

## Spanish manufacturing returns to growth but doubts remain

Easing the lockdown measures allowed Spain's manufacturing sector to return to growth in July, after four months of contraction. The increase in the number of Covid-19 infections in the country and elsewhere, however, casts a shadow over our outlook



The Spanish King and Queen visiting a factory in late July

**53.5** Spain manufacturing PMI  
July

The PMI for manufacturing rose from 49 in June to 53.5 in July. The survey shows that output and new orders grew, as the reopening of the economy generated demand. Foreign sales also recovered for similar reasons.

Manufacturers upped their purchasing activity, although they still report delays in delivery due to transportation problems. As a result inventories, raw materials and semi-manufactured goods are run down.

The upswing in activity, however, was not strong enough to stop the decline of employment and the backlog of work. Firms are still operating well below capacity. This indicates that the collapse of activity due to the lockdown measures is not being undone completely by removing them. Indeed, it will take time to see a full recovery, not least because of the uncertainty surrounding the future evolution of the pandemic.

The current upswing of the pandemic certainly is another hit for the tourism sector. And the recovery of the number of international arrivals was already slow. In June there were 657,000 international arrivals, compared to 0 in April and May, but compared to June 2019 this implies a drop of 94%. In June 2019 there were more than 10.5 million international arrivals.

All in all, the recovery in the manufacturing sector is good news, but a further decline in employment will hamper the overall recovery of the economy. The current increase in the number of infections will likely take away some speed of the revival. This led us to downgrade our growth forecast further to -13% in 2020, from -11% earlier, also taking into account the unprecedented 18.5% GDP contraction in the second quarter. If the situation deteriorates further and new lockdown measures are needed to combat the pandemic, then a contracting manufacturing sector is again a possibility, not to mention the more important services sector, with further downgrades of our growth forecast.