Spain’s service sector continued to expand in February, although growth was the weakest in over six years as new work rose only marginally. Firms also faced a notable margin squeeze, as input costs rose sharply but charges were little changed.

Jobs growth was, however, sustained in line with rising backlogs of work. Firms also retained a degree of confidence about the future, although political uncertainty and worries over the coronavirus outbreak weighed on sentiment.

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, remained comfortably above the 50.0 no-change mark in February, extending the current period of growth to just under six-and-half years. However, slipping for a second month in succession from December’s recent high, at 52.1 in February (January: 52.3) the index signalled a rate of expansion that was the weakest since November 2013.

Undermining activity gains in February was the slowest increase in new business for over six years. Whilst there were reports of some success from commercial activities, market demand was widely reported to have stagnated, especially from foreign clients. Indeed, export sales declined for a tenth successive month and at a near series-record pace. Anecdotal evidence pointed to the adverse impact on confidence and activity of the recent coronavirus outbreak especially in areas such as travel and tourism.

Underwhelming demand weighed on pricing power during February. Although firms were able to increase their charges on average for a second month in succession, they did so only marginally. This contributed to a squeeze on profitability as input costs rose at the sharpest pace since August 2008. Service providers widely reported that suppliers had increased their prices since the previous month, whilst also noting an increase in their own employment expenses.

This partly reflected efforts to recruit new personnel in areas such as marketing and service delivery, whilst retaining existing staff and dealing with higher workloads (February’s survey showed that backlogs of work rose at the strongest rate for over two years). Subsequently, employment rose again, stretching the current period of growth to just under five-and-a-half years. However, the latest expansion was modest and the weakest since last October.

Finally, firms remained on average confident about a rise in activity from present levels in the next 12 months. New commercial ventures, plus the planned introduction of fresh services, were all reasons to be confident. However, worries over the impact of coronavirus on near-term activity alongside ongoing domestic political uncertainty weighed on optimism.
Private sector growth remains modest during February

Spain's private sector economy expanded at a slightly stronger rate in February, although growth remained modest. After accounting for seasonal factors, the Composite Output Index* recorded 51.8 compared to 51.5 in the previous month.

Growth was supported by a return to expansion in manufacturing output, the first such occurrence since last April. Services activity continued to rise, but at the slowest rate since November 2013.

Undermining overall private sector activity growth was the weakest rise in new work for four months. Export trade remained a notable weakness as the coronavirus outbreak undermined confidence and activity across a range of industries. Latest data showed that overall new export business fell for a ninth month in succession.

Jobs growth remained marginal during February and driven by services (although growth here was the weakest in the past four months). Firms generally took on staff to deal with increased backlogs which rose in February for a third month in succession.

Whilst margins remained under pressure from sharply rising input prices in the service sector, manufacturers registered a ninth successive monthly reduction in costs.

Finally, optimism about the future was slightly higher following a marginal improvement in services 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.

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

“Service sector growth continued to soften in February as political uncertainties handicapped domestic demand, whilst the adverse effects of the coronavirus outbreak weighed on market confidence and activity in sectors related to travel and tourism.

Moreover, margins are coming increasingly under pressure as firms struggle to absorb higher operating expenses or pass these on to clients in the form of increased charges.

Whilst the data up to February suggest the economy should continue to grow in the first quarter of the year, downside risks to expansion are clearly starting to materialise heading into the spring.”
## 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.

February 2020 data were collected 12-25 February 2020.

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

## About IHS Markit

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

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