Spanish service sector returns to growth in June

KEY FINDINGS

Slight falls in activity and new business
Job losses persist, but confidence improves
Operating expenses rise sharply

There was a return to growth of Spain’s services economy during June following the unprecedented declines in activity seen earlier in the quarter. Growth was however only marginal as the global coronavirus disease (COVID-19) pandemic continued to weigh heavily on economic activity, despite the easing of lockdown restrictions designed to limit the spread of the virus.

As firms reopened, several staff returned to work from furlough, which led to a sharp rise in overall operating expenses. The challenging business environment nonetheless meant that discounting of output charges continued.

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, moved back above the 50.0 no-change mark in June, posting 50.2, up sharply from May’s 27.9. Whilst welcome, growth was however marginal and followed on from a period of unprecedented contraction in service sector activity.

Supporting the return to growth was a similar-sized increase in new business volumes as wider economic activity began to resume in line with an easing of lockdown measures related to the COVID-19 pandemic. However, several companies reported that the virus continued to have an adverse impact on demand, with customer numbers still well down on usual levels.

The lack of meaningful growth in new work meant firms were able to comfortably keep on top of workloads, with backlogs of unfinished business declining for a fourth successive month. Staffing levels were also cut again, in line with the trend since March, as firms responded to excess capacity at their units.

There were several reports however of a return to work for several staff from furlough during June, which helped to drive a considerable increase in overall operating expenses. Following two months of unprecedented declines in input costs, the increase seen in June was sharp. There were also reports of higher prices being charged by suppliers and a rise in transportation costs.

Companies were unable to pass on these increased costs to clients, with discounting of output charges recorded for a fourth successive month. Companies reported that the business environment remained extremely challenging, and they were offering lower charges to clients in a bid to maintain business and secure new work.

Finally, there was another marked improvement in confidence during June. Overall, firms were optimistic about the future, and sentiment was the best since February. There were reports from the survey panel that the continued easing of lockdown restrictions should help support growth of demand and activity over the next 12 months.
Spain’s private sector economy moved closer to stabilisation during June, as signalled by the Composite Output Index* posting 49.7, up from 29.2 in the previous month. That was the best reading since February with firms in the services economy recording marginal growth, but manufacturing output continued to fall.

Similar trends were seen for new work, although the marginal growth in services more than offset another decline in new orders placed with manufacturers. That meant that the private sector recorded its first rise in overall new work since February.

Less positive were developments in employment which continued to decline sharply over the month (albeit to the weakest degree since February). Firms signalled a desire to control costs given the challenging business environment. However, amid reports of workers returning from furlough schemes, overall private sector operating expenses rose sharply for the first time in four months. Margins were under pressure as charges continued to be cut.

Finally, business confidence improved in both sectors during June to their highest levels since February.

*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.