Results of non-financial corporations to 2018 Q4: preliminary year-end data

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Abstract

The activity of non-financial corporations remained on an upward trend in 2018, leading to overall increases in ordinary profit (ordinary net profit grew by 5%, up 0.3 pp from 2017) and employment, which were also seen in most sectors and firms. As a result of the good corporate earnings performance, average rates of return continued to improve, and the spread over the cost of borrowing widened further. Extraordinary revenue and costs had a positive impact on net profit in 2018, resulting in strong net profit growth. Average debt ratios, relative to assets and ordinary profit, fell. Lastly, the debt burden ratio also declined, driven by the lower cost of borrowing and the growth in surpluses. A box analysing the recent developments in trade credit and average payment and collection periods is included in this article.

Keywords: activity, operating profit, financial situation, non-financial corporations.

JEL codes: L25, M21, M41.
The data collected by the Central Balance Sheet Data Office Quarterly Survey (CBQ) shows that firms’ activity continued to expand in 2018, their gross value added (GVA) growing by 3.3%, in nominal terms, as compared with 0.5% in 2017. However, the strength of this acceleration was affected by the behaviour of certain sectors that are overrepresented in the quarterly sample. Thus, the reweighted rate, calculated by applying to each sector its actual weight in the non-financial corporations sector as a whole, shows stronger GVA growth in 2017 (2.5%)\(^2\) and a very similar rate in 2018 (3.2%). This increase occurred against a background of more buoyant domestic demand, so that purchases and sales in Spain, as a percentage of total purchases and sales, respectively, were both higher than in 2017.

Employment grew by 1.5% in 2018, almost one percentage point (pp) less than in 2017 (2.4%). This increase in the number of employees was mainly driven by the growth in permanent staff, of 1.9%.

The increased buoyancy of activity led to growth in gross operating profit (GOP) of 3.5%. This, along with the decline in financial costs, driven by the fall in interest rates, led to an increase in ordinary net profit (ONP) of 5% in 2018, as compared with 4.7% in 2017. Extraordinary income and expenses had a very positive impact on the profit for the year, which was twice as high as in 2017. As a percentage of GVA, net profit stood at 48.8%, almost 25 pp higher than in 2017. This exceptional increase was basically linked to the behaviour of extraordinary costs and revenue.

The growth in ordinary profit led to an increase in the average profit ratios. Also, the average cost of borrowing continued to decline slightly in 2018, so that the spread between the return on investment and the cost of debt widened again.

As regards firms’ financial position, their debt ratios, relative to assets and ordinary profit, fell in 2018. Also, the debt burden ratio remained on the downtrend of recent years, with the help of the lower borrowing costs and the growth in ordinary profit (the denominator).

In short, this information shows that the economic and financial situation of the firms making up the CBQ sample strengthened in 2018.

GVA growth picked up to 3.3% in 2018, from 0.5% in 2017 (see Table 1 and Chart 1). However, the extent of this acceleration is debatable, given that the GVA growth rate,
when re-weighted\(^3\) in accordance with the weight of each sector in the National Accounts, rises to 2.5% in 2017, while changing very little in 2018 (3.2%). Moreover, the median GVA growth rate slowed somewhat, from 3.1% in 2017 to 2.7% in 2018 (see Chart 2). Chart 2

\(^3\) The re-weighted figure is obtained by applying, to the aggregate rate of each industry, the weight of such industry in the total non-financial corporations sector, approximated using National Accounts data. For more information, see Box 1, “Re-weighting of GVA and GOP on the basis of the weight of the different sectors in the national economy”, in the Analytical Article “Results of non-financial corporations in 2018 Q1” published in the Economic Bulletin 2/2018.
Business activity was expansionary in 2018, prompting increases in ordinary profits and employment. Average compensation increased somewhat.

This growth occurred against a background of continued growth in trading activity, reflected in an increase of 7.2% in turnover. In line with these developments, customer and supplier balances rose, although more moderately than in 2017, while average collection and payment periods declined (see Box 1). In addition, domestic demand grew in 2018 more sharply than external demand, meaning that both sales and purchases in Spain also shows, given the distance between the 25th and 75th percentiles, that there is still a large degree of heterogeneity in the GVA growth rates of CBQ firms.
The median GVA growth rate reflects a somewhat more moderate performance in 2018 than the aggregate figure suggests.

By sector, GVA grew in almost every branch of activity except industry (see Table 3). In particular, there were notable increases in energy (6.7%) and in wholesale and retail trade and accommodation and food services activities (6%), a clear improvement on the declines in 2017. In industry, by contrast, GVA declined by 1.2%. Within this sector, there were notable declines in the refining and chemicals subsectors, of 10.1% and 11.6% respectively. The other industrial subsectors recorded growth, ranging from 2.1% in mineral and metallic products to 5% in transport equipment. Finally, in information and communications, GVA increased by 1.8%, while in the sector aggregating other activities, there was an increase of 2.8%, assisted especially by the sound performance of firms in the transport industry.
CBQ personnel costs increased by 3% in 2018, as a result of the expansion of workforces and the increase in average compensation. In particular, the average number of workers employed by the sample firms rose by 1.5%, a more moderate rate than in 2017 (2.4%, see Table 3). The increase in employment was mainly driven by the growth in permanent staff (1.9%, see Table 4). In line with Spanish Labour Force Survey data, this growth was higher than in 2017. In contrast, CBQ data show practically zero growth in temporary employment in 2018 (it fell by 0.1%), owing to the impact of the decline in this type of employment at some of the sample firms.

The percentage of firms that created employment was 50.3% in 2018, down slightly from 2017 (50.6%, see Table 5), but still well above the proportion of firms that destroyed jobs (34.2%).
By sector, employment growth was seen across all industries, albeit with varying intensity. Thus, the increases in average workforces ranged from 0.5% in industry to 2.9% in information and communications. Employment growth was also notable in the sector encompassing all other activities (2.3%), while both energy and wholesale and retail trade and accommodation and food service activities recorded increases of around 1%.

There was a slight increase in average compensation in 2018, of 1.5%, as against 0.5% in 2017 (see Table 3). This acceleration was basically driven by wholesale and retail trade and accommodation and food service activities and by industry, where these costs increased by 3.1% and 2.4% respectively. By contrast, in the other productive sectors wage increases were more moderate: 0.7% in other activities and practically zero in energy and in information and communications.

Gross operating profit (GOP) increased by 3.5% in 2018, in contrast to the decline of 1.8% recorded by the quarterly sample in 2017 (see Table 1 and Chart 1). However, as in the case of GVA, the re-weighted GOP growth rates were somewhat more moderate, with increases of 2.8% in 2018 and 1.6% in 2017.

Financial revenue edged down in 2018, by 1.6%, as a consequence of the lower level of interest received, while dividend income was practically unchanged. Financial costs, on
The buoyancy of activity and the ongoing decline in financial costs drove the growth in ordinary profit. This led to growth in returns which, along with the lower average cost of debt, allowed the spread between these two ratios to continue to widen.

Against this background, ONP grew by 5% in 2018 (see Chart 3). Extraordinary costs and revenue, meanwhile, had a very positive impact, mainly due to the existence of certain transactions for the sale of financial assets that generated large gains. As a result, the profit for the year was twice as high as in 2017. As a percentage of GVA, it stood at 48.8% in 2018 (as against 23.9% in 2017).

The 2013, 2014, 2015, 2016 and 2017 data for the corporations reporting to the CBI and the average data of the four quarters of each year (CBQ). The rates are calculated relative to the previous year.

Average of the four quarters of 2018. The rates are calculated relative to the same period in 2017.

The increase in ordinary profit resulted in an increase in returns (Chart 3).
The aggregate rates of return increased in 2018: the return on investment by 0.4 pp and the return on equity by 0.8 pp, to 6.5% and 9.9%, respectively. However, as regards the median values of these indicators, in the case of the return on investment it was steady (at 6%), while in that of the return on equity it edged down 0.5 pp, to 8.4%. (see Table 7). This table also shows the wide dispersion in the quarterly sample, as is evident from the high percentage of firms that continued to record negative values for these indicators in 2018 (almost 24% in the case of the return on investment and more than 26% in the return on equity). The different behaviour of the aggregate and median values of these indicators is explained by the heavy influence of large firms on the aggregate value. On this occasion, the behaviour of the returns of large firms was more positive than that of the returns of the rest of the CBQ firms.
Debt continued to fall in 2018, relative to both assets and ordinary profit. Also, the interest burden continued to decline, with the help of the fall in financial costs and the rise in profits.

**Chart 4**

1. **E1. Interest-bearing borrowing / net assets (a)**
   - Breakdown by sector, CBQ
   - Ratios
   - Percentage
   - Years: 2013 to 2018

2. **E1. Interest-bearing borrowing / net assets (a)**
   - Breakdown by sector, CBQ
   - Ratios
   - Percentage
   - Years: 2013 to 2018

3. **E2. Interest-bearing borrowing (b) / (GOP + FR) (c)**
   - Total corporations
   - Ratios
   - Percentage
   - Years: 2013 to 2018

4. **E2. Interest-bearing borrowing (b) / (GOP + FR) (c)**
   - Breakdown by sector, CBQ
   - Ratios
   - Percentage
   - Years: 2013 to 2018

5. **Interest burden**
   - Total corporations
   - (Interest on borrowed funds) / (GOP + FR) (c)
   - Ratios
   - Percentage
   - Years: 2013 to 2018

6. **Interest burden**
   - Breakdown by sector, CBQ
   - (Interest on borrowed funds) / (GOP + FR) (c)
   - Ratios
   - Percentage
   - Years: 2013 to 2018

**Source:** Banco de España.

- **a** Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
- **b** Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
- **c** The expenditure and revenue included in these ratios are calculated on the basis of cumulated four-quarter amounts.
The sectoral breakdown of the aggregate return on investment reveals disparate behaviour in 2018. Declines were recorded in information and communications (of somewhat more than 1 pp, to 16.1%), in industry (of 0.7 pp, to 9.3%) and in energy (of 0.3 pp, to 5.1%), and increases in wholesale and retail trade and accommodation food service activities (returns rose by 3 pp, to 15.6%) and in the sector encompassing all other activities (up 8 pp to 5.1%; see Table 8).

The average cost of borrowing fell by 0.1 pp in 2018, to 2.2%. The increase in the return on investment and the lower cost of borrowing prompted further widening of the spread between the two ratios, to 4.3 pp, up 0.6 pp from 2017.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, fell by 1.5 pp in 2018, to 42.4%. At the sector level, it can be seen that this fall was a result of declines in energy and industry, that were partly offset by mild increases in information and communications and in wholesale and retail trade and accommodation and food service activities (see Chart 4). The E2 ratio, which measures debt as a proportion of ordinary profit (obtained as the sum of GOP and financial revenue) also declined, due to the growth in profit, to stand at 532% (540% in 2017). By sector, this indicator fell in energy and rose slightly in wholesale and retail trade and accommodation and food service activities and in information and communications, remaining practically unchanged in industry. Meanwhile, the ratio that measures the interest burden fell again in 2018, by 1 pp, to 12.6%, as a result of the decline in financial costs and the increase in ordinary profit. The sectoral breakdown shows a downtrend in energy and in wholesale and retail trade and accommodation and food service activities, and relative stability in the other sectors.

Trade credit is a form of financing that arises from the deferral of payment or collection in purchase and sale transactions, through which non-financial corporations can raise, in net terms, funds from other firms or grant them financing. This box examines recent developments in trade credit and in indicators that make it possible to calculate approximate average supplier payment and customer collection periods (which measure the number of days that firms take, on average, to pay their suppliers or to collect payment from their customers).

With respect to the average term for net trade finance granted (which indicates the number of days that the firm grants – or receives, if the figure is negative – funds, in net terms, as a result of its trading transactions) it is clear that firms, as a whole, usually grant finance to other companies and institutional sectors. The course of this indicator at SMEs shows that it has remained largely unchanged since 2012, with an average granting period of 18 days in 2017 (see Chart 4). At larger firms, where this ratio evidences much lower values, there was a declining trend which settled in 2017, at an average fund-granting period of only two days. Drawing on information from the CBQ, this trend is estimated to have continued in 2018 (see Chart 4).

Calculating net trade finance at the aggregate level may conceal heterogeneity and, therefore, an analysis of the distributions is useful. The information in Chart 5 shows that although non-financial corporations at the aggregate level grant finance, a significant portion of them obtained funds, in net terms, as a result of their trading transactions. Thus, in terms of weight in sales, around 34% of small- and medium-sized enterprises obtained finance in 2017 (a weight similar to that recorded throughout the period of analysis), while at large firms this proportion is comparatively higher, at 50%, in both 2017 and 2018, according to the CBQ. Lastly, the results in Chart 6 show that from 2010 to 2016, regardless of firm size, there was a decline in the period of net trade finance, both in the group of firms which raise funds in this way (25th percentile) and, more markedly, in those granting finance over lengthier periods (75th percentile), thus reducing the heterogeneity of the sample. The CBQ expects the downward trend to continue in 2018, in the case of the 75th percentile (the level above which 25% of firms granting net trade finance over longer periods are found), with the 25th percentile remaining stable.

To conclude, the evidence presented in this box shows that in 2017 trade finance remained very buoyant, thus continuing the trend observed in previous periods, while more recent data signal a slight slowdown for large firms in 2018. Following a period of gradual decline, the average collection and payment periods stabilised in 2017, and the information drawn from the CBQ suggests that they resumed a downward path in 2018, at least in the case of larger firms. That would be a sign that liquidity tensions have remained moderate.

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1 Specifically, the average supplier payment period is calculated as the ratio of the balance of suppliers (net of advances) to annual purchases (plus work performed by other companies and VAT borne by suppliers for domestic transactions). The average customer collection period is calculated in an equivalent fashion (customers, net of advances, over annual sales, plus VAT charged to customers for domestic transactions, multiplied by 365).

2 Specifically, the average period for net trade finance granted is obtained as the difference between the balance of customers (net of advances) and that of suppliers (net of advances), divided by total annual sales plus VAT charged to suppliers for domestic transactions, multiplied by 365.
RECENT DEVELOPMENTS IN TRADE FINANCE RECEIVED AND GRANTED BY NON-FINANCIAL CORPORATIONS

(Box 1)

Recent developments in trade finance received and granted by non-financial corporations to 2018 Q4: Preliminary year-end data

Chart 1: Growth of Customer Balance

Chart 2: Growth of Supplier Balance

Chart 3: Average Supplier Payment and Customer Collection Periods Weighted Average

Chart 4: Net Trade Finance, Weighted Average

Chart 5: Weight of Sales Depending on Sign of Net Trade Finance

Chart 6: Net Trade Finance, Distribution

Source: Banco de España.

a CBQ data. Average of the four quarters of the year. In the case of chart 5, the data are the outcome of adding, to the previous year’s figure, the change in the annual average of the weight of sales.

b The supplier payment period is defined as the ratio of suppliers to annual purchases multiplied by 365. The customer collection period is defined as the ratio of customers to annual sales multiplied by 365.

c Defined as the ratio of customers minus suppliers to annual sales multiplied by 365.