

Spain: Running hot

Activity is booming, while price pressures are building



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As expected, the situation in the private sector improved markedly and we expect that activity will continue to grow. The composite PMI rose from 55.2 in April to 59.2 in May, the highest level since November 2006. The higher demand is also leading to more jobs in both the manufacturing and services sector.

Businesses, however, again reported supply-side issues. In the manufacturing sector, some businesses even reported that their production was constrained due to a lack of inputs. The lead times for delivery of inputs worsened. Metals, plastics and timber are especially difficult to find, while their prices rose significantly. Together with higher energy prices, this led to a severe increase in input prices. Manufacturers, however, say that they can increase their own prices due to higher pricing power in an environment of high demand.

Indeed, firms in the services sector say that inflationary pressures in the manufacturing sector are being passed on to them. On top of that, price pressures in the service sector also come from energy, labour and utility costs. In contrast to the manufacturing sector, companies in the services sector say that pricing power remains limited. Yes, they increased their prices, but only very moderately.

Earlier this week the inflation figures for May were published and as expected inflation increased.

CPI inflation rose from 2.2% in April to 2.7% in May, while the HICP moved from 2.0% in April to 2.4% in May. The increase has a lot to do with higher energy prices, as was the case in April.

However, core inflation also increased for the first time in three months. The CPI excluding non-processed food and energy products moved up from 0.0% April to 0.2% in May. Given the recovery of the economy and the supply side issues in the manufacturing sector, we expect that core inflation will edge higher in the coming months, while the effect of energy prices will abate.