Having registered marginal growth during July, the Spanish service sector returned to contraction territory in August as incoming new business continued to fall. Amid reports that fresh outbreaks of the global coronavirus disease 2019 (COVID-19) pandemic was depressing tourist activity and leading to ongoing uncertainty, business confidence sank to a three-month low. Job losses were again recorded as firms sought to minimise costs and activity remained well below levels seen prior to the onset of COVID-19.

The headline index from the survey, the Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, recorded a level of 47.7 in August. That was down from 51.9 in July and represented a return to falling activity following two months of growth.

Weighing on activity was another month of falling new business. There were many reports that fresh outbreaks of COVID-19, weakness in tourism numbers, and a reluctance amongst clients to commit to new business had all undermined overall sales. Overall, new work was reported to have declined for a second successive survey period and at the fastest rate since May.

Anecdotal evidence suggested that sales and activity levels remain well down on those seen prior to the intensification of the pandemic, and this helped ensure that firms were again able to keep on top of overall workloads. Backlogs of work declined for a sixth successive month, with the rate of contraction accelerating to a marked level.

Weakness in overall workloads meant that firms continued to reduce employment levels, with the rate of job shedding again steep. Although some companies noted that staff remained on furlough, others reported that the lack of new business and the uncertain economic outlook led them to cut staffing numbers.

Indeed, looking ahead to the coming 12 months, confidence about the future softened to a three-month low as an increasing number of firms signalled worries about the trajectory of the COVID-19 pandemic and its impact on economic activity. Expectations of a rise in unemployment in the coming months and evidence of investment decisions being delayed added to concerns about the future.

Although firms sought to minimise costs given the prevailing economic climate, higher fuel and cleaning product prices were reported to have led to a modest increase in overall operating expenses. Inflation has now been recorded for three months in succession, although the latest rise in costs was the weakest in this sequence. Faced with a challenging business environment and deteriorating sales, service providers continued to lower their own charges. The rate of deflation was again marked, and extended the current period of falling output prices to six months.
Following a return to growth during July, Spain’s private sector economy contracted for the fifth time in the past six months in August. After accounting for seasonal factors, the Composite Output Index* fell to 48.4, down from 52.8 in the previous month. The downturn reflected an outright contraction in service sector activity as manufacturing output continued to rise, albeit at a slower rate. Activity was undermined in the main by a solid deterioration in new work. Whilst manufacturers recorded little change in sales, service providers registered a noticeable and accelerated contraction in new business.

Job losses across the private sector continued as firms, faced with little pressure on capacity given the underwhelming trends in sales, continued to cut payroll numbers. The rate of contraction was sharpest amongst service providers. An uncertain outlook, which led to a fall in overall sentiment, also led firms to reduce their staffing numbers.

Finally, modest inflation of operating expenses was seen across the private sector, but the challenging economic climate meant that price discounting continued to be recorded.

*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 range 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.

August 2020 data were collected 12-25 August 2020.

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