

Embargoed until 0915 CET (0815 UTC) 6 January 2021

IHS MARKIT SPAIN SERVICES PMI®

INCLUDING IHS MARKIT SPAIN COMPOSITE PMI®

Slowest fall in activity for five months

KEY FINDINGS

Activity and new work continue to decline

Job losses also persist, but at weaker rate

Business confidence strengthens on vaccine developments

December 2020 data were collected 4-18 December 2020.

The downturn of Spain's services economy continued into the final month of 2020, albeit to a much weaker degree than seen recently. Activity and new work both continued to fall, but at slower rates, whilst confidence about the future improved markedly to a two-and-a-half year high on the back of positive vaccine developments related to the global coronavirus disease 2019 (COVID-19) pandemic.

However, challenging current conditions and excess capacity at their units meant firms saw little choice but to make further cuts to their staffing levels.

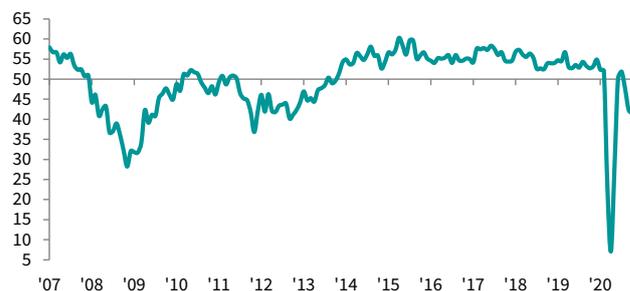
The headline Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, posted 48.0 for December. That was a noticeable improvement on November's 39.5 and the best reading since modest growth was seen in July when the sector was emerging from the spring national lockdown.

Nonetheless, by remaining below the 50.0 no-change mark the index signalled another net fall in activity, which was again closely linked to falling levels of incoming new business. Although also declining at a slower rate, December marked a sixth successive monthly reduction in new work. There were again reports that COVID-19 restrictions were weighing on market activity, particularly for those sectors more exposed to social contact such as tourism and hospitality. Foreign business was again reported to be well down in December.

The continual lack of incoming new work meant that firms were again comfortably able to keep on top of overall

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

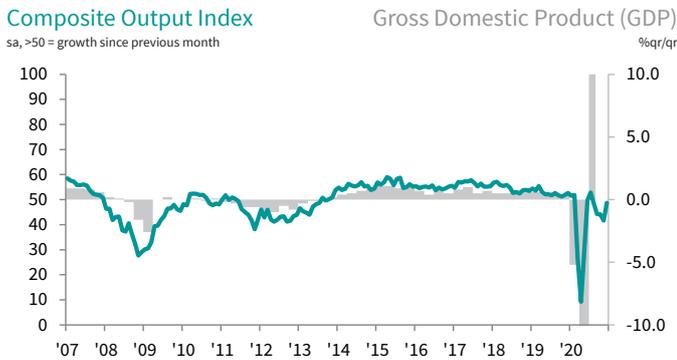
workloads, as evidenced by a drop in work outstanding for a tenth successive month. Excess capacity and the uncertain near-term outlook meant that many firms again chose to cut their staffing levels. Although weakening since November – and to the slowest rate in the current period of falling employment, which began in March – the degree of job shedding was again noticeable.

Labour costs were reported to be a source of higher operating expenses in December, although amid reports of units being shuttered and some staff on furlough, the rate of overall inflation was modest and the lowest in seven months. Competitive pressures and efforts to drum up new business meant that output charges were again cut, extending the current period of deflation to ten months.

Although continuing to face a challenging current business environment, hopes have risen that activity will increase over the coming year. Optimism largely stemmed from recent positive news on vaccine developments related to COVID-19, with firms confident that by this time next year the pandemic will be under control. This will then provide a platform for a strong snapback in market activity, demand, and business growth.

IHS MARKIT SPAIN COMPOSITE PMI®

Slower fall in private sector output signalled



Sources: IHS Markit, INE.

There was a notable relative improvement in private sector performance during December, as signalled by a marked rise in the Composite Output Index* to a reading of 48.7, from 41.7 in the previous month.

The increase in the index was driven in the main by a notable easing in the rate of contraction in service sector activity, whilst there was also a return to modest growth in manufacturing output.

Nonetheless, with the composite output index remaining below the 50.0 no-change mark, the latest data marked a fifth successive monthly fall in activity, which was linked in the main to ongoing weakness in demand. New order volumes declined again, with both manufacturing and service sector companies recording net losses in incoming new orders.

Job losses subsequently persisted for a tenth successive month, though the rate of contraction was the joint-weakest in the current sequence. Price pressures meanwhile intensified in manufacturing, with costs here rising at the fastest rate for nearly three years on the back of supply-side delays.

Despite facing a challenging existing and near-term business environment, recent news on vaccine developments helped to drive sentiment up to its highest level in two-and-a-half years.

*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 confidence has grown markedly on the back of positive vaccine developments – which should hopefully mean the pandemic is moving well behind us by this time next year – near-term challenges for Spanish service providers persisted at the end of 2020.

“Ongoing restrictions on activities, particularly related to social contact, meant that output and new business volumes in the services economy continued to falter, especially again for those businesses linked to hospitality. Despite being notably weaker than the sharp declines seen during November, several companies again chose to cut jobs in response to dwindling workloads or continued closures at some business units.

“Whilst vaccines and their rollout will clearly unlock the pathway to recovery, the latest data provide a timely reminder that dealing with the virus and associated restrictions will continue to bear down on sector performance for some time to come.”

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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.

December 2020 data were collected 4-18 December 2020.

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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