

## The end of abundance, seen from the Spanish construction sector

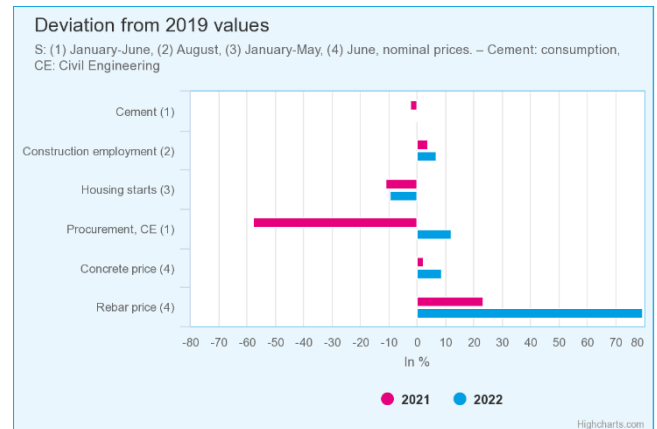
The Spanish construction sector is not recession-proof, but it is neither among those waiting in line to fall. Still running in austerity mode, Spain has been a mere spectator of the expansive phase of the construction market in most of Europe. As a result, construction demand is not in urgent need of being cooled down.

Contradiction is a deeply ingrained trait of the Spanish society, but during this long hot summer it is leaving most observers perplexed. On the one hand, there are constant warnings about the upcoming recession and how it could reach dangerous proportions, considering that the Spanish economy has not yet fully recovered from the covid shock. On the other hand, the leisure business is booming, and the carefree atmosphere that can be felt on the tourist spots is at odds with the approach of a disaster.

It is tempting to play at being psychologists and conclude that the beaches and restaurants are full of people (a mix of Spaniards and plenty of foreigners) that have deliberately chosen to ignore Emmanuel Macron's words about "the end of abundance". Anyway, they are not the only ones in denial: last June, Fortune ran a global CEO survey that found out that 67% of the respondents were pessimistic or very pessimistic about the short-term economic prospects. But at the same time, only 5% were pessimistic or very pessimistic about the short-term prospects of their own company. Perhaps they are expecting the next recession to be a porous one, with enough gaps to slip through without serious damage.

What are the chances for the Spanish construction sector to escape through these hypothetical gaps? Probably not too many, considering how bad the omens are. But unlike the crisis of the past decade, this time construction seems far less vulnerable.

We should start with a reassuring fact: the Spanish economy as a whole is still below the pre-corona levels, but the Spanish construction has recovered at a faster pace. According to the latest statistics, the amount of cement consumed in the first half of 2022 surpasses very slightly the figure of the first half of 2019. And in August 2022, the number of construction workers was 6,8% higher than in August 2019.



Regarding the near future, the signals coming from the project pipeline are inconclusive: new housing looks like it is losing some steam, while civil engineering is accelerating. Does it mean that the age of abundance is coming to an end in the Spanish housing market and that it is shifting towards infrastructures? Not quite.

In the pre-corona years, Spain has been starting around 2.3 new dwellings per thousand inhabitants, almost half of the Euroconstruct average (4.0). This is not what we can call abundance. Of course, if the market conditions keep getting worse, housing developers will need to slow down another notch. But this switch from the present 'cautious' mode to 'ultra-cautious' mode is unlikely to cause a dramatic fall.

In civil engineering, the switch is also moving very gently, although in the opposite direction. Output per capita of Spanish civil engineering is now 35% below the Euroconstruct average, but if the Next Generation EU recovery package works as intended, the gap may narrow to 25%. This will contribute to prop up this market and green up the infrastructures, but nobody expects that it will open an era of abundance.

Spanish construction is not worried by the threats that triggered its collapse in 2008. The sector is not oversized and during the last years it has been producing quite below the European averages. The most serious menace is inflation. As the saying goes, inflation is acting as a silent killer: construction companies may feel relieved because their order books are reasonably full, and all their staff and machinery pool is busy. But unless they keep a watchful eye on costs, they can be earning very little, if any.

Tendering authorities are already reporting problems finding bidders for projects with longer building schedules, and therefore a higher risk for the budget to go haywire. The projects are there, the money is there (the EU money, at least) but not every builder is willing to take the plunge. If we wait too long for inflation to normalise, perhaps we will be dangerously close to the end of the window of opportunity provided by Next Generation EU.



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