Spain’s manufacturing sector experienced a considerable deterioration in operating conditions during April as the global coronavirus disease 2019 (COVID-19) pandemic, and associated measures to contain its spread, weighed on demand and activity. Survey record falls in output, new orders, export trade and purchasing were all reported. Employment fell at a pace only surpassed at the height of the financial crisis, whilst confidence about the future sank to a new series low.

April's IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – sank to a level of 30.8, from March’s 45.7, to indicate a second consecutive monthly deterioration in operating conditions. Moreover, falling further below the 50.0 no-change mark the index signalled a rate of contraction that was considerable and the sharpest since December 2008.

Panel firms reported that the COVID-19 pandemic, which has led to considerable restrictions in non-essential economic activities in Spain and around the globe, inevitably led to contractions in production, new orders and exports during April. Moreover, the falls in each of these variables were the sharpest ever recorded (data were first collected during February 1998).

Market group data showed that all three sectors covered by the survey suffered considerable deteriorations in operating conditions. For consumer and intermediate goods, respective PMIs hit levels only surpassed during the financial crisis, whilst the PMI for investment goods producers sank to a new survey low.

Given the widespread lockdown and general pause of economic activity, manufacturers reduced their purchasing activity at a survey record pace in April. Inventories were also cut back sharply as any orders to suppliers tended to suffer from considerable delays. Latest data showed an unprecedented deterioration in vendor performance amid reports that suppliers were either closed or were facing challenges related to sourcing inputs and transportation.

Job losses were considerable during April as firms responded to the hugely challenging business environment by cutting staffing levels. The magnitude of the fall in employment was surpassed only by December 2008 (during the global financial crisis) with lower employment in part driven by a high level of pessimism about the future. Confidence regarding the coming 12 months was comfortably the lowest recorded by the survey-to-date as firms signalled notable worries about the longer-term impact on demand and economic activity of the COVID-19 pandemic.

Finally, deflationary pressures were apparent during April, with firms signalling concurrent falls in both input prices and output charges. The decline in input costs was marked and the greatest in over four years amid reports of lower prices for metals and oil-related products. Output price deflation was the sharpest recorded by the survey in nearly 11 years.
Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

“Although perhaps unsurprising given the restrictions in place related to non-essential economic activities, the latest PMI data for Spain’s manufacturing sector nonetheless laid bare the scale of the economic fallout for goods producers from the COVID-19 pandemic.

“Records were broken across a number of data points – output, new orders, export trade and purchasing tumbled at unprecedented rates for instance – but perhaps most worrying are developments in confidence and employment.

"Job losses occurred at a rate surpassed only during the heights of the financial crisis as firms signalled notable worries about the longer-term impact of the pandemic on demand. This leads to concerns that when the recovery out of the lockdown begins it may prove to be much more arduous than the hoped-for swift return to pre-crisis activity levels.”

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About PMI

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.ihsmarkit.com/products/pmi.html

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