

Spanish business confidence improves, but concerns linger

The first quarter business confidence figures revealed a 2% uptick in overall business sentiment compared with the last quarter of 2023. The improvement is broad-based but concerns are lingering in the industrial sector, where leaders have turned much more pessimistic in their outlook for the coming quarter



Tighter monetary policy from the European Central Bank, a drop in foreign demand and geopolitical uncertainty all present lingering concerns for Spanish business sentiment

Encouraging signs for business confidence in Spain

First quarter business confidence figures for 2024 have been unveiled this morning by the Spanish statistical office INE, shedding light on the economic situation in Spain. The overall business sentiment saw a notable uptick in the first quarter, rising by 2% compared to the last quarter of 2023. The improvement in business confidence was very broad-based, with improvements noted across all sectors except transport.

This improved sentiment confirms the growing optimism we also saw in previous soft indicators. While the manufacturing PMI remained stuck at its low levels, the services PMI improved in December. Also, the European Sentiment Indicator improved in its latest release, rising 2.4 points in December.

Lingering concerns in industry

Still, we should not claim victory too fast. When looking into the details, we see that the improved sentiment is mainly due to a better-than-expected assessment of the past quarter. Expectations for the coming quarter worsened. The manufacturing sector in particular saw entrepreneurs becoming much more pessimistic for the coming quarter.

The industrial sector continues to grapple with lingering concerns, such as the European Central Bank's tighter monetary policy, a drop in foreign demand and geopolitical uncertainty. Attacks on commercial shipping in the Red Sea have also recently intensified. The increased tension is posing supply risks, with sharply rising freight rates and longer delivery times a growing concern for industry leaders.

Upside risks to our inflation forecast

Moreover, inflationary pressures seem to be increasing again. The same report by the INE shows that once again significantly more Spanish companies plan to raise prices further in the coming months. Rising container prices and supply chain problems due to Middle East tensions could further increase inflationary pressures in the weeks ahead. Higher shipping costs will also be passed on to the final selling price. These developments pose an upside risk to our current inflation forecast.