

## Spanish business confidence improves, but may be short-lived

Business confidence in Spain rose in the second quarter. However, several factors could cause the economy to slow down again from the summer. The housing market is cooling, but there are no alarming signs yet



Spain's housing market is showing signs of cooling

### Spanish business confidence reaches pre-pandemic levels

According to recent data published by the Spanish Institute of National Statistics (INE), business confidence in Spain increased in the second quarter of this year. The survey results indicate that the business confidence index has risen by 2.7% quarter-on-quarter, reaching its highest level since the third quarter of 2019. We don't need to look far for an explanation: the sharp fall in energy prices and the continued improvement of global supply chains.

The survey results also point to a further decline in inflationary pressures in the forthcoming quarter. Although the figure is still high, the net balance of companies indicating their intention to raise prices has fallen significantly. This indicates that the fall in energy prices is gradually feeding through to other parts of the economy, which will allow core inflation to fall further.

## Recovery may lose momentum again from the summer

Despite increased business confidence in Spain, we forecast that economic activity will slow down again from the summer onward. Rate hikes by the European Central Bank will make borrowing more expensive, which will dampen business investment and – to a lesser extent – consumption.

The recently announced production cuts by OPEC+ will cause tightness in the oil market in the second half of the year, pushing up oil prices. A stronger-than-expected recovery in China may put further pressure on oil prices.

Finally, the recovery will also be tempered by less stimulative fiscal policy, as many support measures to steer households and companies through the energy crisis are expiring or will be discontinued. Moreover, public finances need further consolidation, as according to the International Monetary Fund (IMF), Spain will still have a deficit of 4% of GDP in 2028 under unchanged policies.

## Spanish housing market shows signs of cooling

According to INE figures published today, the number of transactions in the Spanish housing market fell to 50,186 in February 2023, down 6.4% from February 2022. As expected, the Spanish housing market is cooling further, despite the country's ongoing economic recovery.

Although this cooling will continue in the coming months, we still assume a soft landing for the Spanish housing market, as outlined in a [recent report](#). We forecast that average nominal house prices will stagnate in 2023. However, adjusted for inflation, this will equate to a price decline of around 3.5-4%.

## Modest economic growth this year

Overall, new figures on business confidence point to a continued economic recovery from last year's energy crisis. The housing market is cooling further, as in other European countries, but there are no alarming signs yet. However, there are several other factors that could threaten the recovery from the summer onward. With that in mind, we estimate modest economic growth of 1.5% for 2023.