

EMBARGOED UNTIL: 00:01 (UTC) March 10th 2020

IHS Markit Spain Business Outlook

Expectations remain historically muted in February

Key findings:

- Confidence rises in February, but remains well below levels seen throughout much of last decade
- COVID-19 outbreak, US trade policy and EU-UK trade negotiations all weigh on sentiment
- Jobs forecast to be cut

Data collected February 12-27

Business sentiment in Spain's private sector remains historically low during February as worries over EU-UK trade negotiations, concerns over the direction of US tariff policy and the emerging threat to economic activity from the coronavirus disease 2019 (COVID-19) outbreak all weighed on confidence.

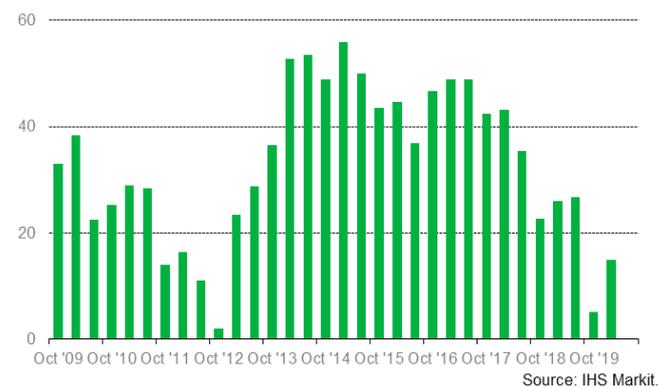
This is highlighted by the latest IHS Markit Business Outlook survey which indicates a net balance of just +15% of companies are forecasting an increase in activity from present levels over the next year. Although up from +5% in October, the latest reading is amongst the lowest in the series history and well below the historical average (+33%).

Both sectors covered by the survey experience improvements in respective net balances since the previous quarter. Manufacturing sees a rise to +18%, from -1%, as companies benefit from the stabilisation of economic conditions around the turn of the year and the lack of immediate threat of a 'no-deal' Brexit that undermined sentiment four months ago.

However, there are worries amongst manufacturers over how EU-UK trade negotiations will play out in the coming months, as well as fears of an escalation of US tariffs on European goods.

Moreover, companies signal concerns over the impact on global supply chains and economic activity in general from an escalation of the COVID-19 outbreak.

Spain business activity expectations



Source: IHS Markit.

Most notably, service providers operating in sectors related to travel and tourism have aired such concerns, and this plays a key role in limiting confidence in the overall services economy during February. Latest data show that the net balance for services comes in at +14%, compared to +7% in October.

Employment & Investment Plans

Faced with a variety of headwinds to future growth, Spanish private sector companies indicated little desire to add to their workforce numbers over the coming 12 months, instead signalling a broadly neutral outlook for employment.

The respective net balance is little changed in February, posting a level of -1%, compared to -3% last October. Although manufacturers are forecasting no change in staffing levels, for service providers a net balance of -2% is the lowest in over six years.

Capital investment plans also remain historically muted, though have improved compared to four months ago. Both service providers and manufacturers are forecasting marginal growth, compared to contractions last October. Overall, the net balance for capital expenditure is at +5% in February, up from -5%.

Inflation Expectations

Inflationary pressures are widely forecast by Spanish private sector companies to be relatively weak in the coming year. For non-staff costs, a net balance of +12% of firms expect an increase, up from +9% in October, but well below rates forecast on average over the past four years.

Overall staffing costs are again anticipated to rise at a sharper pace than non-staff costs, although a net balance of +27% is the lowest in the four surveys that data have been collected.

Competitive pressures are again forecast to limit the pass through of higher costs to clients. At +4%, the respective net balance is little changed since October (+2%). For service providers, the reading of +3% is the lowest recorded by the survey since October 2014.

Corporate Earnings

Against the backdrop of an uncertain economic climate, and matching the historically subdued readings for activity, employment and investment, Spanish private sector companies are neutral overall in their outlook for profitability (net balance: zero).

Whilst manufacturers are forecasting some growth, registering a net balance of +7%, compared to -7% in October, service providers continue to anticipate a fall (net balance: -1%, from -5%).

Comment:

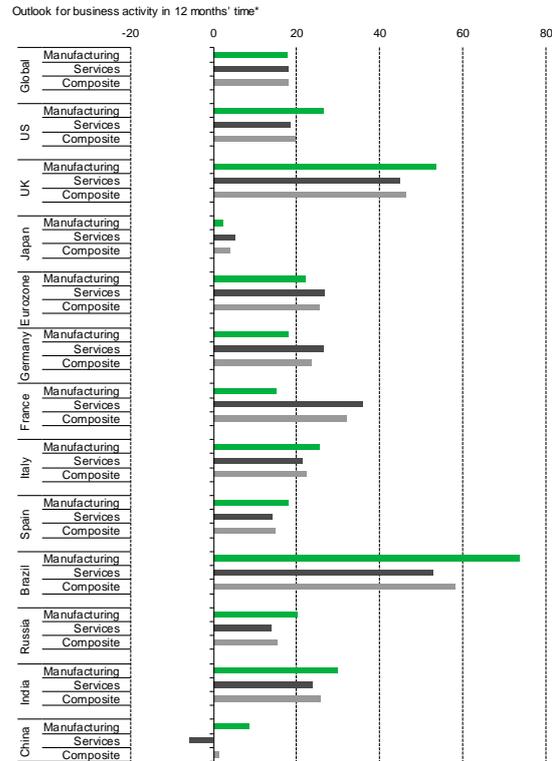
Commenting on the Spain Business Outlook survey, **Paul Smith**, Economics Director at IHS Markit, said:

“With the economy having shown some stabilisation around the turn of the year, which boosted confidence that the economic climate would support near-term business expansion, ongoing concerns around trade and the emerging threat to activity in key sectors such as travel & tourism from the COVID-19 outbreak has undermined sentiment. Understandably firms are choosing to take broadly neutral stances in employment and investment decisions as they await to see how the crisis unfolds.”

-Ends-

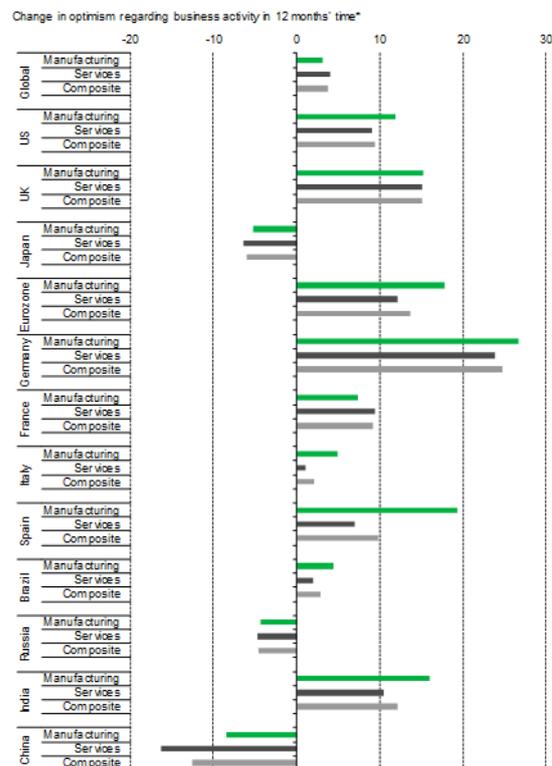
Full data available on request from economics@ihsmarkit.com

Business optimism in February



* chart shows net balance of optimists less pessimists in February.

How business activity expectations have changed since October



* chart shows net balance of optimists less pessimists in February compared to net balance in October.

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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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