News Release

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IHS MARKIT SPAIN MANUFACTURING PMI®

Sharper fall in output weighs on manufacturing sector during August

KEY FINDINGS

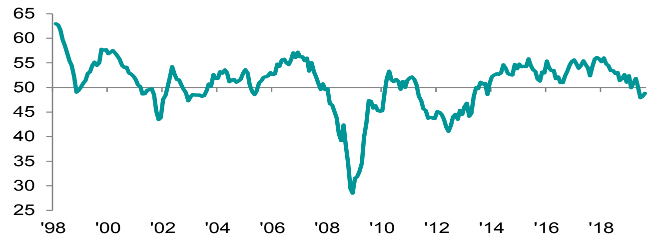
Production cut to greatest degree since May 2013

Inventories and backlogs both cut sharply

New orders down only slightly but outlook remains subdued

Manufacturing PMI

sa, >50 = improvement since previous month



Spain's manufacturing sector continued to contract during August, undermined by the sharpest fall in output since May 2013 and a further reduction in new orders. With excess capacity evident, firms continued to make cuts to staffing levels and inventories. Confidence about the year ahead improved, but remained at a historically subdued level.

August's IHS Markit Spain Manufacturing PMI – a composite single-figure indicator of manufacturing performance – came in at 48.8. Whilst a slight improvement on July's 48.2, the index has now posted below the 50.0 no-change mark for three months in succession to signal a sustained period of contraction for the sector heading into the final months of 2019.

The key depressor of the PMI in August was a further reduction in production. According to the latest data, output was cut for a third successive month and to the greatest degree in nearly six-and-a-half years.

Falling output in part was driven by an increased desire amongst manufacturers to use existing inventories. Stocks of finished goods were cut at a rate only slightly slower than July's nine-and-a-half year record, which helped firms to keep on top of workloads. Indeed, backlogs of work were reduced in August to an extent that was only slightly slower than July's 75-month record.

Further weighing on manufacturers was another drop in levels of new work. August's survey showed a fourth successive monthly reduction in new orders received. Amid reports of apathy in European markets, new export orders also fell (the third contraction in a row). However, signs of stabilisation compared to the previous month were apparent with both overall and export orders falling only slightly.

Given the ongoing softness in production and inflows of new orders, manufacturers on average chose to reduce staffing levels at their plants. August marked the fourth month in succession that a reduction in staffing levels has been recorded, although the latest cut was the weakest since May.

Worries about future output added to the downward pressure on employment. Although on average firms are expecting production to rise from present levels in 12 months' time, sentiment remained amongst the weakest recorded by the survey in the past six-and-a-half years. Worries over a continuation of the recent soft demand trend and concerns of a deepening of the current global downturn were reported to have weighed on confidence.

Meanwhile, prices showed little variability during August. Input costs were down only slightly, whilst there was no change in output charges. Firms commented that the prices of some oil-related goods were down since July, but the short-supply of other items had prevented a larger fall in overall input costs.

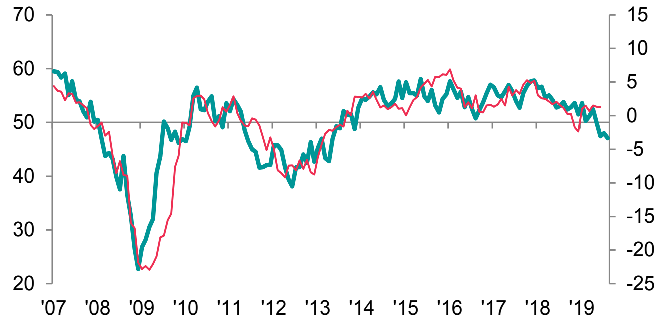
Indeed, this was reflected by delivery times data which showed the greatest deterioration in vendor performance of 2019 so far. Firms widely bemoaned the lack of stock at vendors, which was reported to have led to delivery delays. Moreover, longer times occurred in spite of a notable reduction in purchasing activity during August as firms utilised existing inventories in production wherever possible. Stocks of inputs were cut in August to the greatest degree since the end of 2013.

COMMENT

Commenting on the PMI data, Paul Smith, Economics Director at IHS Markit said:

"August proved to be another challenging month for Spanish manufacturers, with output falling markedly and further job losses reported as confidence about the future remained subdued.

"Despite reports of continued apathy amongst key customers across Europe, new orders data did however provide signs of stabilisation, with only a marginal drop seen in August and thereby raising hopes that the recent downturn, characterised by sharply falling backlogs and inventories, has reached a nadir."



Source: IHS Markit, INE.

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Methodology

The IHS Markit Spain Manufacturing PMI® is compiled by IHS Markit 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.

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.

August 2019 data were collected 12-22 August 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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

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