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Markit Spain Business Outlook

Confidence among Spanish firms strongest since mid-2015

Key findings:

- Optimism regarding business activity improves for second survey running
- Plans for job creation and investment spending at multi-year highs
- Inflationary pressures set to build

Data collected February 10-23

The Markit Business Outlook survey for February signals a further improvement in sentiment regarding the year-ahead outlook for activity, in turn supporting stronger hiring intentions and plans for greater investment spending. However, inflationary pressures on both input costs and output prices look set to intensify.

Confidence with regards to business activity has increased for the second survey running, with a net balance of +49% of companies optimistic in February (+47% in October). Moreover, sentiment is the highest since the June 2015 outlook survey and Spanish firms are more confident than the euro area average.

Companies report that a focus on good quality products and services will help lead to expansion over the coming year, with competitive operations, the launch of new products and entering into new markets also mentioned as opportunities for the future. On the other hand, international political instability is seen as a key threat to the outlook.

Both manufacturers and service providers are more optimistic at the start of 2017 than they were last October. The business activity net balance in manufacturing has increased to +53% (+46% in October), while that for services is up fractionally (+48% from +47%).

Spain business activity expectations



Both new orders and business revenues are expected to increase, although in each case sentiment in February is slightly weaker than recorded in the previous outlook survey. Meanwhile, optimism around profitability is little-changed overall.

Job creation set to gather pace

With workloads expected to increase over the next 12 months, companies are more optimistic regarding the prospects for employment growth. The net balance is up to +29% in February from +22% last October, the highest since composite data were first available in October 2009. In fact, hiring intentions among Spanish firms are the second-highest globally, just behind those seen in Ireland. Companies operating in both the manufacturing and service sectors see employment increasing over the coming year.

Rise in investment planned

Alongside more optimistic hiring intentions, Spanish companies are also set to raise their investment spending. The net balance for capital expenditure is the highest since the composite series began, while R&D spending intentions in the manufacturing sector are at their strongest since early-2007. As with job

creation, Spanish firms are among the most optimistic globally with regards to investment spending.

Inflationary pressures set to rise

Higher costs for raw materials and fuel, alongside currency fluctuations, are set to lead to higher input prices according to Spanish firms, in line with trends across much of the world. The input costs net balance in the service sector is the highest since the April 2008 outlook survey, with expectations for price rises in manufacturing the greatest for six years.

Higher cost burdens are set to impact output prices over the coming year, despite reports of competitive pressures. The respective net balances in manufacturing and services have each hit multi-year highs in February.

Comment:

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

“Confidence among Spanish firms has strengthened at the start of 2017, with companies more optimistic than they have been for a year-and-a-half. Support for this optimism comes from opportunities to expand into new markets and launch new products in the knowledge that clients will respond positively to quality goods and services.

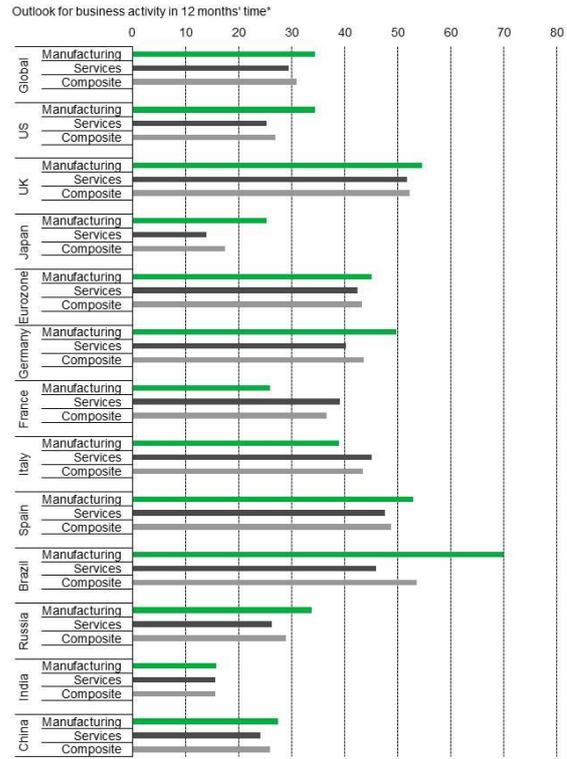
“Plans regarding investment in staff, capital and R&D are a particularly good sign, with confidence around growth in all of these areas the strongest since prior to the economic crisis.

“There are clouds hanging over this outlook, however. Inflationary pressures show no signs of abating, and in fact are predicted to strengthen over the coming year. Price rises will provide a real test of the robustness of client demand. A number of surveyed companies are also worried about international political instability and the effect this could have on clients’ willingness to spend.”

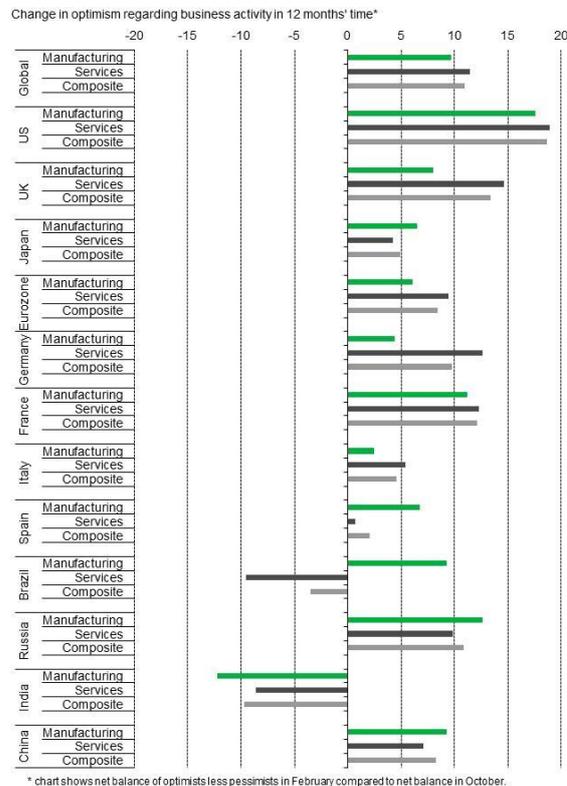
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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

Andrew Harker, Senior Economist
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 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 10 and 23.

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 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 6,600 firms.

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