

Spain: Services PMI drops below 50, confirming recession worries

Both manufacturing and service sector PMIs have fallen below 50, signalling contraction



Tourism boosted the Spanish economy in 3Q, but these latest figures suggest the economy is likely to contract in 4Q

Spanish service sector enters contraction territory

The services PMI, which measures sentiment among purchasing managers and is thus a good gauge of corporate activity, considerably weakened in September, falling to 48.5 from 50. It was the fourth consecutive fall and the indicator is now below its neutral level of 50. The sharp fall shows that the current cost-of-living crisis is starting to hit very hard and spreading more widely. The latest tourist data for August, released yesterday, already signalled that the reopening effect on Spanish tourism is waning. The combination of falling demand and rising cost pressures depresses confidence in the service sector. Backlogs of work fell at the sharpest pace since February 2021. The strong price increases and the uncertain economic outlook will continue to weaken service sector activity in the coming months.

Manufacturing activity further weakened

The manufacturing PMI also weakened further in September, standing at 49.2, down from 49.9 in August. Industrial activity has been hit hard by the current energy crisis. In July, the industrial production index already fell 1.1% compared with June and we expect a further contraction in the

months ahead. New orders in the manufacturing sector were again noticeably down in September as the high inflation and bleak economic outlook weighed on demand. There is little improvement in sight as Spanish consumer confidence fell again in September. The index stands below the Covid-19 pandemic low illustrating that Spaniards are increasingly worried about high inflation. The manufacturing sector also faces another rise in cost inflation as operation expenses rose at the sharpest rate in three months. On top of this, falling demand will make it harder to pass on higher costs to the end consumer which will put further pressure on profit margins.

Recessionary pressures are intensifying

These latest PMI figures show that the weakening is spreading more broadly across the economy. While we think the Spanish economy will continue to grow in the third quarter on the back of a good tourist season, these latest figures confirm our view that the Spanish economy is likely to contract in the fourth quarter. Thanks to the strong first half of the year, GDP growth will still come out at 4.3% in 2022, but for 2023 we are now looking at 0.2% growth.