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IHS MARKIT SPAIN SERVICES PMI®

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Spanish service sector expands at elevated rate during March

KEY FINDINGS

Strong domestic environment drives growth of sector

Confidence strengthens and helps to drive jobs growth

Cost inflation elevated despite slipping to 18-month low

Spain's service sector enjoyed its best month in terms of activity growth for over a year during March. Strong domestic demand conditions helped to drive new work higher, whilst another notable increase in employment helped to bolster capacity and allow firms to keep on top of workloads. Business confidence strengthened to its highest level for nine months.

Meanwhile, on the price front, rising employment costs meant that average input prices continued to increase at a notable rate. Firms sought to protect margins by raising their own charges.

The headline Business Activity Index improved since February, rising to a level of 56.8, up from 54.5. The latest index reading was the best recorded by the survey since February 2018 and meant the current period of growth in activity now extends to just shy of five-and-a-half years (index readings above 50.0 represent an increase in activity, those below reflect a fall).

Supporting the latest increase in activity was a strong domestic demand environment. Latest data showed that new business placed with service providers rose to the greatest degree since May 2018. That was in spite of a net reduction in new export business which was down on the back of ongoing economic and political uncertainties (Brexit was noted by some panellists). Service providers attributed the net increase in new business to successful commercial and marketing strategies, the launch of new services and stronger demand.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Buoyed by the upturn in new work and activity during March, Spanish service providers expressed confidence about the future whilst also expanding their current workforce numbers. Business sentiment climbed to its best level since June 2018 with companies expecting to benefit from a stronger demand environment, planned increases in commercial activities and the hoped for launch of new services. Positive projections for growth subsequently spilt over into hiring decisions with firms taking on additional staff at a robust rate. Net job creation has been registered throughout the past four-and-a-half years.

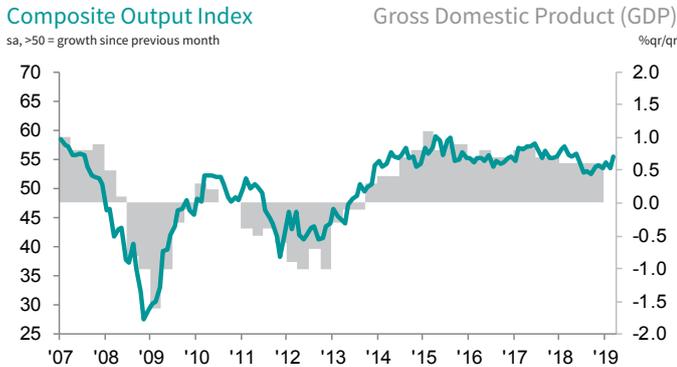
Expanded capacity subsequently meant that firms were able to keep on top of their workloads as evidenced by a drop in levels of work outstanding for the first time in 11 months.

Taking on additional staff, plus reports of higher supplier prices, added to company cost burdens during March. Average input prices were reported to have risen notably since the previous month, although the rate of inflation was seen to ease to its lowest level in a year-and-a-half.

In response to higher costs, service providers raised their own charges at a solid pace, though inflation was restricted in part by reports of ongoing competitive pressures.

IHS MARKIT SPAIN COMPOSITE PMI®

Growth of private sector strengthens to ten-month high



Sources: IHS Markit, INE.

The Composite Output Index* signalled a further expansion of the Spanish private sector economy during March. Moreover, improving to a ten-month high of 55.4, up from 53.5 in February, the index signalled a marked and accelerated rate of growth.

By sector, services was the principal driver of growth, registering its best performance in just over a year. By contrast, growth of output in manufacturing was modest, and amongst the weakest seen in the past five years.

Domestic demand was a key driver of the latest rise in overall activity. Although exports rose slightly following a contraction in February, the increase in foreign orders lagged noticeably behind that of total new work during March.

Jobs growth was also predominately led by the services economy as firms here were buoyed by the recent gains in new work and activity. The size of the manufacturing workforce also increased, but only slightly.

Input cost pressures remained weak in manufacturing, according to the latest data, in contrast to the services economy where strong wage pressures led to another sharp net increase in operating expenses.

Finally, private sector business confidence improved to a nine-month high during March.

*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 economy enjoyed a strong end to the first quarter of the year and the latest data are consistent with a slight acceleration of quarterly GDP growth in Q1 2019.

"However, the composite PMI data masked sectoral imbalances, with the services economy performing strongly compared to a more subdued manufacturing sector.

"This seems closely linked to relative exposures to international demand, which remains soft against the backdrop of ongoing political and economic uncertainties.

"In contrast, domestic demand appears to be gathering strength and employment continues to rise. However, the sting in the tail of rising job numbers is increasing cost pressures for firms, which have been exacerbated by the recent strong uplift in the minimum wage."

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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.

March 2019 data were collected 12-26 March 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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