

Spain: Service sector remains in deep contraction

As lockdown measures were eased in May, it is no surprise that activity recovered somewhat. Nevertheless, May's contraction remains one of the sharpest in history



Some restaurants are slowly reopening across Spain

As Spanish lockdown measures were eased in May, the pace of the contraction in the service industry slowed. The headline PMI for the service sector increased from 7.1 in April to 27.9 in May. A strong increase, but nevertheless the third sharpest deterioration of the sector in the survey history. As in April, the weakest sub-sectors were unsurprisingly Hotels & Restaurants and Transport & Storage.

Spain is currently gradually lifting lockdown measures using a three-phase model. Most Spanish regions are currently in phase two, some are in phase one, among them Madrid, and only four small territories are in phase three. In phase one, bars and restaurants can only open their terraces at 50% of capacity. In phase two, bars and restaurants can open their interior dining areas, but capacity should be limited to 40%. Terraces can continue at 50% capacity. As for international travel, Spain plans to allow foreign visitors from July 1st.

The rate of contraction in the labour market was also strong in May, although at a slower pace as in April. Backlogs of work still fell in May at the third sharpest rate in the survey history. Firms,

therefore, had to lay off people or not renew contracts. Together with lower energy costs, this led to a significant drop in total operating expenses, which in turn lowered output prices.

The PMI for the manufacturing sector, published last Monday, showed a similar story. The index recovered compared to the April reading but remained in deep contraction. The index rose to 38.3 in May from 30.8 in April. Car registrations also recovered somewhat in May.

As the economy continues to recover from the Covid-19 shock and lockdown measures (barring a second wave), we expect that the PMIs will edge higher in the months ahead. For now, we continue to expect the economy to contract by 9.5% in 2020, but the risks are tilted to the downside. If the recovery in June is weaker than expected, then we will have to revise that forecast downwards.