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IHS MARKIT SPAIN SERVICES PMI®

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Growth remains strong, despite softening in September

KEY FINDINGS

Sales and activity continue to rise

Rapid price inflation recorded

Firms confident that recovery will continue

September 2021 data were collected 13-27 September 2021.

Spain's service sector continued to expand strongly in September, supported by ongoing gains in new business and rising workloads. Jobs continued to be created, whilst confidence about the future remained high as firms eyed an end to the pandemic.

However, growth rates were generally lower than in August, as inflationary pressures and supply-side constraints bit. Operating expenses rose at the strongest rate since the summer of 2008, whilst output charges increased at a greater pace.

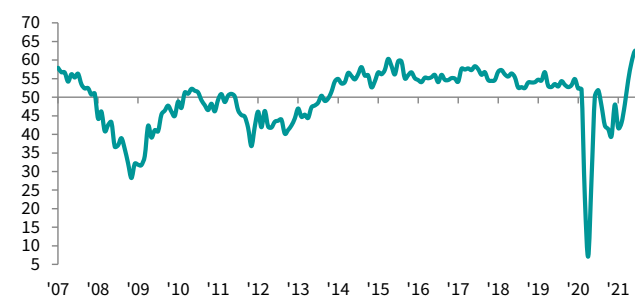
The headline seasonally adjusted Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, recorded 56.9 during September. That was down from 60.1 in August and the lowest reading since April to indicate a slower rate of growth.

That said, activity has now risen for six months in a row, with firms again linking higher output to rising workloads at their units. The recovery from the worst of the pandemic continued to underpin higher levels of demand, as evidenced by another period of rising sales, although growth – as was the case with activity – eased to its lowest for five months. International demand, which is measured by the data on new export orders, remained subdued according to panellists, rising only modestly overall in September.

Firms nonetheless struggled to keep on top of overall workloads, reporting a sixth successive monthly increase in backlogs of work. Growth was solid, though eased to its

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

lowest in the past five months.

In response, employment levels continued to increase, but also in line with other survey data, to the weakest degree since April. Modest growth reflected efforts to expand capacity and clear work outstanding, although there were reports of the non-replacement of leavers.

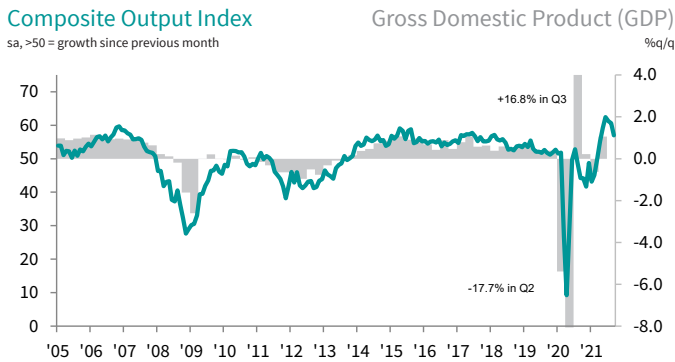
Higher labour expenses were amongst a plethora of factors reported to be driving up overall operating costs in September. There were reports from the survey panel that utilities, fuel, and transportation services were all up in price since the previous month, with supply-side shortages reported to be underpinning inflation (and said to be a factor constraining activity growth in September). Overall, input costs rose to the greatest degree recorded by the survey since July 2008.

In response, output charges were raised markedly, with several panellists indicating that the sheer scale of the rise in operating expenses had left them with little choice but to increase their own charges. Latest data showed that prices rose at a solid pace, albeit one that remained below June's multi-year high.

Finally, firms retained a high degree of confidence that activity will rise over the coming year. The ongoing success of the vaccination programme and recent growth meant firms were optimistic that the negative economic impacts of the pandemic will continue to dissipate and support further growth. New product launches and commercial ventures were also cited as reasons to be confident.

IHS MARKIT SPAIN COMPOSITE PMI®

Softer growth across private sector as supply constraints remain evident



Sources: IHS Markit, INE.

Private sector activity rose again in September, increasing sharply at the end of the third quarter. That said, growth softened to its lowest since April, as highlighted by the seasonally adjusted Composite Index* dropping to 57.0, from 60.6 in the previous month.

Growth rates were slower in both the manufacturing and service sectors, according to the latest data, amid reports – especially amongst goods producers – that supply-side constraints were weighing on output capabilities.

Such challenges with sourcing and receiving goods were again widely seen in prices data. Driven mainly by the manufacturing sector, overall input price inflation accelerated to its highest ever recorded level. There were reports from panellists across the private sector that utilities, fuel, transportation, and key material inputs were rising in cost.

More positive was another increase in employment, although growth eased to a modest level. Jobs were added partly in response to capacity constraints, as signalled by another rise in backlogs of work.

Confidence about the future meanwhile strengthened to a three-month high as firms eyed an end to the pandemic and the associated negative impacts on economic activity.

*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:

“The Spanish service sector lost momentum during September, but growth was sustained at a decent clip as the recovery and the gradual return to some kind of normality continues following the worst of the COVID-19 pandemic.

“As we move now past this initial strong opening and recovery phase, perhaps the slowdown is not to be unexpected, although some reports of challenges sourcing goods means the sector is not completely immune to the extreme supply challenges that are characterising the manufacturing economy at the moment.

“Indeed, price pressures in services are also rising considerably, with widespread reports of higher fuel, utility and transportation prices in September. So far the pass through has been limited to a degree, but clearly after such a difficult 18 months, firms could be willing to push through further price hikes in the coming months.”

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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.

September 2021 data were collected 13-27 September 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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