

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

Manufacturing output falls further amid worsening demand climate

Key findings:

Quicker contraction in order book volumes

Fresh fall in factory employment

Input prices fall at sharpest pace in over three years

Data were collected 12-23 June 2023.

The Spanish manufacturing sector closed off the second quarter of the year still in contraction mode amid further signs of demand weakness. Downturns in output and new orders were both sustained, with the rate of decline in the latter the sharpest since January. Firms responded to lower workloads by readjusting their staff numbers, resulting in the first fall in employment levels since last November.

Subdued demand also acted to alleviate cost pressures further. Input prices fell at the sharpest rate in over three years and output charges decreased again.

The headline **HCOB Spain Manufacturing Purchasing Managers' Index[®] (PMI[®])** came in at 48.0 in June, down from 48.4 in May and below the neutral 50.0 mark for the third month in a row. Moreover, the rate of deterioration signalled by the latest PMI reading was the most pronounced in the year thus far, albeit still only modest overall.

According to firms, sector weakness seen at the end of the second quarter of the year emanated from a worsening demand environment. This was highlighted by a third consecutive decrease in new orders during June. In fact, the decline in total sales was solid overall and the most pronounced since January. Little support was offered in terms of foreign demand. New export orders contracted for a sixteenth successive month and at pace little changed from May's five-month record.

Less favourable demand trends fed through to a second consecutive reduction in factory output in June. That said, the rate of decrease was unchanged from that seen in May and therefore remained only marginal overall.

Manufacturers responded to the sustained drop in production by scaling back input buying for the third month in a row. Moreover, the rate of decline quickened for a second consecutive month to reach the fastest pace since January. As such, pre-production inventories contracted again with panel members often citing a preference towards lowering stocks of purchases in line with subdued order books. According to survey respondents, weak demand for inputs meant that material availability at suppliers improved again. Average delivery times subsequently shortened for the fourth month in a row in June and at a solid rate overall.

Elsewhere, the sustained falls in output and new orders led to a fresh reduction in employment levels. Despite being only slight, the cut in staffing numbers was the first signalled by Spanish goods producers since last November.

Despite the drop in factory employment, latest survey data was still indicative an element of spare capacity within the Spanish manufacturing sector. Backlogs of work depleted for a thirteenth successive month and at the sharpest rate in the year-to-date. Meanwhile, post-production inventory levels accumulated for the fourth time in the past five months. Panel members mentioned

that the respective movements in backlogs and stocks of finished goods were largely a result of excess output in relation to new orders.

Falling demand for raw materials, combined with moderations in energy prices, contributed to further downward pressure on purchasing costs at the close of the second quarter of the year. Input prices decreased for a fourth consecutive month, with the rate of decline the most pronounced since May 2020. Spanish goods producers reportedly passed on these cost savings in their own selling prices, which fell for a third consecutive month.

Looking ahead, companies remained positive in their outlook. Hopes for a boost in sales remained the primary factor underpinning optimism. That said, the degree of confidence slipped to a seven-month low.

Comment

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

"In Spain, there are signs of a mild recession for the manufacturing sector, or perhaps just stagnation. For example, the HCOB PMI production index is slightly in contractionary territory for the second time in a row, and companies are purchasing fewer goods than in the previous month, without the contraction having accelerated here.

"In sectoral terms, the decline in output is once again concentrated in particular on intermediate goods, which many companies had apparently stocked up on to a somewhat exaggerated extent for fear of supply chain bottlenecks, which are now normalizing. However, output is being stabilized by capital goods, benefiting from stronger demand from projects financed by the EU Next Generation Fund, among other things. And things are likely to remain stable here, as the order situation has improved in this subsector.

"The weakness in the manufacturing sector is likely to continue for a few more months, as new orders overall fell for the third month in a row. The fact that this downturn is unlikely to be particularly deep can also be seen from the fact that the companies surveyed - after a dip in the second half of 2022 - are only now starting to cut staff and the corresponding index value of slightly below 50 points does not signal strong downward momentum. Some stability is also provided by order backlogs, which, according to DG ECFIN, fell in the second quarter but remain at a relatively high level in historical terms with a range of over five months.

"On the price front, companies have already been cutting their selling prices for three months. Indeed, Spain's inflation is currently among the lowest in the eurozone. However, this should not obscure the fact that the core rate of inflation, which excludes energy and food, is broadly in the middle within the monetary union at 6.1% and is significantly influenced by prices in the services sector, which is growing robustly providing companies with pricing power.

-Ends-

HCOB Spain Manufacturing PMI

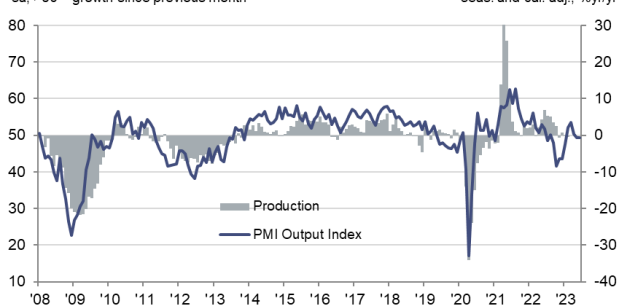
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index

sa, >50 = growth since previous month



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

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Note to Editors

The HCOB 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.

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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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