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The Banco de España Business Activity Survey: 2024 Q1

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Rationale

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

Takeaways

- Firms perceived a decline in their turnover in 2024 Q1, albeit with considerable cross-sector heterogeneity.
- Overall, the results show that investment activity has performed worse in the first quarter of the year compared both with the preceding quarter and with what firms expected for this quarter three months ago.
- Business activity continues to be shaped by uncertainty over economic policy (which remains the main conditioning factor) and by a growing concern over labour shortages (associated with greater expected rises in labour costs), and also appears to have felt the impact of the recent geopolitical tensions in the Red Sea.

Keywords

economic outlook, turnover, employment, prices.

JEL classification

E32, L25, E66.

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Introduction

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 first quarter of 2024. 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.[1] In particular, the survey compiles qualitative information on respondent firms' turnover, employment, business investment and costs and prices. The field work was conducted between 5 and 19 February. The online survey was sent to a sample of almost 15,000 firms, more than 30% of which typically respond to Central Balance Sheet Data Office surveys. As in previous quarters, participation in this edition was very satisfactory, with 6,500 valid surveys completed (a response rate of 43.5%). 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 *turnover* fell in Q1, making it the third consecutive quarter of decline.

In line with this aggregate indicator, Chart 1.b shows that, between 2023 Q4 and 2024 Q1, the distribution of firms' responses has shifted to the left, reflecting an increase in the proportion that reported having recorded a fall in their turnover in this quarter. Specifically, 28.8% of the firms surveyed reported that their turnover has fallen in this period (4.4 percentage points (pp) more than in the previous quarter), while 22.2% responded that it has risen (6 pp less than three months ago). However, for 2024 Q2, respondents' outlook suggests turnover will recover significantly.

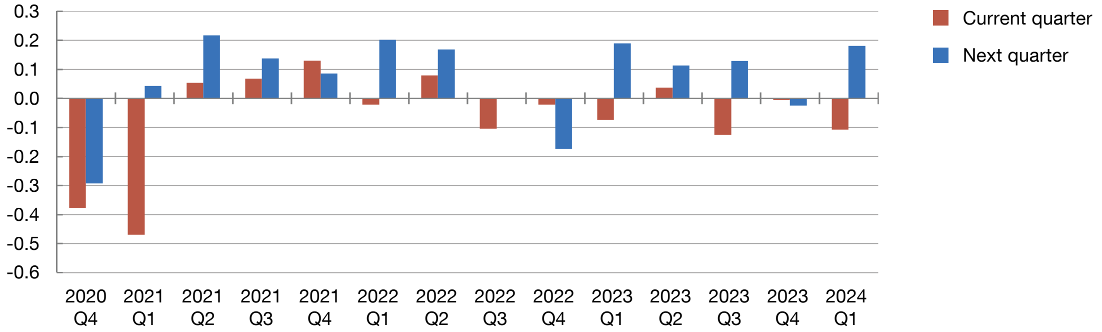
By sector, changes in turnover remain notably heterogeneous (see Chart 1.c). Notable among the sectors reporting the biggest falls in turnover are agriculture (its eighth consecutive quarter reporting a decline), construction and transportation. By contrast, information and communication continues to perform strongly, reporting a rise in turnover for the twelfth consecutive quarter.

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

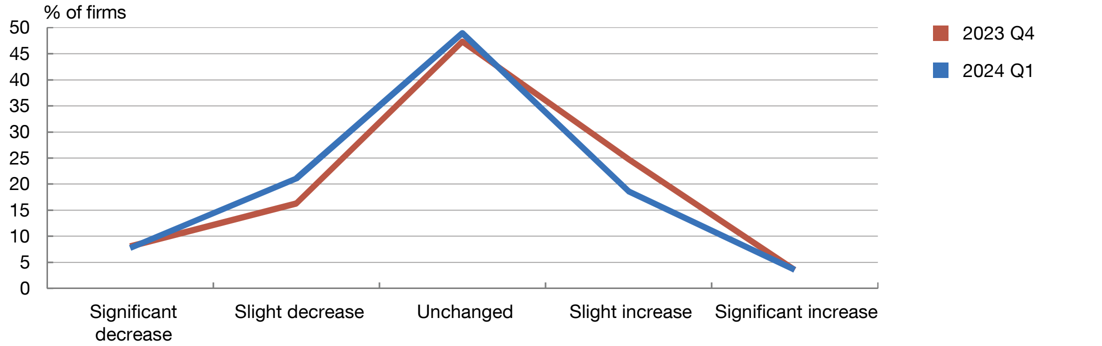
2 The qualitative responses are translated into a five-point numerical scale: significant decrease = –2, slight decrease = –1, unchanged = 0, slight increase = 1, significant increase = 2.

Chart 1
Turnover: change and outlook

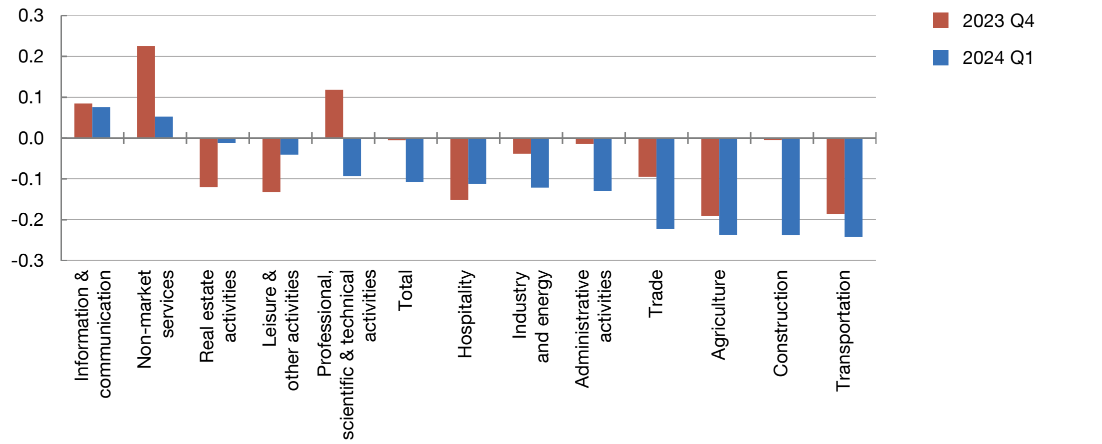
1.a Turnover: quarterly change (a)



1.a Distribution of responses on quarterly change in turnover



1.c Quarterly change in turnover in 2024 Q1, 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 reported a decline for the second quarter in a row (see Chart 2.a). 14.3% of firms reported that their employment level has risen (down 4 pp on Q3). However, the outlook is brighter for 2024 Q2, with employment set to improve.

In line with the sectoral pattern for turnover, the improvement in employment in information and communication should be noted, in contrast to the falls in transportation and Hospitality (see Chart 2.b). In the case of the agricultural sector, the employment indicator has fallen for eight quarters running, in line with the reported declines in turnover.

As in the previous editions, this quarter's survey asked respondent firms about recent changes in their *investment decisions.* Overall, the results show that investment activity has performed worse in the first quarter of the year compared both with the preceding quarter and with what firms expected for this quarter three months ago. Indeed, only 15.1% of firms increased their investment in the first quarter, 5 pp down on the preceding quarter. By sector, it appears that investment decisions are being shaped by earnings prospects. Thus, investment performs worse in sectors with worse prospects, particularly the primary and transportation sectors (see Chart 2.c). Moreover, investment tends to perform worse in sectors in which external finance is more difficult to access (e.g. construction).

Costs and prices

As regards developments in the *cost of inputs,* the survey results point to slightly higher inflationary pressures in Q1. In particular, the indicator that measures changes in firms' costs has risen over this period, albeit less so than expected three months ago (see Chart 3.a). Thus, the proportion of firms reporting a further increase in their input prices in Q1 has increased by 10 pp, to 61.6%. Nonetheless, the firms surveyed expect cost pressures to ease slightly in Q2.

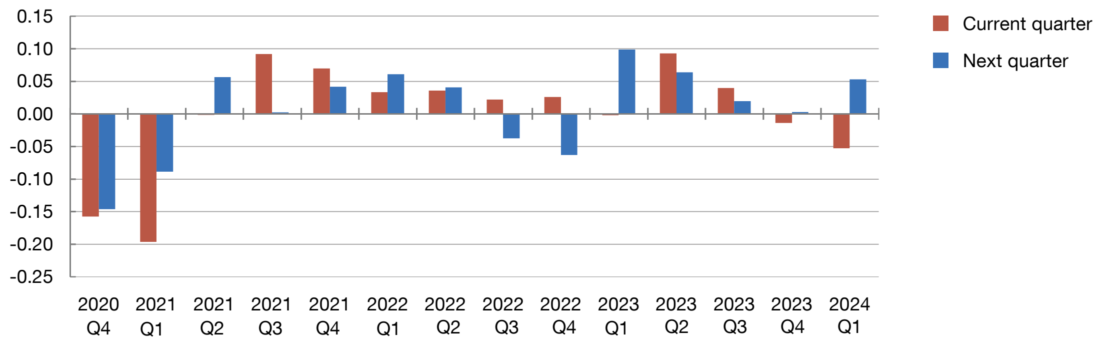
As to inflation in *selling prices,* the corresponding indicator has increased, albeit less so than expected three months ago. Specifically, 36.8% of firms, up 11.3 pp on the previous quarter, reported having raised their prices in Q4. In part, this can be attributed to a calendar effect, since, in many sectors, price changes tend to be concentrated at the beginning of the year. This increase in selling prices is broad-based across productive sectors, but it is more marked in services sectors such as information and communication, transportation, and administrative and leisure activities. Nonetheless, the outlook for Q2 points to a slight easing of price rises.

When asked about their *outlook one year ahead,* respondent firms expect inflationary pressures to remain constant over that horizon (see Chart 3.b), albeit varying from sector to sector. Specifically, 69.8% of firms envisage having higher costs a year from now, in line with the previous edition of the EBAE. Nonetheless, the rises in cost expectations are concentrated in the industrial sector, whereas firms in the services sector are expecting a degree of moderation. Albeit somewhat more moderately, selling prices in the tertiary sector are also expected to diverge from those in industry.

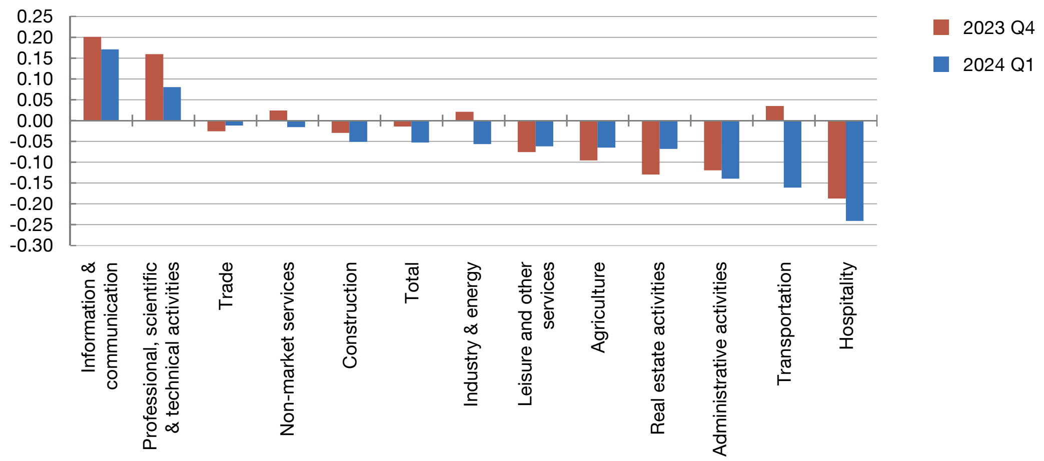
Chart 2

Employment and investment: change and outlook

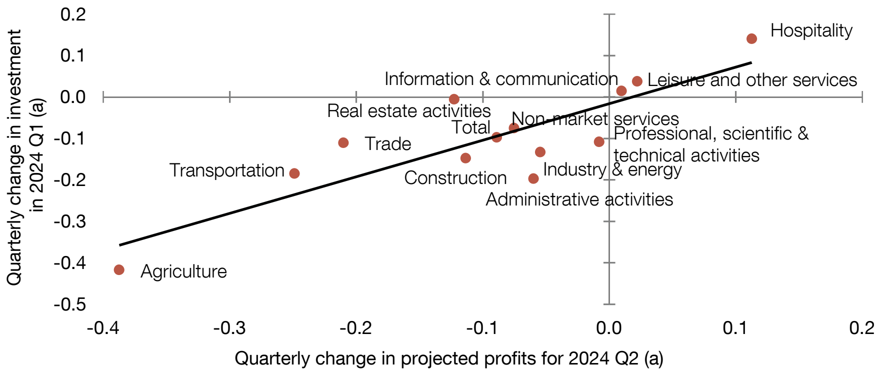
2.a Quarterly change in employment (a)



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



2.c Investment and corporate profits, by sector



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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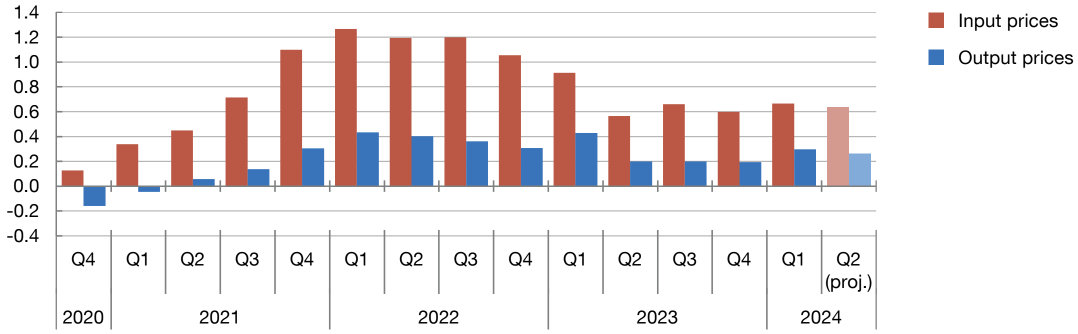
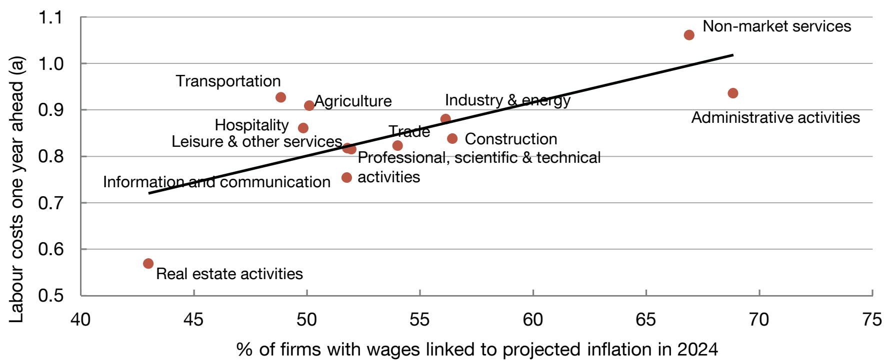
Chart 3
Changes in prices and costs

3.a Quarterly change in input and output prices (a)



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

3.c Labour cost outlook one year ahead and wage response to inflation, by sector



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” denotes firms in the market services sector.

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Lastly, upward pressures on *labour costs* are expected to persist over the coming year in both industry and services. Thus, 74.1% (up around 3 pp on 2023 Q4) of firms currently expect labour costs to rise.

In this regard, the survey for this quarter included an additional question on how wages are expected to respond to inflation in 2024, a question that was also included in the 2023 Q1 survey.[3] As is only to be expected, wages and inflation are closely correlated, with only 16.6% of firms stating that the two variables are unrelated, slightly less than one year ago (19.1%). Nonetheless, only 8% of firms stated that wages are very closely linked to past inflation, while 18.2% of firms stated that this correlation is partial. The lower inflation environment of 2024 appears to have weakened this close or partial correlation with past inflation by 1 pp and 8.5 pp, respectively. Conversely, the percentage of firms likely to use expected inflation as a benchmark for setting wages has risen, with 37% reporting a strong correlation and 20% a partial correlation (as opposed to 22% and 23%, respectively, one year ago). The level of wage indexation is a key factor in firms' wage expectations. The sectors in which firms with a direct link between wages and the inflation forecast for 2024 account for a greater share are more likely to report expectations of increases in labour costs one year ahead (see Chart 3.c).

Factors limiting business activity

Regarding the factors affecting economic activity in Q1, the survey results show significant ongoing *labour shortages.* Labour supply difficulties are perceived by 43.8% of firms, 1.2 pp more than three months ago (see Chart 4.a). By sector, these are more pronounced in Hospitality, 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 in the medium term, since the sectors hardest hit by these labour shortages tend to be those with higher labour cost expectations (see Chart 4.b).

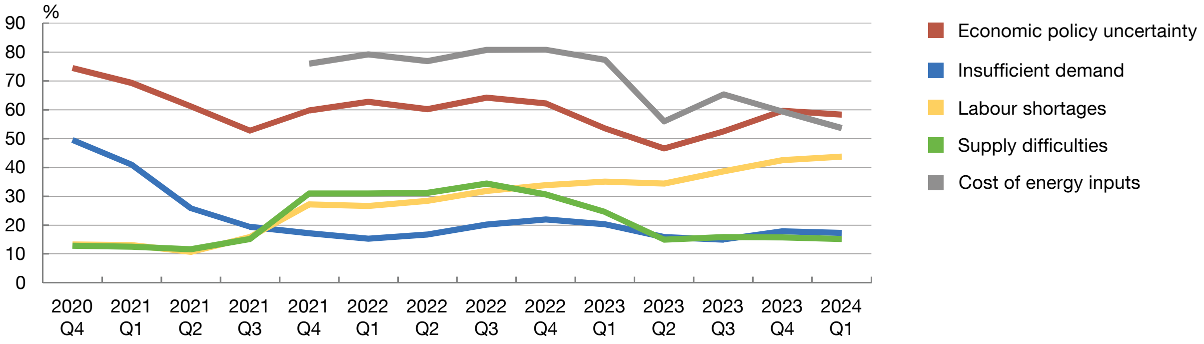
As for other supply-side factors, the negative impact of the *difficulties in receiving supplies from the usual suppliers* remained unchanged in Q1. This is mentioned as a constraint by 15% of surveyed firms, a proportion similar to that of the previous quarter and almost 20 pp lower than the record figure reached in 2022 Q1. 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 53% of surveyed firms.

Moreover, the impact of *economic policy uncertainty* has stabilised, after rising steeply in the past two quarters. The percentage of firms negatively affected stands at 58%, thereby remaining the main constraint on economic activity. The impact of this factor is relatively broad-based across sectors, with Hospitality agriculture being most affected (68% and 65%, respectively), which contrasts with the percentage of information and communication firms affected (46%).

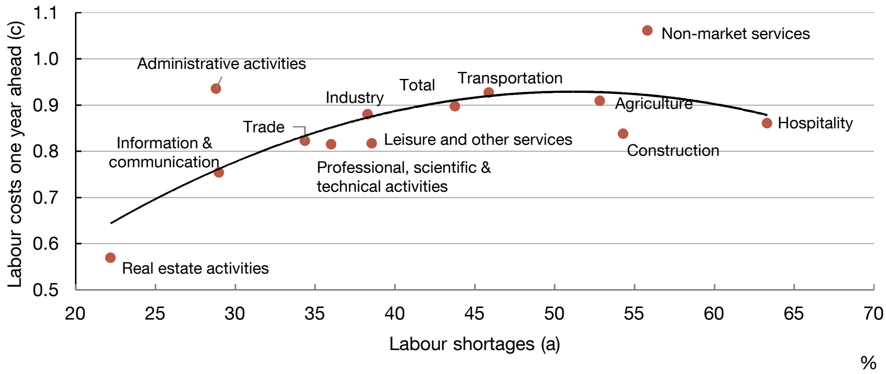
3 Fernández Cerezo, Alejandro, and Mario Izquierdo. (2023). "Banco de España Business Activity Survey: 2023 Q1". Economic Bulletin - Banco de España, 2023/Q1, 21. https://doi.org/10.53479/29809

Chart 4
Factors limiting business activity

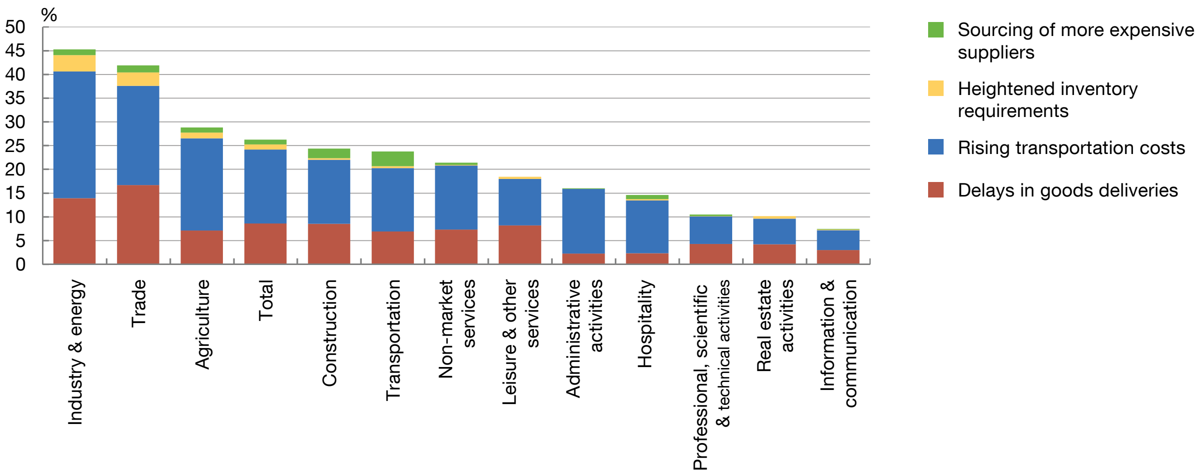
4.a Constraints on business activity (a)



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



4.c Firms negatively affected by the crisis in the Red Sea and main impact channel (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.
c A quadratic trendline is shown.estabilidad = 0, descenso leve = –1, descenso significativo = –2

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Turning to demand, 2024 Q1 saw no change to the impact of *insufficient demand* as a constraint on turnover, although it varied across sectors. Specifically, 17% of firms reported that this was negatively affecting their activity, although this figure rose to 25% in the industrial sector.

Following the uptick recorded in 2023 Q4, early 2024 saw slightly lower levels of concern surrounding issues related to monetary tightening. In the overall sample, 19% of firms reported a negative impact owing to problems in gaining *access to financing,* 3 pp lower than in the previous quarter, but 8 pp higher than prior to the rate-hiking cycle undertaken by the European Central Bank in July 2022. 36% of firms reported a rise in their *financial costs,* although this varied across sectors. Construction, agriculture and transportation activities are more severely affected by the tight financing conditions, while firms in the information and communication and administrative sectors reported a lesser impact (see Chart 4.c).

The fallout of geopolitical tensions in the Red Sea

This round of the survey included an additional question to assess the economic repercussions of the recent geopolitical tensions affecting shipping in the Red Sea around the Suez Canal, seeking details regarding the main impact channel of these events on business activity. In the overall sample, 25% of firms reported an adverse impact from this shock, with more than half pointing to the rising cost of transportation as the main channel and a third highlighting delays in goods deliveries. By sector, industry and trade bore the brunt of these repercussions, with nearly 45% of firms affected. Other sectors, such as Hospitality, information and communication and real estate activities reported a lesser degree of concern (see Chart 4.c).

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