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IHS Markit Spain Business Outlook

Spanish companies the most optimistic in Europe

Key findings:

- Sentiment remains elevated in June
- Rising workloads set to lead to job creation
- Profits forecasts at two-year high

Data collected June 12-27

Spanish companies expect recent strong growth to continue over the coming 12 months, according to the latest Business Outlook survey. Sentiment regarding output is unchanged from the start of the year, reflecting further optimism around new order receipts. Increased workloads are set to support continued job creation.

A net balance of +49% of companies in Spain predict business activity to rise over the next 12 months, unchanged from February's survey. Spanish firms are the most optimistic in Europe and the joint-highest globally (equal with Brazil).

Central to confidence among firms are improving economic conditions, not only in Spain but across Europe in general. This is likely to help companies secure greater volumes of new orders and increase their business activity.

Potential threats to the generally positive outlook include global political instability, strong competition and rising input costs.

Service providers are more optimistic than manufacturing firms, with sentiment improving to the highest for two years (net balance +51%). Manufacturers remain confident, albeit less so than at the start of the year (+43%).

Spain business activity expectations



In line with the picture for business activity, sentiment regarding new orders is unchanged from February. Confidence around business revenues, meanwhile, is the highest since combined manufacturing and services data were first available in October 2009.

Further rise in employment forecast

With workloads set to continue to rise, firms are expecting to increase their staffing levels over the next 12 months. Sentiment regarding employment is unchanged from the record high seen in the February survey (net balance +29%). Manufacturing firms and service providers are both set to take on extra staff, with solid optimism displayed across each sector.

Business investment set to increase

A net balance of +19% of Spanish companies expect to raise their investment in capital. Although this is down slightly from the previous outlook survey, it is still one of the strongest recorded to-date. Meanwhile, manufacturers also expect to up their spending on R&D.

Input cost inflation set to ease

The input prices net balance has dipped to +28% in June, with inflation in Spain likely to be weaker than the euro area average (+35%). Inflation expectations are lower in both the manufacturing and services sectors, but the drop in the net balance is much starker in the former.

Meanwhile, the net balance for output prices is broadly unchanged from the start of the year, with service providers set to raise charges to the greatest extent since late-2007 on the back of improving demand. The combination of rising work volumes, slower cost inflation and stable inflation of selling prices results in improved optimism around profitability. In fact, sentiment regarding profits is at a two-year high.

Comment:

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

“The strong performance of the Spanish economy so far this year shows no signs of letting up, with firms just as confident as they were at the start of the year regarding the prospects for growth. While confidence is strong across much of the euro area, Spanish firms are particularly buoyant, posting the joint-highest sentiment globally.

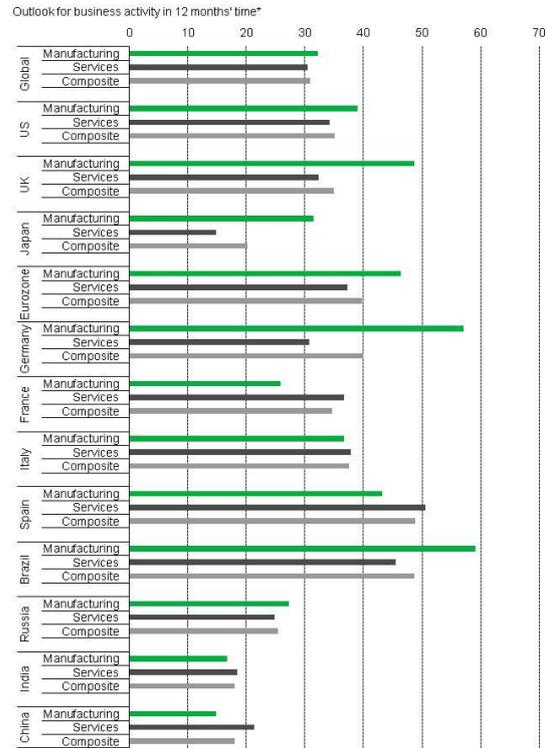
“There is more good news for the Spanish labour market with firms maintaining hiring plans, thereby helping to bring down the still high levels of unemployment.

“Companies are also set to maintain pricing strategies, despite an expected slowdown in input cost inflation. The strength of demand is helping firms to improve their profit margins, with confidence regarding profitability the highest in two years.”

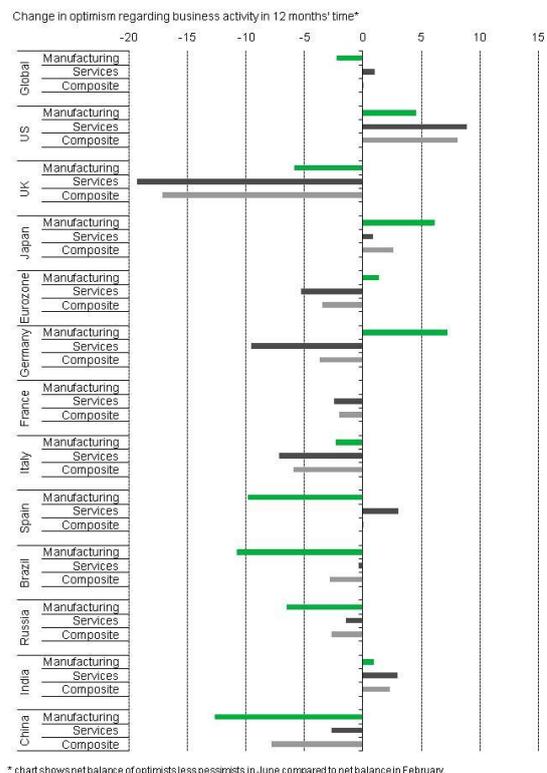
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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 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 June 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 0.0 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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