

# News Release

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## S&P Global Spain Manufacturing PMI<sup>®</sup>

### PMI signals contraction of sector as new orders slump

#### Key findings

High inflation and uncertain environment weigh on sector

Worst performance since height of first pandemic wave

Confidence about future down sharply

July saw the Spanish manufacturing sector slip into contraction territory for the first time in a year-and-a-half. The deterioration in sector health largely reflected a considerable drop in new orders as demand softened at a time of severe inflationary pressures and broad-based economic uncertainty. Output and employment also fell, whilst expectations for production slumped to a level broadly on par with March, when confidence fell following the start of the war in Ukraine

There was some positive news however on the price front. Although remaining elevated, cost inflation was the lowest in 17 months as supply-side difficulties showed further signs of dissipating.

The headline S&P Global Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – fell for a second successive month in July and below the 50.0 no-change mark for the first time since February 2021. After accounting for seasonal factors, the index posted 48.7, down from 52.6 in June and its lowest level since May 2020.

The sector was hit hard by the sharpest drop in new orders for over two years in July. Panellists reported that sales had sunk due to the increasingly uncertain environment, with some firms predicting recession in the second half of the year. High prices also undermined demand, with similar factors also leading to a comparable decline in new export orders.

A lack of new work inevitably weighed on production. July's survey showed the first fall in production since January 2021 as firms lowered output in response to dwindling workloads. Any excess of output over new sales went to clearing existing contracts at the fastest rate in nearly two years. Firms also sought to reduce their warehouse inventories as part of cost-cutting measures given subdued expectations for output over the next 12 months.

Spain Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-22 July 2022

#### Comment

Paul Smith, Economics Director at S&P Global Market Intelligence, said:

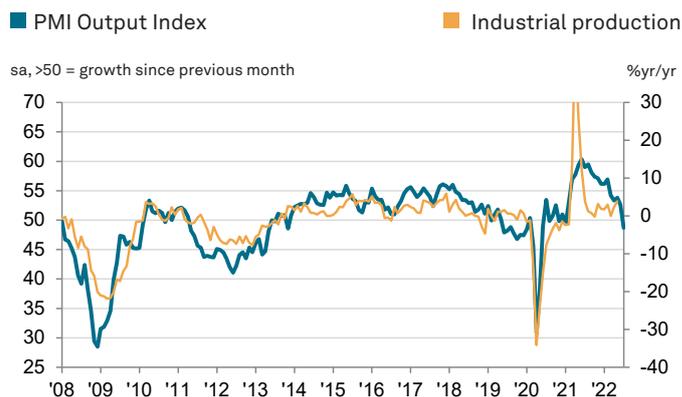
*“High inflation, alongside the considerable near-term economic uncertainty that currently resides in Spain and around the world, weighed heavily on the manufacturing economy during July. Demand experienced a noticeable retrenchment – both across domestic and international markets – which led to a drop in output for the first time in a year-and-a-half. With backlogs dropping noticeably and inventory destocking now under way, the near-term outlook for production is clearly to the downside.”*

*“This is also reflected in firms’ expectations, which slumped noticeably to a level broadly on par with that seen in March, following the escalation of conflict in Ukraine. Firms are getting increasingly concerned of a continuation of the economic downturn in the coming months, and as such are taking increasingly defensive positions as highlighted by cuts in employment, inventories and purchasing.”*

Indeed, confidence sank in July to amongst the lowest since the height of the COVID-19 pandemic in the spring of 2020. High inflation, the ongoing war in Ukraine and fears of an escalation of an economic downturn in the final months of 2022 all served to undermine optimism. These concerns fed into hiring decisions: employment was reduced for the first time in 17 months during July.

On the price front, input cost inflation remained elevated, though maintained its recent downward trend to hit its lowest since February 2021. There were some reports that the reduced demand for inputs – purchasing activity amongst Spanish manufacturers fell for a second month in a row during July – had led to some downward pressure on inflation. However, fuel and energy remained key inflationary sources, and firms again saw little choice but to raise their own charges at a considerable rate.

Finally, supply-side delays persisted, reflective of logistical and stock challenges amongst vendors. However, the degree to which lead times worsened was the weakest seen by the survey since late 2020.



Sources: S&P Global, INE.

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### Survey methodology

The S&P Global Spain Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in February 1998.

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.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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

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### 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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).