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IHS MARKIT SPAIN SERVICES PMI®

INCLUDING IHS MARKIT SPAIN COMPOSITE PMI®

Solid growth of service sector maintained at end of 2018

KEY FINDINGS

Growth supported by firm gain in new business

Job creation improves to best since August

Confidence at highest for five months

Spain's service sector continued to expand at a solid rate at the end of 2018, supported by another month of similar-sized gains in new business volumes. Ongoing steady expansion led to the strongest rise in employment since August. This helped firms to broadly keep on top of backlogs of work, which increased only slightly during December. Expectations improved to reach their highest since July.

Meanwhile, on the price front, average operating expenses continued to increase at a marked pace underpinned by higher supplier prices and increased wage costs. However, competitive pressures served to limited pricing power and therefore output charge inflation.

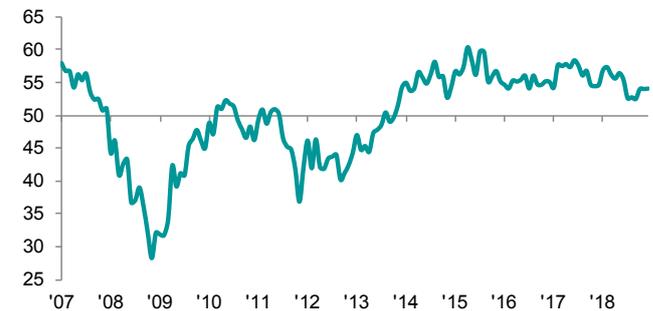
The headline Business Activity Index remained comfortably above the 50.0 no-change mark in December. Latest data therefore marked the extension of the current sequence of growth to 62 months. December's rate of expansion was also marked, with the index recording a level of 54.0 for the third month in succession.

Supporting the rise in activity at the end of 2018 was another increase in levels of incoming new business. Companies reported that demand conditions were again positive and had helped them to secure new clients during the month.

However, growth was again firmly centred on the domestic market. December's survey showed that sales to foreign clients declined for a fifth month in succession. There were some reports that recent French protests had a detrimental impact on demand from neighbouring France at the end of 2018.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Positive growth in demand and activity encouraged service providers to add to their workforce numbers in December. The degree of job creation was the sharpest recorded by the survey since August and enabled firms to alleviate any capacity pressures at their units. This was highlighted by December's data on backlogs of work, which increased at year end, but only marginally and to the lowest degree in the current eight-month sequence of growth.

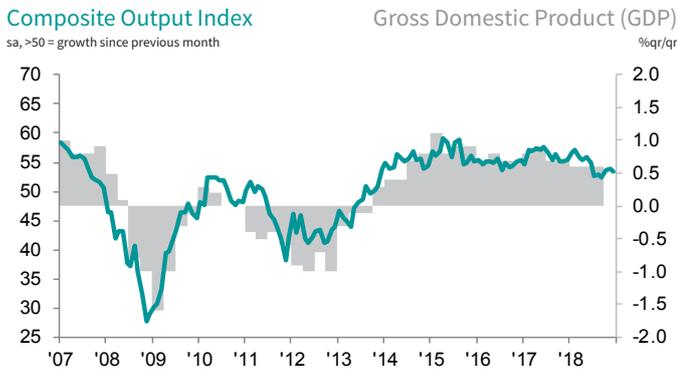
December's prices data indicated that operating expenses continued to increase at a strong pace during the latest survey period. Although inflation was the lowest in three months, it remained elevated by historical standards. Companies reported that wages had increased and that suppliers were increasing their charges.

Reacting to another month of sharply rising operating expenses, companies in the services economy raised their own prices in December. However, competitive pressures served to restrict pricing power.

Finally, expectations for activity in 12 months' time strengthened to the highest since July. New product launches, increased investment and better economic conditions should support growth over the coming year.

IHS MARKIT SPAIN COMPOSITE PMI®

Manufacturing leads slower growth of overall activity



Sources: IHS Markit, INE.

The Composite Output Index* declined to a three-month low at the end of 2018, posting a level of 53.4, down from 53.9 in November. At its current level, the index is indicative of a solid rate of growth.

The weaker increase in composite activity was linked to slower growth in the manufacturing economy. Latest data showed that goods production rose to the weakest degree for 28 months whereas expansion in the services economy was unmoved for a second straight month.

Manufacturing production growth was undermined by only a slight rise in new work (the slowest for over two years). That was despite the sector registering its best increase in exports since July.

Job creation was recorded across the private sector economy in December, but trends between the manufacturing and services sectors differed. Employment growth in services was the highest for four months, compared to the weakest rise in manufacturing jobs since August 2016.

Meanwhile, latest prices data showed cost inflation falling to a 15-month low, in part due to the recent decline in global oil prices. Charges continued to rise only modestly.

Finally, business expectations improved to their highest level since July. Confidence strengthened across the manufacturing and service sectors.

**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:

"December's PMI data rounded off a solid quarter for the Spanish economy. The service sector expanded at an unchanged rate for the second successive month, and despite a slippage in the pace of manufacturing expansion, the surveys indicate that the economy grew at a similar quarterly rate to those seen in previous quarters.

"Moreover, confidence about the future improved to its highest level since July and points to ongoing expansion in the early part of 2019, though risks to growth remain tilted to the downside with worries over future trade and political instabilities again reported."

CONTACT

IHS Markit

Paul Smith
Economics Director
T: +44-1491-461-038
paul.smith@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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 2018 data were collected 5-18 December 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

e-mail: info@aerce.org, website: www.aerce.org.