

Spain: The service-manufacturing divide continues

The service sector ended the year on a high note, with confidence, new orders and payroll numbers rising. The coalition government between the PSOE and Podemos is likely to be in place tomorrow



Spain's PMI for the service sector increased from 53.2 to 54.9 in December, the highest since March 2019. New orders rose, and together with a rising backlog of work, companies took on additional staff. Confidence also improved due to higher demand in the past two months. Export sales, however, remained weak and political uncertainty was widely cited by the survey panel and is expected to weigh on investment activity in the coming months.

There is, however, some movement on the political front. As expected, Pedro Sánchez did not get an absolute majority to get appointed as Prime Minister over the weekend. He did get more votes *for* than *against*, implying that his coalition government between the PSOE and Podemos will be installed tomorrow during the second vote. The new government, however, is a minority government and so will need to seek outside support for all its policies.

The difficult situation in the manufacturing sector, in contrast to the stronger service sector, is not over yet. The PMI for the manufacturing sector stabilised in December, but still lies below the critical level 50 (47.4 in December compared to 47.5 in November). Low confidence is weighing on hiring and employment fell compared to November. New orders and output were also down.

We expect GDP growth for the fourth quarter to come out at 0.4% quarter on quarter, as in the third quarter of 2019. The annual growth rate, in that case, would be equal to 2%, compared to 2.4% in 2018. For 2020 we expect that a weaker domestic labour market and a weaker global environment will slow activity. We forecast 1.4% growth this year.