

Madrid

Slowest decline in output for a year-and-a-half

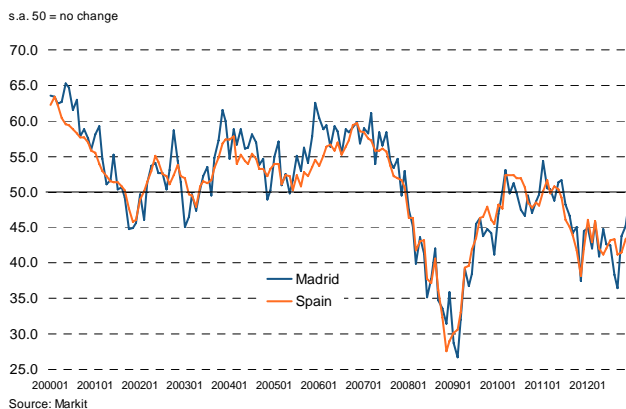
- **Contraction in Madrid economy continues**
- **Latest fall much weaker than Spain average**
- **Further steep reduction in prices charged**

PMI survey data indicate that the economic downturn has moderated sharply in the Madrid region, providing a ray of hope while the country as a whole remains mired in a steep downturn.

The autonomous community of Madrid, which contains the Spanish capital and is home to some six-and-a-half million people, recorded a further decline in output at the end of 2012. This extended the current sequence of contraction in the region to 18 months. That said, the latest fall was only modest, and the weakest in this period.

The reduction in output in Madrid was much slower than the average for Spain as a whole. Madrid has now seen weaker declines in output than the Spanish average in three successive months, following substantial falls in activity during the third quarter of 2012. New orders also decreased at a slower rate in Madrid than seen at the national level, but the contraction in the region was still marked.

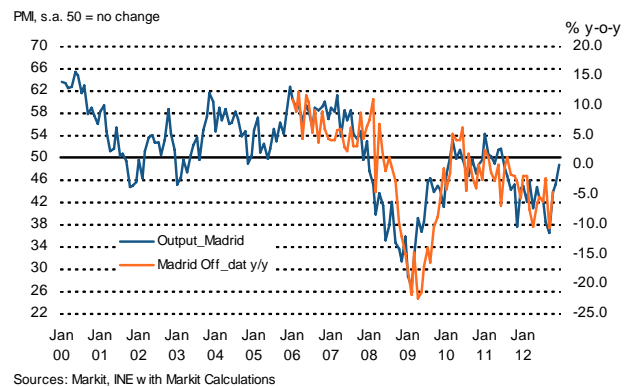
PMI Output Indices



Official data for the manufacturing and service sectors combined (which matches the PMI coverage), showed a 4.7% year-on-year decrease in output in Madrid during October. This represented a much weaker pace

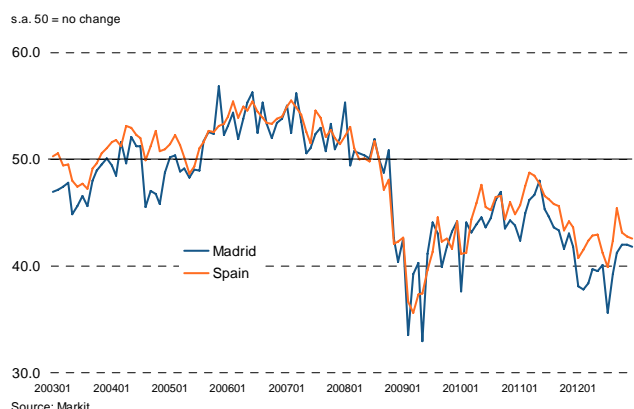
of decline than the 10.7% reduction in the year to September. Output in the region has been falling on an annual basis in each month since March 2011. The more timely PMI data suggest that the rate of decline signalled by official data will have moderated again towards the end of 2012.

Madrid Output



Competitive pricing and cost control appear to have been important factors in Madrid in recent months. PMI data suggested that companies continued to cut charges in an attempt to stimulate demand in December. Moreover, discounting in the region was sharper than the Spanish average, as has been the case in each month since June 2011. Firms have been helped in their efforts to reduce charges by the rate of cost inflation remaining modest, a trend that continued at the end of the year.

PMI Output Prices Indices



As has been the case in each month since April 2010, Madrid companies lowered employment in December. Furthermore, the rate of job cuts was sharp, and slightly faster than in November.

While the economy of Madrid remained in contraction at the end of 2012, there are signs that the strength of the decline has eased in recent months, providing some hope that 2013 will see the start of an economic recovery. New PMI data on business sentiment for the combined manufacturing and service sectors suggested that companies in the region are at their most optimistic with regards to the prospects for growth in output in the past six months.

Manufacturing PMI data for Spain are released on the first working day of each month, followed by services data on the third working day.

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Andrew Harker

Economist

Markit

Tel: +44 1491 461 016

Email: andrew.harker@markit.com

<http://twitter.com/MarkitEconomics>

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