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IHS MARKIT SPAIN MANUFACTURING PMI®

Spanish manufacturing sector stagnates during February

KEY FINDINGS

First fall in new orders since July 2016 as foreign demand wanes

Weakness centred on investment goods sector

Employment stagnates

There was little change in Spanish manufacturing operating conditions during February as a marginal rise in production was offset by a modest reduction in new work and a near stagnation of employment. Inventories of finished goods were reduced markedly in response to weakening trends in output and demand, whilst business confidence softened to a three-month low.

Latest data also showed reductions in both input costs and output charges, reflective of lower prices for oil-based products.

The IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – posted a level of 49.9 in February. Down from 52.4 in January, the PMI slipped below the 50.0 no-change mark for the first time since November 2013 to thereby bring an end to more than five years of continuous sector growth.

Panellists commented on a challenging economic environment in February, especially in key export markets. The latest survey showed that new orders declined for the first time since July 2016, undermined in the main by a similar-sized fall in new export work. The deterioration in foreign orders was the first for nearly six years and reflected weakening demand in neighbouring European countries plus falling sales to China.

Growth in production was undermined by the fall in new work. Although output rose since the previous month, it did so marginally and at the weakest rate in the current sequence of growth (which stretches back to December 2013).

Operating conditions remained particularly challenging for companies producing capital goods. Of the three broad

Manufacturing PMI
sa, >50 = improvement since previous month



market groups covered by the survey, investment goods recorded the sharpest declines in output, new orders and exports.

With overall new work falling, but production rising slightly, Spanish manufacturers were able to comfortably keep on top of existing workloads. Backlogs of work declined for a second month in the past three, according to February data. This was also achieved without any noticeable change in labour capacity. Amid worries over the downward trend in new work, staffing levels were left broadly unchanged, rising at a negligible rate that was the weakest in around five years.

Manufacturers also chose to reduce their inventories of finished goods markedly in February. Panellists sought to minimise stocks and maintain lean inventory levels given the fall in demand and the relatively weaker trend in production seen during February. Buying activity was also reduced for the second time in the past three months whilst stocks of raw materials and semi-manufactured goods were unchanged.

Meanwhile, with reports of reduced prices for oil-based products and steel, input costs were reported to be lower during February. Latest data marked the first time since April 2016 that a decline has been registered. Firms passed on their lower costs to clients in the form of a reduction in output charges.

Finally, worries that recent weakness in orders, especially from abroad, would continue in the coming months led to a fall in business confidence to a three-month low in February.

COMMENT

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

"February proved to be a challenging month for Spain's manufacturers. Undermined by a first deterioration in order books for over two-and-a-half years, latest data showed that a run of continuous growth that stretched to over five years finally came to an end.

"The slowdown in the sector is closely aligned with an increasingly challenging global manufacturing climate, especially in fellow European countries. Worries over Brexit and ongoing challenges in the automotive industry are weighing on demand, especially for capital goods producers who suffered particularly noticeable drops in output and new work during the month.

"With aforementioned challenges unlikely to be resolved in the near-term, it seems growth will be inevitably restricted over the coming months."

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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.

February 2019 data were collected 12-21 February 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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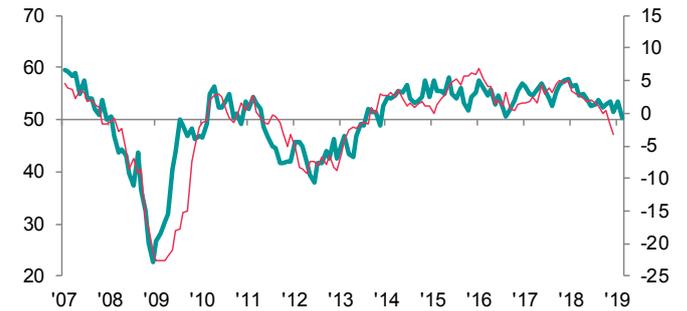
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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, %yr/yr



Source: IHS Markit, INE.

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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

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