

Spain Business Outlook

November 2017



IHS Markit™

Introduction

“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.”

Andrew Harker, Associate Director at IHS Markit

Contents

What is the IHS Markit Spain Business Outlook report? **1**

How confident are private sector companies in Spain? **2**

What do firms expect in terms of jobs, investment, inflation & profits? **3**

Which business threats & opportunities are most likely to emerge? **4**



750



Spanish private
sector firms

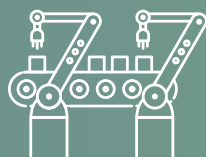


Welcome to the Spain Business Outlook survey

What information is contained in the report?



**Representative data from Purchasing
Managers' Index® (PMI®) survey panels**



**Unique
perspective**



**Business outlook
indices compiled in
17 countries around
the world**

This survey is designed to reveal how confident Spanish private sector businesses feel about their prospects for the next 12 months.

The report is part of the IHS Markit Global Business Outlook series.

We take the pulse of 12,000 manufacturing and service sector companies worldwide on a tri-annual basis. The samples are based on respondents to IHS Markit's widely-watched **Purchasing Managers' Index® (PMI®)** surveys.

The key global composite indices include expectations for Business Activity, Employment, Capital Expenditure, Input Prices, Output Prices and Profits.

These results are published as a weighted '**Composite**' Index (all

companies), as well as broken down by sector (Manufacturing and Services).

The survey uses net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the US.

Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.

Spain

Political instability leads optimism among Spanish firms to decline



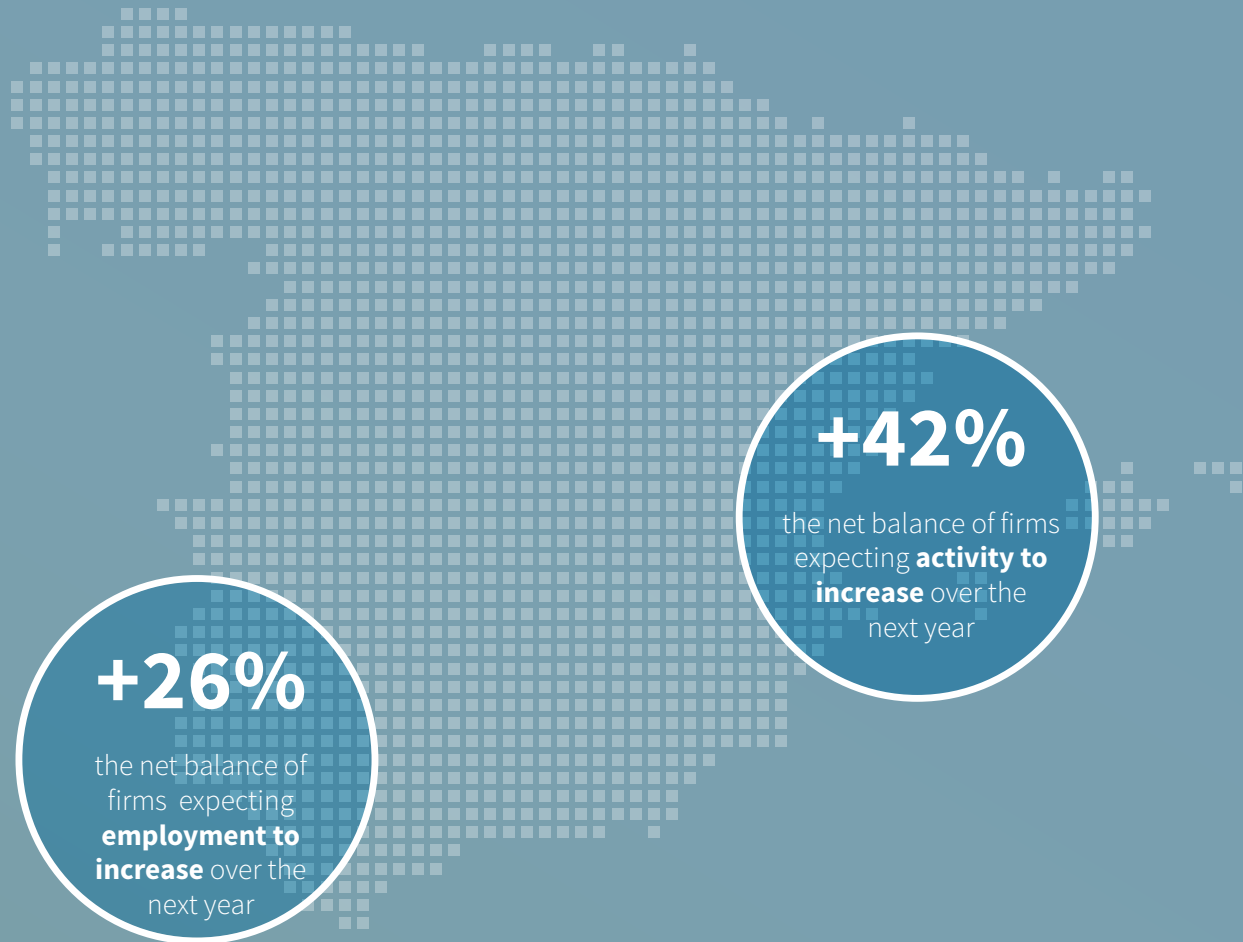
Sentiment drops to lowest since mid-2016...



...but activity still set to increase



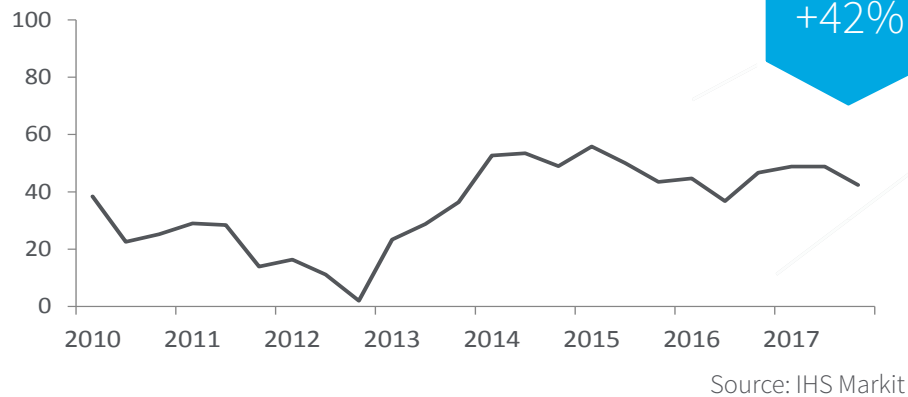
Further rises in employment forecast



Spain

Key findings:

Business activity expectations (net balance)



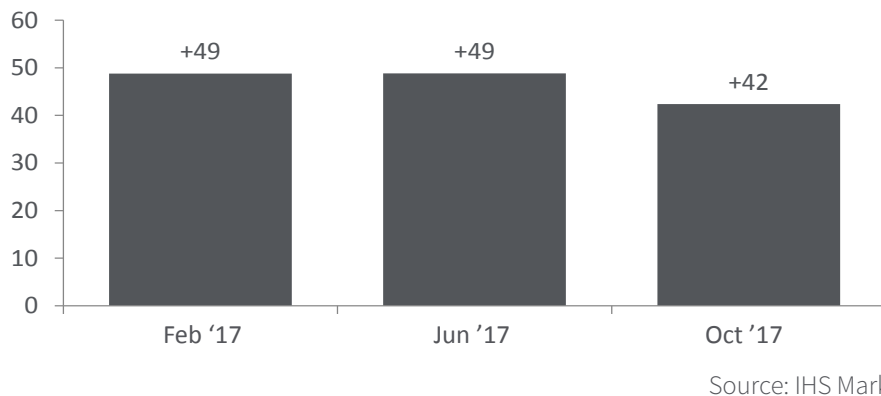
Spanish companies are less optimistic than they were earlier in the year, according to the latest IHS Markit Business Outlook survey

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.

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.

Last three survey periods (net balance)



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

Employment and investment plans

Further confidence around employment recorded

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

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.

+26% expect to
boost
employment

eurozone average.

Investment spending is also set to rise, with optimism regarding capex

Inflation expectations

Inflationary pressures set to strengthen

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.

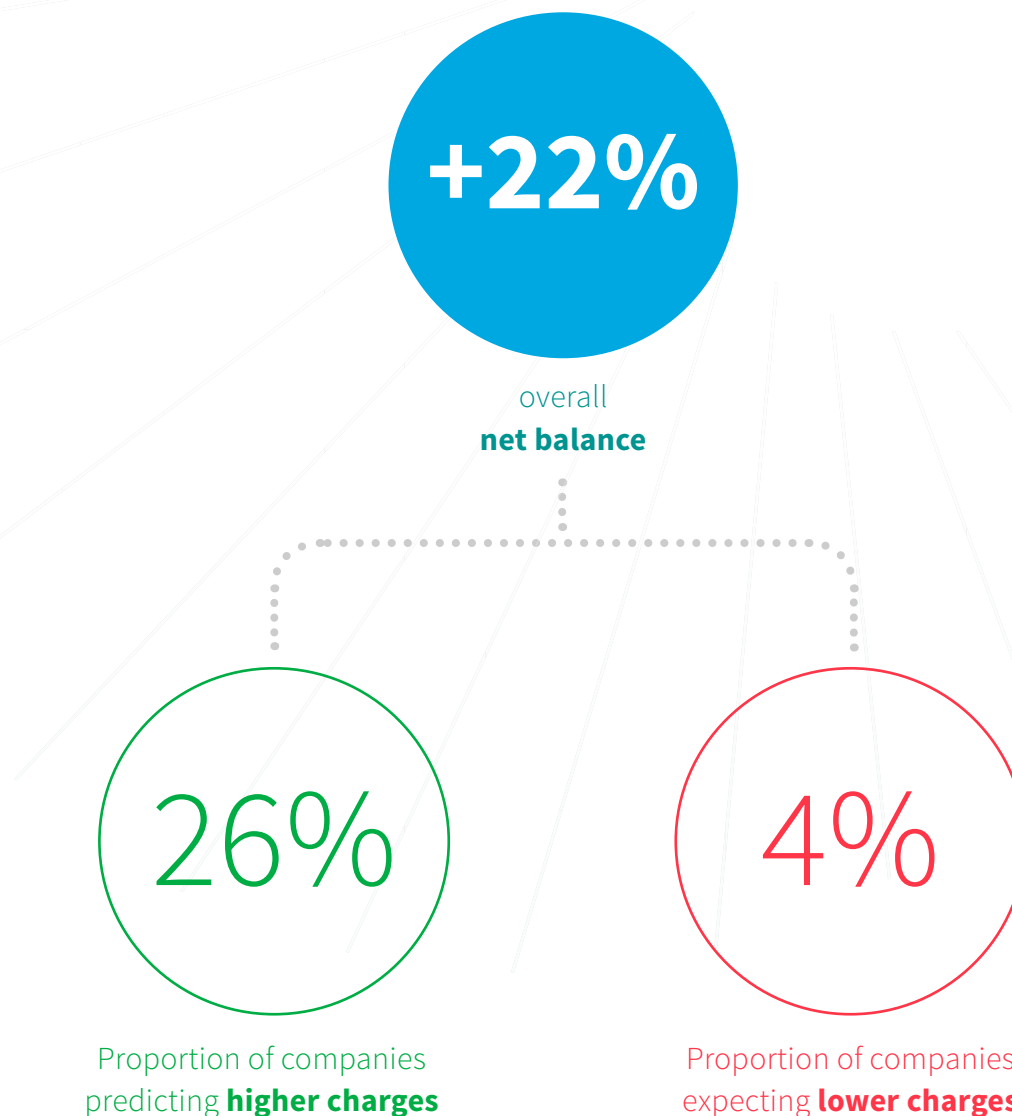
That said, inflation expectations in Spain are lower than the eurozone average.

In contrast to overall expectations of stronger inflation, 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.

At +22%, the net balance in Spain is in line with the euro area average.



Corporate earnings

Weaker confidence around profits

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.

The net balance of companies expecting profits to increase exceed those forecasting a decline by +30%, down from +34% in June but still indicating solid optimism among companies. Moreover, sentiment in Spain is above that recorded across the eurozone as a whole (+22%).

Confidence regarding profits is slightly higher among service providers than manufacturers.

Increasing business revenues look set to

be a key driver of profits growth, with a net balance of +40% of companies predicting profitability to improve.

+30% net balance
expecting
greater profits

That said, this is down from +48% in the previous outlook survey, and the lowest sentiment since mid-2016.

Spain data tables

Composite Net balance

Index	Feb'16	Jun'16	Oct'16	Feb'17	Jun'17	Oct'17
Business Activity	+45	+37	+47	+49	+49	+42
Employment	+19	+17	+22	+29	+29	+26
Capital Expenditure	+11	+16	+16	+22	+19	+18
Profits	+27	+21	+31	+32	+34	+30
Output Charges	+10	+9	+20	+23	+22	+22
Input Costs	+16	+24	+26	+37	+28	+31

Manufacturing Net balance

Index	Feb'16	Jun'16	Oct'16	Feb'17	Jun'17	Oct'17
Business Activity	+38	+43	+46	+53	+43	+40
Employment	+19	+23	+27	+30	+26	+20
Capital Expenditure	+11	+18	+20	+24	+16	+17
Profits	+24	+28	+27	+35	+31	+26
Output Charges	-1	+9	+15	+25	+15	+15
Input Costs	+1	+18	+28	+43	+21	+28

Service Net balance

Index	Feb'16	Jun'16	Oct'16	Feb'17	Jun'17	Oct'17
Business Activity	+47	+35	+47	+48	+51	+43
Employment	+19	+16	+21	+29	+29	+28
Capital Expenditure	+11	+15	+15	+22	+20	+19
Profits	+28	+19	+32	+31	+34	+31
Output Charges	+13	+9	+21	+23	+24	+24
Input Costs	+20	+26	+26	+35	+30	+31

Service Sector business opportunities

Comments from survey respondents in Spain

“Opportunities in Eastern markets”

Hotels & Restaurants

“Developments in new computer technologies”

Renting & Business Activities

“Positive evolution of financial markets”

Financial Intermediation

“Continuous expansion into new markets”

Post and Telecommunications

“Sustained overall economic growth”

Transport & Storage

“Demand for new housing at a reasonable price”

Renting & Business Activities

“Better installations and services to customers”

Other Services

“Collaboration with other companies to offer a wider range of services”

Renting & Business Activities

“Economic reactivation at national and international level”

Renting & Business Activities

“Regulation changes that benefit the sector”

Hotels & Restaurants

“Introduction of electric models”

Transport & Storage

“Digitalisation of processes”

Hotels & Restaurants

“Opportunities associated with specialisation”

Renting & Business Activities

“Political stability in key countries reopens channels for tourism”

Hotels & Restaurants

“Opportunities accompanying the market growth”

Financial Intermediation

“Ongoing commercial efforts”

Transport & Storage

“Possibilities of growth in the security segment”

Renting & Business Activities

“GDP, employment and demand growth”

Transport & Storage

“Opening up to new markets”

Post & Telecommunications

“Improvements in the current political situation”

Renting & Business Activities

“Strong negotiation efforts”

Financial Intermediation

“Opportunities from winning major clients”

Renting & Business Activities

“Improving situation in advertising market”

Renting & Business Activities

“Heterogeneous products that competitors cannot offer”

Renting & Business Activities

“Securing new customers”

Renting & Business Activities

“Bank lending is becoming more open”

Renting & Business Activities

“Stable and mature market”

Hotels & Restaurants

Service Sector business threats

Comments from survey respondents in Spain

“Increased supply of other forms of accommodation”

Hotels & Restaurants

“Political instability in Catalonia”

Transport & Storage

“Unit margins are narrowing”

Financial Intermediation

“High costs of developing new products”

Renting & Business Activities

“Insecurity over the approval of budgets at a regional and national level”

Other Services

“New insurance distribution directive”

Financial Intermediation

“Problems with obtaining licenses and administrative permissions”

Renting & Business Activities

“Political situation in Catalonia is slowing down economic activity”

Transport & Storage

“Excessive strength of the euro against the dollar”

Renting & Business Activities

“Increased costs that are not passed onto consumers”

Post & Telecommunications

“Competition with different tourism destinations”

Hotels & Restaurants

“Uncertainty caused by the Catalan independence movement”

Renting & Business Activities

“Problems relating to general strikes”

Financial Intermediation

“Increase in labour costs”

Hotels & Restaurants

“High uncertainty as business is dependent on the external situation”

Transport & Storage

“Growth of commercial activity is decreasing”

Hotels & Restaurants

“Dependant on certain customers”

Renting & Business Activities

“Climate of insecurity at the administration level”

Other Services

“Price war caused by increased competition”

Financial Intermediation

“Demand from commercial clients has fallen”

Hotels & Restaurants

“Increased competition due to the internet”

Transport & Storage

“New regulation on data protection”

Financial Intermediation

“The need to differentiate products”

Renting & Business Activities

“Independence challenge of Catalonia is a major risk factor”

Transport & Storage

“Difficulty buying modern equipment”

Renting & Business Activities

“Rising raw material prices”

Hotels & Restaurants

Manufacturing Sector business opportunities

Comments from survey respondents in Spain

“Strengthening the business’s brand”

Textiles & Clothing

“Opening new sales channels”

Chemicals & Plastics

“Expectation of increased demand”

Basic Metals

“Providing a better service in the future”

Basic Metals

“Improvements in both the internal and external markets”

Mechanical Engineering

“Opportunities from adapting to new trends”

Chemicals & Plastics

“Increased profitability caused by removing activities in losses”

Timber & Paper

“Launching new products in the near future”

Food & Drink

“Better positioning of products”

Chemicals & Plastics

“Increase in productive capacity and performance”

Basic Metals

“Better economic situation in developing countries”

Mechanical Engineering

“New products and services in niche markets”

Other Manufacturing

“Opportunities arising from new markets”

Chemicals & Plastics

“Expansion helped by increased sales on the internet”

Timber & Paper

“Commercial network established in Spain”

Other Manufacturing

“Greater penetration in export markets”

Chemicals & Plastics

“Consolidation of strategic clients”

Basic Metals

“Developing products to meet higher requirements”

Metals

“Aim to efficiently utilise productive capacity”

Food & Drink

“Opportunities to grow into niche markets”

Other Manufacturing

“Increased industrial dynamism”

Timber & paper

“Expansion of the sales team”

Textiles & Clothing

“Consolidation of the market through new innovations”

Chemicals & Plastics

“Aim to expand into the Maghreb market”

Basic Metals

“Increasing capital investment”

Other Manufacturing

“Diversification of products in order to overcome increased competition”

Timber & Paper

“Infiltration into foreign markets”

Basic Metals

Manufacturing Sector business threats

Comments from survey respondents in Spain

“Reduction of financial conditions in Europe”

Mechanical Engineering

“Social and political regional instability”

Textiles & Clothing

“Changes in the purchasing cycle and public expenditure”

Other Manufacturing

“Business uncertainty due to Catalonia independence”

Transport

“Failure to meet deadlines”

Basic Metals

“Although average figures remain similar, there is strong volatility”

Mechanical Engineering

“Low demand for specific products, including furniture”

Other Manufacturing

“Customer service requirements increasing”

Timber & Paper

“Fall in consumption due to economic and political situation”

Other Manufacturing

“Limited construction and refurbishment activity”

Timber & Paper

“Problems will arise due to the lack of qualified staff”

Basic Metals

“Uncertainty generated by politicians”

Mechanical Engineering

“Sharp price fluctuation of raw materials”

Basic Metals

“Poor economic conditions in key markets”

Chemicals & Plastics

“Threat of closure caused by price wars”

Timber & Paper

“Dated products means it has become necessary to attract new customers by creating new products”

Basic Metals

“Shortage of raw materials”

Food & Drink

“Current socio-political situation in Spain”

Textiles & Clothing

“Upward trend in prices of raw materials”

Transport

“Weak demand”

Textiles & Clothing

“Competition in the market from external economies”

Food & Drink

“The biggest threat is the political instability and legal uncertainty”

Chemicals & Plastics

“Lack of investment”

Other Manufacturing

“Political situation is causing tourism to wane”

Other Manufacturing

“Potential that outstanding investment will be cancelled ”

Mechanical Engineering

“Limited support from the European institutions”

Food & Drink

“Tension in the market for supplies”

Mechanical Engineering

Global Outlook

Worldwide business optimism highest for over three years



Optimism improves in majority of countries, with Ireland and Brazil on top of the rankings



Job creation foreseen in all countries



Spain sees a dip in confidence as political instability weighs on sentiment



Inflationary pressures expected to intensify

+41%

Net balance of euro area firms expecting a rise in activity over the next 12 months

+19%

Net balance of Chinese firms expecting a rise in activity over the next 12 months

+23%

Net balance of Indian firms expecting a rise in activity over the next 12 months

About IHS Markit

www.ihsmarkit.com

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