

## Banco de España Business Activity Survey: 2024 Q3

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### Rationale

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

### Takeaways

- Firms have perceived a decline in their turnover in 2024 Q3, albeit of a smaller magnitude than those recorded in the third quarter of the previous two years.
- Inflationary pressures have continued to ease in Q3, in terms of the cost of inputs and selling prices and labour costs.
- The negative impact of economic policy uncertainty, labour shortages and rising energy costs remains high, although the proportion of firms affected by factors related to access to financing and growing interest expense has declined.

### 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 2024 Q3. 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 Q3 was conducted between 26 August and 9 September. 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 was very satisfactory, with just over 6,200 valid surveys being received, a response rate of 41.2%. This article details the main results obtained from these responses.

## Turnover, employment and investment

Chart 1.a summarises firms' perception of their turnover in the current quarter and of the outlook for the next quarter based on the responses to the different editions of the EBAE.<sup>1</sup> Firms' responses are summarised in an index that weights their qualitative assessments on a five-point scale ranging from "significant decrease" to "significant increase", such that, were all respondents to reply either "significant decrease" or "significant increase", the index would take the value of -2 or 2, respectively.<sup>2</sup> The survey results suggest that *turnover* has fallen in Q3, after growing in Q2. However, this decline is smaller than those recorded in the third quarter of the previous two years.<sup>3</sup>

In line with this aggregate indicator, Chart 1.b shows that between 2024 Q2 and Q3 the distribution of firms' responses has shifted to the left, reflecting a higher proportion of firms that have recorded a decline in their turnover in the quarter. Specifically, 29.4% of firms have reported a fall in turnover in Q3, 9 percentage points (pp) more than in Q2. Moreover, the percentage of firms that have perceived an increase in their turnover has fallen to 24.5%, almost 7 pp less than three months ago. However, according to the respondents, the outlook for Q4 remains positive and suggests that turnover will recover.

Changes in business turnover remain markedly uneven across sectors (see Chart 1.c). As in Q2, those that have perceived larger increases in their turnover this quarter notably include services

1 The results presented here are calculated using weights that allow the distribution of employment to be replicated by sector (15 sectors) and firm size bracket (four) 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.

3 As Chart 1.a shows, the turnover indicator records a strong seasonal performance, with turnover falling in the third quarter. This comparison with the third quarter of previous years may be a useful approximation to strip out this seasonal pattern, as the available data series are still too short to apply the usual seasonal adjustment techniques.

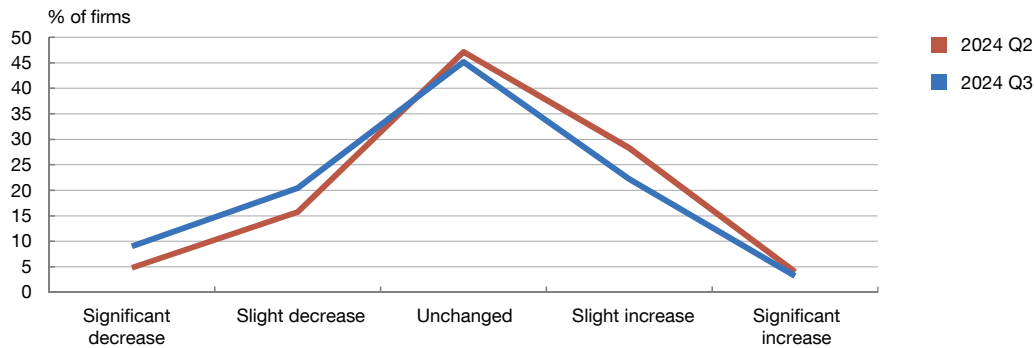
Chart 1

**Business turnover: change and outlook**

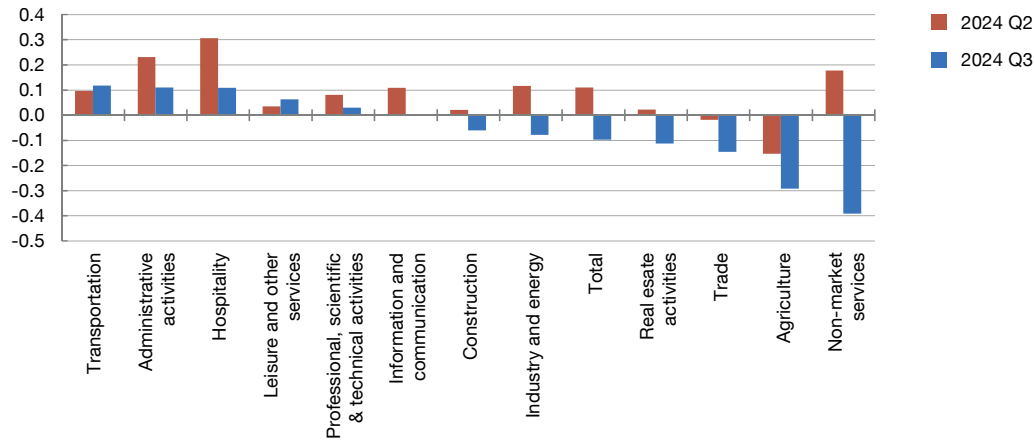
1.a Quarterly change in turnover (a)



1.b Distribution of responses on quarterly change in turnover



1.c Quarterly change in turnover in 2024 Q3, 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.



sectors such as hospitality, administrative activities and transportation. By contrast, agriculture and trade, which have now reported declines in turnover for 10 and 11 consecutive quarters, respectively, continue to fare poorly.

As regards *employment*, respondent firms have also reported decreases, compared with the increase in employment reported in Q2 (see Chart 2.a), with just 15.5% of firms reporting employment growth, 3 pp less than in Q2. However, as with turnover, the outlook is brighter for 2024 Q4, with employment expected to grow. In line with the sectoral pattern for turnover, the continued improvement in employment in hospitality, transportation, leisure and administrative activities is particularly noteworthy, in contrast to the declines in agriculture and real estate services (see Chart 2.b). In the agricultural sector, the employment indicator has fallen for nine consecutive quarters.

As in previous editions, the Q3 survey asked respondent firms about recent changes in their *investment decisions*. The results show that investment activity has fared slightly less well overall in Q3, after growing in Q2, with 17% of firms having increased their investment in the quarter, 1 pp less than in Q2. By sector, investment decisions appear to have been influenced by profit expectations, with investment faring less well in sectors with weaker earnings prospects, especially hospitality and administrative activities (see Chart 2.c).

## Costs and prices

As regards the *cost of inputs*, the survey results point to an easing of inflationary pressures in 2024 Q3. In particular, the indicator that measures changes in firms' costs has declined more sharply than expected three months ago (see Chart 3.a). Thus, the proportion of firms reporting a further increase in their input prices in Q3 has decreased by 11.4 pp, to 35.8%. However, looking ahead, the respondent firms expect cost pressures to increase slightly in Q4.

In the case of changes in *selling prices*, the corresponding indicator has also moderated. Specifically, 17.7% of firms reported having raised their prices in Q3, a 7.4 pp decrease on the previous quarter. The outlook for Q4 points to the impact of price rises remaining broadly stable. This easing of inflationary pressure in Q3 has been fairly broad-based across all sectors, especially in the case of input costs in the services sectors (see Chart 3.b).

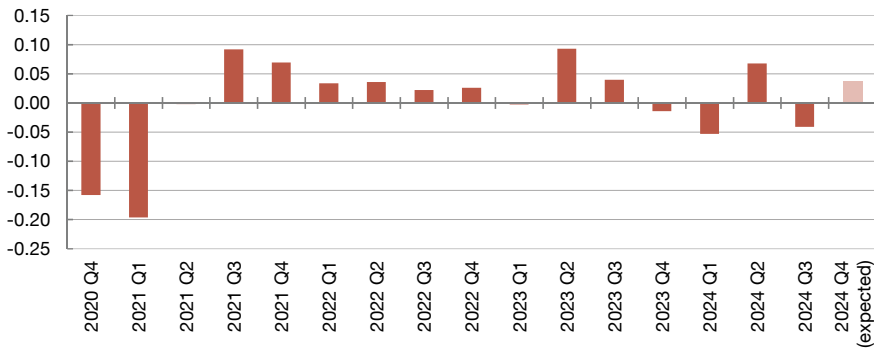
Respondent firms expect inflationary pressures to decrease slightly *one year ahead*, although there are cross-sector differences. Specifically, 59.8% of firms – barely 1 pp less than in the previous quarter – envisage having to face higher costs a year from now. However, this moderation in expectations of cost rises is concentrated in the services sectors, which have borne greater inflationary pressures than industrial firms in the past two years (see Chart 3.c). Moreover, expectations of selling price increases have moderated. Specifically, the percentage of firms that expect to raise their selling prices over the next 12 months has fallen to 46.5%, 2.2 pp less than three months ago, with similar figures in both industry and services.

Lastly, the outlook for *labour costs* remains fairly stable. Thus, 68% of respondent firms currently expect labour costs to rise over the coming year, a proportion similar to that of Q2. At sector level, 71% of industrial firms and 64% of services sector firms expect to see an increase in labour costs.

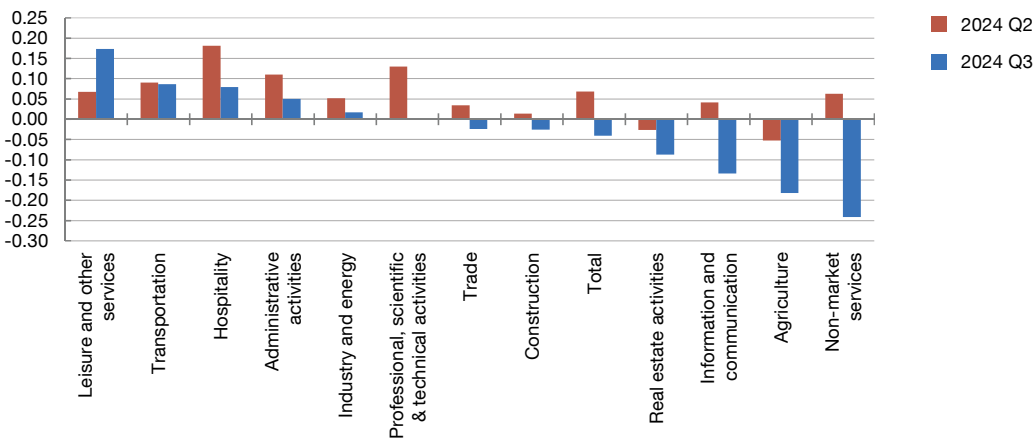
Chart 2

**Employment and business investment: change and outlook**

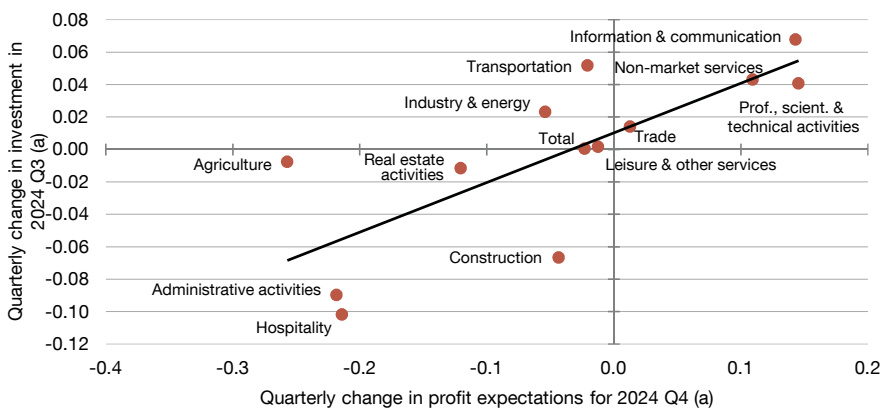
2.a Quarterly change in employment (a)



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



2.c Business investment and profit, by sector



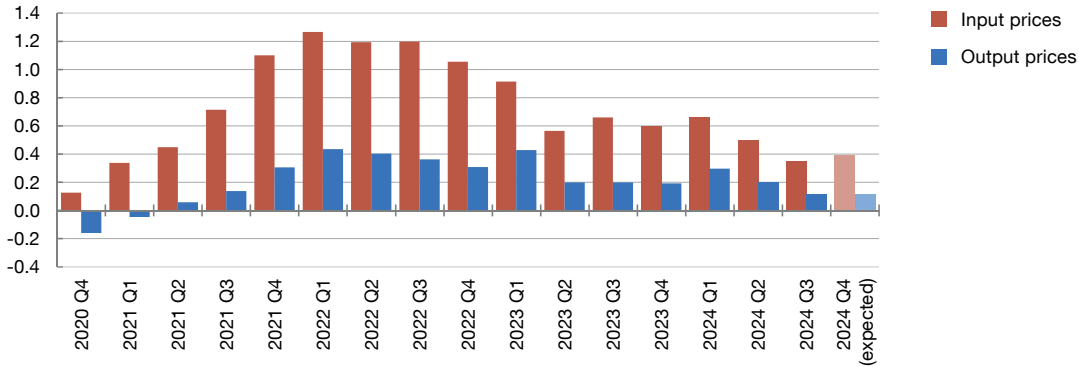
SOURCE: EBAAE.

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.

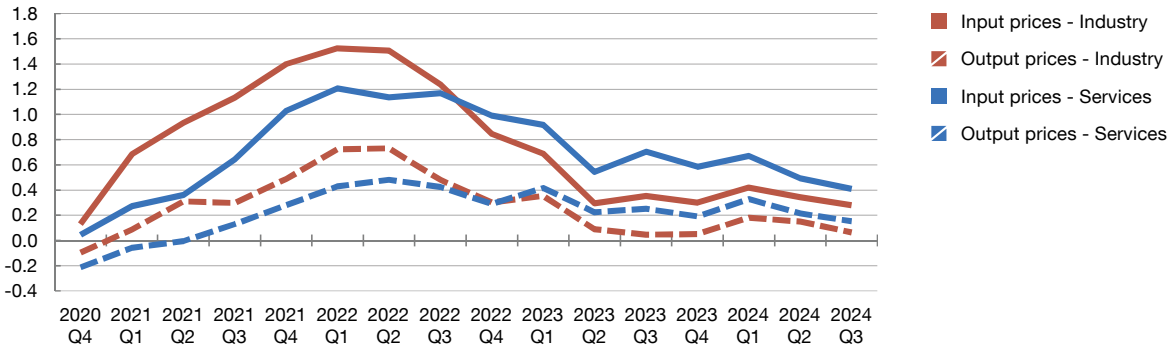


Chart 3  
Prices and costs

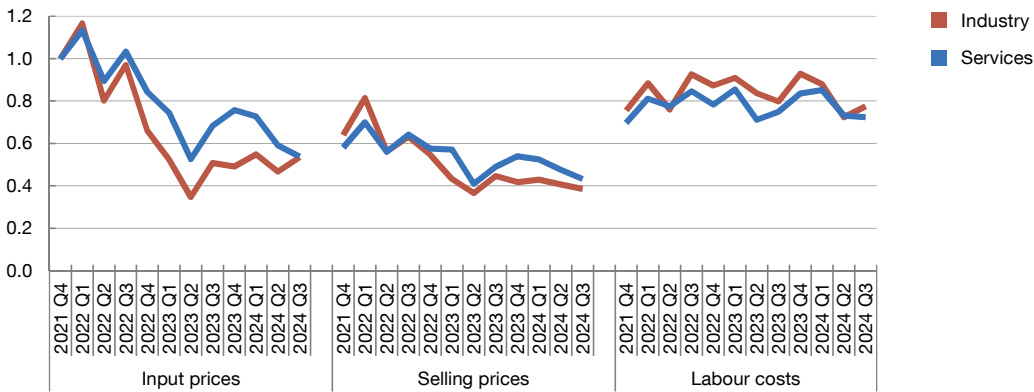
3.a Quarterly change in input and output prices (a)



3.b Quarterly change in prices in industry and services (a) (b)



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



SOURCE: EBAE.

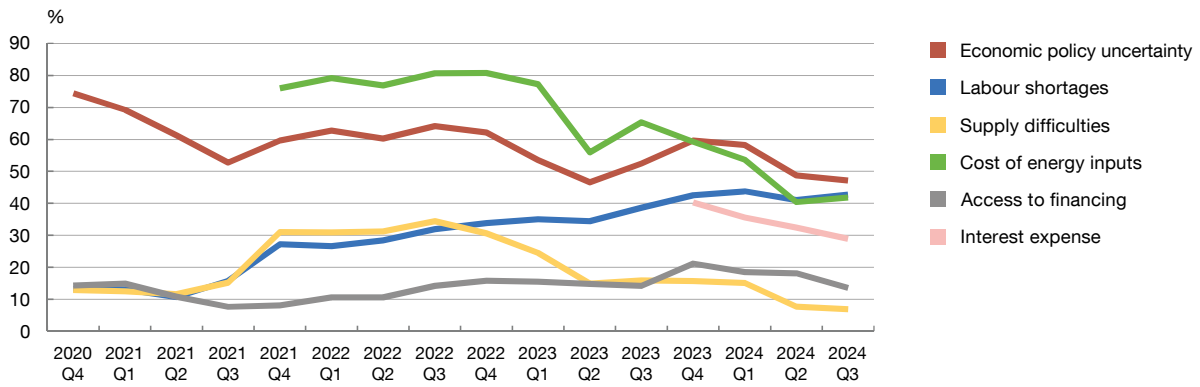
- a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.
- b "Services" denotes market services sector firms.



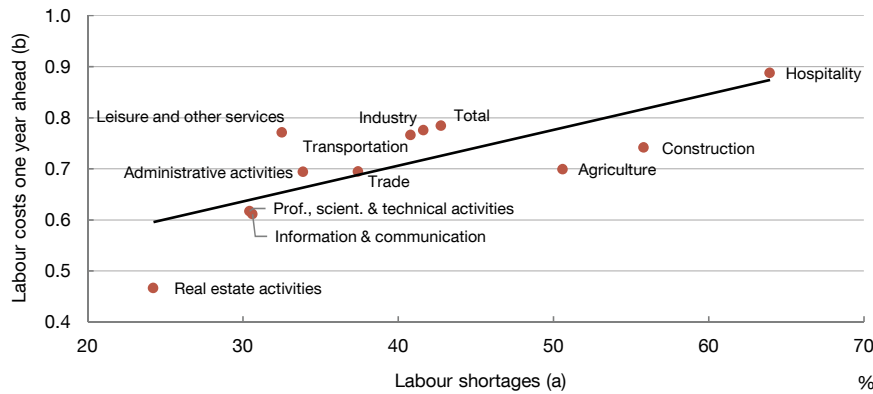
Chart 4

**Factors limiting business activity**

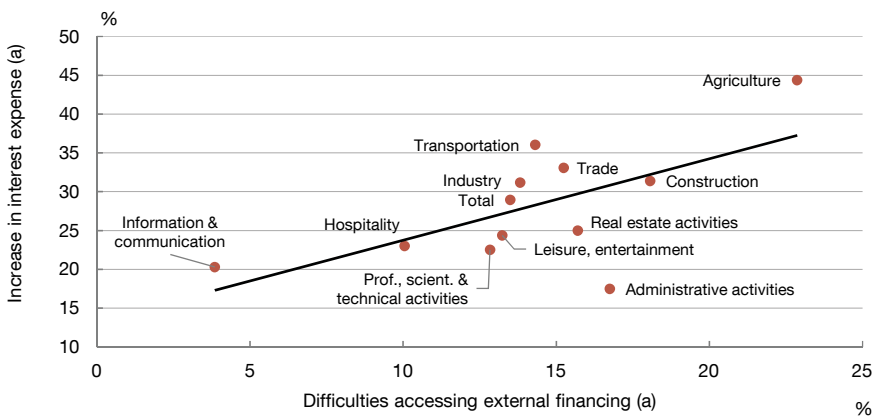
4.a Constraints on business activity (a)



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



4.c 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 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.



## Factors limiting business activity

As for the constraints on activity in this quarter, the results are very similar to those seen in Q2. Nevertheless, there has been a slight increase in the already high impact of some supply-side factors, such as the difficulties associated with *labour shortages* and the *cost of energy inputs* (see Chart 4.a).<sup>4</sup> Specifically, 42.8% of firms report perceiving labour shortages, almost 2 pp more than three months ago. By economic sector, the problems continue to be particularly pronounced in hospitality and construction, where respectively 64% and 56% of firms reported being affected. These differences may help explain the course of labour costs from a sectoral standpoint, as the sectors reporting a greater impact of labour shortages tend to be those anticipating larger labour cost increases one year ahead (see Chart 4.b). The higher cost of energy inputs is still a constraint on the activity of 42% of the firms surveyed, 2 pp more than three months ago.

In addition, the impact of *economic policy uncertainty* has fallen slightly, for the third quarter running. Nevertheless, with 47% of firms reporting a negative impact, it remains the main constraint on economic activity and is fairly broad-based: firms in agriculture, industry and trade are the most affected (reported by 62%, 57% and 55%, respectively), while firms in other services sectors are the least affected.

Turning to demand, 2024 Q3 saw a slight increase in the impact of *insufficient demand* as a constraint on business activity. Specifically, 18.3% of firms reported that this was negatively affecting their activity, 4.4 pp more than in Q2, rising to 24% in the case of industrial firms.

Lastly, the impact of financial constraints continues to ease. In the overall sample, 13.5% of firms reported a negative impact owing to problems in gaining *access to financing*, 4.5 pp lower than in the previous quarter but 3.5 pp higher than before the European Central Bank began its rate-hiking cycle in July 2022. Meanwhile, 29% of firms have seen their *interest expense* rise, 3.4 pp less than three months ago, although cross-sector differences persist. Agriculture, construction and transportation are being more severely affected by the tight financing conditions, while firms in the information and communication sector reported a smaller impact (see Chart 4.c).

## How to cite this document

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<sup>4</sup> Conversely, the impact of the difficulties in receiving supplies from the usual suppliers has continued to decrease in Q3. Specifically, this factor is reported as a constraint by only 7% of respondent firms, the lowest percentage since the survey was launched.