

## Strong growth continues in Spain

The composite PMI dropped from 61.2 in July to 60.6 in August. This provides further evidence that the peak of the acceleration is behind us, but that the Spanish economy is nevertheless still growing at a fast pace



Both the manufacturing and service sector recorded strong growth in August, with the Purchasing Manager Index for both sectors hovering around 60.

Business in the manufacturing sector continues to face strong demand, leading to another increase in backlog of work. Employment rose for the sixth successive month and even faster than in July. Supply chain issues, however, continue to hamper the sector. Input costs increased sharply and selling prices also rose. Moreover, firms cited difficulties regarding securing inputs as an explanation for the decline in confidence. Overall, however, firms remain strongly optimistic as they expect that output will increase in the coming year while problems with Covid-19 will peter out at home and abroad.

The services sector was also able to grow sharply in August, albeit at a slightly slower pace as in July. The improved situation also led to more employment in the sector. Businesses, however, also continue to cite higher input costs, such as higher energy costs, material costs and wages. This in turn led to an increase in output prices, but interestingly, growth in selling prices slowed and rose at a softer pace than input prices.

On the political front there are a number of ongoing discussions. The higher inflation puts more pressure on the government to increase minimum wages further. Pedro Sánchez, Spain's prime minister, announced recently that he plans to do this. He also wants to make further progress towards its electoral commitment of a minimum wage that is equal to 60% of the average wage by 2023. The European Commission recently estimated that the Spanish minimum wage in 2019 was 55% of the average wage. A renewal of labour legislation and a new housing package including rent caps are also on the table. In the next couple of weeks, we expect the government

to publish its 2022 budget plans.

All in all, the Spanish economy is on its way to record another strong growth figure in the third quarter. We currently estimate it at 3% quarter on quarter. For 2021 as a whole we expect the economy to grow by 6.5% and in 2022 by 5.5%.