

Spanish manufacturing output shrinks for seventh consecutive month in January

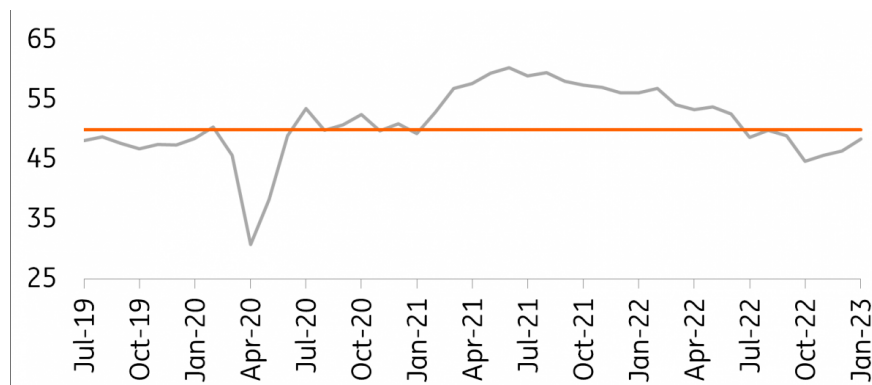
Spanish factory activity contracted again in January, albeit at a slower pace than in the previous month. Although the outlook has improved somewhat recently thanks to lower energy prices, 2023 will be a difficult year for the Spanish manufacturing sector



Spanish manufacturing contraction eases in January

S&P's manufacturing PMI index rose to 48.4 in January from 46.4 in December but remained well below the 50 boom-or-bust level. The PMI report shows that manufacturing output and orders fell again in January. On the other hand, the report also contains some hopeful signs. Manufacturing companies are more positive about the future and expect demand to improve over the next 12 months. Inflationary pressures have also eased somewhat. The index of business confidence published on 19 January by the Spanish statistical office INE, which gauges business expectations at the beginning of each quarter, already showed that among all sectors, the manufacturing sector saw the strongest increase in business confidence in the first quarter of this year. Still, the outlook remains mixed.

Spanish manufacturing PMI improves but remains below 50



Source: S&P Global

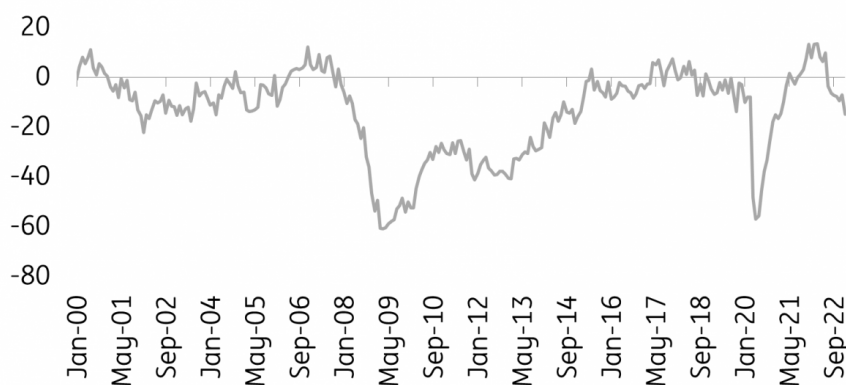
Drop in energy prices eases pain

Good weather and a sharp drop in energy prices since their peak levels last summer have led to cautiously growing optimism among industrial companies. In a [note](#) published on Monday, our energy specialists drastically lowered our forecasts for the gas market. Thanks to mild winter weather and weak industrial demand, natural gas inventories are still 72% full, well above the five-year average of 54% for this time of year. Consequently, we expect gas prices to rise much less next winter than initially expected. This is good news for the industrial sector, though energy prices will still be higher in 2023 than they were before the Covid-19 pandemic.

Subdued demand will further slow industrial production

The industry is seeing its order books shrink sharply due to the cost-of-living crisis. Yesterday, the National Bank of Spain announced that the number of new orders fell sharply again in January. The index fell from -7.1 in December to -14.7 in January, its lowest level since January 2021. Growth figures released last week showed that the Spanish economy grew 0.2% in the fourth quarter from the previous quarter, but the stronger-than-expected growth figures masked a very weak private consumption, which contracted in the last quarter of 2022. Due to high inflation and energy prices, households are cutting back on spending. Moreover, many Spanish variable-rate mortgage owners, who are in the majority in Spain, are also being affected by the sharp rise in interest rates that puts additional pressure on their purchasing power.

Evolution of new industry orders in Spain



Source: Banco de España

Spanish industry will be a drag on growth this year

The manufacturing sector seems to be crawling out of the doldrums, but a strong recovery should not be expected this year. Spanish GDP growth will have to come mainly from the service sector and an improvement in the trade balance driven by further growth in international tourism and lower energy prices.