Spain’s manufacturing sector returned to expansion during February, following an eight-month period of contraction. Growth was supported by marginal gains in both output and orders, alongside a much reduced rate of job shedding. Average lead times for the delivery of inputs also lengthened to the greatest degree in 15 months, reflective of disruption to global supply chains following extended factory shut downs in China related to the outbreak of coronavirus. This forced firms to increasingly utilise their inventories of inputs to ensure that production lines continued to run smoothly in February.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – popped back above the 50.0 no-change mark in February to signal the first improvement in business conditions for nine months. After accounting for seasonal factors, the index recorded 50.4, up from 48.5 and a ten-month high.

Both output and new orders returned to growth during February, although to only marginal degrees. In each instance, February marked the first time that growth has been recorded in ten months amid some reports of firmer demand conditions, especially from within Spain. Indeed, new export sales continued to fall in the latest survey period, albeit to the weakest degree since last August.

Firms were able to broadly keep on top of their workloads during February, as evidenced by no change in backlogs of unfinished business since the previous month. Marginal productivity gains helped in this regard as job cuts were again signalled in February, the tenth in successive months.

Production was also supported by firms increasingly utilising their stocks of input purchases during February. Latest data indicated a marked reduction in input inventories that was the sharpest for three months.

Firms widely attributed destocking to delays in the delivery of inputs. Average lead times deteriorated to the greatest extent in over a year as supplies from China were delayed following the intensification of the coronavirus outbreak. Spanish manufacturers also chose to lower their purchasing activity during February, extending the current period of contraction to 11 months. Reduced demand for goods from manufacturers helped to explain another round of input price deflation. Latest data showed that prices paid declined for a ninth successive month and at the fastest rate since last October. Firms passed on their savings to clients in the form of reduced output charges.

Finally, manufacturers retained a degree of confidence about future growth prospects in February. Planned commercial activities, the introduction of new product lines and an expected demand improvement should all support output in the coming year.
COMMENT

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

“Spain’s manufacturing sector enjoyed a return to growth in February and provided further evidence that the industrial cycle turned upwards around the end of last year.

Whilst growth in both output and new orders are encouraging, the devil was in the report’s details with expansion supported by some notable destocking as global supply side disruptions began to emerge from the lengthy factory shutdowns in China.

“Looking ahead, the overall impact on the manufacturing sector in the coming months of the shutdowns will clearly be a function of how quickly Chinese factories can fully come back online plus levels of - and how quickly companies burn through their - existing inventories of input stocks.”

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Methodology

The IHS Markit Spain Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. 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 Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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 12-21 February 2020.

About PMI

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.

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