Activity supported by rapid rise in new work

Key findings

Fastest rise in sales for fourth months

Employment growth picks up

Record increase in operating costs

The Spanish service sector expanded at a historically marked pace during October as incoming new business rose to the sharpest degree in four months and COVID-19 restrictions continued to be lifted. Jobs growth picked up in response to higher workloads.

However, there remained evidence of challenges related to securing goods, whilst price pressures continued to build. Latest data showed a survey record increase in input costs, with firms signalling little choice but to try and pass these higher expenses onto clients in the form of raised output charges.

The headline seasonally adjusted Business Activity Index, which is based on a single question asking firms to comment on developments in their activity since the previous month, remained well above the 50.0 no-change mark during October. Posting 56.6, down from 56.9 in September, the index signalled growth for a seventh month in succession, albeit the softest since April.

Underpinning the latest improvement in activity was a sharp and accelerated rise in incoming new business. Growth was the best since June, with the ongoing easing of restrictions related to the pandemic and increased market activity amongst the key factors reported to have driven growth. Demand was up from both domestic and international sources: new export business rose for a sixth month running and to a solid degree.

With new business rising at a much sharper pace than activity, firms subsequently faced challenges in keeping up with workloads. According to the latest data, backlogs of work increased for a seventh successive month and to a slightly stronger degree.

This encouraged companies to take on additional staff, as signalled by an increase in employment volumes. October’s survey showed that growth also improved to the best since July as service providers continued to expand their payroll numbers.

With demand for labour continuing to increase, labour expenses were reported to have risen on average and contributed to another noticeable increase in overall input costs. In addition, prices for energy, utilities, transportation, and goods in general were all reported to be higher. This helped to explain the sharpest increase of operating expenses in the survey history, with inflation accelerating for a second month in succession during October.

Output charges were subsequently raised as firms saw little choice but to try and recoup higher input costs. Overall, average tariffs increased to the strongest degree since June’s multi-decade high.

Finally, looking ahead to the coming 12 months, service providers retained a high degree of confidence, with the majority anticipating a rise in activity from present levels. Panellists signalled hopes that the recovery from the pandemic will be maintained, supporting growth in demand and sales. However, worries over the effect of rising prices meant that sentiment overall slipped to its lowest level since March.
Private sector activity continued to grow during October, expanding for an eighth successive month. However, the rate of expansion continued its recent downward trend, softening for a fourth month in a row to reach its lowest since April – as highlighted by the seasonally adjusted Composite Index* dropping to 56.2, from 57.0 in September.

In both the manufacturing and services economies, rates of growth were slower as supply-side constraints placed a noticeable restriction on output and activity.

The picture was a little better for new orders, however, with composite data showing a strong and accelerated gain, although this improvement was confined to services.

Increased orders and supply constraints meant that overall workloads continued to rise across the private sector economy, although this encouraged firms to recruit additional workers. Overall growth in employment was solid and firmer than in September.

Finally, price pressures intensified, with a record increase in input costs during October amid a wide range of expenses related to goods, utilities and transportation reported to be up. Output charges rose overall at the second fastest rate in the composite series history.
Survey 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.

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.

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

Survey dates and history
Data were collected 11-26 October 2021.
Survey data were first collected August 1999.

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