

## Spain: Manufacturing sector contracts

Not a good start to the year for the Spanish manufacturing sector. Businesses indicate that the sector is back in contractionary mode



The PMI for the manufacturing sector dropped from 51.0 in December to 49.3 in January. The escalation of the pandemic was obviously cited as a reason for this, but the storm Filomena also played a role.

On top of that, businesses complain about increasing delays in the delivery of inputs, in particular from Asian suppliers. Average lead times worsened for the fourteenth month in a row, and to the greatest degree since May. Firms therefore had to use up existing inventories.

The deteriorating situation also led firms to reduce employment for the third consecutive month.

Input prices were also pushed higher for the sixth consecutive month. And this month's increase was the sharpest in three years. Some manufacturers chose to increase their own prices to offset the increase in costs, but the current market environment puts limits on their pricing power.

Even though the current situation and immediate future is not rosy, businesses continue to look to the more distant future with more optimism. They continue to believe that activity next year will be considerably higher.

The PMI for the services sector will be published on Wednesday. This sector has been in

contractionary mode since last August, after a brief period of expansion just after the first lockdown. Given the intensification of the pandemic in January and the corresponding restrictive measures in some of the most populous Spanish regions, it is unlikely that the services sector was able to record growth at the beginning of 2021. After the surprise growth in GDP in 4Q, it looks as if the Spanish economy will fall back into recession in 1Q.

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