

## Spain: PMIs remain in contraction territory

The downturn in the Spanish economy continues unabated. Both the services and manufacturing PMI remained below 50 in October, signalling a contraction. The PMIs clearly show that the Spanish economy is slipping into a winter recession



The manufacturing sector in Spain continues to contract

### Falling number of new orders in both manufacturing and services sectors

The services PMI was better than expected, but remains below the neutral level of 50, signalling a contraction. The PMI index rose to 49.7 in October from 48.5 in September. However, we do not expect the rebound to continue in the coming months. The number of incoming orders fell again as households and businesses postponed their buying decisions due to high inflation and uncertainty.

More worrying is the evolution in the manufacturing sector. The manufacturing PMI already fell much more sharply than expected on Wednesday, from 49 in September to 44.7 in October, deep into contraction territory. Both production and new orders fell sharply, at a pace not seen since the start of the Covid-19 pandemic or the debt crisis in 2012. In fact, the decline of the manufacturing

sector seems to be accelerating. These figures do not bode well for the development of industrial production. INE figures released this morning show that industrial activity in September has already fallen by 0.3% month-on-month. The PMI figures for October already show that we can expect a solid fall in industrial production next month as well.

## Recession during winter months seems inevitable

Despite better-than-expected inflation figures last week, the economic situation is deteriorating very fast. A recession, meanwhile, seems inevitable. Although little data is yet available for the fourth quarter, we assume a contraction of 0.5% quarter-on-quarter in the last quarter of this year. This brings annual growth for 2022 to a still very good 4.3%. However, for 2023, we expect the Spanish economy to grow by only 0.3% year-on-year. High inflation and energy prices combined with higher interest rates and greater uncertainty will dampen demand and investment, putting downward pressure on the growth figures.

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