Service sector growth strengthens to nine-month high

KEY FINDINGS

Domestic economy drives solid rise in new work

Sentiment improves to five-month high

Input costs up markedly but charges unchanged

Spain’s service sector registered a positive end to 2019, registering its strongest growth for nine months. New orders continued to rise at a solid rate, and firms added to their payroll numbers to a modest degree. Confidence about the future improved to its highest level for five months.

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 for a second successive survey period during December. Reaching a level of 54.9, the index was up from 53.2 during November and the highest level since March.

Growth was again supported by a solid increase in levels of new business. December marked a continuation of a growth trend that stretches back to the summer of 2013, although the latest increase was slightly softer than in November. This primarily reflected ongoing weakness in export sales, which were down for an eighth successive month at year end. Firms reported that political and economic uncertainties continued to weigh on demand in external markets.

Similar factors also impacted on the confidence of service sector companies. Worries over domestic politics were widely reported by the survey panel, and are expected to weigh on investment and economic activity in the coming months. That said, plans to bolster commercial and strategic activities, plus some encouragement from higher demand over the past two months, meant confidence overall improved during December to a five-month high.

Capacity remained under pressure at the end of 2019, despite the marked uplift in overall activity. Backlogs of work increased for a second month running (and for the fifth time in the past six survey periods) during December. Growth was solid and the strongest recorded since August 2018. Firms reported that rising work outstanding reflected ongoing gains in new business at their units.

Trends in activity, new work and backlogs encouraged a number of companies to take on additional staff as evidenced via another rise in employment. Although modest, December’s uplift in payroll numbers extended the current period of growth to well over five years.

Ongoing rises in demand for new staff led to further upward pressure on salaries and, subsequently, operating expenses in December. Latest data showed that input costs rose to the greatest degree for seven months. As well as increased labour costs, there were also reports from the survey panel of higher fuel and utility bills.

Efforts to pass on these higher costs to clients were generally thwarted by strong competitive pressures at the end of 2019. Average output charges were subsequently unchanged during December.
Private sector growth improves despite manufacturing weakness

There was an improvement in Spain’s private sector growth rate during December, according to the latest PMI data. After accounting for seasonal factors, the Composite Output Index* rose to 52.7, up from 51.9 and the best reading since April.

However, the latest headline figure belied ongoing divergences within Spain. Manufacturing output deteriorated during the month to the greatest extent since April 2013. In contrast, there was another rise in service sector activity, with growth reaching its best level for nine months.

Similar trends were seen for new work, with solid growth in services being partly offset by another reduction in new orders recorded at manufacturers. Any gains in new business tended to be domestically driven: new export sales fell across both sectors and subsequently at the composite level for a seventh month running.

Employment gains were again marginal during the latest survey period, as modest growth in services just about offsetting further cuts in manufacturing. Worries about the future tended to weigh on hiring. Despite reaching a five-month high, sentiment remained historically low.

Price data indicated that rising service sector labour costs drove overall cost inflation up at year end. Competitive pressures however led to a slight cut in output charges.

*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:

“Spain’s service sector ended the decade on a high, expanding again and maintaining a current run of growth that stretches back over six years.

“Against the backdrop of ongoing economic and political uncertainties, the solid and accelerated rise in activity is perhaps somewhat surprising but nonetheless should ensure a solid rise in GDP in the fourth quarter of at least 0.4%.

“With confidence also rebuilding slowly, growth should retain some momentum heading into the new year. However, the ongoing weakness of the manufacturing sector undoubtedly continues to provide downside risks to activity and investment over the coming months.”
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.

December 2019 data were collected 5-18 December 2019.

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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