

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Spain Services PMI[®]

Solid growth in the Spanish service sector in June

Key findings:

Solid but softer uplifts in activity and new business

Improved business sentiment

Rate of selling price inflation eases to 20-month low

Data were collected 12-27 June 2023.

Growth across the Spanish service sector was sustained at the end of the second quarter of the year although it experienced a further decline in its momentum. A healthy demand environment continued to support sustained increases in activity, new business and employment. However, rates of expansion slowed in all three cases. In terms of pricing, rates of input cost and output charge inflation remained historically elevated but continued to ease. Strong wage pressures remained the principal driver behind the latest round of inflation.

The headline **HCOB Spain Services PMI Business Activity Index[®]** registered at 53.4 in June, dropping from 56.7 in May. Overall, this signalled an eighth successive expansion in the Spanish services economy and one that was solid overall. Where an increase in activity was reported, companies often linked this to firmer demand conditions. That said, the extent to which output improved was the weakest since January, in some cases linked to local and general elections hampering activity.

Ongoing demand resilience remained a central theme in the latest survey and reportedly underpinned the latest upturn in new business. The volume of new business received by Spanish service providers increased for the eighth month running during June and at a solid pace overall. The rate of expansion, however, was the least pronounced in five months. Alongside this was a weaker upturn in new export orders, as signalled by the respective seasonally adjusted index slipping to a six-month low.

Increasing demand spurred companies on in their recruitment endeavours at the end of the second quarter of the year. Staffing numbers rose again, taking the current sequence of job creation to nine successive months. Though solid overall, the rate of employment growth moderated further from April's recent peak to a four-month low.

Despite sustained hiring, capacity pressures across the Spanish service sector continued to build. The level of outstanding work rose for the sixth month in a row during June. Notably, the rate of accumulation picked up from May to reach a pace that was solid by historical standards. When explaining the latest round of backlog growth, panel members mentioned increasing intakes of new business.

Elsewhere, the latest survey data showed that operating costs faced by Spanish service sector companies continued to rise at a substantial pace. According to panel members, persistent wage pressures remained the principal driver behind higher input prices. Firms reportedly continued to partly transfer increasing costs on to their clients and subsequently signalled another solid increase in their charged prices. There were, however, some further signs of cooling inflationary pressures. In fact, the rate of input cost inflation was the softest in just over two years and the increase in selling prices was the least pronounced since October 2021.

Lastly, the outlook for activity levels over for the coming 12 months improved during June. Sentiment mainly centred around hopes for a boost in tourism volumes and a subsequent uplift in demand. Other opportunities for growth mentioned by panel members included upcoming projects and an anticipated improvement in market conditions.

Comment

Commenting on the PMI data, Dr Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

“The Spanish service sector, which has shown a very robust rate of expansion in recent months, is gradually losing momentum, but is still quite solid with a PMI value of 53.4 points. GDP growth is likely to be supported by the good state of the services sector in the second quarter, while the impact of this sector on economic growth was neutral in the first quarter.

“The PMIs show, that the expansion may continue in the coming months, as new business has also risen - at a declining rate - and the order backlog has even increased slightly more than in the previous month. Looking further ahead, even more companies than in the previous month believe that the volume of business will be greater in a year’s time than at present. All this fits in with the fact that the Spanish central bank recently raised its growth forecast to 2.3%, an above-average figure compared with the euro zone as a whole.

“Price pressure is easing somewhat according to the PMI price indices, which is in principle good news if you want inflation to come down. However, companies are still in a position to pass on at least part of the input price increases to end customers. In fact, according to the Spanish statistics authority, the core rate of inflation, which excludes energy and food, is declining only very hesitantly from a relatively high level.

“The regional elections that have already been held, as well as the general elections that will be held in Spain at the end of July, have been cited by some companies as one of the reasons why the pace of expansion has slowed. Uncertainty about the plans of a future government is likely to play an important role here.”

-Ends-

HCOB Spain Services PMI Business Activity Index

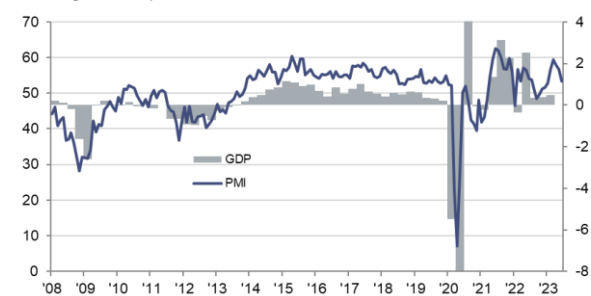
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, INE via S&P Global Market Intelligence.

HCOB Spain Composite PMI[®]

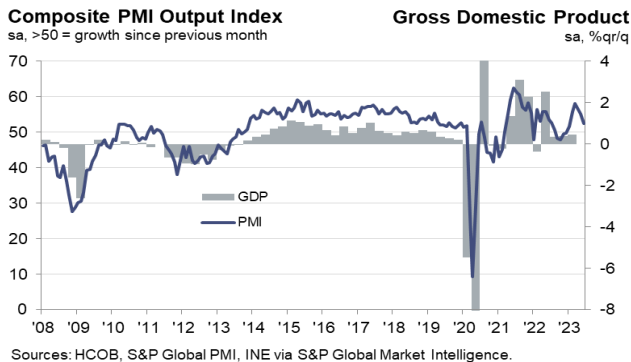
Spanish private sector loses further growth momentum in June

The **HCOB Spain Composite PMI Output Index*** fell to 52.6 in June. The reading was indicative of a solid and sixth successive expansion in the Spanish private economy. However, having fallen from 55.2 in May, the latest data also signalled the weakest rate of improvement since January. Growth was, once again, confined to the service sector, while manufacturing production fell for a second consecutive month.

New orders rose for the sixth month in a row during June but at the weakest rate since January. Much like trends seen for output, the service sector was the sole driver of the latest round of order book growth while manufacturers signalled a third consecutive decline.

The aggregate level of employment across the Spanish private sector increased solidly in June. That said, the rate of job creation slowed amid the first drop in factory employment since last November.

Meanwhile, inflationary pressures eased further in June, aided by sustained price decreases in the manufacturing sector. Input costs rose at the slowest pace in 29 months while the increase in selling charges was the softest since March 2021.



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Note to Editors

The HCOB 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.

Hamburg Commercial Bank AG

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html .

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