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IHS Markit Spain Business Outlook

Business confidence deteriorates markedly in October

Key findings:

- Outlook darkest since 2012 with manufacturers and service providers recording slump in confidence
- Widespread worries over Brexit, US trade policy and domestic politics signalled
- Jobs and investment forecast to be cut

Data collected October 11-28

Business confidence amongst Spanish private sector companies slumped during October, declining to its lowest level in seven years as worries about Brexit, US trade policy and recent political developments at home weighed on sentiment.

The net balance of companies forecasting an increase in activity from present levels over the next year is down to +5% in October, from +27% in June.

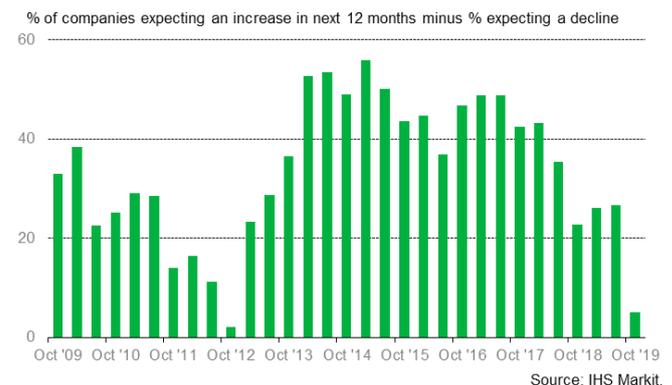
The overall decline in the net balance is the greatest recorded in a decade of data collection, with both manufacturers and service providers registering sharp reductions in confidence.

Most notably, the respective manufacturing net balance has moved into negative territory (-1%) for the first time in over 10 years of data collection to therefore signal expectations of a slight fall of output in 12 months' time. Companies have commented that the unpredictable impact of Brexit and US trade policy has created ongoing uncertainty in goods markets.

Instability in domestic politics has also been reported as a factor potentially weighing on demand and output in the coming year. Several firms also signal worries about possible regulatory changes by government.

Domestic and international political factors also worry service providers. Although still inside positive territory, at +7%, the respective net balance for services has fallen to a seven-year low in October.

Spain business activity expectations



Employment & Investment Plans

Faced with ongoing uncertainty about the future, private sector companies in Spain are expecting to cut both staffing levels and capital investment over the next year.

The net balance for employment is down to a six-year low of -3%, although there is some divergence at the sector level. Whereas service providers are forecasting no change in employment, manufacturers are expecting a noticeable decline with the respective net balance of -11% a seven-year low.

Further evidence of company retrenchment is provided by data on capital investment intentions. The respective net balance of -5% is down from +15% in June and into negative territory for the first time since mid-2013. Both manufacturers (-11%) and service providers (-4%) are anticipating a reduction in capital investment.

Inflation Expectations

Non-staff costs are set to rise over the coming year, although with the net balance at +9%, down from +19% in June and a three-and-a-half year low, inflation is forecast to be weak. Moreover, manufacturers are expecting a net fall in non-staff costs for the first time since January 2009.

In contrast, overall staffing costs are forecast to increase markedly. The net balance is at +29%, with services providers (+33%) signalling much greater inflation expectations than manufacturers (+14%).

Meanwhile, competitive pressures, both from online specialists and foreign companies, are likely to limit output charge inflation over the next 12 months. The respective net balance of +2% is the lowest recorded in five years, with manufacturers (-2%) expecting to offer discounts in the coming year.

Corporate Earnings

With concerns mounting about future economic conditions, and consistent with the subdued readings for activity, employment and investment, Spanish firms expect their profitability to fall over the coming year in October. Moreover, at -5%, down from +11%, the net balance for profitability is at its lowest recorded level since mid-2013.

Similar deteriorations in profitability are expected across the manufacturing (-7%) and service (-5%) sectors.

Comment:

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

“Political uncertainties, both at home and abroad, had a clear detrimental impact on business confidence during October, with noticeable slumps seen in both manufacturing and service sectors.”

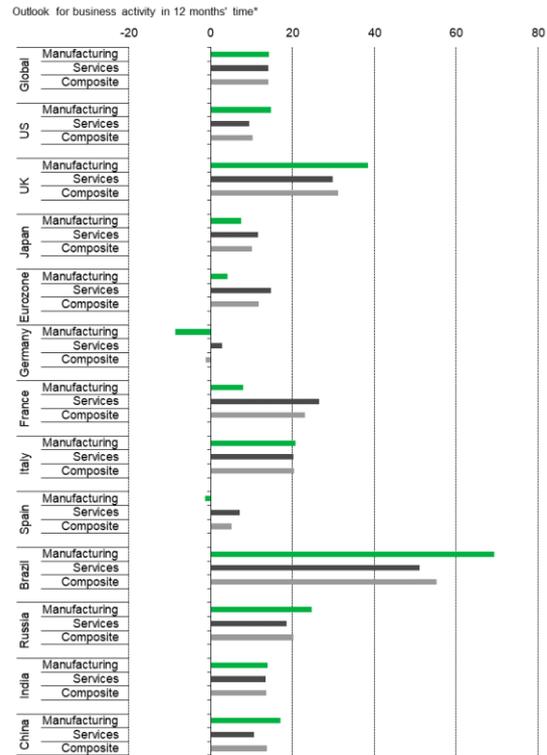
“The considerable unpredictability of Brexit and US trade policy on future demand and activity has, most worryingly, led firms to conclude retrenchment is the best policy in these uncertain times with cuts to employment and investment now expected over the next year.”

“And with corporate profitability also forecast to deteriorate, the latest outlook survey offers a clear indication that the Spanish economy is set for a period of subdued performance in the coming months.”

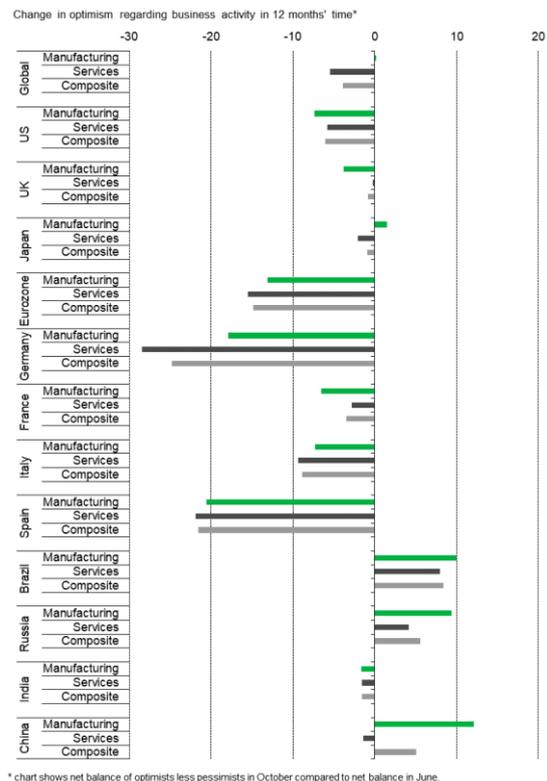
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Full data available on request from economics@ihsmarkit.com

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 30.

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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