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IHS MARKIT SPAIN MANUFACTURING PMI®

Manufacturing operating conditions remain challenging in July

KEY FINDINGS

Output and new orders continue to decline

Jobs, purchasing and stocks all reduced

Deflationary pressures mount

Against a backdrop of dwindling market demand and activity, Spain's manufacturing sector remained inside contraction territory during July. Both output and new orders continued to contract, whilst there was a third successive monthly fall in employment amid growing concerns about the future. Confidence for the year ahead was at its lowest level since April 2013.

Reflective of emerging excess global supply, input prices declined for the second successive month in July. Output charges were subsequently reduced accordingly.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – was, at 48.2, a little higher than the 74-month low of 47.9 seen in June.

However, remaining below the 50.0 no-change mark for a second successive month, the PMI signalled a further deterioration in operating conditions faced by manufacturers. This was closely linked by panellists to another fall in new work, from both domestic and international clients, amid reports of deteriorating market demand. Production was subsequently pulled back for a second month running.

Overall weakness was primarily centred on the investment goods category where output and new orders declined at considerable rates in July and pushed the sector's respective PMI down to its lowest level in just under seven years. There was also another deterioration in the performance of the intermediate goods category, in contrast to consumer goods, where growth was sustained (albeit at the slowest rate in nearly a year).

Underwhelming trends in new orders and production

Manufacturing PMI
sa, >50 = improvement since previous month



weighed on confidence during July. According to the latest data, business confidence about the future deteriorated to the lowest level in over six years. Panellists signalled increasing worries over the health and direction of the global economy in the coming months.

Worries about future production and new work trends weighed on hiring, purchasing and stock management activities during July.

Job cuts were recorded for a third successive month, with the pace of decline accelerating to its sharpest since November 2013. There were signs of excess capacity in the sector: backlogs of work were cut at the fastest rate in over six years during July.

On the purchasing and stock front, Spanish manufacturers signalled a growing preference for utilising existing inventories rather than buying in new inputs. The net impact of this was a notable reduction in purchasing (the sharpest since May 2013) and further cuts to both input and finished goods stocks. For warehouse inventories, the reduction was the greatest recorded by the survey since January 2010.

Finally, manufacturers widely reported that a growing excess supply of inputs weighed on the price of raw materials during July. Latest data showed that input costs faced by manufacturers declined to the greatest degree since March 2016. This helped to explain an accelerated reduction in output charges in July. Falling demand for goods also encouraged discounting, which in July was the sharpest since early 2016.

COMMENT

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

"July proved to be another challenging month for Spanish manufacturers, with the latest data signalling a disappointing start to the third quarter of the year.

"Although the headline PMI edged higher over the month, this belied a number of developments that point to a sector moving swiftly into retrenchment. Employment and purchasing were cut to the sharpest degrees in around six years, while warehouse stocks were down to the greatest extent in almost a decade, as firms sought to reduce operating expenses amid perceived concerns over the future health and direction of the global economy.

"If the current trend persists, expect industry to continue to drag on wider economic output performance heading into year end."

Output Index

sa, >50 = growth since previous month



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.

July 2019 data were collected 12-24 July 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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