The downturn of the Spanish service sector continued to gather pace during October, with both activity and new business declining at their fastest rates since May. Increased global coronavirus disease 2019 (COVID-19) infections and general worries amongst clients all served to weigh on activity. With workloads falling, staffing levels continued to be cut, whilst margins remained under pressure as output charges declined markedly.

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, posted a level of 41.4 during October. That was down from 42.4 in the previous month, and the lowest reading since May.

Companies widely reported that activity was being undermined by declining levels of incoming new business. COVID-19 remained the dominant factor weighing on demand, with firms indicating that rising infection numbers and general worries amongst consumers regarding the pandemic was undermining sales. Tourism numbers were also reported to be well down, which served to impact negatively on foreign business. New export sales were reduced for an eighteenth successive month and again severely in October.

With volumes of incoming new business continuing to decline, service providers were easily able to keep on top of overall workloads. Latest data showed that backlogs of work declined for an eighth successive month, with the rate of contraction the sharpest since May. Companies subsequently chose to reduce their staffing numbers, extending the current period of contraction to eight months, albeit to the weakest degree in this sequence.

Despite another reduction in employment numbers, several panellists reported that higher labour costs were a factor behind increased operating expenses. There was also some evidence of rising transportation costs. Overall, inflation has been recorded for five months in succession, with the latest increase in input costs again solid.

Companies were however unable to pass on their increased costs to clients. Average output charges were lowered for an eighth successive month, with the rate of deflation again solid despite easing to the lowest since June. A lack of demand and ongoing competitive pressures continued to weigh on output prices.

Looking ahead to the coming 12 months, business confidence was a little firmer, reaching its highest level since June. Those companies that are positive about the future signalled hopes of a strong recovery in demand and sales once the current situation regarding COVID-19 was brought under control. However, worries persisted over the longer lasting damage of the pandemic and considerable uncertainty remains over the near-term nature and trajectory of COVID-19.
Spain’s private sector economy continued to contract markedly in October. The seasonally adjusted Composite Output Index* fell to a five-month low of 44.1, down from 44.3 in September and below the 50.0 no-change mark for a third month in succession.

Once again, there were notably different trends in output across the manufacturing and services economies. On the one hand, manufacturing production rose to the greatest degree in the past three months. In contrast, service sector activity declined at the sharpest rate since May.

The service sector’s greater vulnerability with regards to the adverse economic impact of COVID-19 was reflected in the latest data on incoming new business. A considerable and fourth successive monthly fall in service sector new work was recorded, compared to a return to modest growth in manufacturing new orders.

With workloads in the private sector economy remaining lower than pre-COVID levels, job losses were again recorded. Employment cuts were however primarily centred on the service sector.

On the cost front, operating expenses continued to increase, rising for a fifth successive month. However, margins continued to come under pressure given another round of declining output charges across the private sector economy.

*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.

Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

“The latest PMI data continue to raise the spectre of the dreaded double dip, with output in the services economy clearly struggling in the face of increasing COVID-19 infections, tighter restrictions on activity and general worries amongst consumers regarding the circulation of the virus.

“Not surprisingly, the impact is greatest amongst Hotels & Restaurants where COVID-19 restrictions and a lack of domestic and international demand is having a severe and adverse effect on activity.

“Although companies are positive that once the pandemic has been brought under control activity will rise sharply, the near-term remains highly uncertain. Firms are subsequently trying to keep a tight reign on costs especially given ongoing margin pressures and the existence of excess capacity at their units.”
CONTACT

IHS Markit

Paul Smith
Economics Director
T: +44-1491-461-038
paul.smith@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

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 2020 data were collected 12-27 October 2020.

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

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| e-mail: info@aerce.org | website: www.aerce.org |

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