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Snap

## Spain: Businesses more upbeat, but clouds of uncertainty remain

Today's figures not only show an improved business climate in October but also that Spain continues to outperform the Eurozone. But we cannot forget the worsening external environment and Spanish political uncertainty. So, for now, we forecast a growth rate of 2.6% in 2018 and 2.0% in 2019

## Rising PMIs

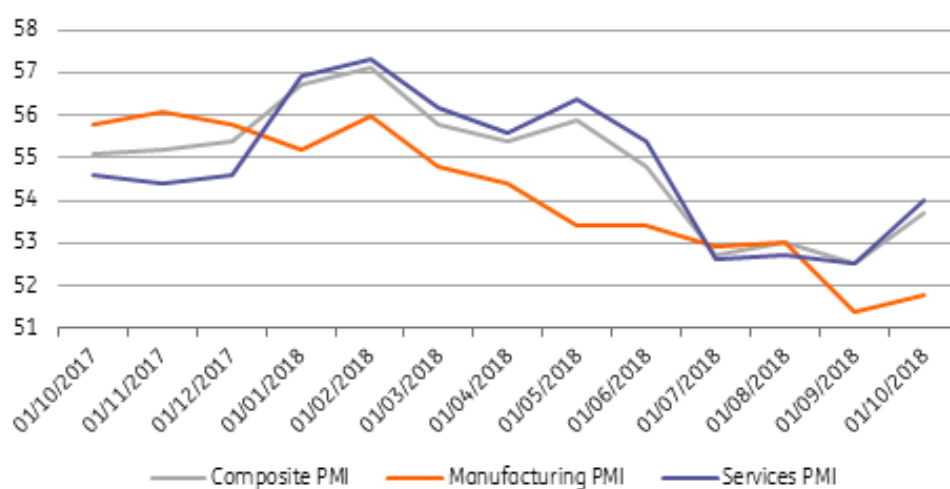
The rise in the service purchasing managers' index from 52.5 to 54.0 is due to the stronger growth of incoming new business.

Capacity remained under pressure as can be seen by a further rise in backlogs. Employment also rose, although it was the lowest increase in two years. Manufacturing purchasing managers' index rose slightly from 51.4 to 51.8. However, the sector, suffered from an increase in inventories, with some firms talking about overproduction. That said, new export orders rose at the fastest rate since July.

## These figures show that Spain continues to outperform the Eurozone

The composite PMI shows that overall businesses are more upbeat in October compared to September. The index rose to 53.7 from 52.5 in September - the biggest monthly increase since January 2018. At the beginning of the year, the index hovered around 57.0 and declined to its lowest level of 52.5 since then in September. These figures show that Spain continues to outperform the Eurozone.

## PMIs show an improved business climate



Source: Thomson Reuters

## But we think that the economy will slow in 4Q

In the wake of the slowing Eurozone economy in the third quarter, the Spanish economy remained resilient, with a growth figure of 0.6% quarter on quarter. But the slowing external environment is likely to harm the Spanish economy, and we think the economy will slow to 0.5% QoQ in the fourth quarter. On top of that, there is still the uncertainty about the 2019 budget.

## We forecast an annual growth rate of 2.6% in 2018 and 2.0% in 2019

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So given the political issues and the weaker external environment, we continue to think that the Spanish economy will slow, though the pace is likely to remain above the Eurozone's average. We forecast an annual growth rate of 2.6% in 2018 and 2.0% in 2019, a clear deceleration of economic activity given the plus-3% growth since 2015.

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