

News Release

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IHS MARKIT SPAIN SERVICES PMI®

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Services economy contracts at noticeably slower rate in March

KEY FINDINGS

Weaker reductions in activity and new business

Staffing levels down, but only modestly

Confidence about the future remains high

March 2021 data were collected 12-26 March 2021.

Spain's service sector continued to contract during March, albeit only modestly in line with a noticeably slower reduction in new business. Hopes that vaccination programmes will help reduce the impact of the global coronavirus disease 2019 (COVID-19) pandemic meant confidence about the future remained high, although near-term challenges led to another round of job cuts.

Margins also remained under pressure, with firms reporting another noticeable increase in operating expenses, but a slight drop 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, registered 48.1 during March, up from 43.1 in February. Although remaining below the 50.0 no-change mark that separates growth from contraction for an eighth successive month, the rate of contraction was the slowest in the current sequence.

Companies reported that activity continued to be negatively impacted by COVID-19 restrictions during March, albeit perhaps not to the same degree as recent months with some firms reporting an improvement in underlying demand. Although sales overall declined – led in the main by a drop in foreign business, especially in tourism and hospitality services – the overall pace of contraction was modest, and the weakest recorded by the survey since last July.

Firms nonetheless continued to cut their staffing levels during March, extending the current period of job shedding to over a year – although the pace of contraction was comfortably

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

the weakest in the current sequence. Job losses were again linked by firms to a reduction in new work, plus continued efforts to keep on top of operating expenses.

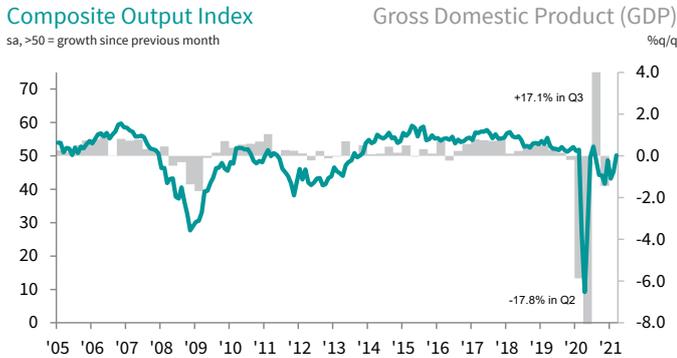
Indeed, input price inflation was sustained in March, extending the current sequence of rising prices to ten months. Although the lowest since December, inflation remained marked amid reports of higher prices being paid for fuel and materials in general. There were also reports of increased transportation costs, especially for freight.

However, the still weak demand environment meant that pricing power amongst firms remained insufficient to pass on higher operating costs. Firms reported that output charges declined again in March, although the rate of contraction was marginal and the weakest in over a year of falling charges.

Finally, confidence about the future remained positive during March, and was little changed on February's near three-year high. Optimism is being firmly linked to vaccination programmes, which are viewed by businesses as key to reducing the negative impacts on activity of the pandemic. Firms are hoping that once vaccination is sufficiently high, then a strong improvement in the business and economic environment will come in the second half of 2021.

IHS MARKIT SPAIN COMPOSITE PMI®

Manufacturing drives return to growth of private sector



Sources: IHS Markit, INE.

Spain's private sector economy returned to (negligible) growth in March as a surge in manufacturing output was accompanied by a noticeable easing of service sector activity contraction. The latest Composite Output Index* improved to 50.1, from 45.1 in February, and was above the 50.0 no-change mark for the first time since last July.

The sharpest rise in manufacturing output for over three years was reported to reflect similarly strong gains in new orders. With services new work falling only slightly, private sector new business rose for the first time for eight months.

Divergence between the broad sectors was also seen in employment data: manufacturers added to their payroll numbers at the quickest rate since mid-2018 but another round of job cuts was seen in services.

The strong manufacturing performance was accompanied by the sharpest rise in input prices for a decade during March amid widespread reports of global product shortages and severe delivery delays. With service providers also impacted by rising fuel and transportation costs, overall operating expenses again rose sharply.

Finally, confidence about the future was unchanged at its highest level since May 2018 on hopes that vaccination programmes will lead to a normalisation of economic activity in the second half of 2021.

*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:

“Although continuing to contract, the latest data on Spain’s services economy provided some hope of a stabilisation in the sector following a torrid few months. Activity and new business both fell at noticeably slower rates, whilst job losses were the weakest in over a year.

“Nonetheless, a third wave of COVID-19 infections currently sweeping European countries leads to concerns of a further tightening of COVID-19 restrictions offers clear downside risks for the near-term, especially for Spain’s key tourism sector which continues to struggle.

“Still, with vaccination programmes hopefully set to pick up pace in the second quarter of the year, many companies now see a clear path to recovery, with panellists widely suggestive of a strong recovery in economic activity in the second half of the year.”

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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.

March 2021 data were collected 12-26 March 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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