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IHS Markit Spain Business Outlook

Business confidence hits record high in June

Key findings:

- Firms eye end of pandemic and expected leap in economic activity
- Growth of employment widely expected
- Inflation worries noted as costs forecast to rise

Data collected June 11-25

Business confidence in the Spanish private sector strengthened to a record high during June as firms looked forward to a post-pandemic bounce in economic activity.

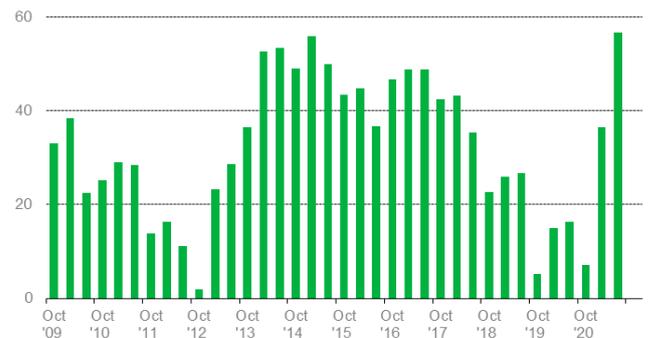
Posting +57%, up from +36% in February, the headline IHS Markit Business Outlook net balance for activity rose again to register its highest reading since data were first available in late 2009. The net balance was also above both respective EU and global averages.

Both manufacturers (+48%) and service providers (+59%) recorded higher levels of optimism, with companies in both sectors eyeing a continuation of recent positive trends in activity as restrictions related to dealing with COVID-19 are further diluted. This should help fuel a sharp rise in market demand from both domestic and international clients.

Service companies based in the tourism and hospitality sectors are especially hopeful of a return of international travel and the associated demand benefits will bolster activity. Others noted that increased working from home, less competition following pandemic related business closures, and the development of new business lines will also help drive growth in the coming year.

Meanwhile, several manufacturers looked a little further past the post-pandemic bounce in activity, noting opportunities in the development of alternative technologies related to clean and sustainable energy.

Spain business activity expectations



Employment & Investment Plans

As activity and market demand rise, firms are widely forecasting a positive impact on the labour market with the net balance of firms expecting a rise in employment increasing from +9% to +29% in June. That was the highest reading for four years, with both service providers (+31%) and manufacturers (+22%) forecasting a rise in employment. For services, the net balance was the highest on record.

Capital investment plans are similarly in positive territory, with several firms seeking to invest in productivity enhancing equipment, machinery, and goods. At +19%, the respective net balance was up on February's +5% and the best in three years. Manufacturers (+17%) and service providers (+19%) recorded similar readings in June.

Inflation Expectations

Outside of concerns of a re-emergence of the worst effects of the pandemic, such as a re-imposition of stricter activity movements, inflation was a noticeable concern amongst Spanish private sector companies and seen as a threat to the wider outlook.

This was most noticeable amongst manufacturers when asked about non-staff costs, with a net balance

of +41% the highest since early 2017. This pushed the overall net balance up to +25%, a three-year high. Moreover, a net balance of +39% of firms anticipated a rise in staffing costs.

Firms are likely to pass on costs to clients as they seek to protect margins and take advantage of the improved economic environment. A net balance of +18% was the highest for three years, up from +6%. Manufacturers are especially confident: the respective net balance of +33% was the highest in nearly 12 years of data collection.

Corporate Earnings

Despite margins coming under some pressure from the anticipated rise in operating costs, a combination of higher output charges and increased sales means firms are likely to improve their profitability position.

Overall, a net balance of +33% of firms anticipate an improvement in corporate earnings in 12 months' time, up from +15% and the best for three-and-a-half years.

Service providers were especially confident, with the net balance of +38% the second highest in the survey history (surpassed only by February 2015). For manufacturers the net balance of +13% was the best for two years.

Comment:

Commenting on the Spain Business Outlook survey, **Paul Smith**, Economics Director at IHS Markit, said:

“Confidence amongst Spanish companies leaped mid-summer as they eyed an end to the pandemic. A return to some ‘normality’ that includes international travel will be especially welcome for those operating in the key travel, tourism, and hospitality sectors.

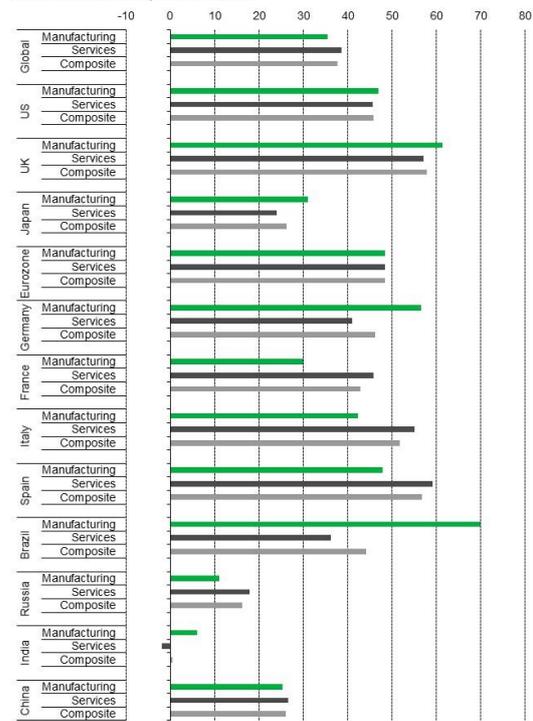
“Of course, new challenges are however emerging, most notably of an inflationary nature. Widespread supply shortages continue to drive costs up, whilst increased demand for labour will push wage expenses higher. Firms are however confident that the sheer scale of the likely upturn in activity will more than compensate for higher costs, with profitability set to also increase sharply in the coming months.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in June

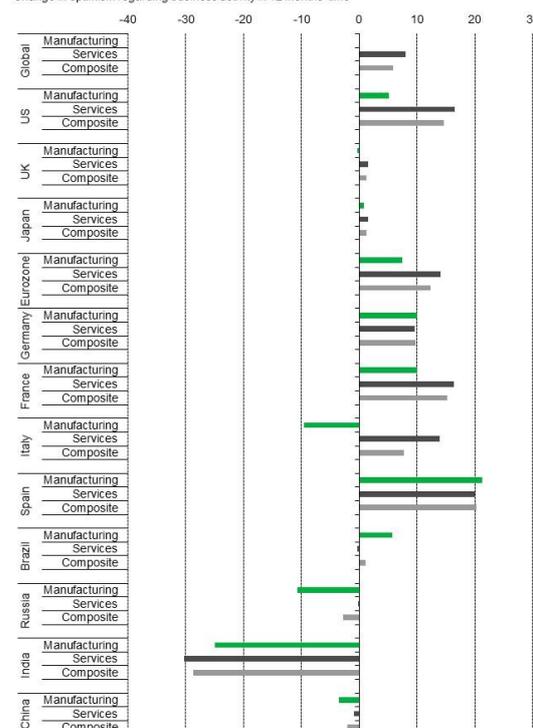
Outlook for business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in June.

How business activity expectations have changed since February

Change in optimism regarding business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in June compared to net balance in February.

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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 10 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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