Spain’s service sector remained deep inside contraction territory during May, with activity, new business and employment all continuing to decline. Whilst rates of contraction eased noticeably on the extreme survey records seen in April, they remained considerable and comfortably amongst the greatest in over 20 years of data collection. Deflationary pressures persisted, with both input and output charges continuing to fall.

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, improved noticeably on April’s survey low of 7.1 to record 27.9 in May. Whilst a considerable rise, by remaining well below the 50.0 no-change mark the index nonetheless indicated another severe deterioration in service sector activity that was the third sharpest in the survey history.

Activity remained under pressure due to another sharp fall in levels of incoming new business. Whilst lockdown measures designed to stem the spread of COVID-19 were less restrictive compared to April – which led to the reopening of some business premises – underlying economic activity and demand for services remained extremely weak. Overall, both incoming new business and export sales continued to fall at historically severe rates during May.

Trends remained similar across all the sub-sectors that data are collected for, with much slower, but still considerable drops in business activity recorded. The two weakest performing sub-categories remained Hotels & Restaurants and Transport & Storage, according to the latest data.

Labour market conditions remained extremely challenging in May. Job losses were recorded for a third successive month and, whilst not falling to the same degree as April’s survey record, the rate of contraction was again marked. A lack of work at units, combined with enough capacity to deal with current workloads – backlogs of work fell in May at the third sharpest rate in the survey history – meant firms either chose to not renew contracts or make redundancies.

Reduced employment expenses – either through job cuts or the continued use of furlough schemes – led to another round of falling overall input prices. With reports of lower fuel and energy costs, total operating expenses were reduced markedly for a second successive month. This helped encourage firms, already faced with an uncompromising business environment, to reduce their own output charges at a considerable pace.

Finally, business confidence improved noticeably in May following April’s survey record low, but remained in negative territory with many panellists indicating expectations of continued weakness in activity over the next 12 months. Service providers continued to signal worries about the longer-term impact on consumption and broader economic activity from the COVID-19 pandemic.
Both the manufacturing and service sector economies registered weaker contractions in output during May compared to the record and extreme falls seen in April. Nonetheless, with the Composite Output Index* posting 29.2, compared to 9.2 in April, the rate of decline in output was again considerable.

Ongoing weakness in production and activity was closely linked to falling levels of incoming new business. Although lockdown restrictions have eased compared to April, and led to the reopening of some premises, they again weighed on demand and company performance.

With workloads falling – another heavy reduction in work outstanding was signalled during May – staffing levels across both the manufacturing and service sectors were again reduced markedly. Lower employment costs and reduced prices for oil-related goods meant that overall operating expenses faced by Spanish private sector firms again fell sharply. Output charges continued to be cut.

Finally, business confidence strengthened in May but remained inside negative territory. Worries about the longer-term impacts of the COVID-19 pandemic again weighed on confidence.

*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.
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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.

May 2020 data were collected 12-26 May 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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