

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Spain Services PMI®

Spain's service sector contracts for the first time since last October

Key findings:

Fresh reductions in activity and new business

Employment growth the weakest since January

Rate of input cost inflation accelerates to three-month high

Data were collected 10-25 August 2023.

August survey data signalled a renewed contraction in Spain's service sector as activity levels and new business both declined for the first time since last October. The fresh reductions were accompanied by a further slowdown in employment growth with the rate of job creation now the weakest since January. Elsewhere, the pace of input cost inflation gathered pace to reach a three-month high. Nevertheless, output charges rose at the slowest rate in just under two years. Despite the broader negative trends recorded in August, Spanish service providers were more optimistic about the future than in July.

The headline **HCOB Spain Services PMI Business Activity Index®** fell to 49.3 in August, down from 52.8 in July. Crucially, the headline figure registered below the critical 50.0 no-change mark for the first time since last October, thereby ending the previous nine-month sequence of expansion. Although the deterioration in Spanish service sector activity was only slight overall, the rate of decline was the strongest in just under a year.

Signs of a slowing demand environment were evident within the latest survey period, contributing to the renewed drop in activity. Intakes of new business fell for the first time in ten months, albeit only fractionally. Conditions were especially weak in terms of foreign market demand. August data signalled a renewed drop in new export business that was the most pronounced in ten months.

Firms responded to lower inflows of new work by slowing the pace at which they raised their headcounts. While still increasing, the extent to which employment levels grew during August was the least pronounced since January.

The combinations of sustained hiring and falling new orders allowed companies the excess capacity to work through outstanding work midway through the third quarter of the year. Backlogs of work fell for the first time in the year so far and at the strongest pace since last September. Some panel members even mentioned that they had cleared through backlogs completely.

Regarding prices, input costs rose for the thirty-ninth successive month. Moreover, having re-accelerated from July, the pace of increase was the sharpest in three months. Reports of escalating wage pressures remained widespread amongst panel members. Rising fuel costs also garnered attention as a current driver of inflation. Firms continued to pass on these cost increase to their clients, leading to a sustained rise in output charges. However, unlike the trend seen for input costs, the rate of selling price inflation continued along its current downwards trajectory and reached its lowest level in close to two years.

Lastly, despite weakening trends across the sector, companies' growth expectations were positive during August with the degree of confidence even strengthening slightly from that seen in the previous survey period. Factors supporting optimism included hopes for an improvement in market conditions as well as planned investment in firms' commercial departments. That

said, sentiment remained historically subdued.

Comment

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

“Summer is ending and so is the good mood among Spanish service providers, including the tourism sector. Activity in this sector shrank for the first time this year and the same is true for the general service sector and new and outstanding business. Thus, it's likely that things will keep slowing down over the next few months.”

“Our GDP Nowcast, which considers the PMI-Indicators, now points to a GDP shrinking by 0.1% in the third quarter. This might throw some doubt on the recently boosted GDP prediction of 2.3% of the Bank of Spain, especially if we saw a further slump in economic activity in the next quarter, too.”

“The environment during August has been a mixed bag for Spain. In many regions, people were suffering under the heat wave, political uncertainty was a burden for many businesses amid the recent general elections, while winning the women's world championship had certainly lifted people's spirits. With all of this going on, companies were less keen to ramp up their staff but are looking somewhat more optimistic into the future than before as they expect activity to increase in 12 months from now.”

“Spanish service firm's pricing power has continued to suffer somewhat as the rate of price jumps is cooling off, even though input prices have increased at a higher rate. As a result, profit margins are likely taking a hit.”

-Ends-

HCOB Spain Services PMI Business Activity Index

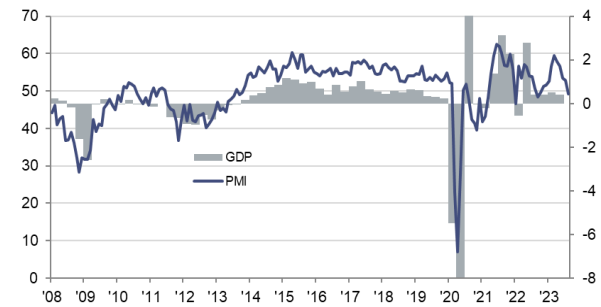
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Services PMI Business Activity Index

sa, >50 = growth since previous month



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

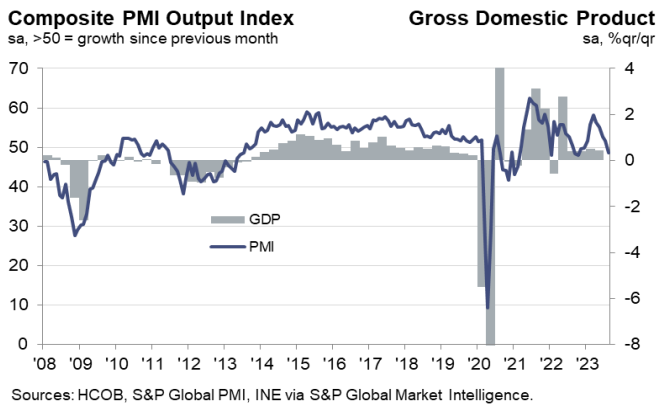
HCOB Spain Composite PMI[®]

Spanish private sector moves into contraction territory during August

The **HCOB Spain Composite PMI[®] Output Index** registered 48.6 in August, down from 51.7 in July and below the neutral 50.0 threshold for the first time since the closing month of 2022. Overall, the latest survey data signalled a moderate contraction in private sector business activity, but one that was nevertheless the most pronounced since last October. A renewed decline in services output combined with a faster fall in manufacturing production tipped the composite index into contraction territory.

Intakes of new business across the private sector fell for the first time in the year so far during August. By sector, trends mirrored that of output with a fresh, but marginal reduction in new work received by service providers accompanied by a rapid fall in factory orders. Still, the aggregate level of employment continued to increase, and overall sentiment improved.

Inflationary pressures showed signs of strengthening during August. Input costs rose at the sharpest pace since May while the rate of selling price inflation remained unchanged from that recorded in July. This was despite sustained declines in both operating expenses and selling prices in the manufacturing sector.



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Note to Editors

The HCOB Spain Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 350 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in August 1999.

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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

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.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

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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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