

Spanish business sentiment remains expansionary

Spain's business climate remains expansionary, even as sentiment cooled slightly in August following a strong July. The latest Purchasing Managers' Index (PMI) readings show a mixed but encouraging picture: services sentiment softened while manufacturing confidence surged, indicating continued strong economic momentum for the third quarter



Prado Museum, Madrid. Spain has been one of Europe's top growth engines this year

Business sentiment holds strong despite services slowdown

Business sentiment in Spain eased slightly to 53.2 in August, down from 54.7 in July, yet remains comfortably in expansionary territory, according to S&P's PMI data. The decline was primarily driven by a softening in services sentiment, which fell from 55.1 to 53.2, reflecting ongoing uncertainty about the economic outlook.

Crucially, the dip in services was offset by a strong rebound in manufacturing sentiment, which rose from 51.9 in July to 54.3 in August, its highest level of the year.

Positive signals for third-quarter growth

With PMI readings close to 2024 levels, when Spain's GDP grew by 3.2% annually, the data points to robust third-quarter growth. Capacity utilisation has increased to 78.6%, up from 77.5% in Q4 2024, while the volume of unfinished orders saw its fastest monthly rise in the last 10 months, according to the latest PMI data.

In response, firms are signalling increased hiring across both the services and manufacturing sectors. The unemployment rate continues to trend downward, now at 10.3% compared to 10.6% at the end of 2024.

Notably, Spain contributed significantly to overall eurozone employment growth in Q2 2025, reinforcing its position as one of the leading engines of economic expansion in Europe.

Inflation remains contained

Despite the strength of recent economic activity, concerns about rising inflation pressures remain limited. PMI surveys suggest modest increases in input and staffing costs, alongside a growing willingness among firms to pass these costs on to consumers. August's headline inflation stood at 2.7%, indicating that inflation has not yet returned to target levels, though higher levels were broadly anticipated during the summer months.

Nonetheless, the risks appear contained. Eurozone conditions continue to support moderate inflation dynamics, aided by stable energy prices and favourable exchange rate movements. Selling price expectations, as reported in the European Commission's business surveys, are at their lowest levels for the past 10 months. Moreover, the latest monthly inflation readings of -0.1% and 0% suggest no clear upward trend is forming.

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