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The Banco de España Business Activity Survey: 2023 Q4

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Rationale

The Banco de España Business Activity Survey (EBAE) provides real-time information on a broad sample of Spanish firms' turnover, employment and costs and prices. This is particularly helpful for diagnosing current economic developments.

Takeaways

- Firms reported no change in their turnover in 2023 Q4, after it decreased in Q3, and perceived a fall in employment.
- Inflationary pressures on production costs and selling prices are reported to have softened somewhat, but expectations suggest that they will increase slightly next year.
- Business activity has been affected by growing economic policy uncertainty, labour shortages and an increase in factors related to the tightening of financing conditions (difficulties in accessing finance and higher financial costs).

Keywords

Economic outlook, turnover, employment, prices.

JEL classification

E32, L25, E66.

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This article presents the results of the latest edition of the Banco de España Business Activity Survey (EBAE, by its Spanish initials), corresponding to the fourth quarter of 2023. By responding to the EBAE, every three months a sample of Spanish non-financial corporations assess how their activity has fared in the current quarter and the outlook for the short term. In particular, the survey compiles qualitative information on respondent firms' turnover, employment, business investment and costs and prices. The field work was conducted between 13 and 27 November. The online survey was sent to a sample of close to 15,000 firms, almost 25% of which typically respond to Central Balance Sheet Data Office surveys. As in previous quarters, participation in this edition was very satisfactory, with 6,240 valid surveys completed (a response rate of 41.6%). This article details the main results from the responses received.

Turnover, employment and investment

Chart 1.a summarises firms' perception of their turnover in the current quarter and their outlook for the next quarter based on the responses to the different editions of the EBAE.[1] Firms' responses are summarised in an index that weights their qualitative assessments on a five-point scale ranging from "significant decrease" to "significant increase". Thus, were all respondents to reply either "significant decrease" or "significant increase", the index would take the value of -2 or 2, respectively.[2] The survey results suggest that in Q4 *turnover* remained practically unchanged, after it decreased in Q3.

In line with this aggregate indicator, Chart 1.b shows that, between 2023 Q3 and Q4, the distribution of firms' responses has shifted to the right, reflecting a decrease in the proportion that reported having recorded a fall in their turnover in this quarter. Specifically, 24.4% of firms surveyed reported that their turnover has fallen in this period (4.4 percentage points (pp) less than in the previous quarter), while 28.3% perceive that it has risen (6 pp more than three months ago). However, for 2024 Q1, respondents' outlook suggests turnover will fall slightly.

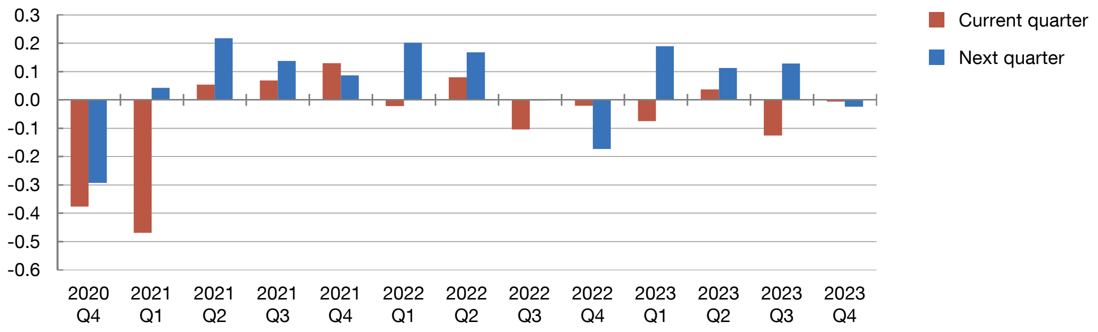
By sector, changes in turnover remain considerably heterogeneous (see Chart 1.c). Notable among the sectors with the biggest falls in turnover are agriculture – its seventh consecutive quarter reporting a decline – and those linked to the tourism sector (accommodation and food service activities, leisure and transportation). By contrast, information and communication has reported a rise in turnover for the eleventh consecutive quarter.

1 The results presented in this article were calculated using weights that allowed us to replicate the distribution of employment by sector (15 sectors) and firm size (four size intervals) in the Statistics for Social Security-registered Firms *(Estadística de Empresas Inscritas en la Seguridad Social).*

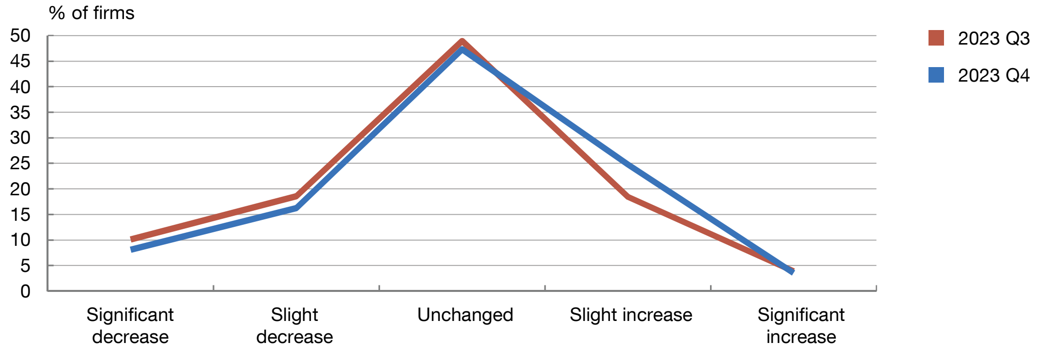
2 The qualitative responses are translated into a five-point numerical scale: significant decrease = -2, slight decrease = -1, unchanged = 0, slight increase = 1, significant increase = 2.

Chart 1
Turnover: change and outlook

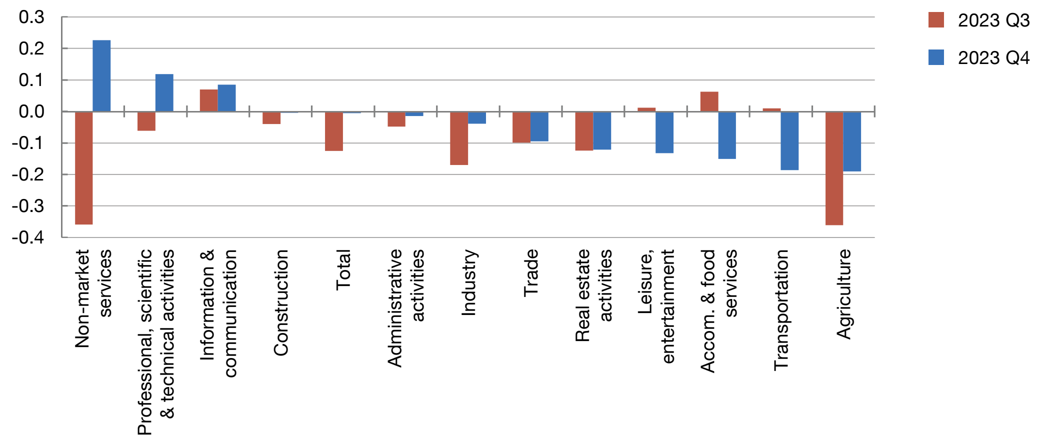
1.a Turnover: quarterly change (a)



1.b Distribution of responses on quarterly change in turnover



1.c Quarterly change in turnover in 2023 Q4, by sector (a)



SOURCE: EBAE.

a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.

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In terms of *employment,* respondent firms paint a somewhat bleaker picture than for turnover. In Q4, employment has fallen for the first time since 2021 Q1 (see Chart 2.a). 18.2% of firms reported that their employment level has fallen (up 5 pp on Q3). However, the outlook is for a slight improvement in employment in 2024 Q1.

In line with the sectoral pattern for turnover, the improvement in employment in some services sectors (such as information and communication, professional, scientific and technical activities and transportation) should be noted, in contrast to the falls in agriculture, real estate activities and accommodation and food service activities (see Chart 2.b). In the case of the agricultural sector, the employment indicator has fallen for seven quarters running, which could, in part, be reflecting the impact of the drought and other adverse weather conditions.

As in the four previous editions, this quarter's survey asked respondent firms about recent changes in their *investment decisions.* Overall, the results show a slight increase in investment activity in 2023 Q4, a period in which 20.2% of firms increased their investment (3.5 pp more than in Q3). By sector, investment continues to perform better in transportation, non-market services and industry, whereas, like in the four previous quarters, investment remains on a downward path in trade, accommodation and food service activities and construction (see Chart 2.c).

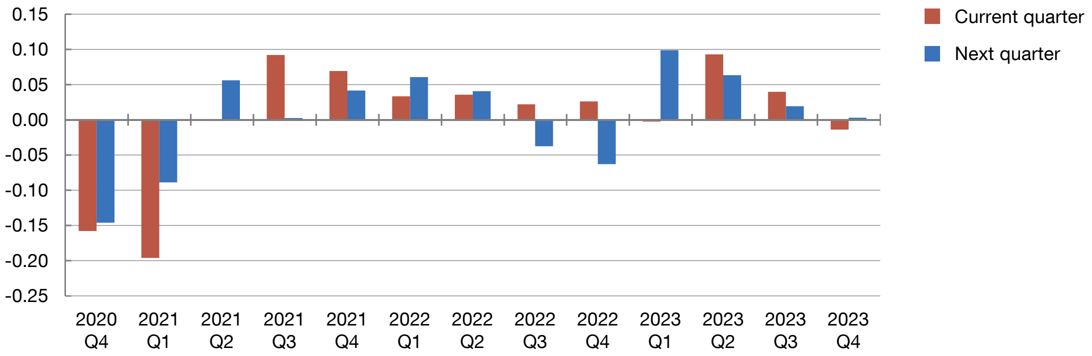
Costs and prices

As regards developments in the *cost of inputs,* the survey results point to lower inflationary pressures in Q4. In particular, the indicator that measures changes in firms' costs has declined in this period, following the increase observed in the previous quarter (see Chart 3.a). This is due to a decrease of 7 pp (to 51.5%) in the proportion of firms reporting a further increase in their input prices in Q4. However, this easing of the inflationary process is expected to end in 2024 Q1, when surveyed firms anticipate higher cost pressures. As to inflation in *selling prices* (see Chart 3.b), a more modest decline is observed in the corresponding indicator. Specifically, 25.3% of firms, down slightly on the previous quarter (26.4%), reported having raised their prices in Q4. Selling prices are expected to rise in the coming quarter, possibly on account of a calendar effect, since, in many sectors, price changes tend to be concentrated at the beginning of the year. This increase in selling prices is expected across productive sectors, but it is more marked in sectors such as information and communication, transportation, and administrative and leisure activities.

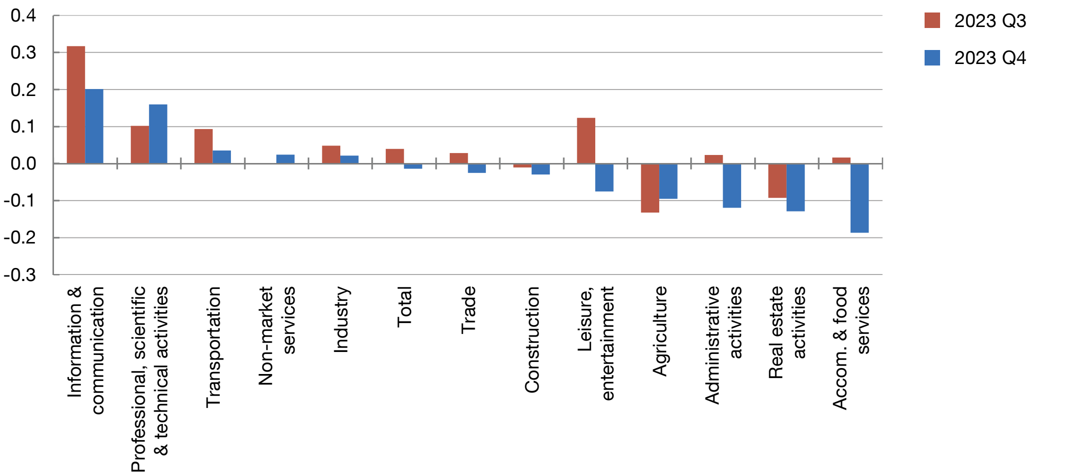
When asked about their *outlook one year ahead,* respondent firms expect inflationary pressures to increase slightly in that time (see Chart 3.c). Specifically, 68.5% of firms envisage having higher costs a year from now (up 2.5 pp on the previous edition of the EBAE). While these higher cost expectations are concentrated in the services sector, they remain contained in industry, amplifying the cross-sectoral differences observed in previous quarters. Albeit somewhat more moderately, selling prices are also expected to rise in the tertiary sector, compared with the more muted expectations in industry. Lastly, upward pressures on labour costs are expected to heighten over the coming year, in both industry and services. Thus, 74.1% (up around 3 pp on Q3) of firms currently expect labour costs to rise.

Chart 2
Employment and investment: change and outlook

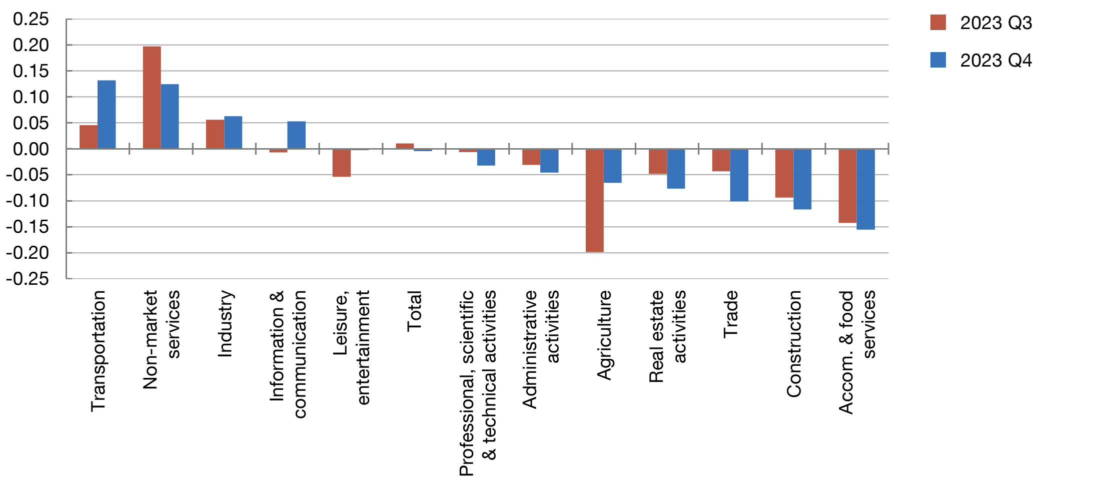
2.a Quarterly change in employment (a)



2.b Quarterly change in employment, by sector (a)



2.c Quarterly change in investment, by sector (a)



SOURCE: EBAE.

a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.

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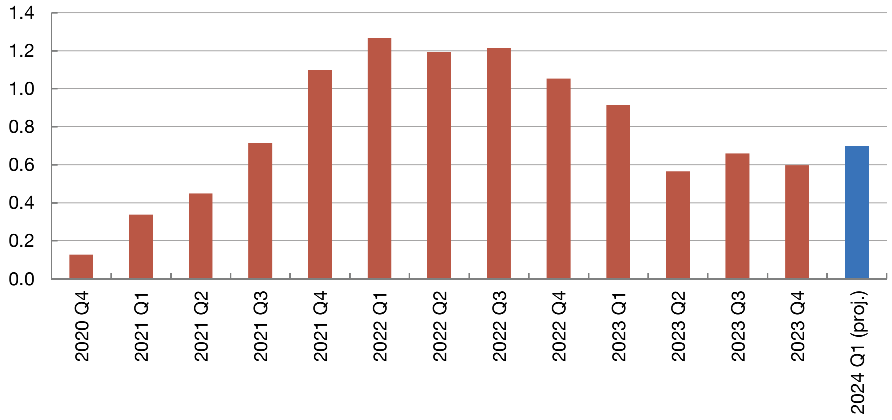
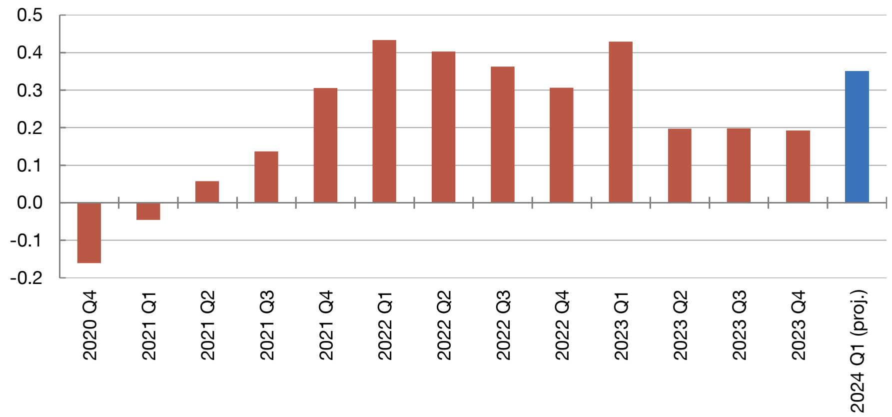
Chart 3
Prices and costs

3.a Quarterly change in input prices (a)



3.b Quarterly change in output prices (a)



3.c Prices and costs: outlook one year ahead (a) (b)

SOURCE: EBAE.

a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.
b Services refer to the firms belonging to the market services sector.

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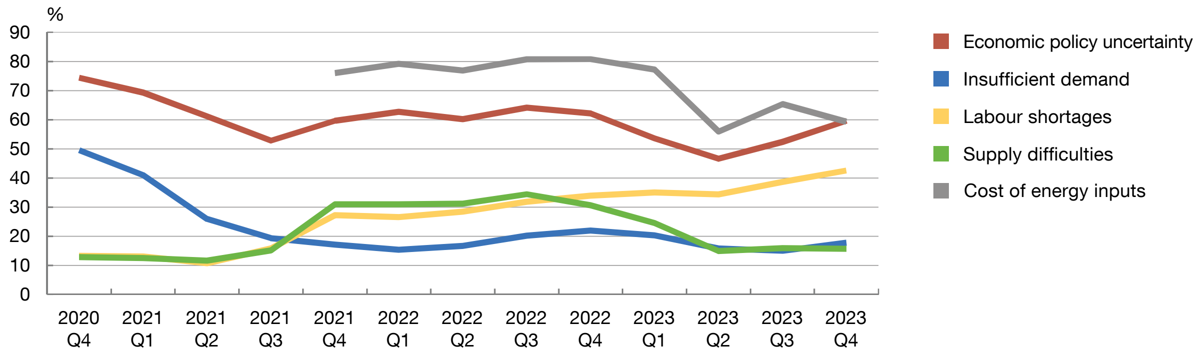
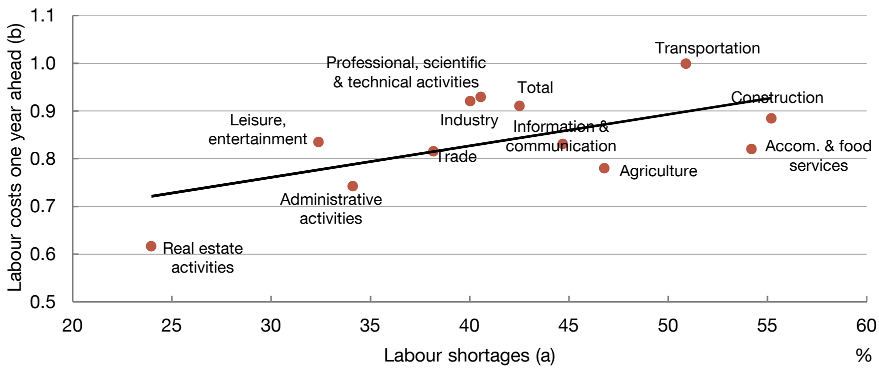
Chart 4
Factors limiting business activity

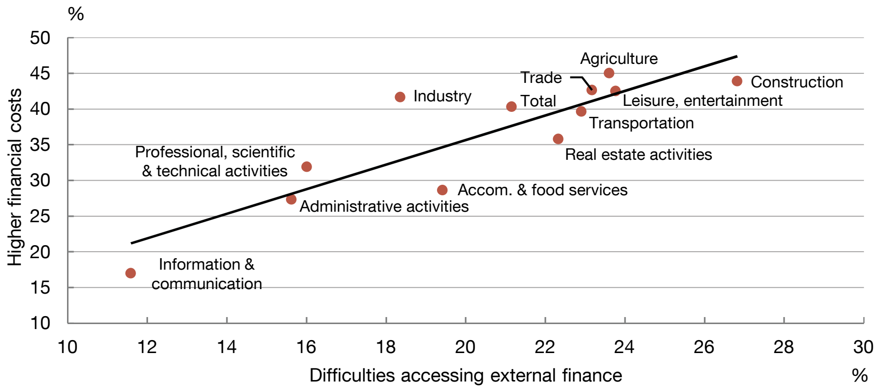
4.a Constraints on business activity (a)



4.b Labour cost outlook one year ahead and labour shortages



4.c Tightening of financing conditions (a)



SOURCE: EBAE.

a Firms reporting an adverse or very adverse impact of each of the factors on their activity.
b Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.

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Factors limiting business activity

Regarding the factors affecting economic activity in Q4, the survey results show worsening *labour shortages.* Labour supply difficulties are perceived by 42.5% of firms, almost 4 pp more than three months ago (see Chart 4.a). By sector, these are more pronounced in accommodation and food service activities, agriculture and construction, where more than 50% of firms reported being affected. This heterogeneity across sectors is key to understanding the differences in labour cost expectations one year ahead, since the sectors hardest hit by these labour shortages tend to be those with higher labour cost expectations (see Chart 4.b).

As for other supply-side factors, the negative impact of the *difficulties in receiving supplies from the usual suppliers* has remained unchanged in Q4. This is mentioned as a constraint by 16% of surveyed firms, a proportion similar to that of the previous quarter and almost 20 pp lower than the record figure reached in 2022 Q4. Although the proportion of firms that perceive an *increase in the cost of energy inputs* has decreased by 6 pp, this factor continues to have an adverse effect on 59% of surveyed firms.

Moreover, for the second quarter running, higher *economic policy uncertainty* is perceived, adversely affecting 60% of firms and thus becoming the main constraint on economic activity. The negative impact of this factor has increased across most sectors, but more markedly so in trade, agriculture and transportation.

The Q4 results show a slight increase, of almost 3 pp, in the impact *of insufficient demand* as a constraint on turnover, reversing a downward trend of three consecutive quarters. Specifically, almost 18% of firms reported that this was adversely affecting their activity. By sector, this factor is hitting industry and transportation harder, with more than 27% of firms affected. By contrast, demand conditions have improved vis-à-vis Q3 in accommodation and food services and in professional and administrative activities.

Finally, the current setting of tightening financing conditions is prompting an increase in the proportion of firms reporting that problems in gaining *access to external finance* are having a negative impact on their activity. This factor is adversely affecting 22% of firms, 7 pp more than in the previous quarter. For the first time, the survey included a question about the *increase in interest expenses.* In the overall sample, 39.3% of firms reported a negative impact stemming from their higher financial costs. By sector, construction, agriculture, trade and leisure activities are more severely affected by the tight financing conditions, while firms in the information and communication sector and in administrative activities reported a smaller impact (see Chart 4.c).

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