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IHS Markit Spain Business Outlook

Pandemic uncertainty continues to dominate outlook

Key findings:

- Activity expectations third lowest in survey history
- Jobs and investment set to be cut
- Profitability under noticeable pressure

Data collected October 12-27

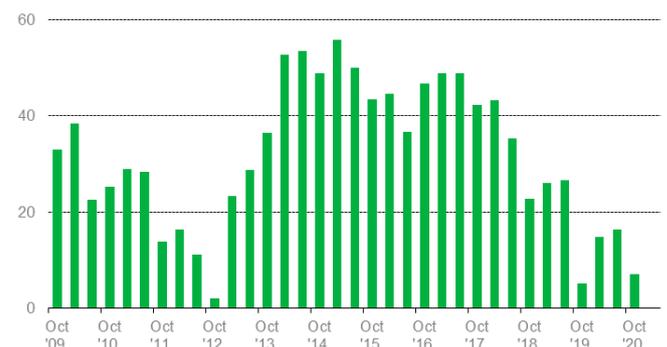
Confidence amongst Spanish private sector companies softened during October as uncertainty over the evolution and effect of the coronavirus disease 2019 (COVID-19) pandemic continued to weigh on sentiment. Employment and capital investment are both expected to fall in line with deteriorating corporate profitability.

The IHS Markit Business Outlook survey indicated that confidence regarding future activity was at its lowest in a year, with a net balance of just +7% of companies forecasting a rise in activity from present levels over the next 12 months. Down from +16%, October's reading was the third lowest in the series history.

Service providers were noticeably less confident about the future than manufacturers. The net balance for services was, at +6%, the lowest recorded in the past eight years. Although higher than in services, confidence in manufacturing was at +11% the lowest recorded in the past year.

COVID-19 remains the biggest threat to future activity, with a great deal of uncertainty amongst companies regarding how the pandemic – and political response – will evolve over the coming months. Continuous outbreaks and associated restrictions on activity were reported to be persistently undermining any burgeoning recoveries from taking hold. Outbreaks combined with ongoing travel restrictions was reported to be hitting companies with links to tourism especially hard.

Spain business activity expectations



Firms are also extremely concerned over the wider economic impact of COVID-19 on consumption, with higher joblessness likely to weigh on sales and demand for their goods and services over the coming year. Product launches and events were widely reported to be on hold.

Employment & Investment Plans

COVID-19 was also reported to be undermining investment activity across companies, with companies again signalling negative expectations regarding future investment.

Latest data showed a net balance of -7% companies are expecting to reduce their capital investment plans over the next 12 months, up from -10% in the last survey. Similar readings were recorded across the manufacturing and service sectors.

On the employment front, a net balance of companies signalled forecasts of reduced staffing levels for the fourth successive survey. Moreover, the net balance of -12%, down from -9% in June, was the lowest recorded since February 2013. Service providers (-14%) were notably more pessimistic than manufacturers (-4%).

Inflation Expectations

Expectations with regards to inflation were broadly in negative territory during October.

Although employment costs are expected to be unchanged, non-staff expenses are widely forecast to decline (net balance: -9%). Both manufacturers (-6%) and service providers (-9%) anticipate declines in non-staff costs over the coming year amid reports that the weak demand and competitive environment will encourage cost cutting wherever possible.

Such efforts are partly driven by expectations of a cut in output charges as firms struggle to stimulate demand in a challenging business environment. A net balance of -13% of firms anticipates a reduction in output prices, compared to -16% in June.

Corporate Earnings

With output prices set to be cut, activity levels subdued and demand sales sluggish given the considerable uncertainty related to COVID-19, profitability is projected to contract. The respective net balance of -12% was unchanged since June, when it sank to its lowest level since late 2012.

Service providers (-13%) were a little more negative than manufacturers (-10%) during October.

Comment:

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

“The outlook for Spain’s private sector remained subdued during October amid widespread uncertainty over the trajectory of COVID-19 and the associated adverse impacts on health and the economy.”

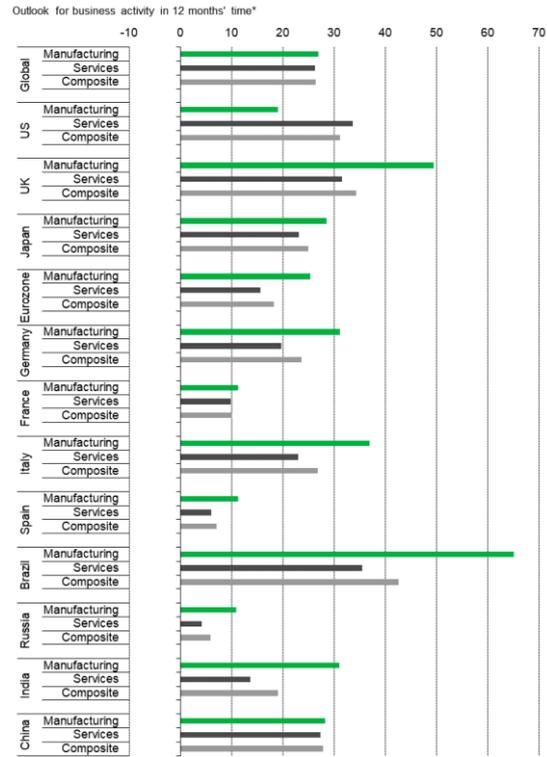
“It is clear the longer that the pandemic goes on, the greater the damage on business performance, especially those key industries in Spain dependent on social contact such as travel and tourism.”

“Companies are therefore providing rather negative outlooks for investment and employment over the coming months, widely expecting to cut these in line with subdued forecasts for activity and profitability.”

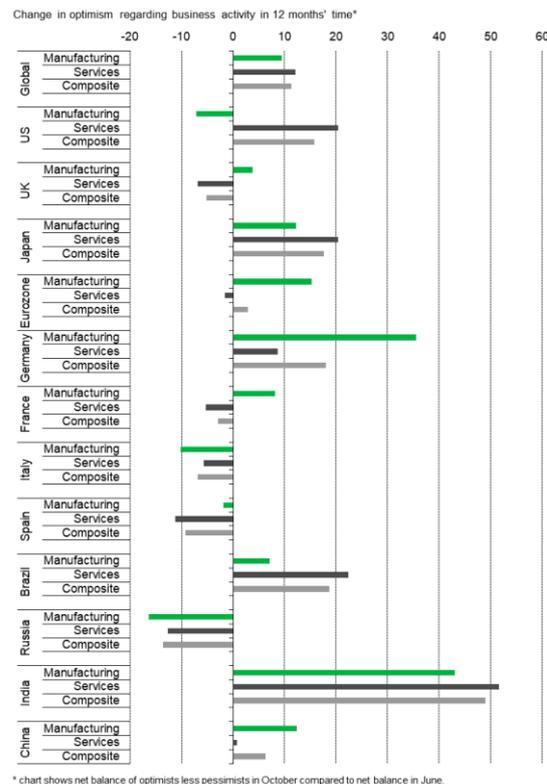
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Full data available on request from
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Business optimism in October



How business activity expectations have changed since June



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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 October 9 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 7,000 firms.

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