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IHS MARKIT SPAIN MANUFACTURING PMI®

Faster fall in output weighs on manufacturing economy in December

KEY FINDINGS

Production down at fastest rate since April 2013

Job shedding accelerates to sharpest in over six years

Deflationary environment persists with both costs and charges down

Spain's manufacturing sector ended 2019 on a subdued note, with output, new orders and employment all falling compared to November. The decline in production was the sharpest since April 2013 and led to a similar sized reduction in purchasing activity. Political and economic uncertainties continued to weigh on sector performance, although firms did report a slight improvement in expectations about the year ahead.

On the price front, input costs continued to fall amid reports of a general deflationary environment. In response, output charges were lowered for a fourth month in succession.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – was little changed during December, recording a reading of 47.4, compared to November's 47.5. By remaining below the crucial 50.0 no-change mark for a seventh successive month, the PMI signalled another deterioration in the health of the manufacturing economy.

Weakness in the headline index was derived principally from the sharpest reduction of output in 80 months. Lower production reflected a combination of falling order books and excess capacity in the sector. New orders were reduced for an eighth successive month, with firms commenting on an unstable demand environment, both at home and abroad. Export trade was reported to be down for the seventh survey period running, with demand from key European markets lower. The automotive sector remained a key source of weakness, whilst some firms mentioned Brexit as a contributing factor behind reduced sales.

There was evidence of excess capacity further opening up

Manufacturing PMI
sa, >50 = improvement since previous month



in the manufacturing sector during December. Backlogs of unfinished work continued to decline during the month, the eighth successive survey period that this has been the case. Job losses were also reported in line with the trend since May. Furthermore, the degree to which staffing levels fell was the sharpest recorded by the survey for just over six years.

Purchasing activity was also lowered during December at the second fastest pace since April 2013 as reduced production requirements and a preference for utilising existing inventories were reported. Stocks of inputs fell for a tenth successive month during December, with firms also indicating a need to use inventory at a time of mild delivery delays from suppliers.

Deflationary pressures were in evidence during December, with firms reporting that prices for inputs were generally lower, largely due to a lack of demand. Facing reduced costs, and with competition remaining fierce, firms cut their own charges for a fourth month running.

Finally, whilst worries over government policies and current demand persisted, confidence about the future improved at the end of 2019 to its best since June. There were reports that investment in productive capacity, planned commercial activities and hopes for firmer demand in the coming year were all reasons to be optimistic.

COMMENT

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

“Spain’s manufacturing sector endured a challenging end to 2019, with past and continued weakness in sales volumes leading to an ongoing retrenchment in production, purchasing activity and employment.

“Political and economic uncertainties continued to weigh on the sector and, reflective of the challenging environment facing firms, deflationary pressures persisted, with firms forced to offer discounts on average for a fourth successive month.

“One crumb of comfort is the rise in confidence to its highest level since June as more firms hoped for better times ahead in 2020.”

Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, %yr/yr



Source: IHS Markit, INE.

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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.

December 2019 data were collected 5-16 December 2019.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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