

# News Release

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## S&P Global Spain Business Outlook

### Spanish private sector companies forecast decline in activity for coming year

#### Key findings

First time in survey history that fall in activity is expected

Inflation worries persist

Employment and investment expected to fall

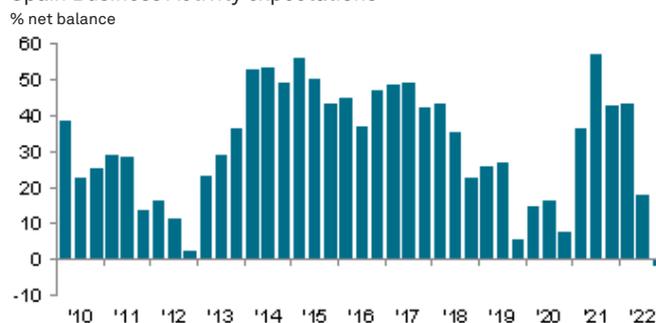
For the first time in 13 years of data collection, Spanish private sector companies forecast a reduction in business activity over the coming year. Worries over inflation, deteriorating business and household purchasing power, alongside widespread economic and political uncertainty, all served to undermine confidence. With cost pressures set to remain elevated and new business falling, profitability will deteriorate, and firms anticipate declines in both employment and investment in the year ahead.

The headline S&P Global Spain Business Outlook net balance for activity posted -1% in October, down markedly from +18% in June. That was the lowest reading since data were first collected in late 2009, and subsequently the first time the net balance has posted below zero. Manufacturers were especially downbeat, with the respective net balance of -9% a series low. Sentiment amongst service providers remained just about inside positive territory, though at +1% was the worst reading for ten years.

Inflation, linked to high energy prices, the war in Ukraine and ongoing shortages of materials, remained the dominant factor weighing on confidence. Panellists reported that high prices were negatively impacting on client budgets and purchasing power, leading to elevated levels of market uncertainty. Firms added that rising financing costs, unfavourable exchange rates and a generally recessionary environment all added to the downbeat outlook.

That said, several firms see opportunities to expand their businesses in the next 12 months. Plans for digitisation, investment in renewable energy projects

Spain Business Activity expectations



Source: S&P Global.  
Data were collected 11-26 October 2022.

#### Comment

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

"October's S&P Global Spain Business Outlook, which has been conducted since late 2009, painted a rather bleak outlook for the Spanish economy, with a whole raft of survey indicators dropping into negative territory. Inflation remained a dominant theme amongst survey respondents, with many linking this to deteriorating client purchasing power, broader economic uncertainty, and a likely recession over the next year.

"There was at least some positive news on the inflation front, with companies anticipating a slower increase compared to the summer survey, although prices should still rise markedly, underpinned by the high cost of energy and residual pandemic related supply-side challenges.

"Given the inflationary backdrop and expected reduction in activity, firms are widely forecasting a retrenchment of employment and investment in the coming months as they look to hunker down in the face of a turbulent economic storm."

and a general expansion of products and services were all seen as reasons to be optimistic.

### Inflation forecast to soften, but will remain elevated

Detailed data showed that companies widely expect inflation to remain elevated over the coming 12 months, with a net balance of +41% of respondents anticipating a rise in their non-staff costs and +48% forecasting a rise in their staff costs. Although the net balance for non-staffing costs weakened since June's series record (+50%), it remained historically high, amid worries that high energy prices and product shortages will continue to underpin inflation. More service providers (+44%) are anticipating a rise in their non-staff costs than manufacturers (+30%).

Many companies expect to pass on a portion of their higher costs to clients through a rise in their own output prices. The net balance of +23% was again historically elevated, although this was down from +29% in June and the lowest since mid-2021. The deteriorating macro-environment and rising competitive pressures are likely to have a downward impact on firms' pricing power.

### Firms anticipate drop in employment

Amid worries of recession, firms are expecting to reduce their employment levels over the coming year. A net balance of -8% was the weakest since October 2020 and also the first time since then that a net balance has posted inside negative territory. Manufacturers (-14%) were more downbeat than service providers (-6%).

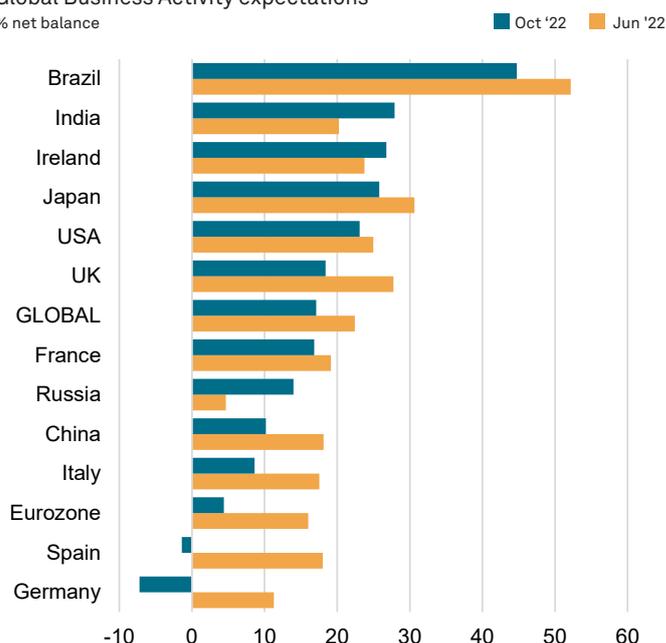
Private sector companies are also expecting to cut their capital expenditure and investment in R&D over the coming 12 months. For capex, the net balance of -5% was well down on June's +16%, whilst for R&D the respective figure was -4% (June: +8%). Manufacturers were noticeably more negative in their outlook for these two measures of business investment than services companies.

### Profitability set to deteriorate sharply over the next year

Underpinning the negative outlooks for employment and investment were notably subdued expectations for profitability. With rising costs and a growing likelihood of economic recession, a net balance of -25% anticipate a fall in profits over the next 12 months. That was down from -11% in the previous survey, and its lowest level since October 2012.

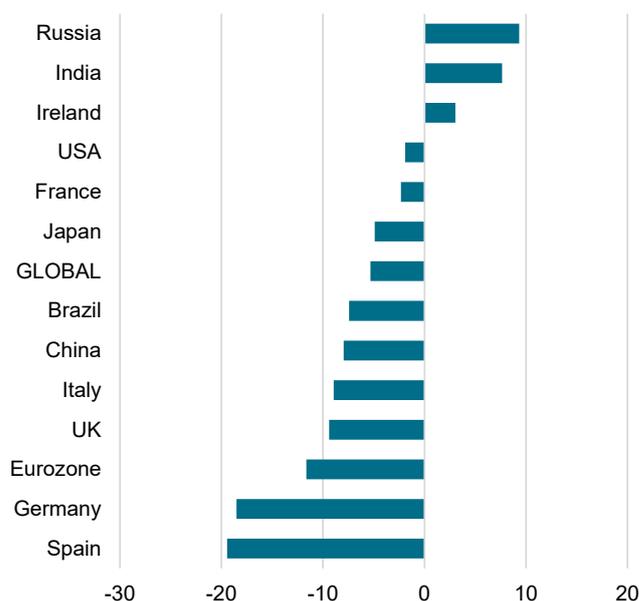
Looking at the October data by sector, manufacturers (-30%) were more negative in their outlook than service providers (-23%).

Global Business Activity expectations  
% net balance



Source: S&P Global.

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



Source: S&P Global.

Full data available on request from [economics@ihsmarkit.com](mailto: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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