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Banco de España Business Activity Survey: 2024 Q4

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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 helps to diagnose current economic developments.

Takeaways

- Firms perceive an increase in turnover in 2024 Q4, compared with the decreases in the same quarter of 2022 and 2023. Those located in the Valencia region have reported adverse turnover developments as a result of the impact of the flash floods.
- Inflationary pressures have ticked up slightly in Q4, in both the cost of inputs and selling prices.
- The percentage of firms affected by higher borrowing costs and insufficient demand has fallen, but economic policy uncertainty and labour shortages remain high.
- In a module on advanced technologies, 3% of respondent firms reported a high or moderate use of artificial intelligence (AI) systems and 11% are experimenting with them. For firms not yet using AI, the main barriers are a lack of skilled staff, prohibitive costs and significant uncertainty about the legal ramifications.

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 fourth quarter of 2024. Drawing on a sample of Spanish non-financial corporations, the EBAE assesses every three months 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. This quarter the survey included a specific module on Spanish firms' use of new technologies, the results of which will be analysed in detail in a forthcoming article. The field work was conducted between 11 and 25 November. 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 almost 6,000 valid surveys completed (a response rate of 39.8%). 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 results show that *turnover* has increased in Q4 after it fell in Q3. This growth contrasts with the slight decreases recorded in the fourth quarters of 2022 and 2023. In seasonally adjusted terms, turnover has grown after it fell slightly in Q3[3] (Chart 1.a).

In line with this aggregate indicator, Chart 1.b shows that between 2024 Q3 and Q4 the distribution of firms' responses has shifted to the right, reflecting an increase in the proportion reporting an increase in their turnover in this quarter. Specifically, 29.8% of the firms surveyed reported that their turnover has increased in Q4, up 4.4 pp from Q3. In addition, the percentage of firms that

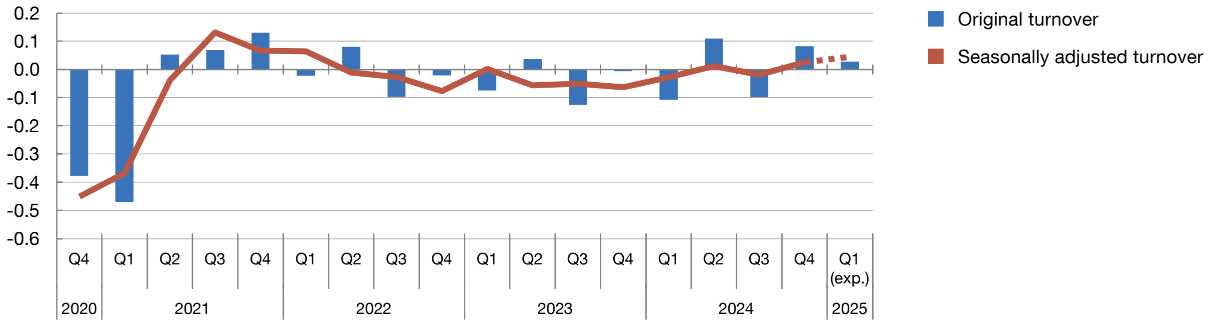
1 The results presented in this article were calculated using weights that allowed us to replicate the distribution of firms by sector (15 sectors) and size (four size intervals) in the Statistics for Social Security-registered Firms *(Estadística de Empresas Inscritas en la Seguridad Social).*

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.

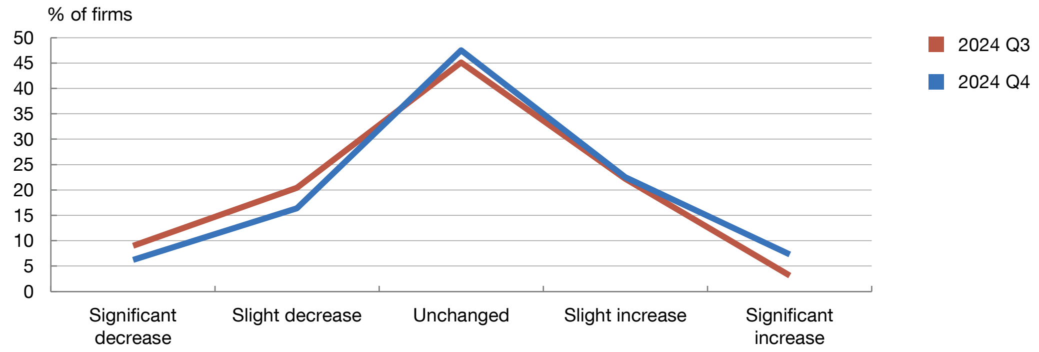
3 Given that the EBAE time series available are still too short to apply the standard seasonal adjustment techniques, to estimate the seasonal component we constructed a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE turnover indicator and the tax authorities' original quarterly series of turnover at large firms and small and medium-sized enterprises. This should be interpreted as an initial preliminary estimate that will be revised in the future.

Chart 1
Business turnover: change and outlook

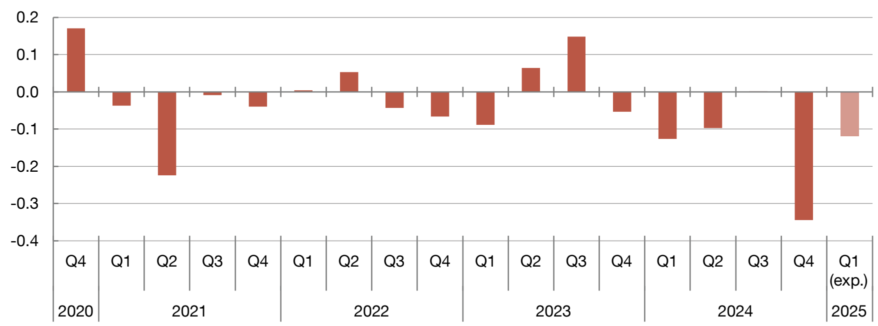
1.a Quarterly change in turnover (a)



1.b Distribution of responses on quarterly change in turnover



1.c Difference in the quarterly change in turnover in the Valencia region and the rest of Spain



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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perceived a decline in their turnover has fallen to 22.6%, almost 6.8 pp less than three months ago. Looking ahead to 2025 Q1, firms expect a modest improvement in turnover.

By sector, changes in turnover remain markedly heterogeneous. The sectors that perceive greater increases in turnover this quarter include non-market services, information and communication, trade and professional activities. By contrast, turnover fell in the more tourism-related sectors, such as hospitality, transportation and leisure, after it rose in Q3.

By region, the flash floods of 29 October have had a substantial adverse impact on business turnover in the Valencia region. The EBAE indicator for Q4 shows a decline in the turnover of the firms located in that region, in contrast to the increase recorded in the rest of Spain (Chart 1.c), although the expectations for 2025 Q1 suggest that this gap will gradually close. By sector, construction, leisure and administrative activities are those which have suffered the largest fall in turnover this quarter in the Valencia region compared with the rest of Spain.

In terms of *employment,* respondent firms also reported growth, after it declined in Q3 (Chart 2.a). 21.3% of firms – up 6 pp on Q3 – reported that their employment level has risen. In addition, as with turnover, firms also expect their employment to grow in 2025 Q1. In line with the sectoral pattern for turnover, employment improved notably in non-market services and professional and administrative activities, in contrast to the falls in the tourism-related sector and real estate services (Chart 2.b). In real estate activities, the employment indicator has fallen for the sixth quarter running.

As in the previous editions, this quarter's survey asked respondent firms about recent changes in their *investment decisions.* At aggregate level, the results show positive developments in investment activity in Q4, compared with the decreases recorded in the same quarter of 2022 and 2023. A total of 18.5% of firms increased their investment in Q4, up 2 pp on Q3. By sector, investment has been more buoyant in industry than in the services sector (Chart 2.c).

Costs and prices

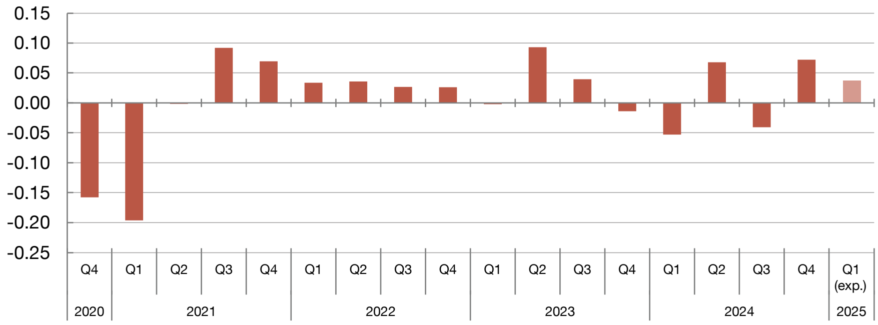
As regards the *cost of inputs,* the survey results point to a slight uptick in inflationary pressures in Q4. In particular, the indicator that measures changes in firms' costs has increased more markedly than expected three months ago (Chart 3.a). Thus, the proportion of firms reporting a further increase in their input prices has risen by 8 pp in Q4, to 43.5%. Furthermore, respondent firms expect a somewhat larger increase in cost pressures in 2025 Q1 than in Q4.

With respect to changes in *selling prices,* this indicator has remained broadly stable, in line with firms' expectations three months ago. Specifically, 19.4% of firms report having raised their prices in Q4, an increase of barely 2 pp on the previous quarter. The outlook for 2025 Q1 points to selling price increases, possibly on account of a calendar effect since in many sectors price changes tend to be concentrated at the beginning of the year. By productive sector, selling prices are expected to rise in both industry and services (Chart 3.b).

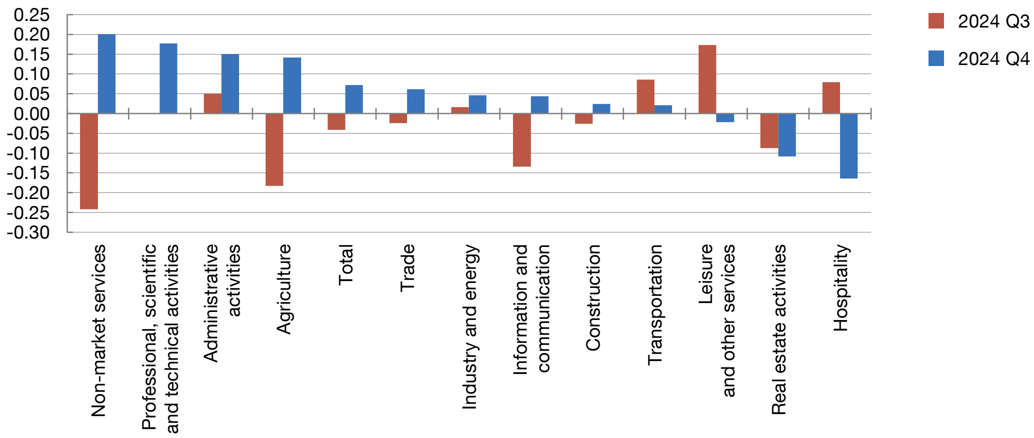
One year ahead, the respondent firms envisage an increase in inflationary pressures. Specifically, 65.7% expect higher costs in a year's time, up by 6 pp on Q3. The percentage of firms anticipating higher costs has increased in both services and industry (Chart 3.c). Moreover, a growing share of firms expect to raise selling prices. Specifically, 52% of firms believe they will increase their

Chart 2
Employment and business investment: change and outlook

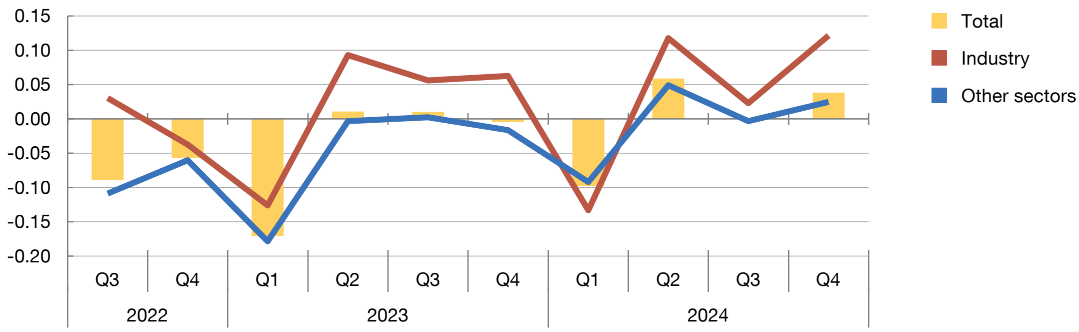
2.a Quarterly change in employment (a)



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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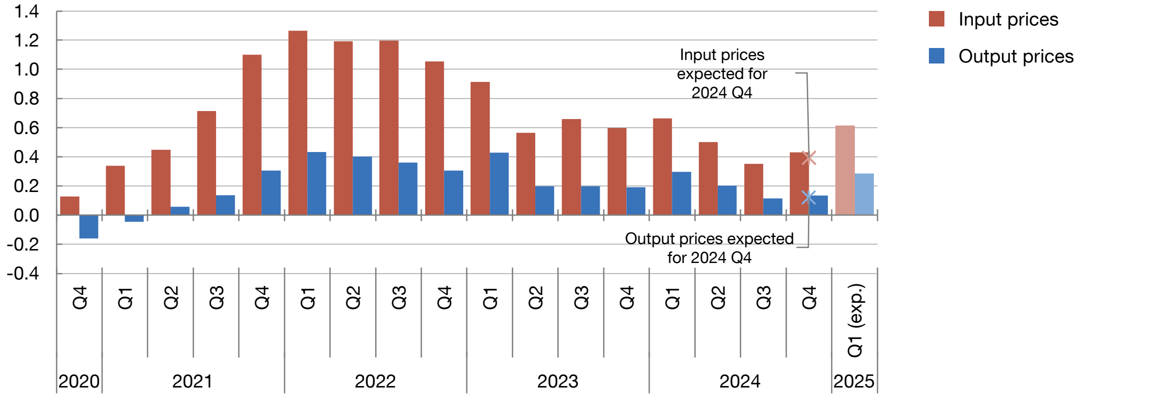
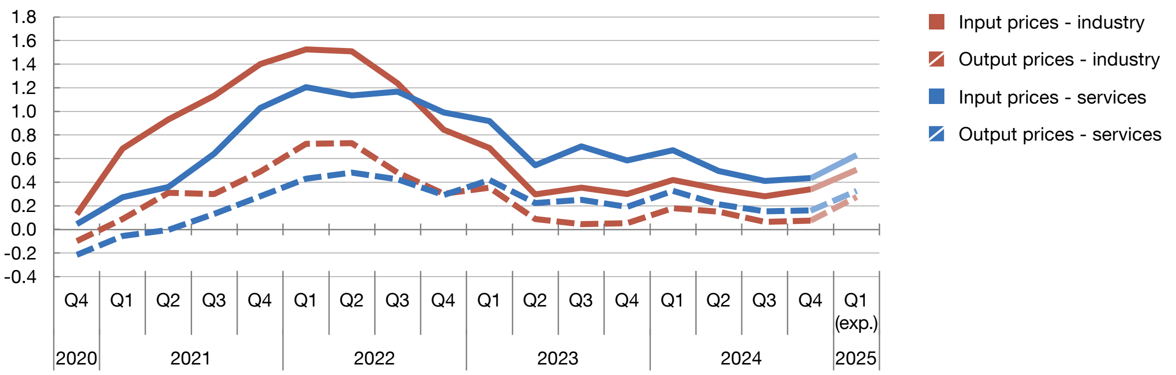
Chart 3
Prices and costs

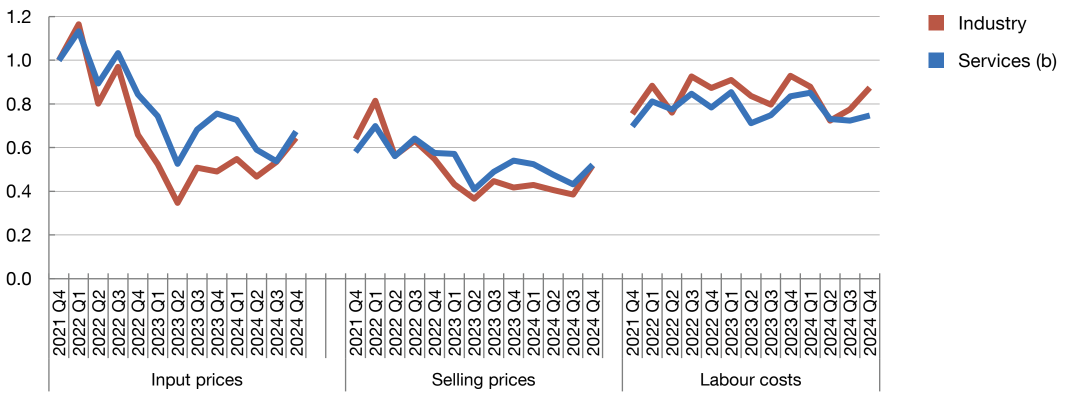
3.a Quarterly change in input and output prices (a)



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



3.c Prices and costs: outlook one year ahead (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.
b "Services" denotes market services sector firms.

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selling prices over the next 12 months, up by 2 pp on three months ago, with similar percentages in both industry and services.

Lastly, upward pressures on *labour costs* are expected to increase slightly. In the economy as a whole, 69% of firms expect labour costs to rise over the next year, similar to the figure recorded in Q3. At sector level, 79% of industrial firms and 66.5% of services firms envisage such cost increases.

Factors limiting business activity

As for the constraints on activity in this quarter, the results show an increase in labour shortages and in perceived economic policy uncertainty, while concerns over insufficient demand and borrowing costs have eased somewhat (Chart 4.a).

The percentage of firms that perceive *labour shortages* has increased in Q4 to 44.2%, up by almost 2 pp on three months ago. By sector, labour shortages remain especially pronounced in agriculture, hospitality and construction, where more than half of firms report being affected. These differences may help explain labour cost developments from a sectoral standpoint, as the sectors reporting more significant labour shortages also tend to expect larger labour cost increases one year ahead (Chart 4.b).

As for other supply-side constraints, difficulties associated with supplies from usual suppliers and the cost of energy inputs remain stable, although the latter continues to adversely affect 41% of respondent firms.

Having declined in the previous three quarters, the prevalence of *economic policy uncertainty* has increased. With 53% of firms reporting a negative impact (up by 6 pp on three months ago), this remains the main constraint on economic activity. This constraint is fairly widespread across sectors, but agriculture, industry and transportation are the most affected (65%, 63% and 60%, respectively), while firms in other services sectors are less affected.

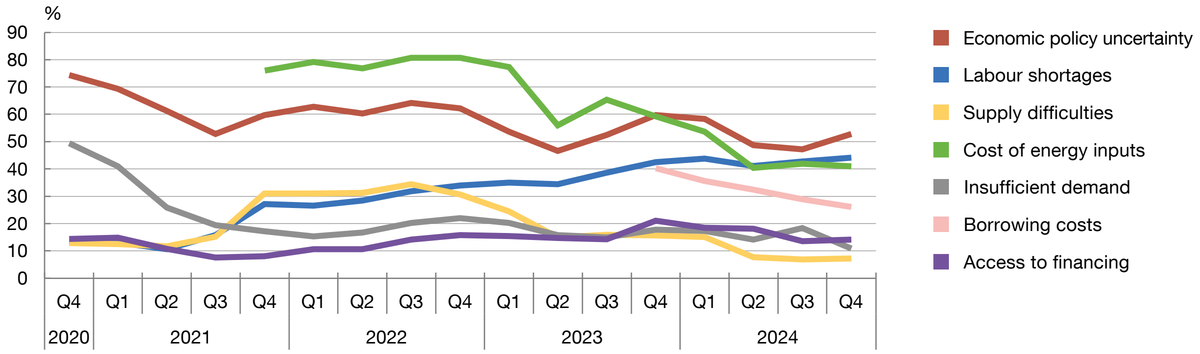
Turning to demand, in Q4 *insufficient demand* has been less prevalent as a constraint on turnover, with just 10.9% of firms reporting that it has limited their activity (the lowest figure in the time series), down by 7.4 pp on the previous quarter. However, while 21% of industrial firms identify this as a limiting factor, that figure is less than 10% for firms in the services sector.

As for financial constraints, the prevalence of *borrowing costs* as a limiting factor remains on a downward trend. In the overall sample, 26.1% of firms report an adverse impact from higher borrowing costs, down by 2.8 pp on three months previously. Meanwhile, 14.1% report problems related to *access to financing,* up 0.6 pp on three months earlier.

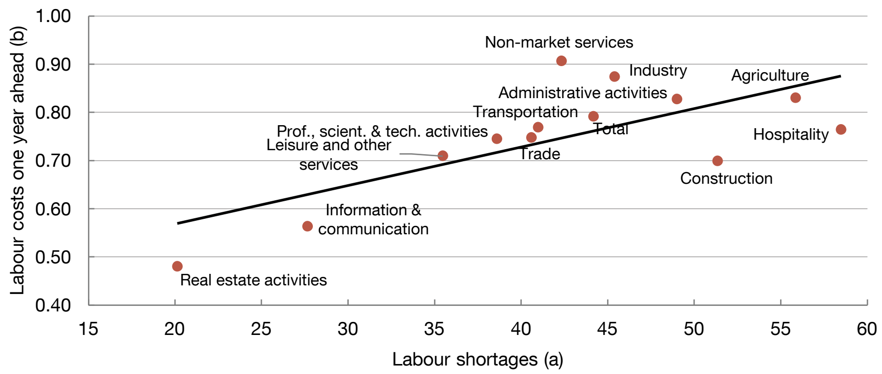
In Q4 certain limiting factors have become more prevalent among firms in the Valencia region as a result of the deadly floods. For instance, more firms in the region report being affected by

Chart 4
Factors limiting business activity

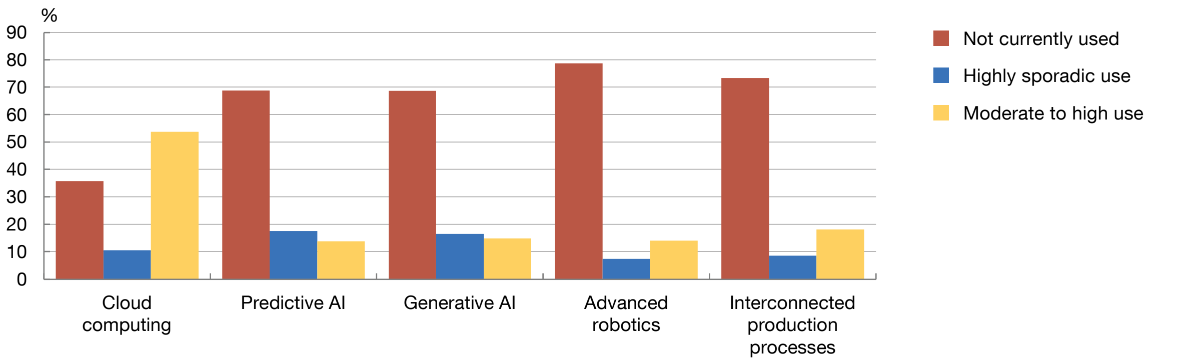
4.a Constraints on business activity (a)



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



4.c Use of advanced technologies among Spanish firms



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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insufficient demand (4 pp above the national total), input supply difficulties (5 pp), higher energy costs (6 pp) and increased economic policy uncertainty (nearly 10 pp).

Lastly, responses to the special module questions about firms' use of advanced technologies will be examined more thoroughly in a forthcoming article. The initial results indicate relatively high use of cloud computing systems (which include hardware and software systems for remote data storage and processing). However, adoption levels are significantly lower for predictive artificial intelligence (AI), generative AI, advanced robotics and interconnected production processes (Chart 4.c).[4] For instance, 69% of firms currently do not use AI systems, 11% use them on a limited or experimental basis and 3% make moderate to high use of them.[5] By sector, information and communication services and professional, scientific and technical activities account for the majority of firms reporting high AI usage. For firms not yet using AI, the main barriers to adoption are a lack of skilled staff, prohibitive implementation costs and significant uncertainty about the legal ramifications (e.g. potential liability for damages associated with the use of AI).

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4 Predictive AI encompasses techniques such as text mining, voice recognition and machine learning; generative AI is capable of producing new content and ideas, images, videos and chatbots; advanced robotics involves devices that are controlled and programmed using automatic or numerical procedures; interconnected production processes include aspects such as "the internet of things" and radio frequency identification.

5 These findings are similar to those of a recent survey of a broad sample of US firms, which indicated that the AI use rate stands at around 5% in 2024 but is on a rising trajectory. For more details, see Bonney et al. (2024). "Tracking Firm Use of AI in Real Time: A Snapshot from the Business Trends and Outlook Survey". NBER Working Papers, 32319, National Bureau of Economic Research. https://www.nber.org/papers/w32319. A similar survey conducted by the Banca d'Italia found that 13% of Italian firms use AI systems, although most do so on an experimental basis.