

Spain: An optimistic PMI reading

After the downward revision in fourth quarter GDP, survey indicators show a robust economy in the beginning of 2019



Source: istock

A robust economy

The PMI for the manufacturing sector for March surprised on the upside and is back in expansionary territory. The index rose from 49.9 in February to 50.9. This is in contrast to the dynamics [in the Eurozone](#) as a whole, where the PMI for the manufacturing sector declined a little bit further and remains under the critical level of 50.

The improvement in Spain was due to gains in output, new orders and employment. Even though the improvement is marginal, this is good news for the Spanish economy. Certainly given the recent downward revision of fourth quarter GDP growth to 0.6% quarter-on-quarter from 0.7%.

Businesses in the manufacturing sector also report that price pressures are weak. Input costs that fell in February, and this was the first time in almost three years, rose slightly. This shows that inflation pressure are very limited in Spain, as in the Eurozone as a whole.

Substitution effect in politics

At the end of this month there are snap elections. In the polls we see that the Socialist party PSOE is gaining votes and remains the biggest party. The party is forecast to get about 30% of the votes,

compared to about 25% at the end of 2018. This does not imply, however, that the probability of a left-wing government is rising as Podemos is doing less well. That party lost about 5 percentage points since the beginning of the year, from about 17% to 12% today.

Concerning the right-wing parties we also see this substitution effect. The PP and Ciudadanos are losing votes, while VOX is gaining. Currently VOX has about 11% of the votes in the polls, while the PP has 20% and Ciudadanos 16%.

The political fragmentation in Spain continues to be an issue and forming a coalition will be difficult. What the eventual coalition will be, remains hard to predict. A few weeks ago, we discussed likely and less likely outcomes which you can read [here](#).

Looking ahead, we foresee a quarterly growth rate of 0.6% in the first quarter of 2019 and an annual growth rate of 2% in 2019 and 1.6% in 2020.