NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Spain Manufacturing PMI®

Spanish manufacturing downturn the strongest in the year so far

Key findings:

Sharpest falls in new orders and input buying since last November

Stronger contraction in output...

...but renewed upturn in factory employment

Data were collected 10-23 August 2023.

Faced with a challenging demand environment, operating conditions across the Spanish manufacturing sector worsened once again during August. Declines in output, new orders and purchasing activity were sustained and sharper in all three cases. Current demand weakness also placed downwards pressure on prices with both input costs and output charges continuing to fall. Nevertheless, business sentiment improved to a six-month high amid hopes for demand growth over the next year and, in preparation for such an eventuality, staffing numbers lifted for the first time in three months.

The headline **HCOB Spain Manufacturing Purchasing Managers' Index® (PMI®)** posted at 46.5 in August to signal a fifth successive monthly contraction in the Spanish manufacturing sector. The latest PMI reading was down from 47.8 in July and signalled a solid rate of decline that was the most pronounced seen in the year so far.

The main drag on the latest headline PMI figure came from another rapid contraction in order book volumes. Total new orders have now fallen for five months in a row with the latest reduction among the sharpest since the outbreak of the COVID-19 pandemic. The fragile demand environment remained the key factor underpinning the downwards movement. Little respite was offered with regards to foreign market demand, as signalled by a sharp decline in new export orders.

Spanish manufacturing companies responded to the bleak demand picture by reducing their own output levels. Manufacturing production has now fallen in each of the past four months with the latest decrease the strongest in the year-to-date.

With production requirements subsequently declining and as firms look to align inventories with weak demand trends, firms pared back input buying for a fifth straight month during August. In fact, the pace of reduction was substantial and the second-sharpest in more than three years. In turn, stocks of purchases fell for the fifth month in a row. Post-production inventory levels likewise decreased, with firms often stating a preference towards utilising existing stock to fulfil incoming orders.

A lack of sales meant that firms were able to make further inroads into their backlogs. Levels of outstanding work fell for the fifteenth successive month during August but at a pace slower than seen in July.

The current lull in demand also continued to exert downwards pressure on prices. Amid reports of falling raw material costs, input prices faced by Spanish manufacturing companies dropped for the sixth consecutive month during August. The downwards movement fed through to output charges which decreased for the fifth month in succession. Panel members commented on the pass through of cost savings to their clients as well as current competitive pressures.

Average lead times extended for the second consecutive month during August. However, the extent to which delivery times lengthened remained much weaker than rates seen in the aftermath of the pandemic.

A general sense of optimism was retained in August. In fact, the degree of confidence was the strongest since February. Factors supporting positive sentiment included product development, the commencement of campaigns and hopes for an uplift in demand.

Finally, with firms forecasting better business conditions in the future, they looked to increase their workforce numbers accordingly. As such, employment levels rose for the first time in three months, albeit only marginally.

Comment

Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

“Manufacturing output took another hit in August, shrinking for the fourth straight month and a bit faster than last month. We are pretty sure, that Spain’s manufacturing sector has entered recession, starting in the second quarter. Our expectation is that the industry's slide has gotten worse, reaching about -1% this quarter. This is the result of our GDP nowcast which takes among other things the PMI figures into consideration.

“Weakness stems above all from domestic demand. While new export orders took a dive at about the same pace as in July, the downturn in total new orders picked up notably. In a similar way, companies quickened the pace of trimming down material purchases. Thus, in the short term it will get worse before it gets better.

“While the big picture isn't all that positive, manufacturers are keeping their spirits up in a way. An increased share of respondents were confident about an increase in output in 12 months from now. This fits into the observation that employers ceased to cut staff, after two months of modest reductions.

“Deflationary pressures eased somewhat. Input prices are still declining, but not dropping as much as they did in July. Correspondingly, the pressure to cut output prices softened too.”

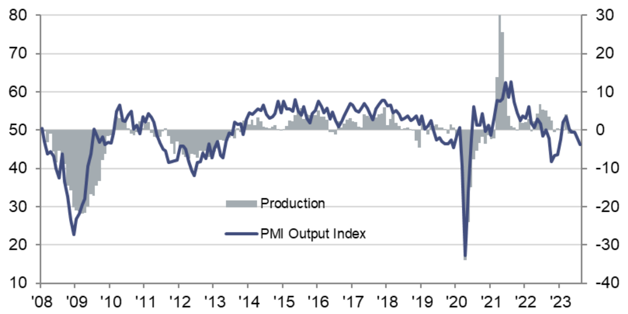
-Ends-

HCOB Spain Manufacturing PMI
sa, >50 = improvement since previous month

Sources: HCOB, S&P Global PMI.

PMI Output Index sa, >50 = growth since previous month

Industrial Production seas. and cal. adj., %yr/yr



Sources: HCOB, S&P Global PMI, INE via S&P Global Market Intelligence.

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Note to Editors

The HCOB Spain Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in February 1998.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Hamburg Commercial Bank AG

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping. The bank is one of the pioneers in European-wide project financing for renewable energies and is also involved in the expansion of digital and other areas of important infrastructure. HCOB offers individual financing solutions for international corporate clients as well as a focused corporate client business in Germany. The bank's portfolio is completed by digital products and services facilitating reliable, timely domestic and international payment transactions as well as for trade finance.

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S&P Global (NYSE: SPGI)

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AERCE is a member of the International Federation of Purchasing and Supply Management (IFPSM).

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About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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