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IHS MARKIT SPAIN SERVICES PMI®

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Stronger domestic demand drives further growth of Spanish service sector

KEY FINDINGS

Business activity continues to rise at solid pace

Fastest growth in new work for six months

Employment rises in response to latest increase in workloads

Spain's service sector continued to expand during November, with growth holding steady at a solid rate. Demand was reported to have strengthened, particularly from domestic clients, and firms responded positively to increasing workloads at their units by hiring additional workers.

Nonetheless, confidence about the future remained relatively subdued, whilst input price pressures were again elevated, reflective of rising energy, fuel and wage costs.

The headline Business Activity Index remained comfortably above the 50.0 no-change mark during November. Recording a level of 54.0, the index was unchanged on October's four-month high, and extended the current period of continuous growth to over five years.

Supporting the latest increase in activity was the fastest rise in new business for six months. New contracts were reported to have risen in line with firmer market demand and an increased willingness amongst domestic clients to utilise their budgets. In contrast, political and economic uncertainties weighed on external sales during November as signalled by a fourth successive monthly deterioration in new export business.

The latest uptick in new work led to some further pressure on capacity. This was highlighted by another increase in backlogs of work, which have now risen for seven months in succession. Growth was also the strongest recorded by the survey since August.

A number of companies responded by adding to their headcounts. Net job creation was signalled for a fiftieth

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

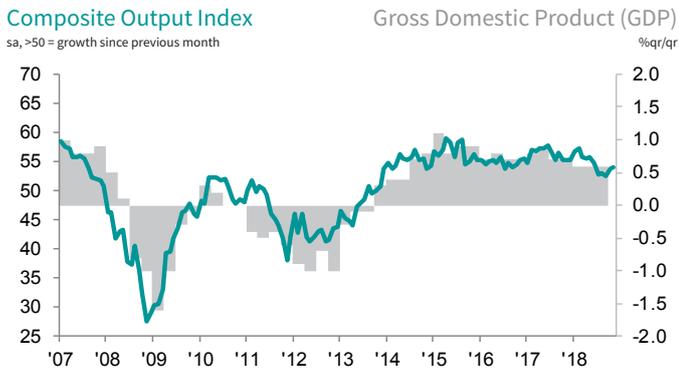
successive month, with the latest increase again above the survey's long-term trend. Growth was also firmer than the two-year low seen in October.

Jobs were added in spite of confidence amongst firms remaining relatively subdued. According to the latest data, optimism about the future strengthened over the month, but remained well below trend. Political and economic uncertainties were again reported as factors that may undermine future output and demand. Of those companies that expect activity to be higher in 12 months' time, new product lines and market expansion were reported as reasons to be optimistic.

Finally, on the price front, operating expenses were again reported to have risen at an elevated pace. Companies signalled that fuel, energy and wages had all increased in cost during the month. Where possible, service sector companies sought to protect their margins by raising their own charges. Latest data showed that average output price inflation strengthened to a four-month high in November. Output charges have now risen in each survey period since May, though inflation remains well below that of input costs.

IHS MARKIT SPAIN COMPOSITE PMI®

Composite output rises at firmer rate during November



The Composite Output Index* improved slightly during November, strengthening to a level of 53.9, up from 53.7 during October. The index has now risen in successive months following September's near five-year low of 52.5.

Whilst service sector activity growth held steady at October's four-month high, manufacturing output rose at its strongest rate since August. Firmer demand across the private sector was indicated, with new business rising at stronger rates in both manufacturing and services.

Latest data again pointed to relatively firmer domestic demand, with new export business rising at a slower rate than total new work. Services exports were down for a fourth successive month and subsequently broadly offset solid growth in manufacturing.

Meanwhile, jobs growth was sustained, driven in the main by strength in services recruitment. Firms were responding to capacity pressures as evidenced by another solid gain in backlogs (the strongest since March).

Price pressures persisted, with inflation of private sector input prices remaining above trend. Where possible these costs were passed on to clients, though the degree of charge inflation remained modest.

Confidence was again relatively subdued as political and economic uncertainties persisted. In manufacturing, sentiment slipped to a five-and-a-half year low.

**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:

"The sideways movement in service sector growth, allied with an uptick in manufacturing output expansion, currently points to a decent quarterly gain in GDP over the final quarter of the year.

"With above trend gains in both activity and new work, jobs continue to be created and latest figures are indicative of a further reduction of unemployment in the coming months. This would again provide a positive fillip to domestic consumption which, according to the latest survey results, remains a key driver of growth.

"Indeed, external demand faltered again in November, reflective of political and economic uncertainties around the globe. Indeed, these continued to have a detrimental effect on confidence as we head to year end, with latest data again showing private sector optimism remaining well below trend."

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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.

November 2018 data were collected 12-27 November 2018.

For further information on the PMI survey methodology, please contact 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. To learn more go to ihsmarkit.com/products/pmi.html.

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