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IHS MARKIT SPAIN SERVICES PMI®

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Spanish service sector returns to growth during April

KEY FINDINGS

Improving COVID-19 situation helps lift activity and new business

Higher workloads lead to rise in employment

Confidence highest since early 2004

April 2021 data were collected 12-27 April 2021.

The Spanish service sector enjoyed its strongest expansion for nearly a year-and-a-half during April as encouraging demand developments and positive projections for activity helped to support growth. Indeed, confidence about the future hit its highest level since early 2004 amid hopes of a strong upturn due to vaccination programmes and the planned wider reopening of the economy.

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, jumped higher during April, reaching 54.6, up from 48.1 in March. Posting above the 50.0 no-change mark, the index pointed to not only the first rise in activity since last July but also the strongest growth since the end of 2019.

Higher activity was linked to a combination of firmer demand, the reopening of business premises, and rising prospects amid a generally improving situation related to COVID-19. Companies reported that sales volumes had risen to the strongest degree since August 2019, with clients indicating expectations of a strong recovery in their own activity as vaccination programmes take effect and restrictions related to COVID-19 are relaxed. Growth in new business was however predominantly driven by the domestic market. Although only marginal, levels of new export business continued to decline in April.

Reflective of increasing confidence, business expectations amongst Spanish service providers rose to their highest since February 2004 with over 60% of companies anticipating a

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

rise in activity from present levels in 12 months' time.

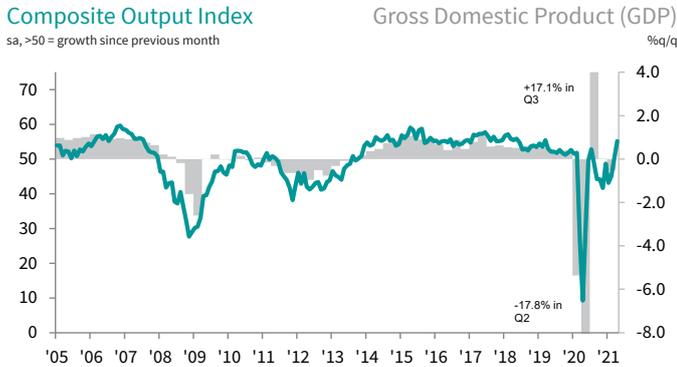
This growing confidence in the outlook, plus a net rise in current workloads, meant that firms took on additional staff for the first time in over a year during April. Modest growth was also linked to planned reopening and the return of staff from furlough. Service providers indicated an increase in volumes of work outstanding: the first increase recorded by the survey since February 2020.

Higher staffing levels reportedly led to an increase in salary and wage costs on average. With suppliers generally increasing their charges amid widespread product shortages, plus rising costs for transportation, overall operating expenses increased during April to the greatest degree since August 2008.

Firms sought to pass on higher operating costs to their clients, and output charges subsequently increased for the first time for over a year. However, the rate of inflation was modest, as companies reported that competitive pressures continued to thwart pricing power during April.

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Fastest growth in private sector for over two years



Sources: IHS Markit, INE.

There was a marked and noticeable gain in private sector output during April, with both manufacturing and service sectors experiencing growth. After accounting for seasonal factors, the Composite Output Index* registered 55.2, up from 50.1 in the previous month and its highest level in over two years.

A similar sized rise in new orders was reported to have driven activity higher, with both manufacturers and service providers registering noticeable gains. Manufacturers also reported a marked rise in new export business.

The uplift in new work served to push up levels of work outstanding for a second successive month and encouraged companies to add to their staffing levels. Latest data showed that a net rise in private sector employment was recorded for the first time since February 2020.

Amid an extremely sharp rise in manufacturing input prices, private sector operating expenses rose at the joint-fastest pace since July 2008. Firms sought to pass these higher expenses on to clients and, although the rate of output price inflation was the sharpest in over three years, competitive pressures in the service sector served to limit overall pricing power.

Looking ahead to the coming 12 months, confidence about the future improved to its highest level since composite data were first available in mid-2012. A lifting of COVID-19 restrictions in line with successful vaccination programmes was reported to have underpinned optimism.

**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:

“An extremely positive set of data for April as activity rose markedly on the back of both an uplift in demand and preparations for the reopening of premises in anticipation of a loosening of COVID-19 restrictions.

“Indeed, confidence amongst firms and clients of a strong uplift in economic activity once vaccination programmes take hold is growing and will add to recent views that the economy is poised to experience a strong and sustainable bounce in the coming months.

“Such confidence in the outlook is now spilling over into the labour market, with firms either taking on new workers or welcoming staff back from furlough. The sting in the tail, however, is the rapid rise in operating expenses that firms are experiencing, which remain difficult to pass on to clients amid strong competitive pressures.”

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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.

April 2021 data were collected 12-27 April 2021

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.

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