News Release

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S&P Global Spain Services PMI®

Service sector drops into contraction territory during September

Key findings

Business activity and sales both down

Cost pressures intensify

Job losses recorded as confidence remains subdued

S&P Global Spain Services Business Activity Index

sa, >50 = growth since previous month

Source: S&P Global.

Data were collected 12-27 September 2022.

Activity in the Spanish service sector fell in September for the first time since the start of the year amid a drop in sales. Firms subsequently focussed their attention on clearing existing workloads, whilst also keeping a keen eye on cost pressures, which rose at an elevated rate during the month. Job losses were recorded partly in response, but also as confidence about the future waned. Latest data showed that expectations remained historically subdued.

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, posted 48.5 in September, down from 50.6 in August and the first time below the crucial 50.0 no-change mark since January. The index reading for September was indicative of a modest contraction in service sector output.

Undermining activity was a second monthly, albeit admittedly very marginal, fall in levels of incoming new business. Firms widely reported that market conditions were becoming increasingly difficult, characterised by uncertainty and worries over inflation. And these worries were apparent amongst both domestic and foreign clients: new export business was down for a third successive month during September, according to the latest data.

With the underlying trend in sales weak, service providers were able to work and clear any existing business at their units. Backlogs of work declined for a second successive month, with the rate of contraction the sharpest recorded by the survey since February 2021. This ability to clear work outstanding meant firms were increasingly reluctant to replace any leavers at their units. Consequently, staffing levels were down slightly in September for the first time since March 2021.

Cost pressures also remained a consideration for firms when contemplating recruitment decisions. In September, average operating expenses once again rose steeply, with inflation

Comment

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

"A difficult month for Spanish service sector companies was signalled in September as both activity and new business fell concurrently for the first time since the start of the year. Unsurprisingly, elevated inflation continues to undermine market demand and client budgets, with discretionary spending on services related to Hotels & Restaurants notably lower.

"Uncertainty about the future is also undermining sales and demand, whilst also seeping into business decision-making within the services economy. Firms are reluctant to hire new staff at a time of uncertainty and with cost pressures increasingly elevated, confidence about future growth remains subdued to say the least."

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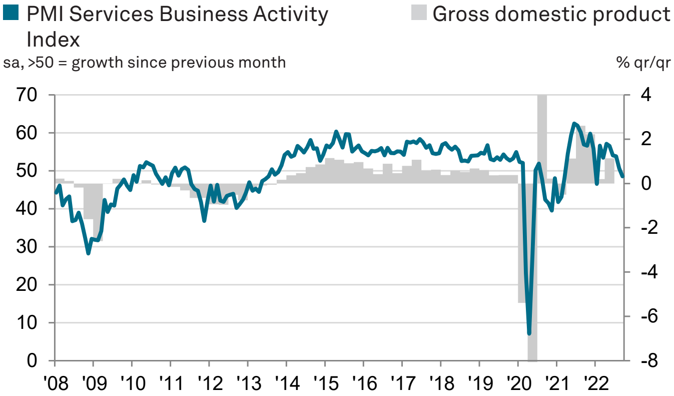
picking up to a three-month high. Utility and energy bills were widely reported to be higher, with a rise in employee wages adding to upward overall price pressures. Many firms responded with an increase in their own average charges. Output price inflation picked up, though remained below the highs seen earlier in the year as competitive pressures and faltering demand placed some restriction on company pricing power.

Finally, the combination of reduced sales and activity, alongside rising cost pressures weighed noticeably on confidence. Expectations, though remaining inside positive territory, were amongst the lowest recorded by the survey to date (and therefore well below trend). Where activity is forecast to improve, firms cited plans for the introduction of new services as a reason to be optimistic about the future.



Sources: S&P Global, INE.

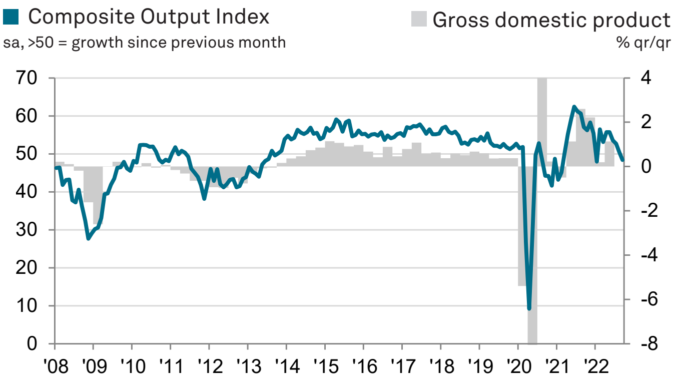
S&P Global Spain Composite PMI®

Private sector contracts for first time since start of 2022

The Spanish private sector slipped into contraction territory during September, with both the manufacturing and services economies recording falls in output. After accounting for seasonal factors, the headline Composite Output Index fell to 48.4, from 50.5 in the previous month and its lowest level since January 2022.

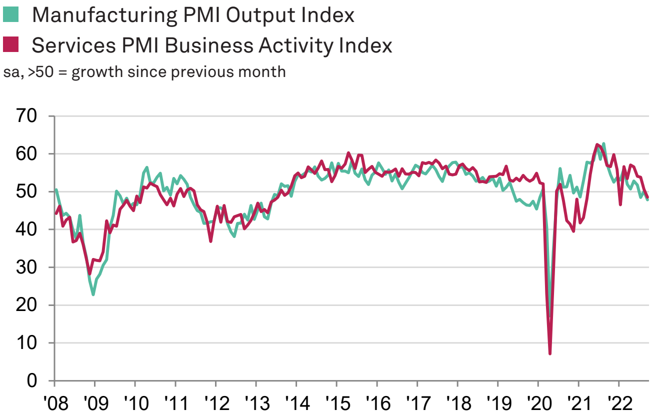
A lack of incoming new work was the primary source of the contraction. Drops in new business were seen across the private sector, though remained noticeably sharper amongst goods producers. Firms were subsequently able to make considerable inroads into their backlogs of work, which fell to the steepest degree for 22 months. Marginal job cuts were also recorded as confidence in the future remained historically subdued.

Cost inflation remained a primary concern for firms. In September, prices overall rose at the steepest rate for three months as higher energy and utility bills were reported. Output charge inflation also picked up since August.

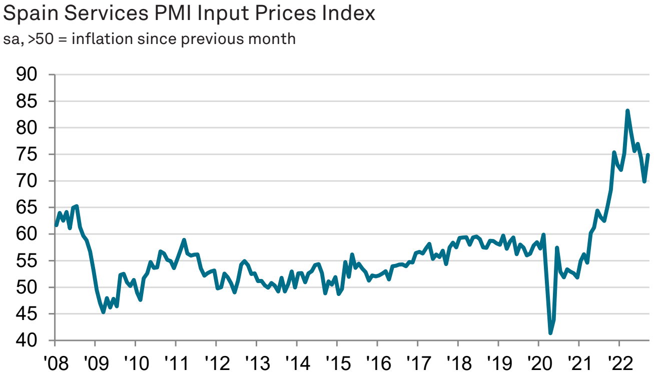


Sources: S&P Global, INE.

*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.



Source: S&P Global.



Source: S&P Global.

Survey methodology

The S&P Global Spain Services PMI™ is compiled by S&P Global 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. Data collection began in August 1999.

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.

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.

Contact

Paul Smith
Economics Director
S&P Global Market Intelligence
T: +441491-461-038
paul.smith2@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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e-mail: info@aerce.org

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