News Release

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Service sector growth accelerates during August as domestic demand strengthens

KEY FINDINGS

Strongest growth for five months
Global economic uncertainties weigh on confidence
Margins under pressure

Growth of the Spanish service sector strengthened during August, improving to a five-month high on the back of rising levels of incoming new work. The uplift in demand, primarily from domestic sources, served to place pressure on capacity, with backlogs rising again and modest job creation recorded.

Higher wage costs subsequently pushed up operating expenses at an elevated rate, though firms chose on average to cut their own charges. Confidence about the future meanwhile sank to its lowest level since May 2013.

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, improved to 54.3 during August. That was up from 52.9 in July and signalled the fastest increase in activity since March. Growth has now been registered continuously since November 2013.

Once again, gains in activity were closely linked to rising levels of new work. According to the latest data, the net rise in new work was the sharpest since April. Growth was driven in the main by a strengthening in demand from domestic sources which was reported to offset deteriorating demand from abroad. Sales to foreign customers were reported to have fallen in August for the fourth successive month.

Worries over demand trends around the world, especially in neighbouring European markets, were key in depressing confidence during the latest survey period. According to the latest data, optimism about the future amongst Spanish service providers was the lowest recorded by the survey for over six years and fell noticeably since July.

Concerns about future activity served to restrict employment gains over the month. In a number of instances, companies chose to not replace leavers, instead meeting existing demand requirements with fewer staff. That said, with signs of capacity strain in some instances, overall employee numbers rose in August, albeit at a modest pace that was the weakest since December 2014.

Part of the increase in jobs reflected a response to a second successive monthly net gain in backlogs of work. Growth was also solid and the sharpest recorded by the survey for 12 months.

Higher volumes of new work in August occurred concurrently with the first net reduction in average output charges for 16 months. Although marginal, competitive pressures and previous periods of soft market demand encouraged price cuts in some instances.

However, margins came under pressure. Average input prices rose markedly during August, extending the current period of inflation to four-and-a-half years. Firms commented that prices had risen on the back of higher employment and transport costs.
Growth of the Spanish private sector was sustained during August, improving to its highest level since April. After accounting for seasonal factors, the Composite Output Index* registered 52.6, up from 51.7 during July.

However, there remained a notable performance imbalance between the manufacturing and service sectors. Whereas services enjoyed its strongest growth since March, manufacturing production declined to the greatest degree since May 2013.

The relatively greater direct exposure of manufacturers to global economic developments remained a key factor in its under-performance during August. Order books were again reported to be down (albeit marginally), with exports lower for a third month running. In contrast, service providers were able to more than offset any decline in foreign demand via a strong gain in new work from domestic clients.

Nonetheless, global economic and political uncertainties are weighing on confidence. Overall sentiment slumped in August to a 75-month low, and concerns over future production weighed on hiring. Private sector jobs growth was marginal and the weakest recorded by the survey for just under five years.

Private sector margins meanwhile were under pressure as overall costs rose, but output charges fell slightly.

*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 latest data confirm that Spain is likely to remain one of the stronger performing European economies during the third quarter of the year, with GDP growth seemingly holding steady at around 0.5%.

“However, in line with other countries, growth is being driven in the main by internal demand and decent service sector performance as manufacturing remains stuck in the doldrums.

“With the divergence between services and manufacturing currently amongst the greatest in the PMI history, it nonetheless remains unlikely that services can maintain its current growth trajectory especially against the backdrop of a fall in confidence about the future to its lowest in over six years.”