Service sector activity continues to rise markedly in September

**KEY FINDINGS**

- Growth sustained, but at slower rate
- Firm domestic demand supports sector expansion
- Brexit amongst factors undermining sentiment

Spain’s service sector continued to expand during September, albeit at a slower rate as sales growth softened. Capacity pressures nonetheless persisted, with firms struggling to keep on top of workloads. This subsequently led to another increase in payroll numbers.

With employment costs rising, overall operating expenses continued to increase markedly. However, competitive pressures again placed a limit on the pricing power of services firms as highlighted by a marginal fall in output charges.

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, recorded 53.3 during September, compared to August’s 54.3. The index has continually posted above the 50.0 no-change mark for just under six years, although the implied rate of growth in September was a little softer than the previous month.

Supporting higher activity was another rise in new business. Volumes of new work increased at a solid pace, albeit one weaker than in August. Firms commented on firmer market demand, with the successful acquisition of new contracts linked in part to fruitful commercial and marketing campaigns.

However, sales growth was broadly driven by domestic demand. New business from abroad was reported to have declined during September for a fifth successive month, and at a noticeable rate. The global downturn, plus political and economic uncertainties related to Brexit, were reported to be undermining foreign demand.

Brexit was also amongst the factors weighing on confidence about the future at the end of the third quarter of 2019. Whilst plans to bolster commercial activities, introduce new services and internal restructuring were all reported as reasons to be positive, the overall level of optimism remained amongst the lowest in the past six years.

Worries over rising employment costs were also reported to be undermining sentiment. Anecdotal evidence indicated that rising wages were a key factor behind another round of higher operating expenses. Although inflation in September was the lowest recorded for two years, prices continued to rise markedly overall. With strong competition weighing on the pricing power of service providers, leading to another slight fall in output charges, margins remained under pressure during the month.

Finally, companies continued to add to their payroll numbers to thereby extend the current period of employment expansion to five years. Although growth in September was modest, where firms took on staff they did so to help keep on top of overall workloads which continued to build in September. Latest data showed that backlogs of work increased for a third successive month, and at the fastest rate for over a year.
Spain’s private sector economy expanded at a modest and slower rate during September as the recent manufacturing downturn deepened and service sector growth softened.

The seasonally adjusted Composite Output Index* posted 51.7 during September, down from 52.6 in August. The latest reading matched July’s 68-month low.

Growth was undermined primarily by the sharpest decline in manufacturing output since April 2013, in line with a similar sized deterioration in new order books. There were some signs of spillover from the downturn in the goods producing sector to the services economy, which recorded slower increases in both activity and new business in September. Divergent trends were also apparent in the labour market. Whilst modest growth in jobs was seen in services, a fifth successive monthly decline in manufacturing payroll numbers was registered.

On the price front, manufacturing input prices fell markedly, but rising employment costs pushed up operating expenses for service providers. However, output charges fell across the private sector in September.

Finally, optimism about the future hit a 76-month low as confidence amongst manufacturers sank to its weakest since the start of 2013.

*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.
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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’ and 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.

September 2019 data were collected 12-25 September 2019.

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

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