

## Spain: A severe downturn

The PMI for the manufacturing sector gives the first indication of how sharp the economic downturn will be. The index dropped significantly and given how the virus is spreading and the necessary lockdown measures, we expect a severe downturn



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Output and new orders dropped significantly in March. As many countries face similar Covid-19 restrictions, export sales fell at the greatest rate since April 2009. Buying activity also dropped sharply and so inventories were run down sharply.

The composite PMI for the manufacturing sector decreased to 45.7 in March, from 50.4 in February.

Companies also faced difficulties in sourcing inputs due to the widespread disruption of the global supply chain, and so delivery times lengthened. In normal times, a longer delivery time implies that companies experience difficulties to respond to the high demand. A longer delivery time, therefore, has a positive effect on the composite PMI. In this period, however, the longer delivery time has nothing to do with high demand, but everything with the disruption of global supply chains. As such the composite PMI for the manufacturing sector is probably still an overestimation.

Another illustration of the severity of the economic downturn is the fall of new car registrations. Figures from Anfac, the Spanish association for car and truck makers, show that new car

registrations fell by a whopping 69.3% year-on-year in March.

Given the seriousness of the health crisis, the harsh lockdown measures needed to counter the spread of the virus and the associated economic damage, we expect the Spanish economy to contract by 6.5% in 2020. We expect a sharp contraction in the first and second quarter.

Even though we think that the lockdown measures will certainly be lifted by the third quarter, the Spanish economy will probably not see a sharp recovery as tourists are likely to stay away. The PMI for the service sector will be published this Friday. We expect that it will be even worse than the PMI for the manufacturing sector, emphasising the dire economic circumstances.