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IHS MARKIT SPAIN SERVICES PMI®

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Spanish service sector suffers unprecedented fall in activity

KEY FINDINGS

COVID-19 outbreak leads to rapid deteriorations in output and demand

Record rate of job losses as pessimism intensifies

Deflation apparent as costs and charges fall sharply

April 2020 data were collected 7-27 April 2020.

The Spanish service sector endured an extremely challenging month in April as government restrictions on non-essential economic activities inevitably impacted heavily on activity and demand. Record falls in service sector output and new business were recorded, whilst the sharp reduction in workloads and heightened pessimism about the future led to widescale job losses.

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, experienced further losses in April, declining even further below the 50.0 no-change mark following the previous month's record low reading. At just 7.1, the index deteriorated from 23.0 in March to indicate an unprecedented, considerable and broad-based contraction of service sector activity.

The decline in activity signalled by the headline index was matched by a similar sized contraction in incoming new business. With many companies and their clients closed due to the shutdown, or consumers facing travel restrictions, demand for services was inevitably sharply lower. Not only did overall new work contract at the sharpest rate in the survey history, sales from abroad also fell at a series record pace.

All of the sub-sectors that data are collected for recorded considerable drops in business activity when compared to March. Of note, however, Hotels & Restaurants and Transport & Storage were again especially hard hit, with these two sub-sectors suffering the sharpest contractions of all categories

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

in April.

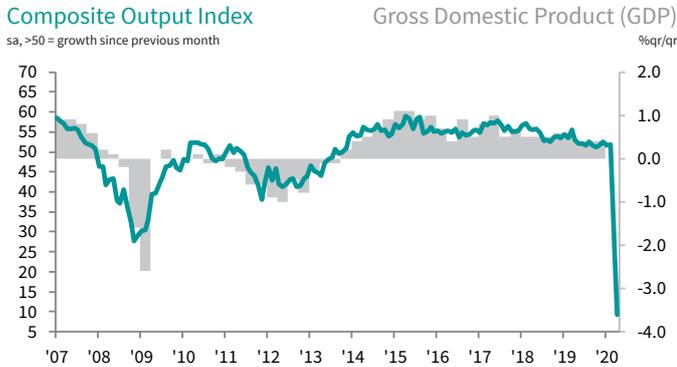
Firms were deeply concerned about not only current conditions, but prospects. Pessimism about the future sank to a new survey low, with over two-thirds of panellists indicating negative expectations about activity over the next year. Worries over the long-term impacts from the pandemic on demand, activity and the health of companies and consumers were widely reported.

Such concerns had a knock-on effect on the labour market. Whilst several companies reported placing workers on furlough – amid indications that overall workloads had contracted at a record rate – there were still widespread reports of redundancies. The net fall in staffing levels was the sharpest in over twenty years of data collection and surpassed anything seen during the heights of the global financial crisis.

Finally, price data pointed to the emergence of considerable deflationary pressures during April. Whilst average operating costs were brought down by redundancies and, in some instances, the furloughing of workers, there were also reports that prices linked to oil-related goods and services were lower. With input prices down at a survey record rate, companies were able to offer their clients steep discounts. Output charges declined during April at the sharpest rate recorded by the survey to date.

IHS MARKIT SPAIN COMPOSITE PMI®

Private sector suffers huge contraction in April



Sources: IHS Markit, INE.

Record falls in both manufacturing and service sector output ensured that the Spanish private sector overall experienced a considerable and unprecedented contraction of economic activity during April. After accounting for seasonal factors, the Composite Output Index* recorded a new low of 9.2, down from 26.7 in March.

The sharp contraction was driven by rapid reductions in demand and new business as widespread government restrictions on non-essential economic activity – both at home and abroad – weighed heavily on company performance. There was a record reduction in composite new business and overall workloads – as measured by backlogs of work – during April.

Business confidence amongst companies plunged to its lowest level in the series history during April as firms worried about the longer term impacts of the COVID-19 pandemic on economic activity and demand. Such concerns weighed on employment decisions, with job losses the sharpest in over 20 years of data availability.

Finally, deflationary pressures intensified during April. Both average input prices and output charges declined at the sharpest rates for over 11 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:

“Given the restrictions on economic activity currently in place across Spain, April’s devastating PMI data may well not come as a surprise to many commentators.

“Nonetheless, observing the sheer scale of the drop in many survey indicators lays bare the impact that the pandemic is having on Spain’s economy. Allowing for a likely shift in the traditionally strong linear relationship between GDP and PMI data, we estimate the economy is currently contracting at a quarterly rate of around 7%.

“Whilst startling enough, this figure may well prove to be conservative, with the depth of the downturn undoubtedly greater than anything we have ever seen before. Indeed, based on March and April data alone, the pandemic is already close to surpassing the net effect on GDP seen during the global financial crisis and difficult years that followed.

“This time is of course somewhat different with recovery in theory set to be much quicker. However, job losses and great pessimism amongst firms about the future leads to notable concerns over the strength of any rebound.”

CONTACT

IHS Markit

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

Katherine Smith
Public Relations
T: +1 (781) 301-9311
katherine.smith@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.

April 2020 data were collected 7-27 April 2020.

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.

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