

Services and manufacturing continue to slow in Spain

Spanish manufacturing and service activity fell in June but the figures were better than expected. However, the weakening in both sectors is spreading slowdown fears; consumer confidence also fell again last month



Workers at a SEAT factory in Martorell in Spain

Factory activity is weakening

Spain's PMI manufacturing index dropped in June to 52.6 from 53.8 (consensus 52.1) to its lowest level in 17 months. Although the indicator remains above the neutral level of 50, the drop signals that Spanish industrial activity is slowing down. Most notable was the fall in the number of new orders. The uncertainty relates to the war in Ukraine, and high price levels are weighing on demand. Supply chain bottlenecks are also persisting so hindering production activity. There are some positives on the inflation side as the survey suggests that inflationary pressures are easing slightly. Nevertheless, they are still close to record levels.

Inflation is weighing on service sector activity

The services PMI index fell from 56.5 in May to 54.0 in June, but this was better than expected. The indicator remains firmly above the neutral level of 50 indicating that activity grew over the past

month. High inflation is increasingly biting into household budgets and the service sector is squeezed between higher costs and poorer potential customers. We expect those inflationary pressures to persist over the summer and that will continue to negatively impact the service sector in the months ahead.

Slowdowns worries are spreading

Despite beating expectations, concerns about a meaningful slowdown in Spain are growing and consumer confidence also plunged in June. After a hit in March, right after the start of the war in Ukraine, that confidence was systematically recovering, but this trend has reversed. Households are increasingly concerned about soaring inflation. These figures bode for a slowdown in consumer spending in the second half of the year.

Due to these negative developments, we've lowered our growth expectations from the fourth quarter onwards. High inflation and uncertainty related to the war are expected to cool down the economy. In addition, there is a growing risk that the eurozone will enter a recession by the end of the year, negatively affecting the outlook for Spain. On the back of a positive carry-over effect, we are now looking at average GDP growth of 4% for 2022. For 2023, growth expectations are slashed downwards from 3 to about 2%. Since Spain is one of the eurozone countries least directly affected by the war in Ukraine, we expect the country to avoid negative growth territory. While growth risks are definitely skewed to the downside, the Spanish economy might still benefit from a strong revival of tourism in the third quarter.