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IHS Markit Spain Business Outlook

Political instability leads optimism among Spanish firms to decline

Key findings:

- Sentiment drops to lowest since mid-2016...
- ...but activity still set to increase
- Further rises in employment forecast

Data collected October 11-26

Spanish companies are less optimistic than they were earlier in the year, according to the latest IHS Markit Business Outlook survey.

In fact, sentiment is the lowest since mid-2016, with Spain the only eurozone country covered to be less optimistic than in the previous survey. That said, at +42% in October, the net balance of companies predicting a rise in activity over the coming year still signals solid confidence among firms.

Reduced confidence is apparent across the manufacturing and service sectors alike. Service providers are the least optimistic since the June 2016 outlook survey, while manufacturing sentiment is the lowest since February of that year.

Anecdotal evidence suggests that expansion into new markets - both at home and abroad - alongside improving economic conditions, will provide opportunities for growth over the coming year. On the other hand, the political uncertainty surrounding events in Catalonia is the key factor dampening optimism.

Sentiment regarding new business follows a similar trend to that for activity, remaining positive but lower than in June. Confidence among Spanish firms, however, remains above the euro area average.

Employment & Investment Plans

Hiring expectations are little-changed from the position in the summer, with companies expecting to raise

Spain business activity expectations



employment in line with increased activity. Service providers are more confident regarding future job creation than their manufacturing counterparts. Sentiment regarding staffing levels in Spain is slightly higher than the eurozone average.

Investment spending is also set to rise, with optimism regarding capex broadly in line with that seen in the summer. Meanwhile, manufacturers expect an increase in R&D expenditure. That said, optimism is the lowest since June 2016.

Inflation Expectations

Price pressures look set to rise, with the net balance for input costs in October above that seen in the previous outlook survey. Both manufacturers and service providers foresee stronger cost inflation.

In contrast, services companies predict that staff costs are less likely to rise than in the summer, with the respective net balance the lowest for a year.

In response to predictions of higher input costs, firms look set to increase their output prices over the coming year. The net balance is unchanged from June's survey, with service providers more likely to raise charges than manufacturers.

Corporate Earnings

Forecasts of higher new business are expected to translate into profits growth over the next 12 months. As is the case with activity and new orders, however, optimism around profitability is the weakest since June 2016.

Comment:

Commenting on the Spain Business Outlook survey data, **Andrew Harker**, Associate Director at IHS Markit, said:

“Spanish firms are generally in optimistic mood as we head towards the end of 2017, in line with the impressive economic performance we have seen through the year so far. To that end, it is disappointing to see sentiment dip from the summer’s survey. In fact, Spain is the only eurozone country to be less optimistic in October than in June.”

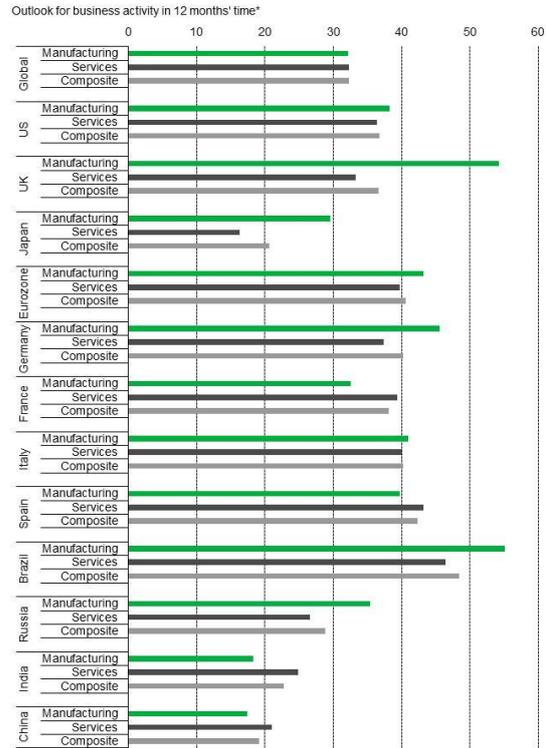
“The drop in confidence largely reflects events in Catalonia, with anecdotal evidence overwhelmingly citing political uncertainty as a threat to the outlook. The sister PMI survey for October pointed to a slowdown in growth across the private sector, and companies suggest this could continue as long as political uncertainty persists.”

“The outlook for the labour market remains rosy, however, with companies seemingly able to look through any shorter-term disruption and maintain hiring plans. Sentiment regarding employment is only marginally weaker than was seen in the summer.”

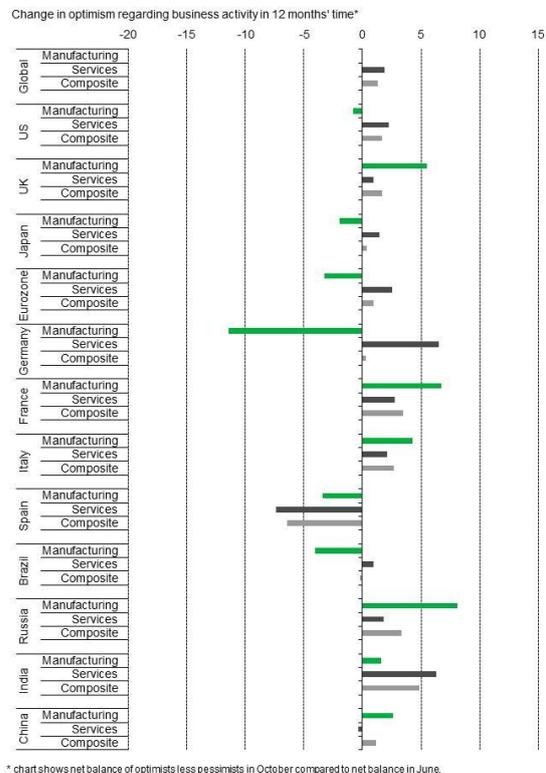
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



For further information, please contact:**IHS Markit**

Andrew Harker, Associate Director
Telephone +44-1491-461-016
Email andrew.harker@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@ihsmarkit.com

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 26.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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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