

News Release

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S&P Global Spain Business Outlook

Business confidence plummets as inflation worries mount

Key findings

Activity growth expected, but at much slower rate compared to February

Inflation expected to weigh on household and client budgets

Firms noticeably less upbeat about hiring intentions

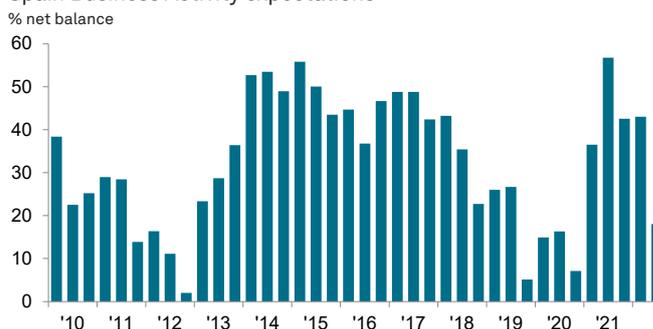
Private sector companies in Spain experienced a noticeable deterioration in business confidence during June as fears over inflation mounted. Household and client budgets are expected to come under growing pressure given the high inflation environment, with sales and business activity growth subsequently set to soften over the next year. With input prices forecast to rise at a record rate, company profitability will deteriorate.

The S&P Global Spain Business Outlook survey showed a considerable decline in the headline net balance for business activity. Dropping to +18% in June, the net balance was down 25 points since February's +43%, the biggest single fall in the survey history. The June reading was also the lowest for just under two years. Concurrently sharp declines in both manufacturing and services were seen. For manufacturing, the net balance sank to +12% (from +35% in February) whilst services dropped to +20% (from +45%).

Although the inflationary environment was widely seen as the key headwind for private sector companies in the coming 12 months, firms also noted widespread geopolitical uncertainty (principally emanating from the war in Ukraine). Rising interest rates, a return of COVID-19 and growing recession risks were also cited as factors that could weigh on activity.

Conversely, several firms saw opportunities to expand their business over the next 12 months. Areas related to digitisation, technological development and environmental sustainability were generally cited by panellists.

Spain Business Activity expectations



Source: S&P Global.
Data were collected 13-27 June 2022.

Comment

Commenting on the Spain Business Outlook survey data, Paul Smith, Economics Director at S&P Global Market Intelligence, said:

"The latest S&P Global Spain Business Outlook survey revealed an unprecedented drop in business confidence during June as fears mount amongst firms over the impact of the inflationary environment on already stretched household and client budgets. Added to these concerns is ongoing geo-political uncertainty, principally due to the war in Ukraine. With costs also forecast to rise sharply, perhaps therefore it's of no surprise to see confidence draining away and profitability forecasts dropping into negative territory.

"However, firms still retain on average some optimism that activity will improve from present levels, highlighting in some instances the growing opportunities that increased energy prices are providing for them in accelerating their search for long-term environmentally sustainable alternatives.

"Capital investment plans subsequently remain positive and amongst the highest in the world, although in line with a weakening trend in activity, expectations for hiring have diminished compared to February."

Cost inflation to remain elevated

Looking at detailed inflation expectations data, latest figures showed that Spanish companies are anticipating a record increase in non-staff prices, with the net balance edging up to a new series record high of +50% (from +49%). Shortages of inputs are expected to continue, whilst energy and fuel prices remain noticeable sources of upward cost pressure.

Staff costs are likely to also rise markedly over the coming 12 months as staff shortages and general pressure on household budgets leads to upward pressure on pay awards. However, the respective net balance dropped to +44%, from 55% in the previous survey.

Given general forecasts of higher operating expenses over the next 12 months, companies are likely to continue to pass on these to clients wherever possible. The output prices net balance was +29%, down from +36% in February but nonetheless amongst the highest ever seen in the near 13-year survey history.

Firms less upbeat about hiring intentions

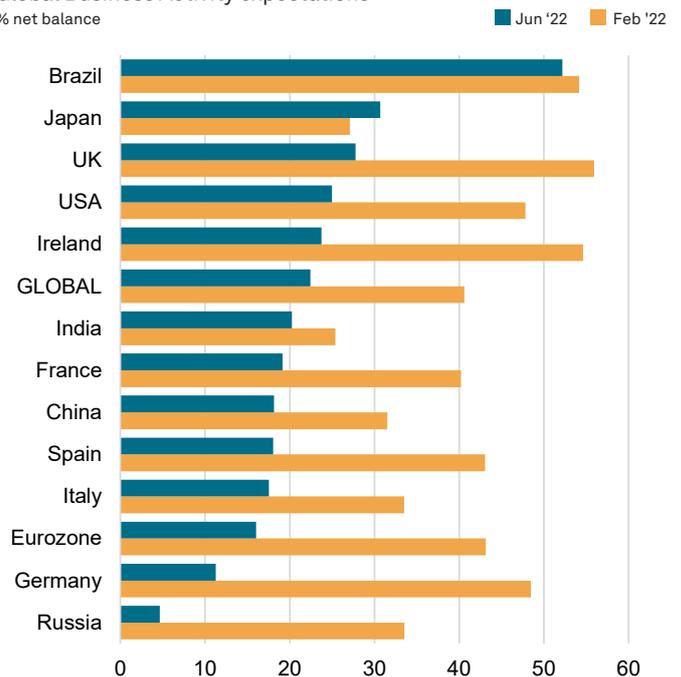
Amid forecasts of a noticeable slowdown in growth, hiring intentions have also weakened. A net balance of +5% is the lowest recorded since October 2020, and well down on the +19% seen in the last survey. Service providers (+6%) remained slightly more positive than manufacturers (+1%).

When compared to employment, firms are generally more upbeat about capital investment spending over the coming 12 months, with the respective net balance of +16% pointing to continued optimism amongst firms. Panellists were less confident, however, about spending on R&D with the net balance dropping to +8%, from +14% in February.

Rising costs to weigh on profitability

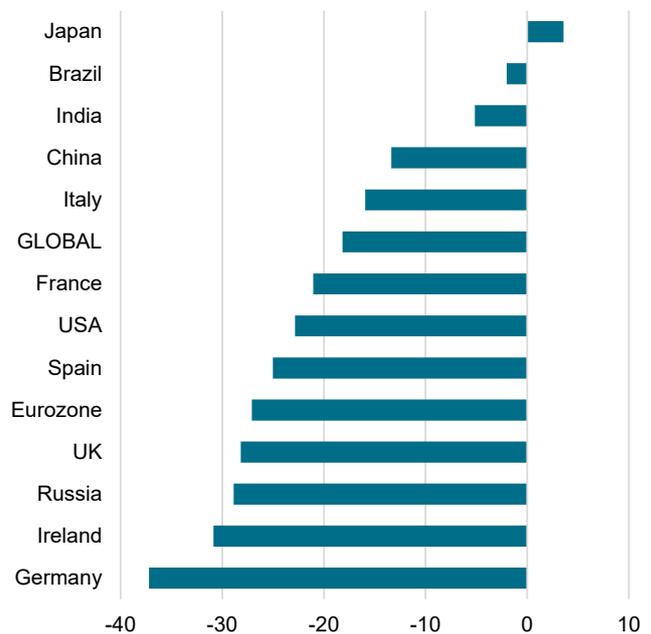
Panellists provided a negative outlook for profitability during June, with the net balance dropping to -11%, from +10%. This was the first time that profitability expectations have turned negative for just under two years. Manufacturers were especially downbeat: a net balance of -21% was the lowest reading recorded in nearly 13 years of data collection.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Jun '22 vs. Feb '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 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 8,000 firms.

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