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IHS MARKIT SPAIN SERVICES PMI®

INCLUDING IHS MARKIT SPAIN COMPOSITE PMI®

Slowest growth of activity recorded for over a year in October

KEY FINDINGS

Political and economic uncertainties weigh on sales

Margins under pressure as firms offer discounts

Hiring growth softens as expectations remain subdued

Growth of the Spanish service sector was sustained in October, but at the slowest rate in over a year, as new business gains softened. Amid evidence of a challenging business environment firms chose to offer discounts despite experiencing another marked rise in their operating expenses.

On the jobs front, employment also rose at a weaker pace, with firms able to comfortably keep on top of their workloads.

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 52.7 in October compared to September's 53.3. Although comfortably above the 50.0 no-change mark, and extending the current period of expansion to six years, the rate of growth implied by the index was the weakest since September 2018.

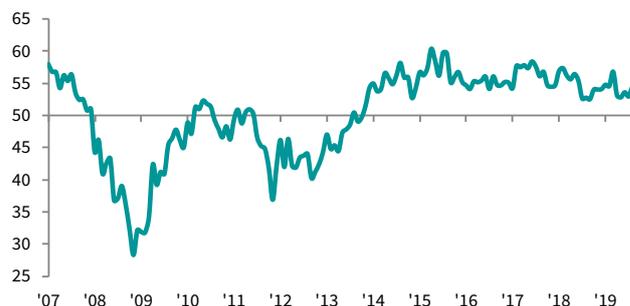
Slower activity growth was linked in part to a similar weakening of new business gains. According to October data, new work rose solidly, but at the slowest pace in three months. Moreover, growth appeared to be driven in the main by domestic demand. New export business declined at a series record pace in October amid ongoing political and economic uncertainties.

Overall new business growth was also in part supported by discounting. Output charges declined in October for a third successive month and at the greatest pace since April 2016 amid reports of strong competitive pressures and the need to bolster sales.

Margins subsequently came under renewed pressure as

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

input costs rose sharply during October. Firms commented on higher staffing costs, whilst there was also some evidence of increased energy, fuel and food prices compared to September.

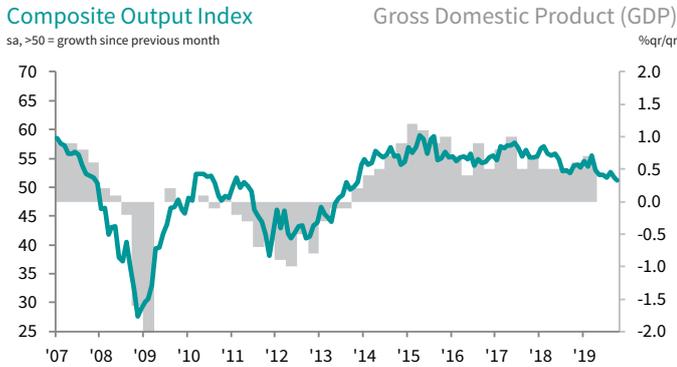
Meanwhile, service providers were able to comfortably keep on top of overall workloads in October. Latest PMI figures showed that unfinished business was unchanged since September, ending a three-month sequence of expansion.

Supporting efforts to clear both new and incoming new work was a further increase in employment. However, given the softening trends in both activity and new work, service providers took on additional staff at only a marginal rate during October. Although job numbers have now risen for over five years, the latest increase was the weakest recorded by the survey since the end of 2014.

Relatively subdued expectations also weighed on hiring activity in October. Although confidence about the future remained positive, linked to plans for fresh commercial strategies and the introduction of new services, economic and political uncertainties, both within and outside of Spain, continued to undermine the outlook.

IHS MARKIT SPAIN COMPOSITE PMI®

Weakest growth of private sector in nearly six years



Spain's private sector economy recorded a further slowdown of growth in October as weaker gains in service sector activity occurred concurrently with ongoing falls in manufacturing output.

The seasonally adjusted Composite Output Index* fell to 51.2 in October, compared to 51.7 in September. That was the lowest reading since November 2013. Service sector growth was the lowest in 13 months, whilst manufacturing output declined to the greatest degree since April 2013.

Undermining overall growth was the weakest rise in total new business in over six years. As with activity, there remained a notable divergence at the sector level. Growth of services new work was maintained, but at the weakest in three months, whilst manufacturers registered a deterioration in new work that was the greatest seen in six-and-a-half years.

Amid poor trends in activity and new work, employment levels were little changed overall in October whilst expectations about activity in 12 months' time were unmoved at a 76-month low.

Finally, competitive pressures weighed on firms' pricing power, but there remained considerable differences in cost trends. Manufacturers recorded a fall in input prices, but services firms indicated notable inflation.

*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:

"Growth of Spain's economy continued to soften in October, and is currently expanding at its slowest rate in around six years.

"Political and economic uncertainties, both in Spain and abroad, are leading to an increasingly challenging business climate, with manufacturers finding conditions especially challenging at the present time.

"However, there were further signs of spillover into the service sector, which is enduring one of its toughest growth spells since the end of 2013.

"Moreover, in an increasingly worry sign for the health of firms operating in the sector, growth was only sustained via discounting. And with staffing costs reportedly continuing to rise, margins are subsequently coming under greater strain, suggesting that firms are likely to rein in hiring and investment plans as we head into year end."

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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.

October 2019 data were collected 11-28 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

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