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IHS MARKIT SPAIN SERVICES PMI®

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Service sector growth sustained at a solid pace in February

KEY FINDINGS

Rising levels of new work support growth

Jobs continued to be added at robust pace

Increase in minimum wage pushes up costs sharply

Spain's service sector continued to expand at a solid rate during February, with growth supported by another marked gain in levels of incoming new business. Companies sought to keep on top of subsequently higher workloads by adding to their staffing levels, whilst confidence about the future remained positive.

However, amid widespread reports of higher wages being paid, in part reflective of the recent adjustment to the minimum wage, operating costs rose at the strongest rate in over 10 years. Charges were also raised, albeit at a much slower rate than that seen for input costs.

The headline Business Activity Index was little changed during February, recording a level of 54.5, compared to 54.7 during January. Growth has now been recorded in each month since November 2013, with the latest increase again remaining comfortably higher than the survey's historical average.

Supporting the latest expansion was a robust increase in levels of new business. Companies reported that market demand had increased, and they had experienced success in securing new clients. Latest data did, however, point to the domestic market as the primary source of growth. Despite snapping a six-month period of contraction, new export orders were only fractionally higher during February.

Rising levels of new work helped to create pressure on capacity as highlighted by a tenth successive monthly increase in backlogs of work. That said, growth was marginal as firms continued to bolster capacity through

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

the recruitment of additional workers. Latest data showed jobs were added for a fifty-third consecutive survey period, and at a rate of growth that remained well above the survey average. There were also reports from panellists that jobs were being added as part of wider company investment initiatives.

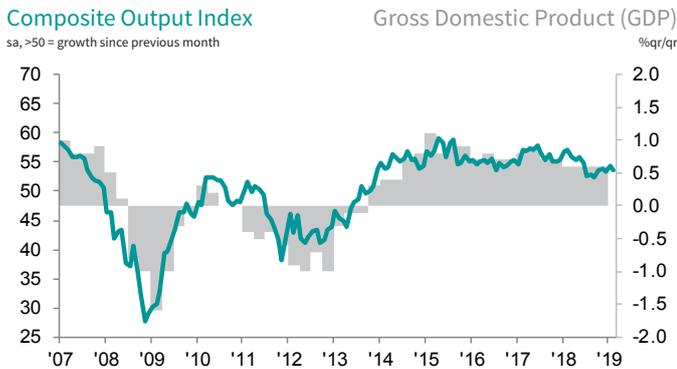
Increased demand for workers, alongside the noticeable rise in the minimum wage, meant that operating costs faced by Spanish service companies were noticeably higher during February. According to the latest PMI data, input prices rose to the greatest degree since September 2008. There were also reports of higher energy/fuel bills, plus suppliers raising their prices.

With pressure on margins building, service sector companies chose to increase their own charges in February. Whilst solid, and marking a tenth successive monthly increase, the degree to which charges rose remained noticeably slower than that of input prices.

Finally, business confidence remained broadly steady in February at a level just below the survey average. Optimism was linked to the hoped launch of new services, positive forecasts for market demand and sales, plus the planned enhancement of marketing strategies.

IHS MARKIT SPAIN COMPOSITE PMI®

Subdued manufacturing sector weighs on overall growth in February



The Composite Output Index* remained comfortably above the 50.0 no-change mark during February to signal expansion of the Spanish private sector economy for a sixty-fifth month in succession. The rate of growth also remained solid, despite the index falling on January's seven-month high of 54.5 to a level of 53.5 in February.

By sector, it was manufacturing that posted the noticeably weaker growth performance, with output here expanding at the slowest rate in over five years. Service sector growth eased slightly, but remained comfortably above its historical trend.

Latest data implied that the domestic market remained the key source of demand growth. Total new work continued to rise solidly, but at the weakest degree since October 2013 as export orders declined for the first time in four-and-a-half years of composite data collection.

Divergent trends between the manufacturing and service sectors were also seen in employment data during February. Whilst manufacturing jobs were little changed, service sector employment growth remained marked.

Input costs continued to rise sharply, mainly on the back of higher wages being paid in the services industry. In contrast, manufacturing input costs fell.

Finally, business confidence held up in services, but was down noticeably amongst manufacturers.

*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:

"Growth of the Spanish economy was sustained at a solid clip during February, with PMI data suggesting the economy is on course for reasonable GDP expansion in the first quarter of the year.

"However, divergent trends are apparent between the manufacturing and service sectors, with the former registering a muted performance in February compared to ongoing robust expansion in services.

"This seems to reflect relative exposures to softness in international demand, with services companies generally more shielded than their manufacturing counterparts.

"That said, services companies faced their own challenges in the form of sharply rising labour costs thanks to the recent uplift in the minimum wage. This led to the greatest rise in operating costs for over a decade and a notable squeeze on profit margins."

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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.

January 2019 data were collected 12-25 February 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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