

## Spain: Manufacturing contraction is almost over

The rate of decline in the manufacturing sector slowed in June, as the PMI for this sector jumped by about 10 points to 49. So certainly an improvement, but the index nevertheless points to a further contraction compared to May



The gradual easing of the lockdown obviously generated more economic activity, and confidence also improved, but domestic and external demand remained weak. Indeed, production and new orders continued to fall in June. Businesses reopened their facilities, but not at full capacity which affected employment negatively.

Delays in the supply of raw materials and semi-manufactured goods continue to hamper production. Lead times for input delivery therefore lengthened for the seventh month in a row. As this feature pushes up the PMI headline number, the headline PMI is actually overestimated.

There was again little evidence of upward price pressures. Input costs fell for the thirteenth consecutive month and discounts are given to push up sales.

Today's figures imply that the sector was in contraction during the complete second quarter. The quarterly average for 2Q equals a meagre 39.4. We do expect, however, a further improvement of the index in the third quarter. For 2020, we continue to expect a contraction of the Spanish economy by 11%.