

Spanish service sector grinds to a halt

The PMI for the service sector in Spain dropped nearly 30 points in March. The index is now at 23.0 - the lowest level since recording started. Together with the sharp drop of activity in the manufacturing sector, this confirms that economic damage will be substantial in the first half of the year



Source: Shutterstock

Since the lockdown on 14 March, many companies face difficulties to conduct business or have been forced to close temporarily with hotels and the restaurant sector being hit particularly hard.

Businesses have been forced to reduce their workforce with March 2020 seeing the second-largest recorded decline in employment. Reducing the cost of employment helped companies to limit their operating expenses. Given the sharp drop of demand, the survey shows that firms also chose to lower their prices. This, combined with the dramatic fall in energy prices, led to the weakest increase of input costs in over five years. We can expect a sharp decline in overall inflation in the coming months.

Given the severity of the health crisis in Spain, it is natural businesses are extremely concerned about the future. Confidence about next year has fallen to its lowest level ever. The survey shows

that business leaders are concerned about the long term impact of this crisis on activity, investment and employment.

Our current economic scenario for Spain sees a sharp fall of activity in the first and second half of the year. Although we see growth returning to positive territory in the third quarter, it will probably not see a sharp bounce back, as tourists are likely to stay away.

From then onwards we see the economy recovering as we expect the virus will be a temporary but profound, shock.

We expect growth will equal -6.5% in 2020 and 3.2% in 2021.