

EMBARGOED UNTIL: 00:01 (UTC) March 12th 2019

IHS Markit Spain Business Outlook

Confidence subdued as political and economic uncertainties persist

Key findings:

- Slight pick-up in confidence, but expectations remain amongst the weakest since 2013
- Political and economic uncertainties continue to weigh on sentiment
- Employment expectations amongst the lowest in Europe

Data collected February 12-25

Although February's IHS Markit Business Outlook survey signals a slight improvement in confidence amongst Spanish companies compared to last October, optimism regarding the future remained amongst the lowest in the past six years.

Political and economic uncertainties continue to weigh on confidence. Companies are especially concerned about recent domestic and wider European political developments, the US-China trade position, and Brexit. Strong competitive pressures and the recent uplift in the minimum wage are also reported to be concerns.

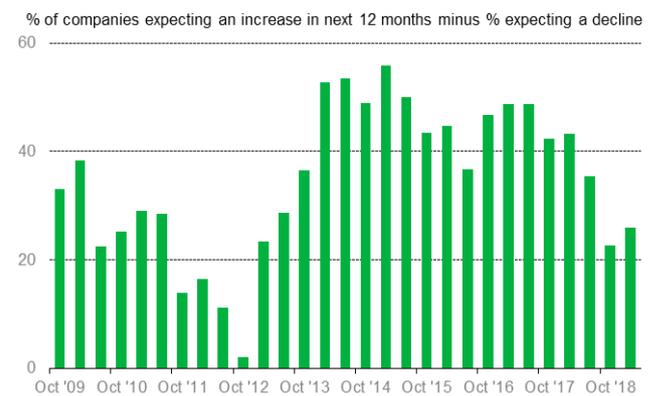
In contrast, technological advancements, the development of new products and expansion into new international markets were all seen as factors that could support growth in the next year.

The net balance of firms forecasting a rise in business activity is at +26% during February 2019. That is a slight improvement on October's reading of +23%, and Spain was the only nation in the European Union (EU) to record such a rise in sentiment.

Both manufacturing and services have registered similar sized improvements in sentiment during February. The net balance for manufacturing comes in at +27%, compared to the services number of +26%.

Nonetheless, business confidence remains historically low and amongst the weakest seen since early 2013.

Spain business activity expectations



Employment & Investment Plans

In line with the trend for activity, employment plans have improved during February, but remain down on levels seen throughout much of the past five years. Moreover, the latest reading (+11%) is the second lowest seen across Europe and, as such, remains weaker than the respective eurozone and EU averages of +15% and +14%.

In contrast, capital investment intentions are the second strongest in Europe during February, with the respective net balance posting +16% (compared to +14% in October). Service providers are notably more confident than their manufacturing counterparts in February.

Inflation Expectations

Operating costs are widely forecast to increase over the coming 12 months, albeit at a slightly slower rate than last October.

For non-staff costs, the respective net balance records +18%, down marginally from +19%. Service providers anticipate the greater net increase in non-staff prices, with a similar outcome seen for staff costs. The respective overall non-staff costs balance comes in at

+35% during February, suggesting that overall operating cost inflation will be in the main driven by rising employment expenses (in part linked to the recent uplift in the minimum wage).

Competitive pressures meanwhile are forecast to weigh on pricing power. Although a net balance of +12% of firms anticipate an increase in their charges over the coming 12 months, this is the lowest outcome recorded by the survey since June 2016.

Corporate Earnings

Finally, business confidence regarding profitability has strengthened in line with better forecasts for activity. However, at +13%, the net balance remains much lower than levels seen over the past five years. Manufacturers, who are forecasting slightly better growth in activity and weaker cost inflation than their service sector counterparts, are noticeably more optimistic than services companies.

Comment:

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

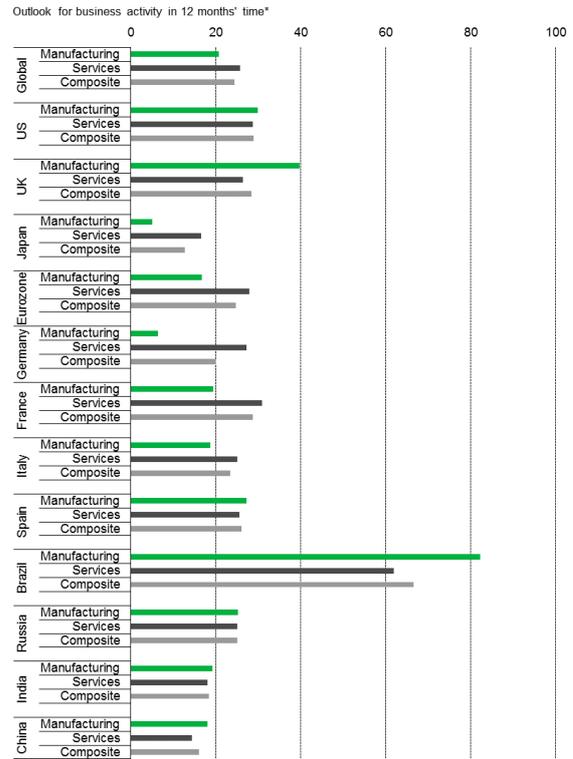
“Business sentiment amongst Spanish companies remained on the low side during February, despite improving a little on the previous survey’s near six-year low.

“Panellists are widely reporting worries over the political climate, both at home and in neighbouring European countries. Ongoing tensions over global trade are also weighing on expectations and as such point to relatively subdued growth of the private sector in the coming months.”

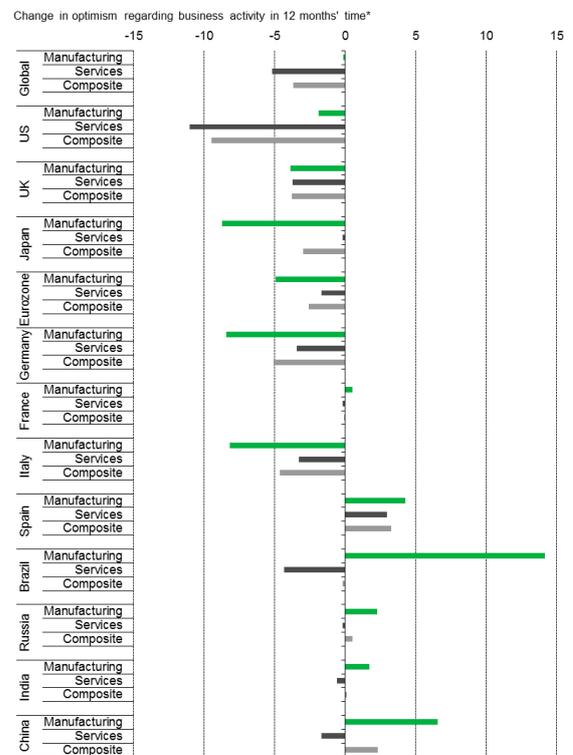
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



For further information, please contact:**IHS Markit**

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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 February 12 and 27.

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 7,000 firms.

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