

Spain: No bounce back in service activity

The Spanish service sector is in growth territory, although the pace is weak. The current increase in the number of Covid-19 infections is casting a shadow over the recovery



A restaurant in Barcelona

The headline PMI for the service sector rose from 50.2 in June to 51.9 in July, implying that the sector grew for a second consecutive month. Opening up the economy obviously led to more activity, although we do not see as strong a bounce-back effect as in other larger eurozone countries such as France and Germany. Indeed, the index for Spain remains below its long-term average. Work outstanding also dropped for a fifth consecutive month and the low level of sales also led to job losses.

The downward trend of prices also continued in July. Firms highlighted they needed to offer lower prices to support sales. Businesses also reported that operating costs rose again in July, although the increase was less strong than in June. The higher operating costs were due to more expensive fuel and some extra costs due to Covid-19 regulations. Higher operating costs together with lower sales prices implied downward pressure on margins. This does not bode well for profits and investment.

July's report also indicates that managers were worried about a possible second wave of the virus which would damage their businesses further. Given the current increase in the number of infections in Spain, the likelihood is that these concerns will be borne out. Aragon, Madrid and

Catalunya are the most affected areas. Fernando Simón, Spain's chief epidemiologist, said that a nationwide lockdown is currently not necessary, although he does not rule it out completely if the spread of the virus becomes uncontrollable. The latter would obviously further jeopardise the recovery.