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Banco de España Business Activity Survey: 2024 Q2

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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, and the constraints on their activity. This is particularly helpful for diagnosing current economic developments.

Takeaways

- Firms have perceived a pronounced increase in turnover in 2024 Q2, after reporting declines in the previous three quarters, although there continues to be high cross-sector heterogeneity.
- Inflationary pressures have eased in Q2, in terms of both the cost of inputs and selling prices and labour costs. Firms expect this easing of inflationary pressures to continue one year ahead.
- Business activity has benefited from a decrease in the adverse impact of the constraints, although concerns over labour shortages and economic policy uncertainty remain high.

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 second quarter of 2024. Drawing on a sample of Spanish non-financial corporations, every three months the EBAE assesses how business 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 for Q2 was conducted between 13 and 27 May. 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 just over 6,500 valid surveys completed (a response rate of 43.8%). 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* has increased considerably in 2024 Q2, after three consecutive quarters of declines.

In line with this aggregate indicator, Chart 1.b shows that between 2024 Q1 and Q2 the distribution of firms' responses has shifted to the right, reflecting a higher proportion of firms that reported having recorded an increase in their turnover this quarter. Specifically, 32.3% of firms reported that their turnover has increased in this period, 10.1 percentage points (pp) more than in Q1 and close to the highest percentage recorded for this indicator (35.1% in 2021 Q4) since the EBAE was launched in late 2020. In addition, the percentage of firms that perceived a decline in their turnover has fallen to 20.6%, 8.3 pp less than three months ago. The outlook for 2024 Q3 remains positive and suggests that turnover will continue to grow.

By sector, changes in turnover remain markedly heterogeneous (see Chart 1.c). The sectors that have perceived larger increases in their turnover this quarter notably include hospitality and

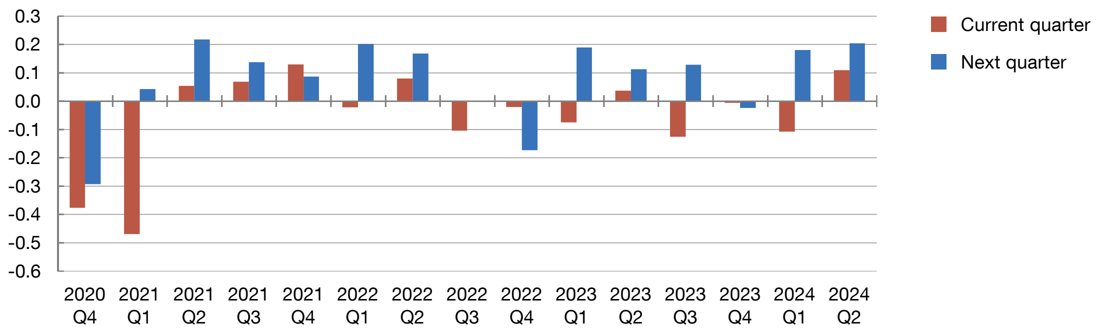
1 The results presented in this article were calculated using weights that allowed us to replicate the distribution of employment by sector (15 sectors) and firm size (four size intervals) in the Statistics for Social Security-registered Firms *(Estadística de Empresas Inscritas en la Seguridad Social).*

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.

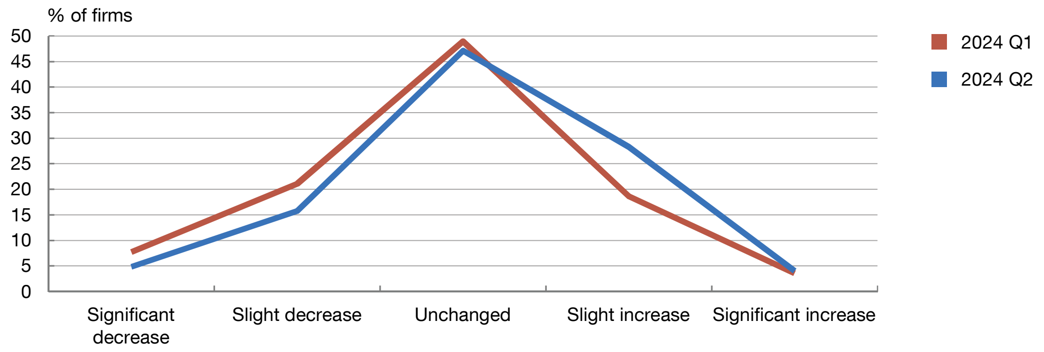
Chart 1

Turnover: change and outlook

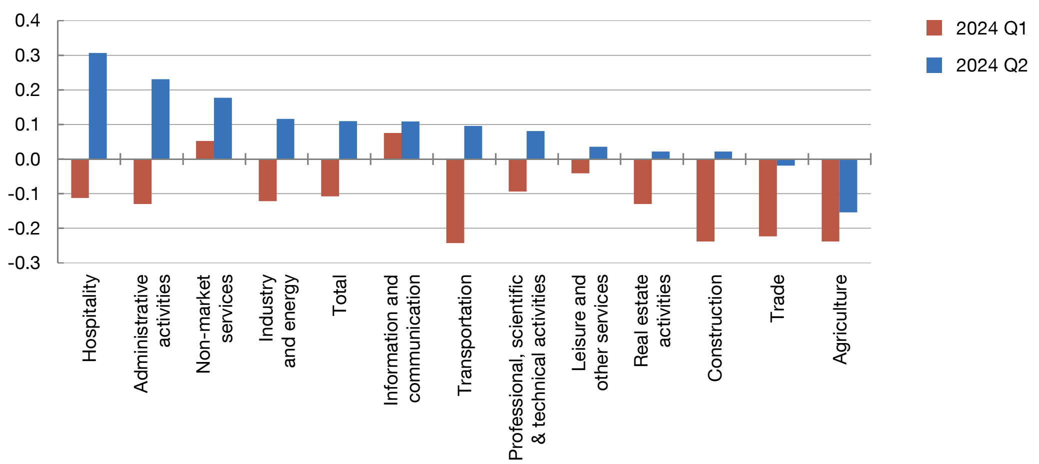
1.a Turnover: quarterly change (a)



1.b Distribution of responses on quarterly change in turnover



1.c Quarterly change in turnover in 2024 Q2, 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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administrative activities. By contrast, agriculture and trade, which have reported declines in turnover for nine and ten quarters running, respectively, continue to fare poorly.

In terms of *employment,* respondent firms also reported growth, after two quarters of declines (see Chart 2.a). 18.5% of firms – up 4 pp on Q1 – reported that their employment level has risen. In addition, the outlook is bright for 2024 Q3, with employment set to grow more.

In line with the sectoral pattern for turnover, the improvement in employment in hospitality and professional and administrative activities should be noted, in contrast to the falls in agriculture and real estate services (see Chart 2.b). In the case of the agricultural sector, the employment indicator has fallen for nine 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.* The results show that, overall, investment activity has fared more positively in the second quarter, after falling for two consecutive quarters. A total of 18% of firms increased their investment in Q2, up 3 pp on Q1. Alongside the typical quarterly questionnaire, this quarter a special module on business investment and its determinants was included in the survey. The initial results[3] of this module show a high degree of heterogeneity in investment decisions both across components and across business sizes. First, firms reported declines in investment in land and buildings over the last 12 months and expect it to remain sluggish over the coming year, in contrast to the greater momentum in capital goods and intangible assets (see Chart 2.c). Second, investment has fallen at the smallest firms, whereas it has proven more dynamic at the largest firms. By sector, industry and transportation recorded the highest growth in investment both over the last year and in terms of the outlook for the coming months, in contrast to the sluggishness observed in agriculture and construction.

Costs and prices

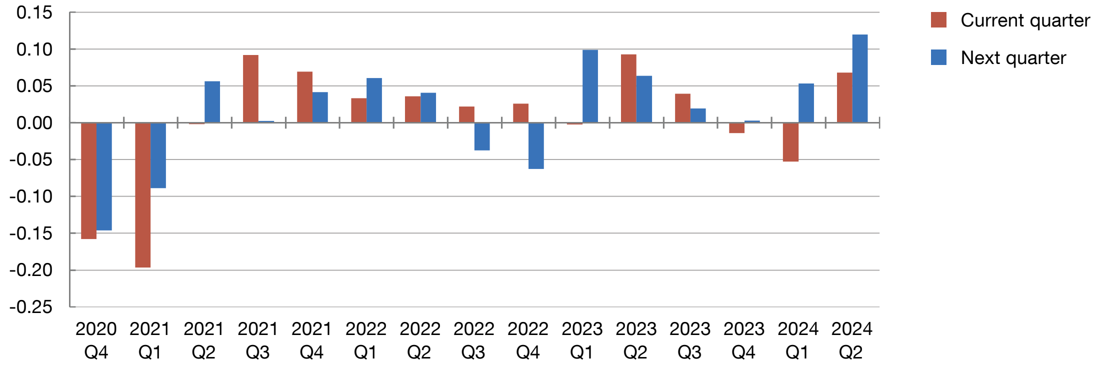
As regards developments in the *cost of inputs,* the survey results point to an easing of inflationary pressures in 2024 Q2. In particular, the indicator that measures changes in firms' costs has fallen compared with what they expected three months ago (see Chart 3.a). Thus, the proportion of firms reporting a further increase in their input prices in 2024 Q2 has decreased by 14.3 pp, to 47.2%. Looking ahead to Q3, respondent firms expect similar cost pressures to those of this quarter.

Turning to changes in *selling prices,* the corresponding indicator has also moderated. Specifically, 25.1% of firms – down 11.5 pp on the previous quarter – reported having raised their prices in Q2. The outlook for Q3 points to a slight increase in price rises. Broadly speaking, the sectors that expect greater turnover growth in Q3 are also those with the highest expectations for rises in their selling prices (see Chart 3.b). For instance, almost 45% of hospitality firms expect to raise their selling prices in Q3, whereas this percentage falls to 17% in the real estate services sector.

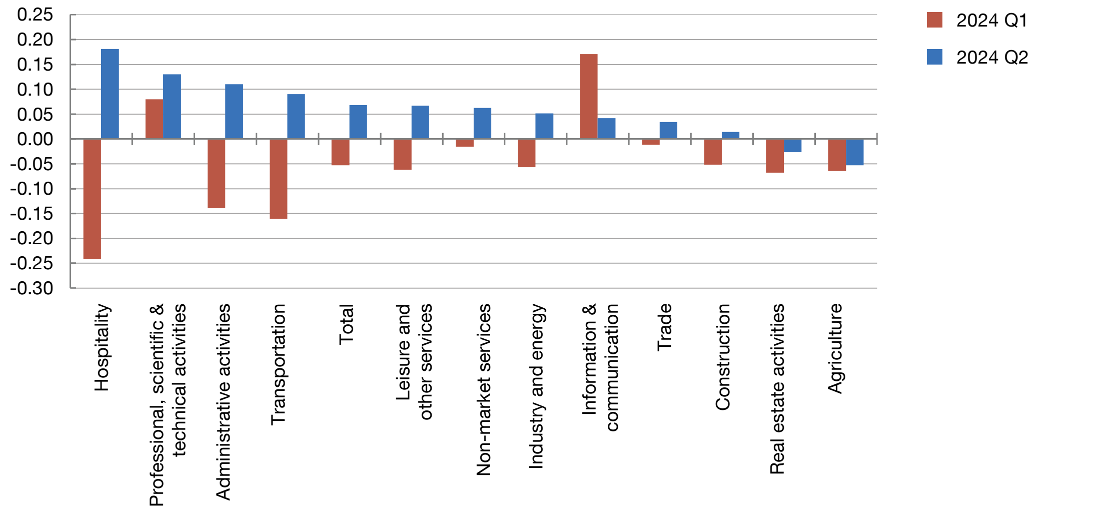
3 A more in-depth analysis of the results of this module will be published in the coming months that aims to drill down into the determinants of, and obstacles to, investment decisions.

Chart 2
Employment and business investment: change and outlook

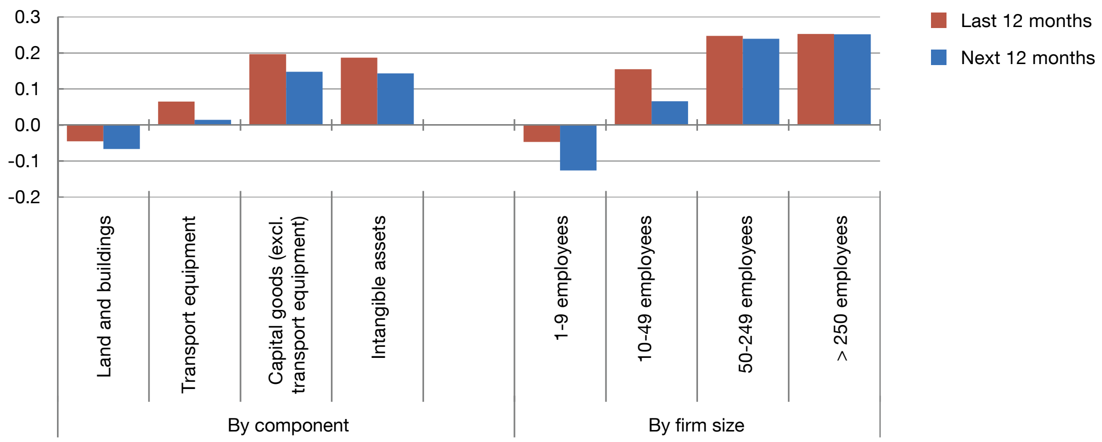
2.a Quarterly change in employment (a)



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



2.c Change in business investment (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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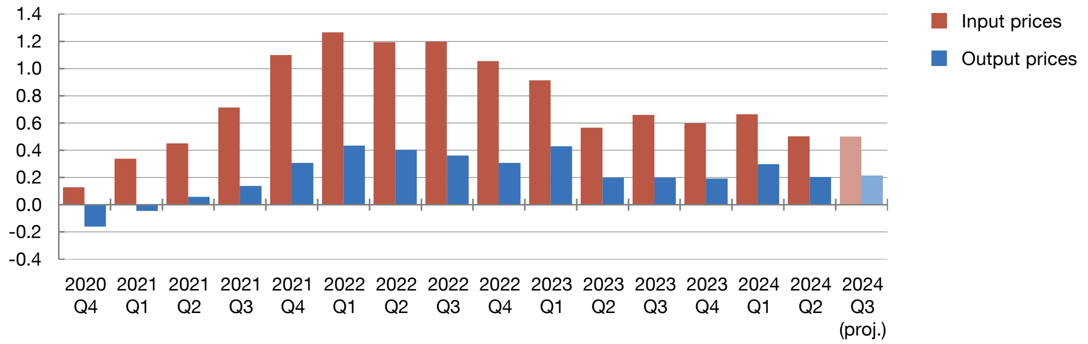
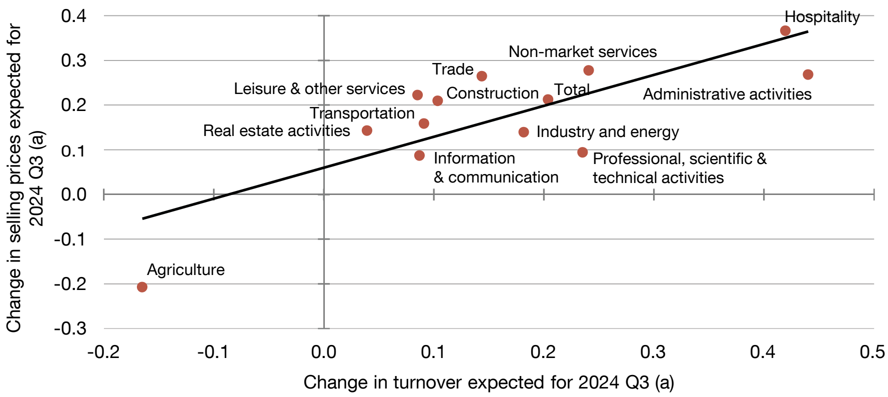
Chart 3
Prices and costs

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



3.b Expected change in turnover and selling prices for 2024 Q3



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" denotes firms in the market services sector.

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When asked about their *outlook one year ahead,* respondent firms expect inflationary pressures to ease. Specifically, 60.4% of firms – down 9.3 pp on the previous quarter – envisage having higher costs a year from now. In addition, as with the expectations of selling prices, this decrease in the expectations of higher costs is somewhat steeper in the services sector, which has exhibited greater inflationary pressures than industrial firms over the last two years (see Chart 3.c).

Lastly, upward pressures on *labour costs* are also expected to ease over the coming year, in both industry and services. For instance, in the economy as a whole, 68% of firms currently expect labour costs to rise, some 7 pp less than in 2024 Q1. At sector level, 69% of industrial firms and 66% of services sector firms expect these costs to rise.

Factors limiting business activity

As for the constraints on activity in this quarter, the results show a decrease in the impact of the factors considered in the survey, although some supply-side factors, such as the difficulties associated with labour shortages and the cost of energy inputs, remain at high levels. 41.1% of firms perceive *labour shortages,* only 2 pp less than three months ago. This percentage exceeds, for the first time since the survey began, the impact of higher energy costs (see Chart 4.a). By sector, the problems remain particularly pronounced in hospitality, agriculture and construction, where over 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). The *higher cost of energy inputs* continues to constrain the activity of 40% of the firms surveyed, 13 pp less than three months ago. Meanwhile, the negative impact of the *difficulties in receiving supplies from the usual suppliers* has decreased notably in Q2. Specifically, this factor is reported as a constraint by only 8% of firms, the lowest percentage since the survey was launched.

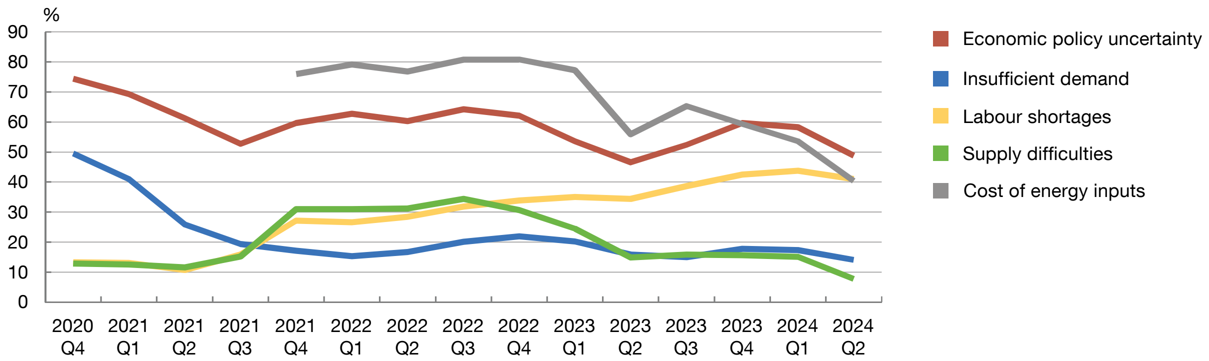
In addition, the impact of *economic policy uncertainty* has fallen for the second quarter running. However, 49% of firms report being negatively affected by it, meaning that it remains the main constraint on economic activity. The impact of this factor is fairly broad-based: agriculture, industry and trade are the most affected (62%, 58% and 54%, respectively), while information and communication firms are the least affected (36%).

Turning to demand, 2024 Q2 saw a fresh fall in the impact of *insufficient demand* as a constraint on turnover. Specifically, only 14% of firms reported that this was negatively affecting their activity (the lowest figure recorded in the time series), although it affected 20% of firms in the industrial sector.

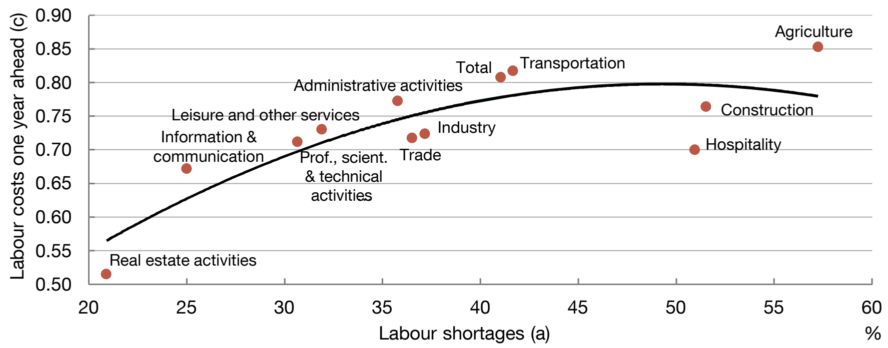
Lastly, financial constraints continued to have a limited impact in this quarter. In the overall sample, 18% of firms reported a negative impact owing to problems in *gaining access to financing*, 1 pp lower than in the previous quarter, but 8 pp higher than prior to the rate-hiking cycle undertaken by the European Central Bank in July 2022. Meanwhile, 32% of firms have seen their

Chart 4
Factors limiting business activity

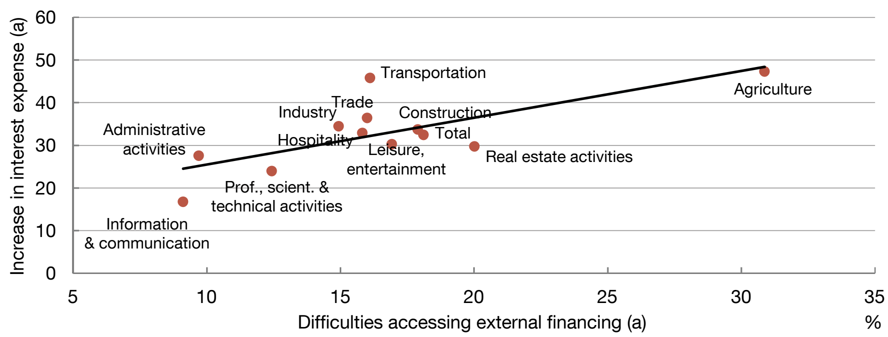
4.a Constraints on business activity (a)



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



4.c Impact of the factors related to financing conditions



SOURCE: EBAE.

a Firms reporting an adverse or very adverse impact of each of the factors on their activity.
b A quadratic trendline is shown.
c 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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interest expense rise, 3 pp less than last quarter, although cross-sector differences persist. For instance, these tight financing conditions are hitting agriculture and transportation harder (over 40% of firms in these sectors report a negative impact stemming from the increase in their interest expense), whereas the firms in the information and communication and professional and administrative activities sectors report a lower impact (see Chart 4.c).

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