

The recovery has finally started in Spain

Good news for the Spanish economy. After contracting for eight consecutive months, the services sector grew again in April, and now both the manufacturing and services sectors are growing rapidly. We think the recovery can really start now



Spanish Prime Minister Pedro Sanchez arrives at a press conference at the Moncloa palace in Madrid, Spain

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Purchasing managers index for Spain's services sector jumped from 48.1 in March to 54.6 in April, which is the most robust growth recorded since January 2020.

The reopening of the economy, given the improving pandemic situation, has supported both demand and sales volumes are at their highest level since August 2019.

The number of Covid-19 cases increased modestly in April, but they were falling again towards the end of the month. But most importantly, the speed of the vaccination programme strengthened significantly in April and the latest figures show that about 26% of Spaniards have already received their first dose while 11% have been completely vaccinated.

The outlook of a reopening economy seems to have made companies more confident about the future, and interestingly, confidence seems high enough for firms to start hiring. Employment in the service sector grew for the first time in over a year.

Companies also report higher labour costs. With product shortages and rising cost for transportation, overall operating costs rose at the fastest pace since 2008. Companies are trying to pass extra costs to clients, but this only happened modestly as competitive pressures lead to only limited pricing power.

For April, the PMI surveys point to a substantial increase in activity in both the manufacturing and services sector. And so it seems that the recovery has finally started in April.

We maintain our growth forecast for the second quarter at 1%, but it is likely that we will upgrade our forecast

As the number of vaccinated people continues to grow over the coming weeks, another wave of infections coupled with restrictions seems unlikely; however, there is still plenty of uncertainty about the new strain of the virus first discovered in India and its extent spread in Europe.

For this reason, we maintain our growth forecasts for the second quarter at 1%, but once that uncertainty has gone, we are likely to upgrade our forecast.