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IHS Markit Spain Business Outlook

Business confidence softens during October

Key findings:

- Economic recovery expected to continue
- Jobs and investment to rise...
- ...but inflation concerns mount

Data collected October 11-26

In line with the wider global trend, business confidence amongst Spanish private sector companies declined during October though remained historically high.

The headline IHS Markit Business Outlook net balance for activity fell from a record high of +57% in June to +43% in October, though was still comfortably above the respective European and Global averages.

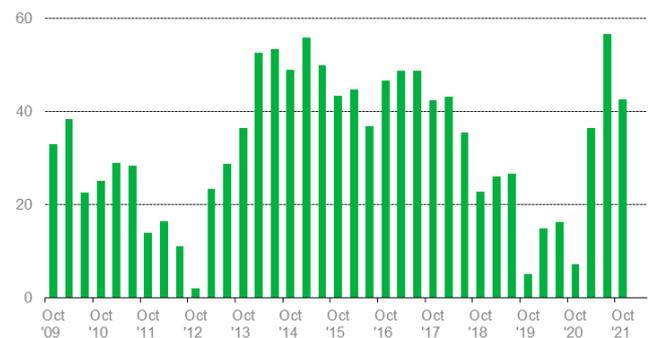
Concurrent drops in sentiment were seen in both the manufacturing and service sectors. However, the respective net balances of +35% and +45% remained above those seen in February and amongst the best recorded over the past four years.

There were again reports across the two broad sectors that the ongoing macroeconomic recovery from COVID-19 will provide the platform for further growth in the coming 12 months. Sales should continue to recover, with demand from domestic clients forecast to improve and, with a hoped-for reduction in restrictions on international travel, new business from foreign clients is also expected to rise.

Moreover, firms see considerable opportunities to expand their businesses within the digital economy, whilst green energies and alternative technologies are viewed as a growth area.

Several companies indicated that positive government policies and the availability of grants from the European Union are also likely to boost demand and activity over the coming 12 months.

Spain business activity expectations



Employment & Investment Plans

With sales and activity set to rise, firms continued to anticipate adding to their staffing levels over the next year. A net balance of +18% of companies signalled positive forecasts of a rise in employment, with growth set to be led by services (+19%) rather than manufacturers (+13%).

Moreover, the respective aggregate net balance was noticeably lower than June's four-year high (+29%), in part reflective of a downgrading of activity growth forecasts, likely labour shortages and an increased focus on productivity enhancing capital equipment.

Indeed, this was highlighted by the respective net balance for capital investment hitting a series high of +24%, up from +19% in June. Service providers (+27%) are especially buoyant.

Inflation Expectations

A principal threat to the outlook remains the continuation of the supply-side shortages and logistical challenges that have characterised the economic upturn of recent months. Firms indicated that the continuation of these trends provides both a threat to activity and production, as well underpinning the further upward march of price levels.

Indeed, inflation remains a principal concern for firms, with costs for raw materials, energy and labour all anticipated to rise in the coming months.

Both manufacturers (+37%) and service providers (+38%) signalled expectations of a rise in non-staff costs, whilst the net balance for staff costs (+42%) is the highest on record (since February 2019).

Most notably, there is a strong expectation that costs will be passed on to clients as part of efforts to protect margins and recoup losses seen over the pandemic. At +30%, the respective net balance rose from +18% in June and was a series record high. Manufacturers (+47%) were especially likely to increase their output charges.

Corporate Earnings

Despite operating expenses being set to increase sharply, the protection of higher output prices and rising sales volumes should ensure firms are able to grow their profitability in the coming 12 months.

Latest data showed that a net balance of +21% of firms expect to see profits improve, though that is well down on the +33% seen in June.

Moreover, there was a noticeable divergence at the broad sector level. For service providers (+27%), confidence remains highly positive, but manufacturers in contrast are anticipating a contraction (-2%).

Comment:

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

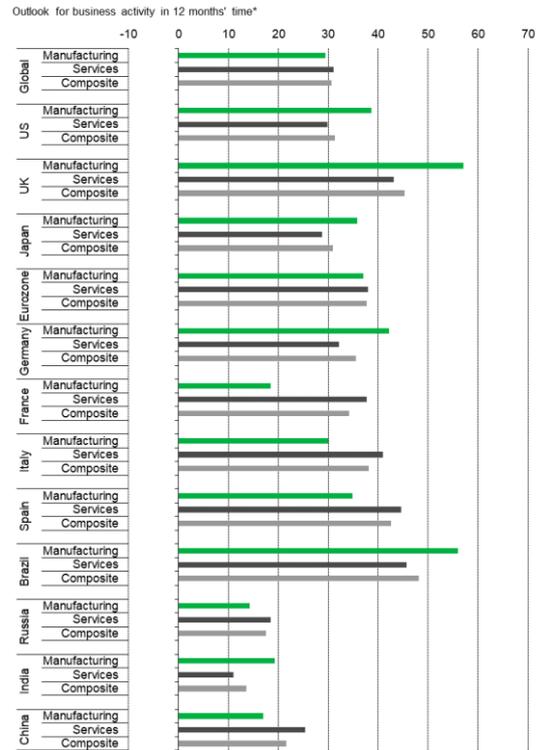
“Although dropping since June, firms remain highly confident that the recent recovery from the economic challenges of COVID-19 will be sustained during the next 12 months. Sales and activity should rise further and support company profitability.”

“However, worries over supply-side and logistical challenges persist, which continue to drive rising inflation expectations. These issues remain the principal threats to the outlook as we head towards the end of 2021.”

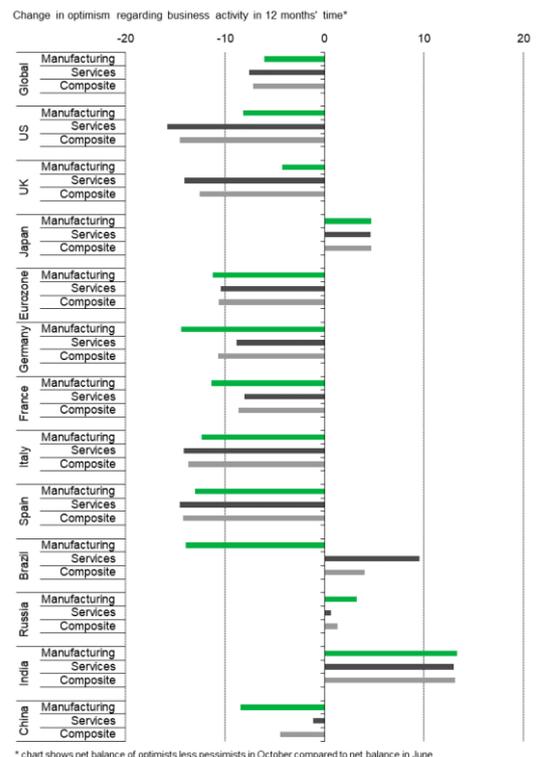
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Full data available on request from
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Business optimism in October



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 11 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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