

Spain's manufacturing sector continues to contract

Spain's manufacturing PMI falls on the back of falling new orders. But businesses are optimistic as they expect output to increase in the next 12 months



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The renewed Covid-19 restrictions have obviously had a negative impact on demand, particularly in the tourism and hospitality sector.

New orders in the manufacturing sector in Spain dropped at the fastest rate since May while new export orders also fell for the first time in three months. The fall in new orders was the main reason why manufacturing PMI dropped in November (from 52.5 in October to 49.8 in November). Production volumes slipped only marginally.

Given the difficult situation, businesses are looking ahead towards the next 12 months horizon with optimism and believe that output will increase. The sentiment was at the highest level in more than 18 months, and the vaccine news obviously supports this.

As the Covid-19 restrictions are more damaging to the services sector, businesses will have turned much more negative. Compared to the situation during the first lockdown, however, we think that

the impact of the current restrictions will be less damaging. The PMI for the services sector will be published on Wednesday.

Finally, the government recently expressed some optimism about the approval of the 2021 budget. It would be the first new budget since 2018 and it would strengthen the position of the government and prime minister Sánchez. The new budget would increase social spending by about 10% and increase taxes on high earners and big corporations.

Spain would also take up all of the approximately €140bn it expects to receive from the Next Generation EU fund over the next six years. The chamber of deputies is likely to vote on the budget this Thursday.

For 2020, we continue to think the economy will contract by 11.5% but we expect the economy to gradually recover in 2021 and grow by 3.2%.

Currently, we pencil in a modest growth uptick in the second and third quarter. Admittedly, the risks to these forecasts are on the upside. If vaccines are made available earlier than expected and EU money is secured, the economy is likely to perform better.

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