

The Banco de España Business Activity Survey: 2025 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 that turnover has remained stable during 2025 Q1, with a positive outlook for Q2.
- Inflationary pressures have increased in Q1, both in terms of input costs and selling prices, affecting expectations for the coming year. In parallel to the disinflation process in the Spanish economy, a growing percentage of firms stated that they use expected inflation (rather than past inflation) as a benchmark for setting wages.
- Firms' concern about energy costs is mounting and uncertainty about economic policy remains a negative factor for a large proportion of firms. However, the share of firms affected by rising borrowing costs has continued to decline.

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 2025. 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. The field work was conducted between 3 and 17 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 almost 7,000 valid surveys completed (a response rate of 46.4%). This article details the main results obtained from the responses received.¹

Turnover, employment and investment

Chart 1.a compares firms' perception of their turnover in the current quarter and their outlook for the next quarter with the responses to previous editions of the EBAE.² 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.³ The results show that, after increasing last quarter, *turnover* has decreased in 2025 Q1, albeit less than in 2024 Q1. On a seasonally adjusted basis, turnover is expected to remain steady this quarter (see Chart 1.a).⁴

In line with this aggregate indicator, Chart 1.b shows that the proportion of firms reporting a decrease in their turnover in this quarter has fallen slightly between 2024 Q1 and 2025 Q1. Specifically, the percentage of firms that perceived a decline in their turnover has fallen to 25%, 3.8 percentage points (pp) less than 12 months ago. Looking ahead to 2025 Q2, firms expect a notable improvement in turnover, exceeding that recorded in the same quarter of 2024.

1 The Banco de España data laboratory (BELab) provides access to anonymised EBAE micro data with added economic and financial information from the Integrated Central Balance Sheet Database (CBI): <https://www.bde.es/wbe/en/para-ciudadano/servicios/belab/contenido/microdatos-disponibles/microdatos-encuesta-sobre-actividad-empresarial-ebae.html>.

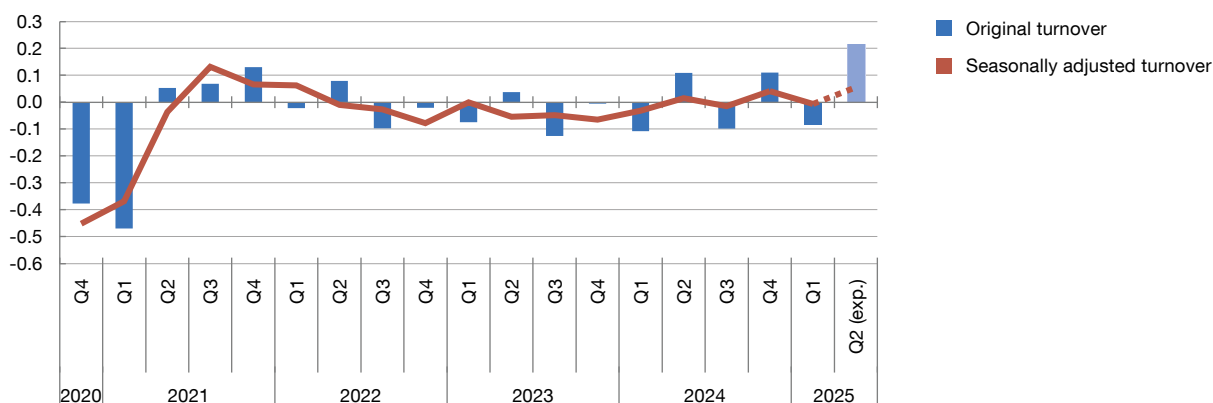
2 The results presented here are calculated using weights that allow the distribution of employment to be replicated by sector (15 sectors) and firm size bracket (four) in the Statistics for Social Security-registered Firms (Estadística de Empresas Inscritas en la Seguridad Social).

3 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.

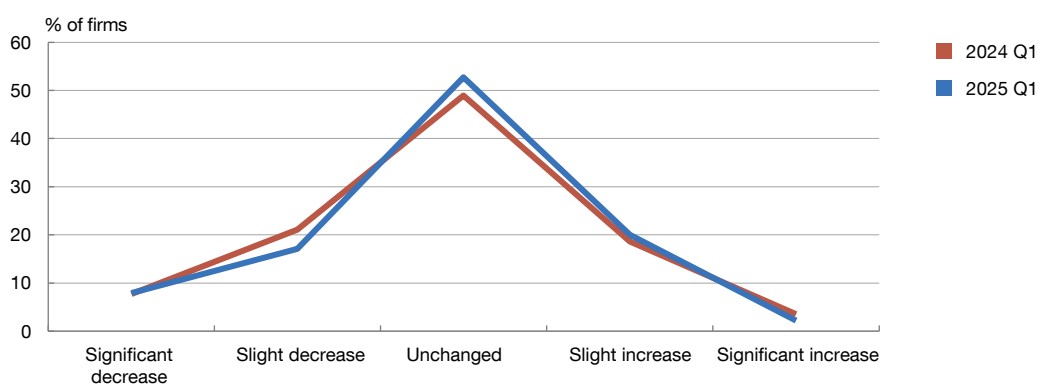
4 Given that the EBAE time series available are still too short to apply the standard seasonal adjustment techniques, to estimate the seasonal component we constructed a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE turnover indicator 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

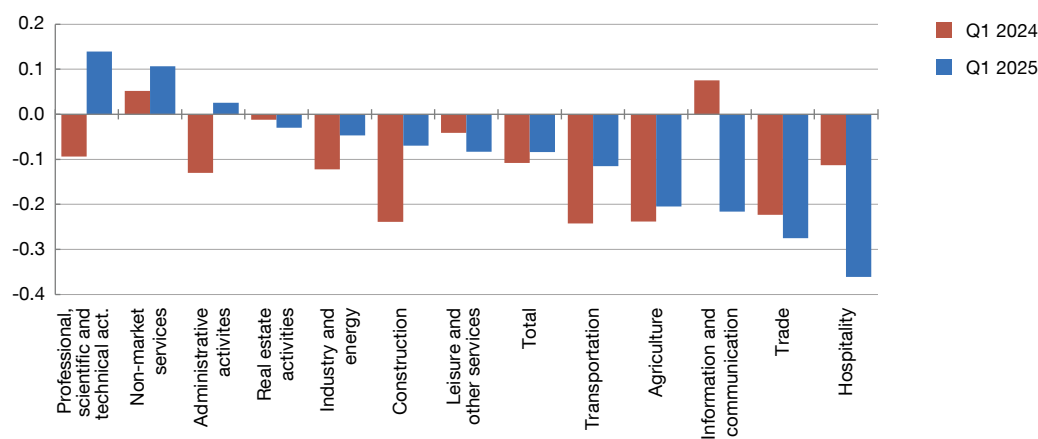
1.a Quarterly change in turnover (a)



1.b Distribution of responses on quarterly change in turnover



1.c Quarterly change in turnover in 2025 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.



By sector, changes in turnover remain markedly heterogeneous. The sectors that perceive greater increases in turnover this quarter include professional activities, administrative activities and non-market services. By contrast, the more tourism-related sectors, such as hospitality and trade, performed poorly (see Chart 1.c).

As regards *employment*, respondent firms also reported decreases, albeit smaller ones than those recorded in the same quarter of the previous year (see Chart 2.a). 14.8% of firms reported a decline in their employment level, a 2.5 pp decrease on 2024 Q1. In seasonally adjusted terms, employment is estimated to have grown slightly this quarter.⁵ In line with the sectoral pattern for turnover, employment improved notably in non-market services, construction and professional activities, in contrast to the falls in hospitality and agriculture, which were also seen in 2024 Q1 (see Chart 2.b). As in the case of turnover, the outlook for employment points to a rise in Q2, which slightly surpasses the increase recorded in the same quarter of 2024.

As in previous editions, this quarter's survey asked respondent firms about their *investment decisions*. At aggregate level, the results show that developments in investment activity in Q1 were positive, albeit slightly less buoyant than in the previous quarter. The distribution of the individual responses shows that 18.5% of respondent firms increased their investment in Q1, 2 pp more than in 2024 Q4. By sector, investment has fared less well in industry than in other sectors (see Chart 2.c). In line with turnover and employment, firms expect investment to improve in the coming quarter.

Costs and prices

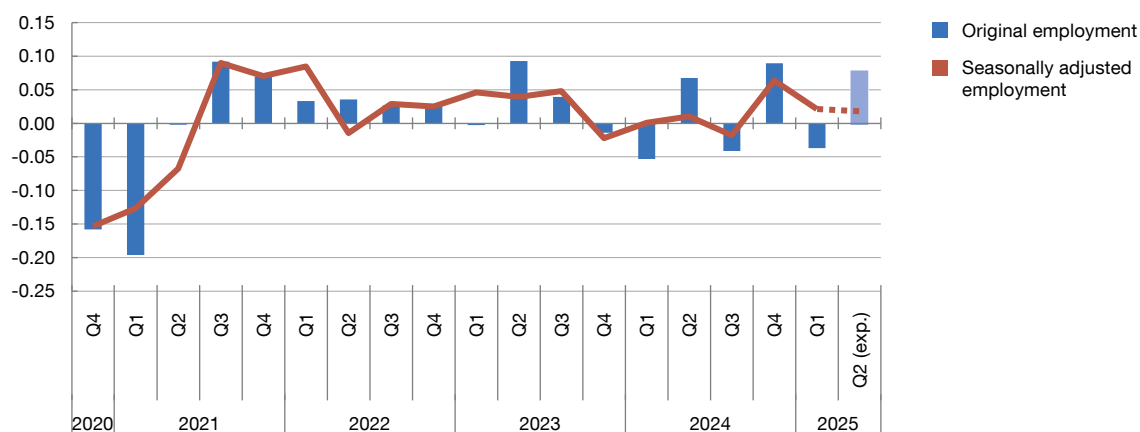
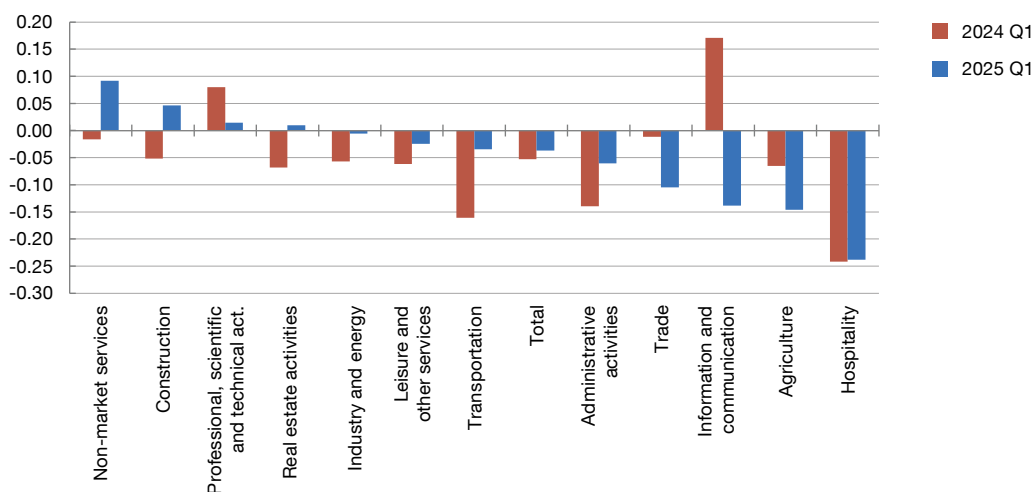
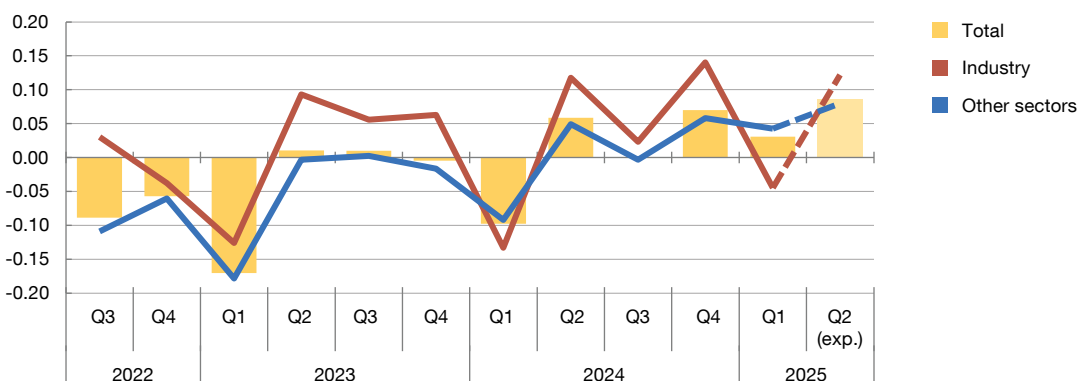
As regards the *cost of inputs*, the survey results point to an uptick in inflationary pressures in 2025 Q1. In particular, the indicator that measures changes in firms' costs has increased in line with what was expected three months ago (see Chart 3.a). Thus, the proportion of firms reporting a further increase in their input prices in Q1 has increased by 17.7 pp, to 60.9%. Nonetheless, the firms surveyed expect cost pressures to ease slightly in Q2.

Turning to *selling prices*, the corresponding indicator has risen, in line with firms' expectations three months ago. Specifically, 33.6% of firms reported having raised their prices in Q1, a 14 pp increase on the previous quarter. 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. By productive sector, this greater inflationary pressure in the current quarter is fairly widespread, although it is somewhat more marked in industry than in services (see Chart 3.b).

One year ahead, the respondent firms envisage an increase in inflationary pressures, with 70.2% expecting higher costs in a year's time, up by 3.4 pp on the previous quarter. The percentage of firms anticipating higher costs has increased in both services and industry. Moreover, expectations

⁵ As with turnover, to estimate the seasonal component we constructed a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE employment indicator and the Spanish Labour Force Survey's quarterly employment series. This should be interpreted as an initial preliminary estimate that will be revised in the future.

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)**

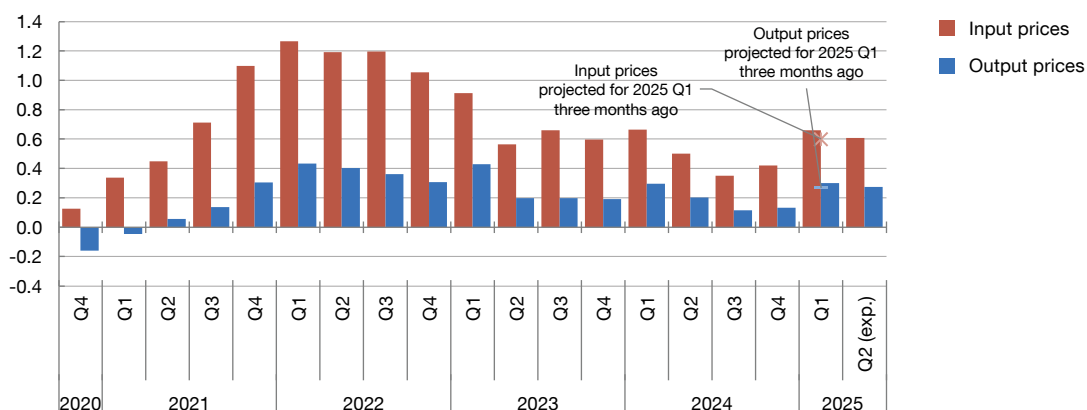
SOURCE: EBAE.

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.

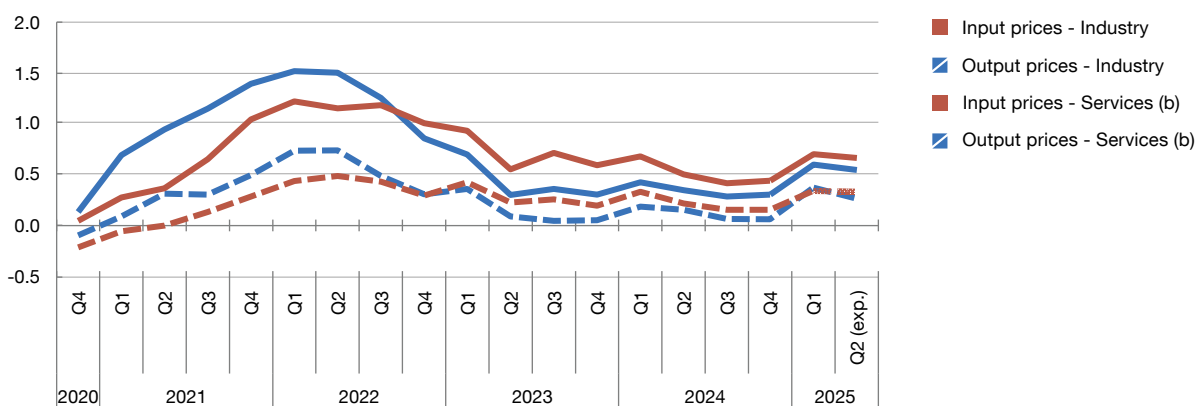


Chart 3
Prices and costs

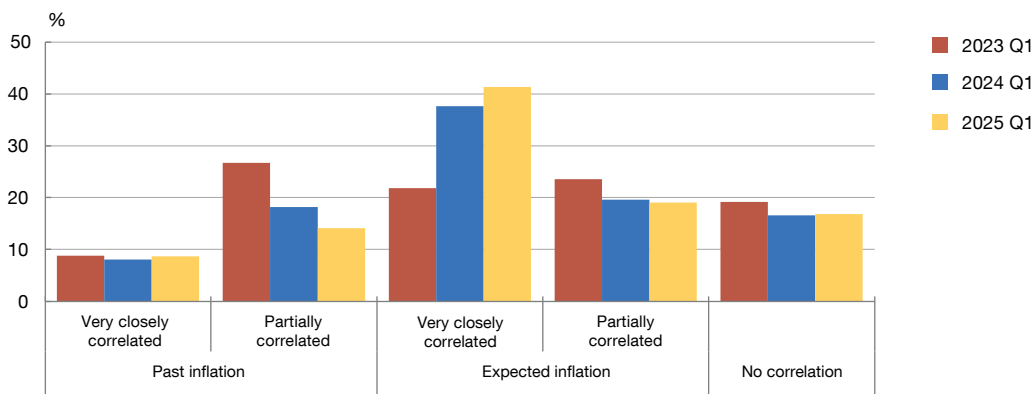
3.a Quarterly change in input and output prices (a)



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



3.c Response in firms' wages to inflation



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.



of selling price increases have also risen slightly. Specifically, 58% of firms believe they will increase their selling prices over the next 12 months, up by nearly 6 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, 76.6% of firms expect labour costs to rise over the next year, similar to the figure recorded in Q4. At sector level, 79% of industrial firms and 72% of services firms envisage such cost increases.

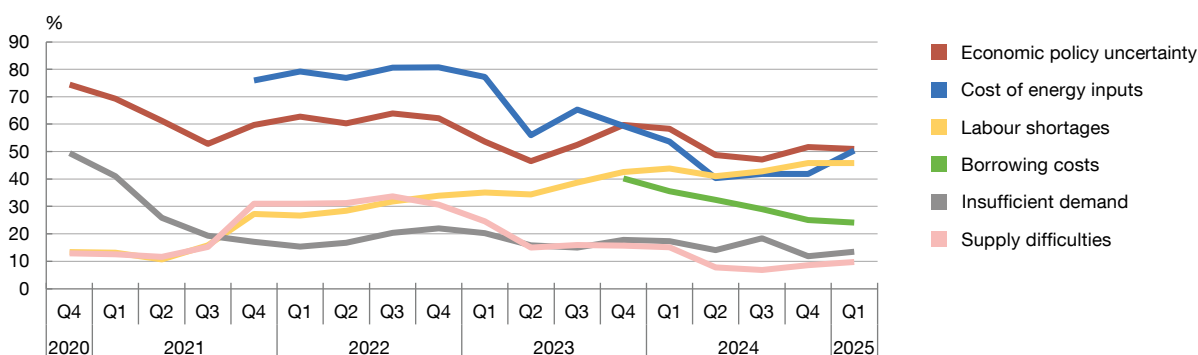
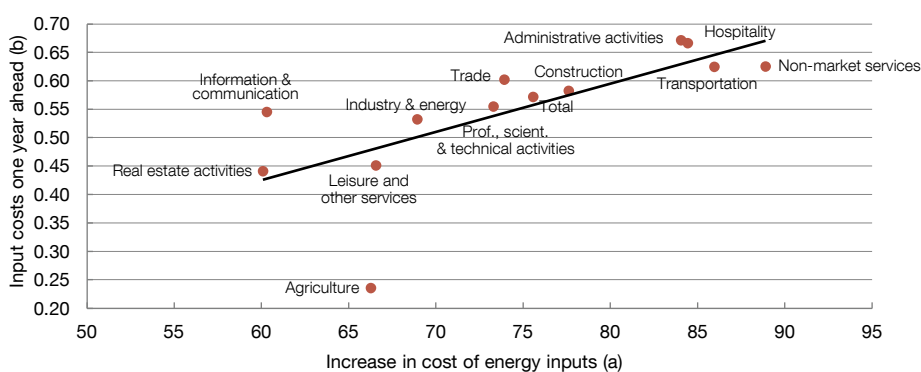
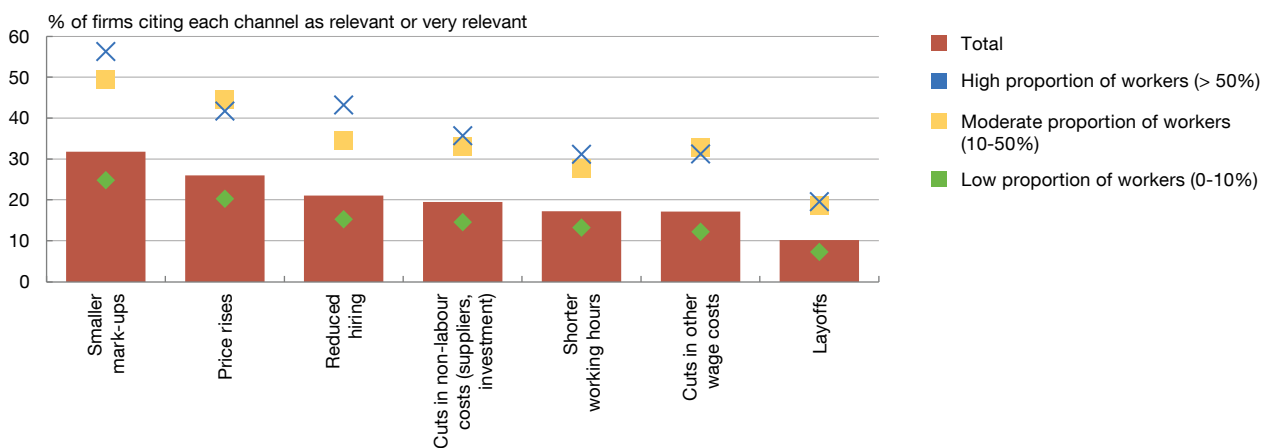
As in the Q1 surveys in previous years, the survey for this quarter included an additional question on how *wages are expected to respond to inflation in 2025*. As is to be expected, the vast majority of firms reported perceiving some degree of correlation between wages and inflation, with only 16.8% stating otherwise (a figure similar to the 19.1% observed a year ago) (see Chart 3.c). However, only 8.7% of firms stated that wages were very closely linked to past inflation (a similar percentage to that of last two years), while 14.1% stated that they were partially correlated (compared with 18.1% a year ago and 26.7% in early 2023). Conversely, in parallel to the disinflation process in the Spanish economy, the percentage of firms using expected inflation (rather than past inflation) as a benchmark for setting wages has gradually increased. Specifically, 41.4% acknowledge a strong correlation with expected inflation, nearly 20 pp more than in 2023, but there are significant differences from sector to sector. For instance, 51% of hospitality firms reported that wages are strongly correlated with expected inflation, but this figure falls to 33% in information and communication services and professional activities.

Factors limiting business activity

As for the constraints on activity in this quarter, the results show that the percentage of firms negatively affected by the higher *cost of energy inputs* has risen to 50.3%, 8.4 pp more than three months ago (see Chart 4.a). This appears consistent with the recent hikes in energy prices. Although the increase in the proportion of firms reporting this negative impact has been broad-based across sectors, it has been somewhat stronger in industry and trade. This heterogeneity across sectors is key to understanding the differences in input cost expectations one year ahead, as the sectors hardest hit by high energy costs tend to be those with higher input cost expectations (see Chart 4.b).

The percentage of firms perceiving *labour shortages* has remained at high levels in Q1: specifically, 45.8% of firms perceived such difficulties, in line with the figure observed three months ago. By sector, labour shortages remain particularly pronounced in agriculture, hospitality and construction, where over 50% of firms reported a negative impact. Meanwhile, *economic policy uncertainty* continues to be the main constraint on activity, having an adverse effect on 51% of firms. Although its impact is felt across practically all sectors, industry and trade continue to be the most affected (with 61% and 60% of firms, respectively, reporting it as a constraint on their activity), while firms in other services sectors, such as professional activities and leisure, are the least affected (41% and 36%, respectively).

Chart 4

Factors limiting business activity**4.a Constraints on business activity (a)****4.b Input cost outlook one year ahead and increase in cost of energy inputs****4.c Firms' adjustment channels by proportion of workers earning national minimum wage**

SOURCE: EBAE.

a Percentage of 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.



Turning to demand, *insufficient demand* has become slightly more prevalent as a constraint on turnover in Q1, but it affects a small percentage of firms: just 13.5% of firms reported that it was negatively affecting their activity, 1.5 pp more than in Q4 (when it reached the lowest figure in the time series). However, while 21% of industrial firms identified it as a constraint, 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, 24.1% of firms reported an adverse impact derived from higher borrowing costs, down by 1 pp on three months earlier. Meanwhile, 13.1% reported a negative impact owing to problems in gaining *access to financing*, 0.3 pp less than in Q4.

Lastly, this edition of the survey included two additional questions: one about the percentage of employees that would be affected by a potential increase in the national minimum wage⁶ and a second about firms' main adjustment channels following the increases observed since 2019. In the overall sample of firms, 76% reported that less than 10% of their workers earn the minimum wage (or a wage indexed to it), 13% stated that a moderate proportion (between 10% and 50%) of their workers receive the minimum wage, and 11% reported paying this wage to a high proportion (over 50%) of their workers. As regards the adjustment channels,⁷ the firms surveyed suggest that minimum wage increases have a significant impact on decisions relating to prices and mark-ups. Specifically, 32% of firms stated that minimum wage increases had led to a reduction in their mark-ups, and 26% reported having passed such increases through to their selling prices (see Chart 4.c). Meanwhile, the proportion of firms reporting that minimum wage increases affect their employment decisions tends to be somewhat lower, with 21% of the firms surveyed citing reduced hiring as a relevant adjustment channel and layoffs cited by 10.1%. In all cases, the higher the proportion of workers earning the national minimum wage at the firm, the more relevant the different channels. For instance, 15% of firms with a low proportion of minimum wage earners reported having reduced hiring in response to minimum wage increases since 2019, but this figure rises to 34% and 43% for firms with moderate and high proportions of such workers, respectively.

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6 Question: "An increase of 3-5% in the national minimum wage has been proposed for 2025. Roughly speaking, what percentage of employees at your firm would be affected by this increase (as they earn the minimum or a similar wage or one that is adjusted in line with increases in the national minimum wage)?" The answers are expressed in the form of ranges: "0-5%", "5-10%", "10-15%", "15-20%", "20-25%", "25-50%", "50-75%", "> 75%", "Don't know/no answer".

7 Question: "Given the national minimum wage increases approved in recent years, how relevant have the following measures been for your firm?" Possible answers: "Not relevant", "Of little relevance", "Relevant", "Very relevant". The results shown in this section reflect the percentage of firms that consider each adjustment measure to be "relevant" or "very relevant".