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IHS MARKIT SPAIN SERVICES PMI®

INCLUDING IHS MARKIT SPAIN COMPOSITE PMI®

Activity rises at slowest rate since late-2013

KEY FINDINGS

Slower growth in new work as political uncertainties persist

Business confidence amongst lowest in over six years

Margins remain under pressure

Spain's service sector continued to expand at the start of 2020 but at the weakest rate for over six years as political uncertainties weighed on demand and business confidence. Employment nonetheless continued to increase, but at a modest rate, and rising labour costs added to operating expenses which rose sharply during the month. Margins remained under pressure as output charges increased only slightly.

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, registered above the 50.0 no-change mark for a seventy-fifth successive month in January. However, falling to 52.3, from December's 54.9, the rate of growth signalled by the index, whilst solid, was the weakest since November 2013.

The downturn in business activity growth was closely linked by panellists to similarly weaker gains in new work. Latest data showed that sales increased only modestly and to the slowest degree since September 2013. Firms widely reported that political uncertainties were weighing on domestic demand, which was reported to have remained subdued.

Lingering global uncertainties related to Brexit and global trade wars were also reported to have impacted negatively on foreign sales, which declined for a ninth month in succession at the start of 2020.

Concerns over the current political environment in Spain also impacted negatively on the confidence of Spanish service providers. Although a net balance of companies

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

are forecasting a rise in activity over the next 12 months, confidence about the future sank to its joint lowest level in over six years (matching that seen last August). A number of companies reported that business plans were being put on hold until there was greater clarity around the political climate.

Firms nonetheless continued to add to their staffing levels in January, although growth was modest and remained below the average for the current sequence of expansion (which began in October 2014).

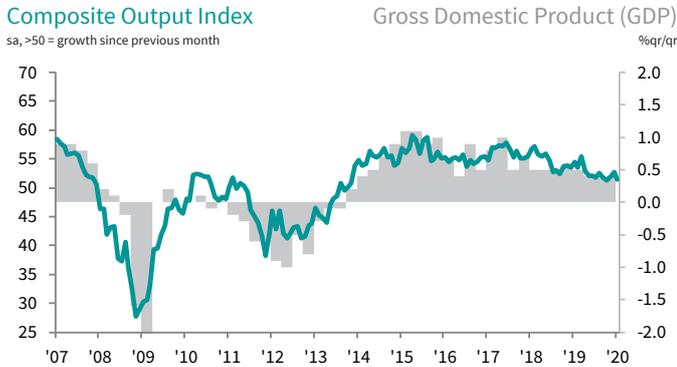
Where staffing levels increased, growth was mainly the result of efforts to keep on top of overall workloads in January. Backlogs of unfinished business rose for a third month in succession, with firms reporting that an increase in new business plus the restarting of previously mothballed projects had driven backlogs higher.

Rising labour costs added to company operating expenses during the latest survey period, which again rose sharply.

Higher fuel prices were also noted by the survey panel. Whilst service providers sought to pass on their increased costs to clients, output charge inflation was only marginal in January.

IHS MARKIT SPAIN COMPOSITE PMI®

Private sector expands at weaker pace during first month of 2020



Sources: IHS Markit, INE.

Spanish private sector growth softened to a three-month low during January, according to the latest PMI data. The Composite Output Index* fell to 51.5, down from 52.7.

Manufacturing remained the primary source of weakness, with output continuing to fall in this sector during January. However, the rate of decline was the weakest in eight months of contraction. Whilst growth was sustained in services, the pace of expansion was the slowest since November 2013.

Similar trends were seen for new work, with fresh orders placed at manufacturers continuing to decline but at a slower pace. Services new business rose to the weakest degree in nearly six-and-a-half years. Foreign new orders continued to contract across both sectors, extending the current period of decline to eight months.

On the employment front, manufacturers continued to cut their staffing levels, and at the sharpest pace for over six years. Faced with ongoing capacity pressures, service providers added to their staffing levels modestly.

Rising employment expenses added to service providers' operating costs in January, but falling metals prices led to a decline in manufacturers' input costs.

Finally, composite business confidence was a little softer in January, mainly reflective of worries over the current political climate.

*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.

COMMENT

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

"Spain's service sector somewhat stuttered at the start of the new year, with growth slipping to its lowest level since late-2013.

"Political uncertainties were widely reported by the survey panel to be negatively influencing decision-making, leading to a stalling of decisions around investment and hiring.

"With manufacturing continuing to contract, albeit at a slower pace, the latest PMI data point to some downside risks to the continuation of solid GDP growth in the first quarter of 2020."

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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.

January 2020 data were collected 13-28 January 2020.

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

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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.

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