some way to go until we see a return to levels of activity recorded before the COVID-19 pandemic intensified, with the latest survey again showing falling backlogs of work and cuts to employment.

“Manufacturers are generally cautious in their view of how the rest of the year and the first half of 2021 will work out, with many expecting a steady recovery – but with notable downside risks given the clear potential for a resurgence in COVID-19 and the associated negative impact on overall economic activity.”

Source: IHS Markit.
subsequently continued to run down their inventories of raw materials and semi-manufactured goods. Despite the upswings in production and order books, firms continued to operate well below capacity. Backlogs of work declined for a fifth successive month, according to the latest survey data, and with overall workloads remaining low, job cuts were again recorded. Overall employment declined for a fifteenth successive month, with several companies expecting to experience excess capacity for the foreseeable future. An uncertain outlook also weighed on the labour market. Despite confidence about the future remaining inside positive territory for the second successive month, sentiment is still well below trend. Whilst several firms are expecting the recovery to be sustained over the coming year, others remain concerned about a re-emergence of COVID-19 and the possibility of continued weakness in demand and economic activity. Finally, on the price front, manufacturing input costs continued to fall during July. Firms reported that still weak underlying global demand was weighing on raw material prices, although the overall degree of deflation was the softest recorded by the survey in nearly a year. Competitive pressures and ongoing weakness in overall order books meant manufacturers continued to offer discounts. Latest data showed an eleventh successive monthly fall in output charges.

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Sources: IHSMarkit, INE.

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

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