Spain’s service sector enjoyed a strong uplift in business activity during February, rebounding strongly from the Omicron induced contraction at the start of the year. New business volumes rose noticeably as market activity picked up, whilst firms took on extra staff at an accelerated rate. Confidence about the future improved.

Price pressures, however, remained considerable. Cost inflation was a hair’s breadth below November’s survey record, whilst output charges rose at an unprecedented rate.

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, returned to growth territory during February. The index posted 56.6, up from 46.6 in January and signalling the best growth since last November.

Underpinning the uplift in activity was an easing of pandemic-related challenges following the uncertainty caused by the Omicron wave in January. Market demand was reported to have strengthened, leading to an improvement in new business volumes. Overall, growth in sales was the best for three months and historically marked. However, challenges persisted with securing business from international clients: exports were down for a second successive month in February.

The rise in sales and new business led to some capacity pressures in the services economy. Backlogs of work rose noticeably during February, following little change around the turn of 2022.

In response to higher workloads, companies took on extra staff. Jobs growth was seen for an eleventh successive month in February, and the rate of expansion was the best since last November. Confidence that activity will continue to rise helped to underpin hiring. Latest data showed that optimism about the future had improved to a three-month high. Firms widely anticipate that challenges related to the pandemic will dissipate over the coming 12 months. Planned product releases and higher investment are also forecast to support activity levels.

Cost pressures, however, remain a concern. Latest data showed that operating costs increased at a rate that was only slightly below November’s survey record, with an array of operating expenses reported to have risen. These included costs related to employees, energy, fuel, and supplier charges in general.

Firms were more than willing to pass on their higher costs to clients. February’s survey indicated that average output charges rose at the sharpest rate in over 22 years of data collection, with the sequence of inflation now stretching to 11 months.
Both manufacturing and service industries expanded at similarly strong rates, ensuring Spain’s private sector economy enjoyed a noticeable rebound of activity in February. Overall, the seasonally adjusted Composite Output Index improved to 56.5, up from 47.9 in the previous month and its best reading since November.

Supporting growth was a noticeable uplift in new business volumes, which also rose at the best rate in three months. Firms struggled to cope with this influx of orders, however, with work outstanding increasing at the strongest rate since last October. Extra staff were taken on in response, with employment growth hitting the highest level for eight months.

Cost pressures overall remained elevated, although there was some positive news from manufacturing where the rate of inflation softened to a ten-month low. Nonetheless, output charges increased again and, for the private sector overall, at an unprecedented rate.

Paul Smith, Economics Director at IHS Markit, which compiles the survey:

“A positive month for Spain’s service sector, with activity and new business rebounding sharply as the adverse impacts of the Omicron wave dissipated.

“Of course, the challenges of the pandemic continue to linger, but there is a growing confidence amongst companies that sales and activity will continue to build over the coming year. Higher optimism subsequently helped explain a solid and stronger round of staff hiring.

“That said, price pressures remain a noticeable concern. Operating expenses continued to rise substantially and, perhaps most worrying for consumers and policymakers, firms showed a strong appetite to pass on these increased costs to clients by raising charges at an unprecedented rate.”

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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.

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 10-23 February 2022.
Survey data were first collected August 1999.

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