

News Release

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S&P Global Spain Services PMI[®]

Activity continues to rise in July, but worries over outlook lead to drop in confidence

Key findings

Modest growth in new business supports higher activity

Higher employment helps firms to keep on top of workloads

Fears mount over inflation and broader economic environment

The continued expansion of Spain's service sector was signalled by July's survey as firms recorded another solid increase in activity and a modest rise in new business. Additional staff were again taken on, which enabled companies to broadly keep on top of overall workloads.

However, inflation rates remained elevated, despite easing since June, and firms signalled growing concerns about elevated prices and wider economic instability. Confidence about the future slumped to its lowest level for nearly two years.

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 above the 50.0 no-change mark for a sixth successive month in July. Recording 53.8, slightly down on June's 54.0, the index signalled a solid increase, albeit the lowest since March.

Firms reported that a combination of new project starts, and higher levels of new business were factors that supported activity. Growth of new work was registered for a sixth successive month, although the latest increase was modest. Whilst firms indicated that underlying sales remained positive, a slump in new business from abroad – there was some indication that tourism numbers remain lower-than-usual – and growing client hesitancy in committing to new work weighed on growth.

Inflation remained a noticeable concern for Spanish service providers. Although easing since June to a six-month low, the rate of increase in costs remained considerable. Energy and utility bills were again a key source of upward price pressure, whilst there were also reports that higher wages were adding to operating expenses. Companies again passed their higher prices on to clients wherever possible, with latest data showing a strong degree of pass through, despite inflation also dropping to its lowest since the start of the year.

S&P Global Spain Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-26 July 2022.

Comment

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

"Spain's service sector turned in a positive performance during July, with activity expanding at a solid rate, supported by higher levels of new business and further job creation."

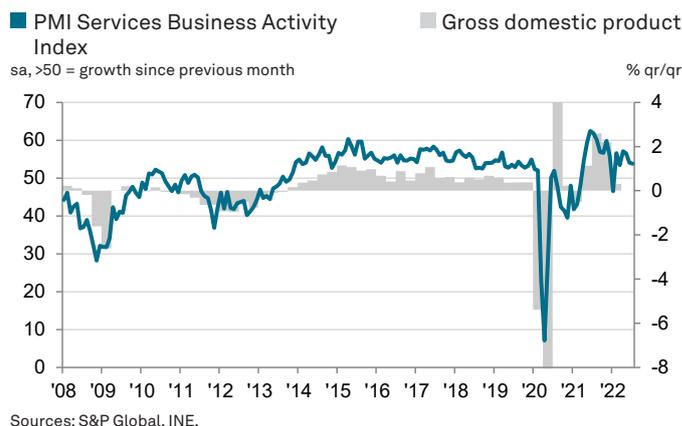
"And yet it's hard not to be a little concerned about growth in the coming months, with some real devils in the survey detail to be found this month. As the bounce in activity related to the easing of pandemic-related restrictions continues to fade, there were reports by panellists of growing client hesitancy as inflation and fears over economic recession mount. Several respondents noted that tourism numbers – an important driver of the Spanish economy – are generally lower than normal."

"Confidence about the future subsequently slumped markedly, registering a sharp monthly fall compared to June, and adding to the growing suspicion that the sector is set for an increasingly challenging climate in the months ahead."

Firms signalled that upward price pressures, and a generally unstable global economic and political environment was weighing on the outlook. Fears of recession in the second half-of-the year were increasingly common. The net result was a slump in confidence to its lowest since August 2020.

Nonetheless, firms continued to take on additional workers as part of efforts to keep on top of higher workloads. Although easing to its lowest since April, growth remained solid and extended the current sequence of gains to 16 months. There were also some reports of difficulties in finding suitably qualified staff.

A slower rise in new business enabled companies to broadly keep on top of backlogs of work. Although work-in-hand increased since June, the rate of growth was marginal, and the weakest seen in six months of rising levels of work outstanding.



S&P Global Spain Composite PMI®

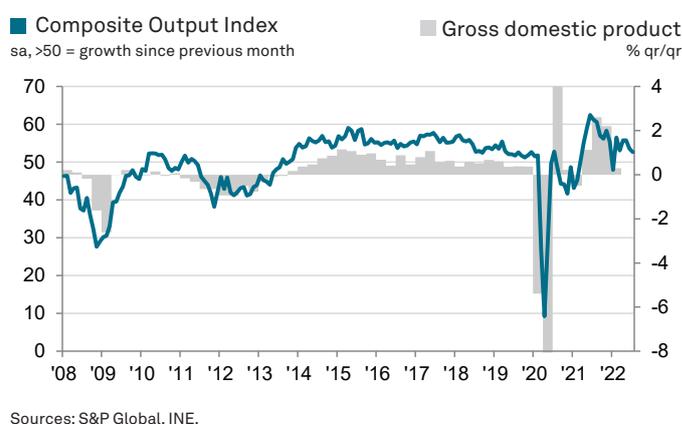
Private sector growth continues to soften in July

Reflective of a drop in manufacturing output for the first time in 18 months, composite private sector growth weakened during July to its weakest in half-a-year of expansion. This was highlighted by the headline Composite Index which dropped to 52.7, from 53.6 during June.

Levels of incoming new business to the private sector were little changed. Modest growth in the service sector just about offset the sharpest contraction of manufacturing new orders for over two years. Firms were subsequently able to mark a small reduction to their backlogs of work for the first time since February 2021, although an expansion of private sector staffing levels also helped in this regard.

Cost pressures remained elevated, although rates of inflation softened across both sectors and at the composite level were the lowest since October 2021. Charges also rose at a strong, but nonetheless, slower pace.

Confidence about the future slumped to its lowest level since May 2020 amid growing concerns over inflation and the wider economic and geopolitical environment.



*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.

■ Manufacturing PMI Output Index
■ Services PMI Business Activity Index
 sa, >50 = growth since previous month



Source: S&P Global.

Spain Services PMI Input Prices Index

sa, >50 = inflation since previous month



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 economic@ihsmarkit.com.

About PMI

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

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