

EMBARGOED UNTIL: 00:01 (UTC) November 19th 2018

IHS Markit Spain Business Outlook

Business confidence drops sharply to lowest since February 2013

Key findings:

- Optimism deteriorates noticeably to lowest across Europe
- Worries over demand growth and rising labour costs weigh on outlook
- Employment expectations down to lowest since late 2013

Data collected October 11-26

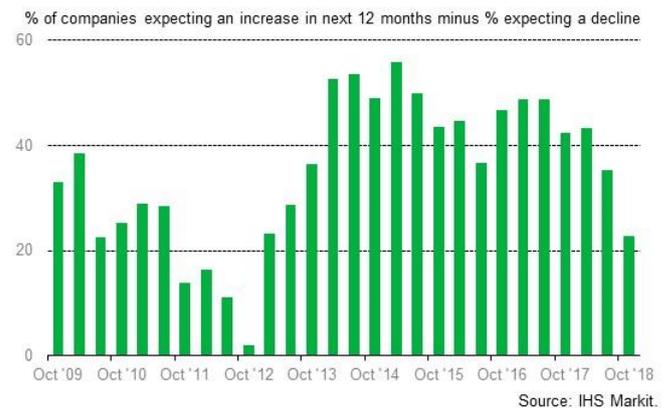
The latest IHS Markit Business Outlook survey signals a considerable reduction of confidence among Spanish companies in October. Political uncertainty, both at home and abroad, worries over slower demand growth and rising costs, especially related to labour, all serve to depress confidence

At +23%, the October 2018 Business Activity was down sharply from June's reading of +35% and indicates the weakest degree of confidence about the future since early 2013. The fall in sentiment is sufficiently sharp to take it below the eurozone average and the lowest of all European nations covered by the survey. Since the summer of last year, the headline net balance has more than halved.

Downturns in confidence are signalled across both the manufacturing and service sectors when compared to the summer. Both categories record net balances for business activity of +23%, with confidence in manufacturing the lowest since October 2012 and in services the weakest since February 2013.

Similar trends to activity are seen for both new business (+21%) and revenues (+19%), with panellists indicating concerns around the recent global and European economic slowdown. Political instability, both at home and abroad, and worries over rising cost pressures, especially related to labour given proposed changes to the minimum wage, were also reported.

Spain business activity expectations



Employment & Investment Plans

Deteriorating confidence with regards to activity, new work and revenues has spilled over into employment expectations during October. The respective net balance has fallen sharply to just +8%, down from +21% in June. That is noticeably lower than the eurozone average of +17% and, as in the case with activity, the lowest figure recorded in Europe.

Investment intentions are also noticeably lower towards the end of 2018 as the respective net balance of +14% is the lowest recorded by the survey since early 2016. Manufacturers are less optimistic than their service sector counterparts with regards to capital investment.

Inflation Expectations

Although not expected to rise quite as quickly as three months ago, input cost inflation is likely to remain elevated over the coming year. The net balance for input prices (+28%) remains historically marked, with service companies again anticipating a much greater rise in input prices than manufacturers. A lift in the minimum wage and high material prices were reported as key factors that could drive inflation in the coming months.

Expectations related to output charges remain lower than input costs and have slipped to their weakest since the summer of 2016 amid worries over competitive pressures. Expectations are also much lower than respective eurozone averages for both the manufacturing and service sectors.

Corporate Earnings

An undesirable mix of weakening optimism for activity, new orders and revenues, plus forecasts of still elevated input costs weighs on profitability expectations in October.

Confidence with regards to profits has deteriorated to the lowest in five years, with service providers indicating the weaker expectations of the two sectors covered by the survey. That said, the deterioration seen in profitability expectations amongst manufacturers is more noticeable and taken the respective net balance to its weakest since early 2013.

Comment:

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

“There is a noticeable drop in business confidence during October, with expectations deteriorating to their weakest for nearly six years – and to the lowest level of all our European surveys.”

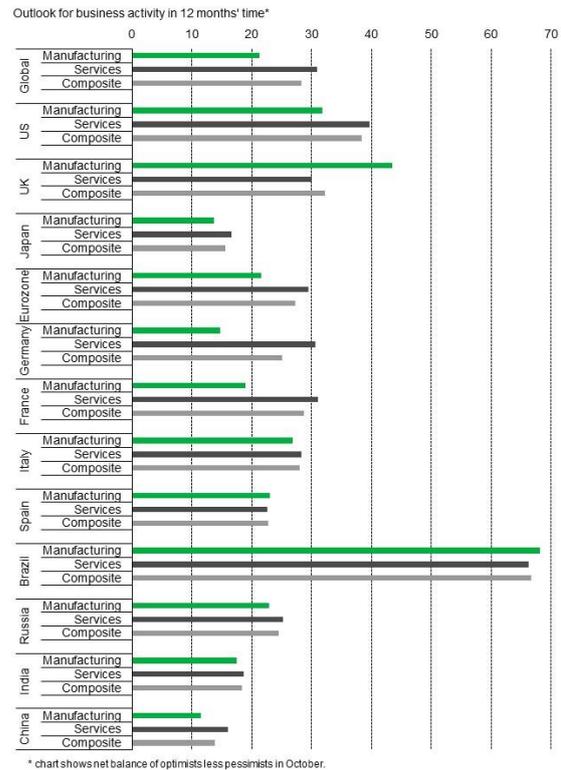
“Whilst global factors are part of the story, with worries over the impact of trade tensions and political instability widely reported, a number of domestic issues have exacerbated the downturn. Firms are especially concerned over the government’s proposed minimum wage increase, fearful that this will add considerably to their operating expenses at a time when demand growth is slowing.”

“This has also subsequently led to a noticeable drop in hiring intentions in the latest survey and adds to the view of a step down of economic growth in the coming months.”

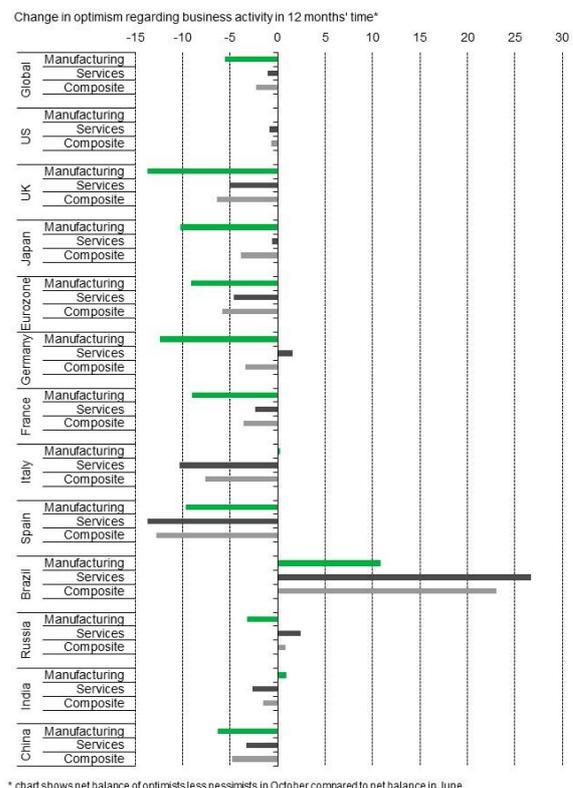
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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 October 12 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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