

News Release

Embargoed until 0001 UTC 13 March 2023

S&P Global Spain Business Outlook

Spanish private sector signals optimism for the coming year

Key findings

Notable improvement in outlook for activity

Profit and employment forecasts turn positive

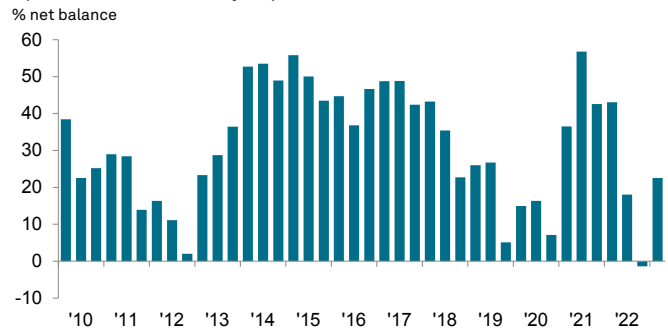
Staff cost pressures set to intensify

The S&P Global Spain Business Outlook survey highlighted a notable recovery in overall sentiment in February. Off the back of the survey low recorded in the previous data collection period, Spanish private sector companies' forecasts showed renewed optimism in early-2023 as demand conditions showed signs of improvement. Profit projections were subsequently revised upwards, and firms became optimistic about hiring and investment decisions for the future. However, cost pressures are expected to remain elevated. In particular, staff cost projections were the highest for a year.

The net balance of firms that anticipate business activity growth over the coming 12 months posted at +23% in February, up sharply from the survey low of -1% recorded last October. While the outlook brightened to similar extents across both sectors, service providers remained more optimistic compared to their manufacturing counterparts (services: +24%; manufacturing: +16%). The net balance for Spain was in line with the eurozone average.

In their newly positive outlook for output, companies identified several key growth opportunities in February with the main one being the improving picture for demand. The post-COVID recovery is expected to continue, with firms looking to benefit from higher tourism volumes and entry into new export markets over the coming year. In a bid to differentiate themselves from their competitors, many firms mentioned plans to develop new products, improve capacity, increase their on-line presence, and diversify business lines.

Spain Business Activity expectations



Source: S&P Global.
Data were collected 10-23 February 2023.

Comment

Commenting on the Spain Business Outlook survey data, Laura Denman, Economist at S&P Global Market Intelligence, said:

"With several survey indicators re-entering positive territory, the latest S&P Global Spain Business Outlook survey signalled a marked improvement in confidence across the Spanish private sector in February. Brighter sentiment was mainly reflective of some recent improvements in demand conditions. As the COVID pandemic fades and tourism volumes start to pick up, firms largely hoped that current positive market trends would continue and drive output growth over the year ahead. In turn, renewed optimism was also seen with regards to employment, investment and profits.

"That said, in the context of historical data, the level of confidence was still relatively subdued. Inflation remained a dominant risk to the outlook, with little sign of any significant easing of cost pressures on the horizon. In fact, there were upwards revisions to both staff costs and output prices expectations. The extent to which inflation remains elevated will likely play a key role in determining the fortunes of the economy during 2023."

Meanwhile, threats to the outlook which weighed on expectations largely stemmed from inflationary concerns and competitive pressures. Given the ongoing war in Ukraine, survey respondents remained worried about energy and fuel prices for the coming 12 months and the subsequent potential for further interest rate tightening. This, coupled with the potential for demand to remain subdued, meant that firms were worried about market competition and their ability to attract new business. Lastly, as the next election approaches, there was uncertainty about the effect this may have on the economy.

Inflation and profits

Inflation expectations across the Spanish private sector remained historically elevated in February with the net balance of firms anticipating higher non-staff and staff costs posting at +40% and +54%, respectively. Despite softening for the second survey period running, the latest non-staff costs reading remained marked in the context of historical data. Meanwhile, the staff costs reading rose from last October and was only just shy of the series record of +55%. In both cases, cost pressures are set to be more pronounced in the service sector than in manufacturing.

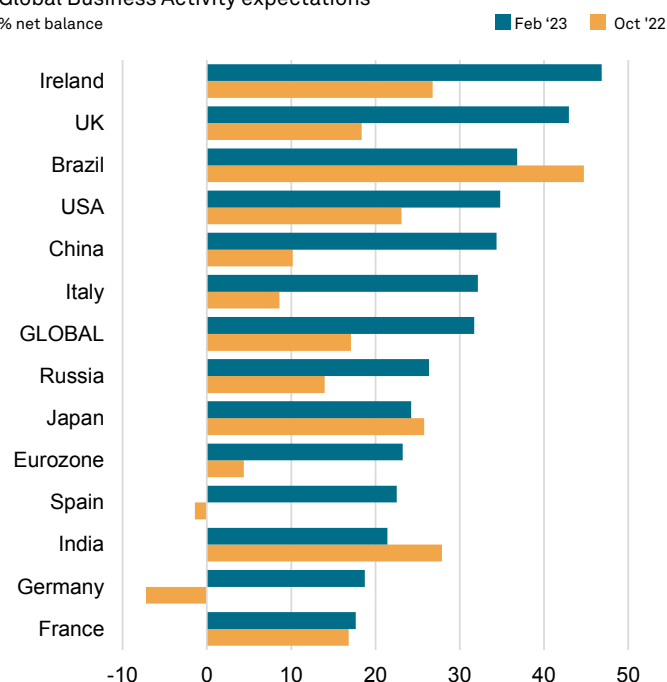
On the selling price front, private sector firms upwardly revised their expectations with the net balance of companies anticipating greater output charges at +27% (October: +23%). That said, the reading remained under the survey peak recorded last February (+36%). Despite concern surrounding competitive pressures and elevated inflation, there was a notable brightening in profitability projections. Up from the near ten-year low recorded in the last survey period, the net balance of firms expecting higher profits rose to +7% in February. The reading was the highest in a year and broadly in line with the series trend. Positive forecasts were centred on the service sector.

Employment and investment

As the level of confidence in the outlook for business activity improves, sentiment about future job creation turned positive in February. The net balance of firms expecting to hire additional staff rose to +11%, its highest in a year. Sector level data showed recruitment plans at service providers exceeding those at manufacturers.

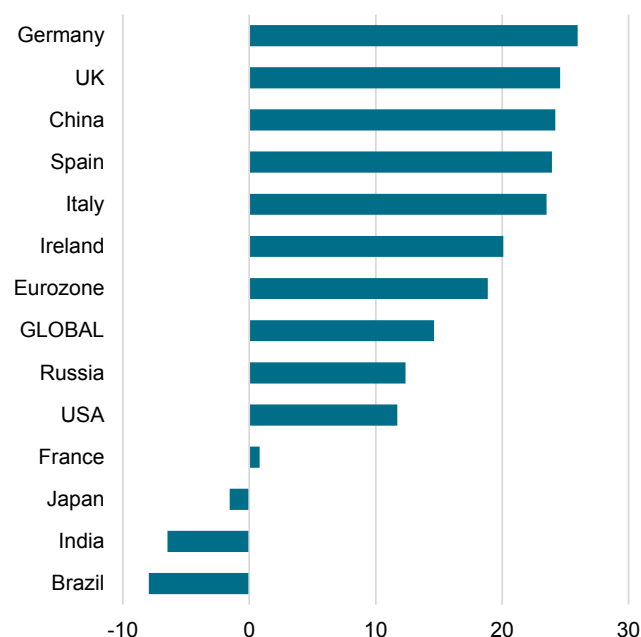
In line with expectations for employment, firms were upbeat in their forecasts for investment spending over the next 12 months. Firms expressed a greater desire to invest into both capital and research & development in February, as highlighted by the respective net balances coming in at +13% and +7%.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '22



Source: S&P Global.

Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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, 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*. 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 8,000 firms.

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

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