ANALYTICAL ARTICLES

Economic Bulletin

4/2019

BANCO DE ESPAÑA
Eurosistema

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2019 Q2

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ABSTRACT

On information from the Central Balance Sheet Data Office Quarterly Survey (CBQ), activity at non-financial corporations slowed in 2019 Q1, with gross value added (GVA) increasing very moderately (0.4%), below that posted in the same period last year. Employment continued to rise (0.6%), but also at a slower pace than in 2018. In this setting, the return on investment ratio declined slightly, while debt ratios rose somewhat, reversing the downward trend of recent years. However, the decline in average borrowing costs, together with the slight growth in profit, led to a further decrease in the debt burden ratio, down to all-time lows in the CBQ historical series. The article includes a box which shows that the average headcount at Spanish firms in 2017 stood below the pre-crisis level. However, despite this aggregate performance, a significant proportion of firms were able to increase their headcount during the period analysed.

Keywords: activity, earnings, financial situation, non-financial corporations.

JEL codes: L25, M21, M41.

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Overview

The information from the Central Balance Sheet Data Office Quarterly Survey (CBQ) shows that firms' activity slowed down in the first half of 2019.[1] Thus, gross value added (GVA) in the sample grew only by 0.4% in year-on-year and nominal terms, a substantially lower pace than a year earlier (4.8%). If each branch of activity is weighted according to its share of the non-financial corporations sector as a whole, the performance of GVA is also unfavourable, changing from a growth rate of 5.5% in 2018 Q1 to contracting by 0.2% in 2019 H1.[2] All the foregoing, in a setting in which both the purchases and sales of these firms in Spain continued to gain relative weight compared with activity abroad. Employment rose by 0.6% up to June, also down from a year earlier (2%). The increase in the numbers employed was driven mainly by the growth of permanent hires (up 1%).

The performance of GVA and personnel costs led to Gross Operating Profit (GOP) contracting by 2.2%, as compared with growth of 6.1% the previous year. Ordinary Net Profit (ONP) also slowed in the latest period (posting growth of 1.4% compared with 8.4% in the same period of 2018), mainly as a result of the fall in GOP, which was partially offset by the favourable performance of revenue and of financial costs. Lastly, the performance of extraordinary gains had a negative impact on profit for the year, which decreased by 41.4% compared with the level in 2018, a year in which high extraordinary revenue was recorded. Net profit expressed as a percentage of GVA was 25.5%, well below the previous year's exceptionally high figure of 41.7%.

As a result of the ordinary profit performance, average profitability ratios were slightly lower in 2019 as compared with a year earlier. However, as a result of the decline in

1 This article draws on the information on the 928 firms which had reported their 2019 Q1 and Q2 data to the CBQ by 11 September 2019. In terms of GVA, the sample represents 11.9% of the total non-financial corporations sector (according to the information furnished by National Accounts).

2 The difference between the re-weighted and the aggregate GVA growth rates is mainly on account of the performance of the energy sector, where GVA rose strongly (7.5%). Since this sector is over-represented in the quarterly sample, the re-weighting (which assigns to this sector a relative share of the total non-financial corporations sector more in line with its real share) lessens the impact of these dynamics on the sectoral totals.

the average cost of borrowing to an all-time low of 2.1%, the spread between return on investment and this cost remained at a level similar to that in 2018.

As for firms' financial position, debt ratios rose slightly in 2019, both in terms of debt to assets and of debt to income from ordinary activities. By contrast, the debt burden ratio continued on its downward trend of recent years, reaching all-time lows, driven mainly by lower borrowing costs.

In short, the CBQ data show that business activity and employment in 2019 H1 slowed down relative to the same period a year earlier. Against this background, profitability ratios declined slightly, while debt ratios rose somewhat, interrupting the downward trend of recent years.

Activity

GVA increased very slightly, by 0.4%, up to June 2019, substantially moderating its year-on-year growth rate relative to that recorded a year earlier (4.8%) (see Table 1 and Chart 1). The information on the distribution of firms based on their GVA growth rates suggests that the slowdown is across the board. In particular, growth rates lower than those of the previous year were posted for the three percentiles considered (see Chart 2). The GVA growth rate, re-weighted[3] on the basis of the weight of the sectors in the National Accounts, also reveals a negative performance of activity in the latest period. Thus, the growth of this surplus fell from a positive rate of 5.5% in 2018 H1 to a slightly negative rate of -0.2% in 2019.

This performance came about in a setting in which trade activity grew very moderately, which was reflected in a 0.9% year-on-year increase in turnover up to June 2019 (6.1% in 2018 H1). In this period, activity in Spain was more buoyant than that carried out abroad. This meant that, for the firms in the sample, the weight of both sales and purchases in Spain increased relative to total purchases and sales, standing at 79.4% and 70.6%, respectively (see Table 2).

In comparison with the previous year, GVA performed less favourably across all sectors, except energy (see Table 3). The industrial sector's performance was the worst, with a 6.8% decline in GVA. This was mainly due to the strong falls posted by the sub-sectors relating to oil refining (23.4%), manufacture of mineral and metallic

3 The re-weighted figure is obtained by applying, to the aggregate rate of each sector, the weight of such sector in the total non-financial corporations sector, approximated using National Accounts data. For further 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 article "Results of non-financial corporations in 2018 Q1", *Economic Bulletin,* 2/2018.

Table 1
BUSINESS ACTIVITY AND ORDINARY PROFIT SLOWED IN 2019 H1

	CBI structure	CBI		CBQ		
Databases	2017	2016	2017	2018 Q1-Q4 / 2017 Q1-Q4	2018 Q1-Q2 / 2017 Q1-Q2	2019 Q1-Q2 / 2018 Q1-Q2
Number of corporations		695,717	627,320	1.011	1.047	928
Total national coverage (% of GVA)		50.2	47.1	12.9	13.4	11.9
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.4	6.4	5.8	6.2	1.4
Of which:						
Net amount of turnover and other operating income	*148.0*	*1.2*	*6.7*	*6.8*	*6.1*	*0.9*
2 INPUTS (including taxes)	63.4	0.6	7.0	7.2	6.8	1.9
Of which:						
Net purchases	*40.5*	*0.2*	*7.8*	*8.2*	*10.2*	*-1.3*
Other operating costs	*23.1*	*1.1*	*5.0*	*3.3*	*5.5*	*2.4*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.6	5.6	5.3	3.0	4.8	0.4
3 Personnel costs	23.5	4.7	5.8	3.0	3.7	3.1
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.2	7.3	4.3	2.9	6.1	-2.2
4 Financial revenue	3.4	5.8	11.3	5.9	-4.5	16.1
5 Financial costs	2.2	-9.0	-9.2	-5.0	-3.9	-3.5
6 Depreciation, impairment and operating provisions	5.5	1.9	0.7	2.1	0.7	2.7
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.9	18.3	13.7	6.9	8.4	1.4
7 Gains (losses) from disposals and impairment	-0.8	—	—	—	—	—
7' As a percentage of GVA (7 / S.1)		0.0	-2.2	16.9	15.9	-0.8
8 Changes in fair value and other gains (losses)	-0.5	7.2	27.2	—	—	28.4
8' As a percentage of GVA (8 / S.1)		-1.4	-1.3	-3.7	-3.6	-2.7
9 Corporate income tax	1.5	162.8	-25.6	-4.9	-21.5	62.1
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	6.1	35.7	-3.1	88.1	74.6	-41.4
S.4' As a percentage of GVA (S.4 / S.1)		14.6	16.6	44.6	41.7	25.5
RATES OF RETURN	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / AN	5.2	5.4	6.5	4.2	4.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / RAC	2.8	2.6	2.2	2.2	2.1
R.3 Ordinary return on equity (before taxes)	S.3 / PN	6.8	7.2	9.8	5.8	5.5
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.3	2.8	4.3	2.0	2.0
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.7	5.4	3.2	5.5	-0.2
S.2 GROSS OPERATING PROFIT [S.1 – 3]		7.6	5.1	3.1	7.2	-5.0

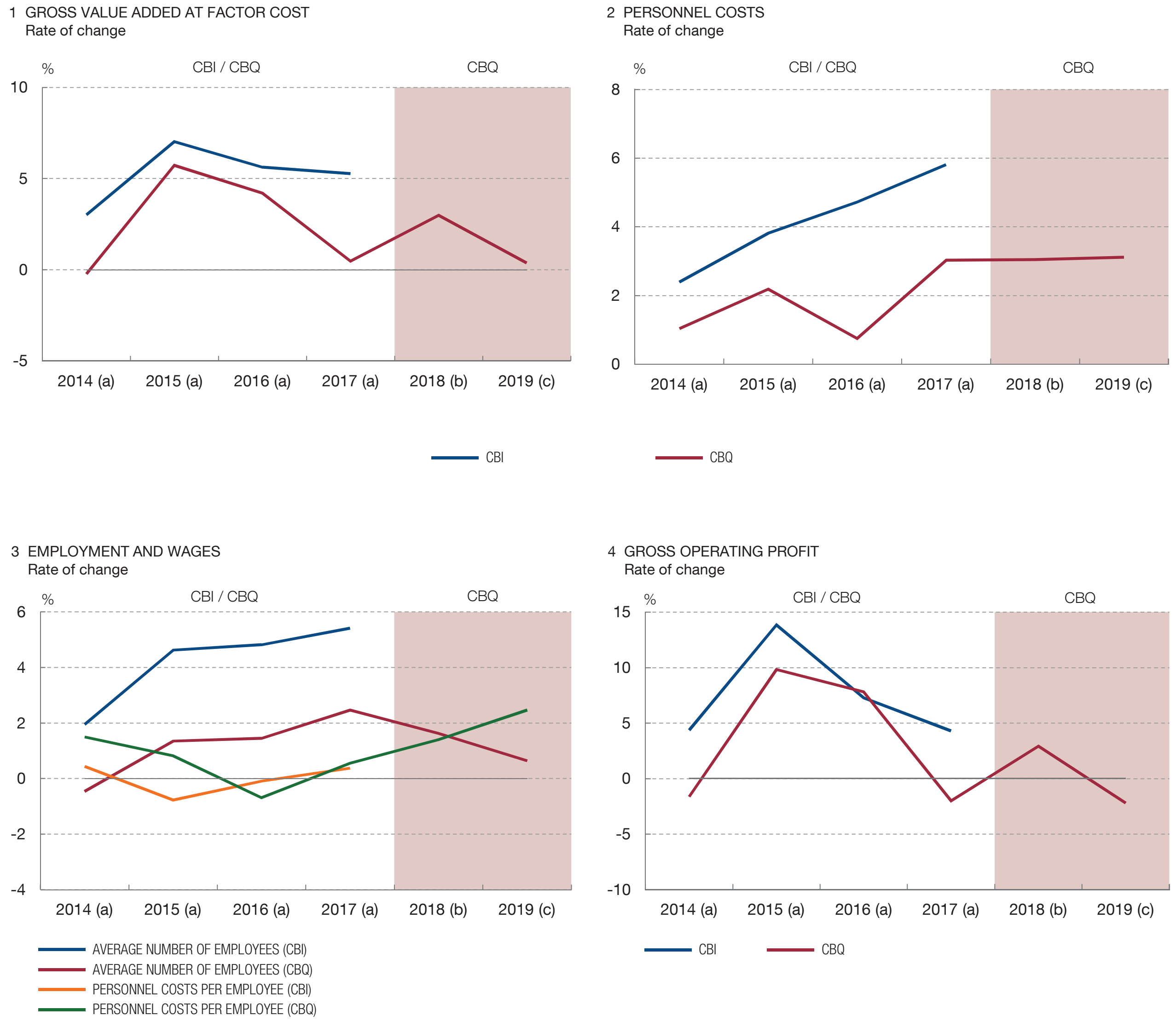
SOURCE: Banco de España.
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

a All the data in this column have been calculated as the weighted average of the quarterly data.
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1).

Chart 1

SLOWDOWN IN ACTIVITY, EMPLOYMENT AND FIRMS' ORDINARY PROFIT IN 2019 H1

Corporate activity decelerated in 2019 H1 and GVA increased very moderately (0.4%), below that posted for 2018 H1. Employment continued to rise, albeit at a slower pace than in previous years, against a backdrop of minor growth in average compensation.



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	688,853	711,056	695,717	627,320	—	—
	CBQ	884	983	984	992	1,011	928
% of GDP of the sector non-financial corporations	CBI	49.9	51.2	50.2	47.1	—	—
	CBQ	13.4	14.0	14.0	13.3	12.0	11.9

SOURCE: Banco de España.

a The 2014, 2015, 2016 and 2017 data, for the corporations reporting to the CBI, and the average of the four quarters of each year in relation to the previous year (CBQ).
b Average of the four quarters of 2018 relative to the same period of 2017.
c Data to 2019 H2 relative to the same period of 2018.

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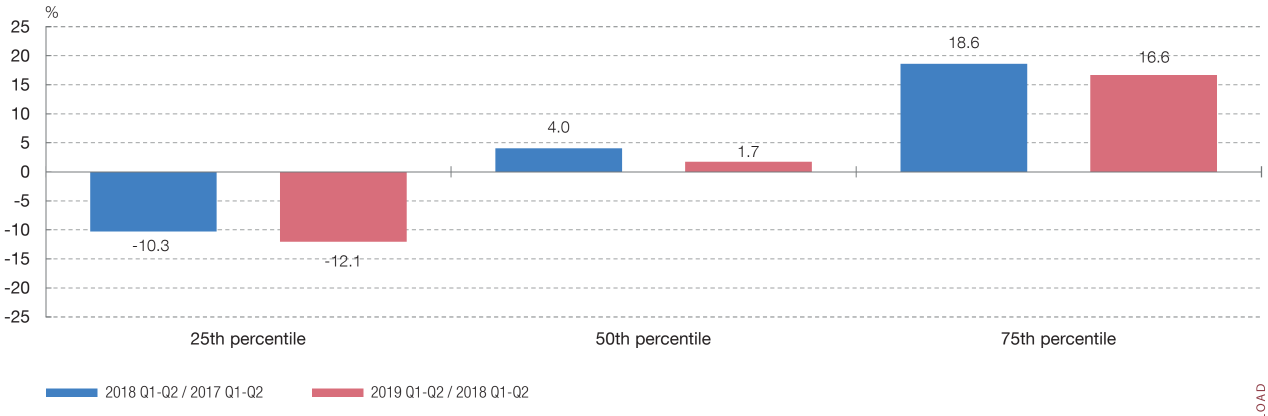
Chart 2
GVA SLOWED ACROSS THE BOARD

GVA slowed across the board, with growth rates lower than those of the previous year for the three percentiles considered.



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SOURCE: Banco de España.

products (22.7%), manufacture of computer and electronic products (21.2%) and other manufacturing industries (9.2%). By contrast, the manufacture of transport equipment and the chemical industry sub-sectors, with GVA increases of 5.4% and 2.3%, respectively, stood out.

Employment and personnel costs

The personnel costs of the firms in the CBQ sample increased by 3.1% year-on-year in 2019 H1. This is due both to staff increases and, to a greater extent, to the rise in average compensation. Specifically, average headcounts rose by 0.6%, a more moderate rate than that of the previous year (2%, see Table 3), while average employee compensation increased by 2.5%, appreciably higher than the growth observed in the same period of 2018 (1.7%). The rise in employment was boosted by the 1% increase in permanent hires (see Table 4), while temporary employment declined by 1.3%.

The percentage of firms that created employment stood at 49.6% in 2019 H1, down slightly from the previous year (51.7%, see Table 5), but still well above the proportion of firms that destroyed jobs (35.7%). This latter percentage increased for the first time since 2013, when the crisis came to an end, and was 2.5 percentage points (pp) higher than in the previous year. In this context, an analysis conducted by the Integrated Central Balance Sheet Data Office (CBI) shows that, although employment performed positively during the recovery, the average headcount in 2017 (the last

Table 2

FIRMS' DOMESTIC ACTIVITY CONTINUES TO GAIN WEIGHT

		CBA	CBQ (a)		
		2017	2018 Q1-Q4 (a)	2018 Q1-Q2	2019 Q1-Q2
Total corporations		9,916	1,011	928	928
Corporations reporting source/destination		9,916	952	868	868
Percentage of net purchases according to source	Spain	65.6	70.0	67.4	70.6
	Total abroad	34.4	30.0	32.6	29.4
	EU countries	20.1	19.7	21.2	20.1
	Third countries	14.3	10.3	11.4	9.2
Percentage of net turnover according to destination	Spain	76.4	79.5	78.8	79.4
	Total abroad	23.6	20.5	21.2	20.6
	EU countries	15.4	14.0	14.3	14.0
	Third countries	8.2	6.5	6.9	6.6
Change in net external demand (exports less imports), rate of change	Industry	-2.2	1.1	4.0	-1.1
	Other corporations	-9.3	43.8	-48.8	—

SOURCE: Banco de España.

a All the data in these columns have been calculated as the weighted average of the quarterly data.

Table 3

BOTH GVA AND EMPLOYMENT PERFORMED UNFAVOURABLY ACROSS ALMOST ALL SECTORS

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)		
	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2
TOTAL	**5.3**	**3.0**	**4.8**	**0.4**	**5.4**	**1.6**	**2.0**	**0.6**	**5.8**	**3.0**	**3.7**	**3.1**	**0.4**	**1.4**	**1.7**	**2.5**
SIZE																
Small	8.8	—	—	—	6.8	—	—	—	8.5	—	—	—	1.6	—	—	—
Medium	6.3	6.0	8.3	-2.0	5.4	4.4	4.8	3.9	6.9	6.6	6.1	3.9	1.5	2.1	1.2	0.0
Large	3.7	3.0	4.8	0.4	4.5	1.6	1.9	0.6	4.3	3.0	3.6	3.1	-0.2	1.4	1.7	2.5
BREAKDOWN BY ACTIVITY																
Energy	-4.5	5.7	0.6	7.5	3.2	0.8	1.0	-1.3	3.3	1.0	0.8	2.7	0.1	0.2	-0.2	4.1
Industry	4.7	-0.1	5.8	-6.8	3.6	0.7	1.1	-0.7	4.5	2.9	4.1	1.6	0.9	2.1	2.9	2.3
Wholesale and retail trade and accommodation & food service activity	5.8	3.6	11.1	0.0	5.3	1.3	1.4	1.0	6.4	4.1	5.1	2.7	1.0	2.8	3.7	1.7
Information and communications	3.9	1.4	1.4	-0.3	3.4	2.2	2.7	1.9	3.2	2.6	1.9	2.4	-0.3	0.3	-0.7	0.5
Other activities	7.8	3.9	4.7	1.4	6.6	2.5	3.0	1.1	6.9	3.2	3.9	4.7	0.2	0.7	0.9	3.5

SOURCE: Banco de España.

Table 4

THE SLIGHT GROWTH IN EMPLOYMENT WAS DRIVEN BY THE INCREASE IN PERMANENT STAFF

		Total CBQ corporations 2019 Q1 - Q2	Corporation increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		928	596	332
NUMBER OF EMPLOYEES				
Initial situation 2018 Q1-Q2 (000s)		832	455	377
Rate 2019 Q1-Q2/ 2018 Q1-Q2		0.6	5.2	-4.9
Permanent	Initial situation 2018 Q1-Q2 (000s)	692	390	302
	Rate 2019 Q1-Q2/ 2018 Q1-Q2	1.0	4.1	-2.9
Non-permanent	Initial situation 2018 Q1-Q2 (000s)	140	66	75
	Rate 2019 Q1-Q2/ 2018 Q1-Q2	-1.3	11.9	-13.0

SOURCE: Banco de España.

Table 5

THE PERCENTAGE OF CORPORATIONS CREATING EMPLOYMENT CONTINUES TO EXCEED THE PERCENTAGE SHEDDING JOBS, ALTHOUGH THE GAP HAS NARROWED

	CBI (a)		CBQ (b)			
	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2
Number of corporations	508,655	461,040	992	1,011	1,047	928
PERSONNEL COSTS	100	100	100	100	100	100
Falling	34.4	31.9	32.6	32.4	31.0	33.0
Constant or rising	65.6	68.1	67.4	67.6	69.0	67.0
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	28.6	28.2	34.2	33.4	33.3	35.7
Constant	27.5	27.7	15.1	14.8	14.9	14.6
Rising	43.9	44.1	50.6	51.8	51.8	49.6

SOURCE: Banco de España.

a To calculate these percentages, corporations that did not have any staff in either of these years were excluded.
b Weighted average of the relevant quarters for each column.

year covered by this database) remained below that of 2007, before the start of the recession (see Box 1).

The sectoral breakdown shows that employment growth to June 2019 was mainly in the services-related sectors. Thus, for example, average workforces increased in the wholesale and retail trade and accommodation and food service activities sector (1%), and in information and communication (1.9%). By contrast, they fell in energy (1.3%), and in industry (0.7%). Lastly, as regards average compensation, the largest wage increases were observed in the energy sector (4.1%). By contrast, they were more moderate in the wholesale and retail trade and accommodation and food

Chart 3

AGGREGATE RETURNS FELL SLIGHTLY IN 2019, BUT THE SPREAD OVER THE COST OF BORROWING REMAINED STABLE

As a result of the ordinary profit performance, average profitability ratios were slightly lower than those of the previous year, although the spread between the two ratios remained stable on account of the lower average cost of borrowing.

Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	688,853	711,056	695,717	627,320	—	—
	CBQ	884	983	984	992	1,011	928
Percentage of GVA of the sector non-financial corporations	CBI	49.9	51.2	50.2	47.1	—	—
	CBQ	13.4	14.0	14.0	13.3	12.0	11.9

SOURCE: Banco de España.

a The 2014, 2015, 2016 and 2017 data for 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.
b Average for the four quarters of 2018. The rates are calculated relative to the same period of 2017.
c Data up to 2019 Q2. The rates are calculated relative to the same period of 2018.

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Table 6

THE LOWER AVERAGE COST OF BORROWING DROVE DOWN FINANCIAL COSTS

	CBI	CBQ	
	2016 / 2017	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1-Q2 / 2018 Q1-Q2
Change in financial costs	-9.2	-5.0	-3.5
A Interest on borrowed funds	-7.4	-5.0	-3.6
1 Due to the cost (interest rate)	-6.4	-6.2	-8.5
2 Due to the amount of interest-bearing debt	-1.0	1.2	4.9
B Other financial costs	-1.8	-0.1	0.0

SOURCE: Banco de España.

Table 7

MEDIAN RETURNS WERE UNFAVOURABLE, AS WAS THE AGGREGATE FIGURE

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2018 Q1-Q2	2019 Q1-Q2	2018 Q1-Q2	2019 Q1-Q2
Number of corporations		1,047	928	1,047	928
Percentage of corporations by profitability bracket	R <= 0%	22.3	24.8	25.3	28.7
	0% < R <= 5%	25.3	24.5	18.0	15.5
	5% < R <= 10%	14.5	13.9	11.1	11.0
	10% < R <= 15%	10.8	9.2	9.0	8.6
	15% < R	27.0	27.6	36.6	36.2
MEMORANDUM ITEM: Average return		5.6	5.2	8.0	7.6

SOURCE: Banco de España.

service activities sector (1.7%), and particularly in information and communication (0.5%).

Profit, rates of return and debt

As a result of the changes in GVA and in personnel costs described above, gross operating profit (GOP) contracted by 2.2% in 2019 H1, compared with growth of 6.1% a year earlier (see Table 1 and Chart 1).

Given the developments in ordinary revenue and costs, ONP showed growth of 1.4% in 2019 H1, again lower than the growth rate for the same period of 2018 (8.4%, see

Table 8

THE AGGREGATE RETURN ON INVESTMENT FELL SLIGHTLY, WITH SOME HETEROGENEITY BETWEEN SECTORS

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI – cost of debt (R.1 – R.2)			
	CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)		
	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2	2017	2018 Q1-Q4	2018 Q1-Q2	2019 Q1-Q2
TOTAL	**4.3**	**2.9**	**6.1**	**-2.2**	**13.7**	**6.9**	**8.4**	**1.4**	**5.4**	**6.5**	**4.2**	**4.0**	**2.8**	**4.3**	**2.0**	**2.0**
SIZE																
Small	9.7	—	—	—	15.2	—	—	—	3.4	—	—	—	1.0	—	—	—
Medium	4.8	4.7	13.0	-14.4	4.6	4.3	10.7	-18.0	6.9	7.6	7.8	6.6	4.2	5.5	5.7	4.9
Large	2.9	2.9	6.0	-2.1	14.1	6.9	8.4	1.6	6.0	6.5	4.2	4.0	3.3	4.3	2.0	2.0
BREAKDOWN BY ACTIVITY																
Energy	-7.9	7.7	0.5	9.2	-2.6	6.6	1.6	42.7	5.3	5.0	3.6	4.7	2.4	2.6	1.2	2.7
Industry	5.0	-3.2	8.0	-16.0	6.8	-1.6	6.6	-27.3	8.7	9.8	8.5	6.5	5.9	7.3	6.3	4.0
Wholesale & retail trade and accommodation & food service activities	4.5	2.8	21.8	-3.9	4.6	8.6	29.5	-1.9	8.6	15.4	9.3	7.6	6.1	13.6	7.5	5.8
Information and communication	4.6	0.8	1.1	-1.7	7.1	1.0	4.7	-1.8	12.0	17.0	15.8	15.9	9.6	15.6	14.5	14.8
Other activities	10.1	5.1	6.2	-3.8	32.0	24.1	0.1	-7.4	3.9	5.0	2.6	2.3	1.3	2.8	0.3	0.2

SOURCE: Banco de España.

a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 3). Specifically, financial revenue increased by 16.1% during the first six months of the year, as a consequence of higher dividend income (up by 17.8%) and the increase in interest received, which grew by 10.3%. Financial costs, on the other hand, continued to decline, by 3.5%. This was driven by lower average financing costs for firms, which were only partly offset by slight growth in interest-bearing debt (see Table 6).

Extraordinary costs and revenue had an adverse impact on the final surplus, owing mainly to the high gains arising in the previous year. This translated into a sharp decline in profit for the year, which fell by 41.4%. As a percentage of GVA, it stood at 25.5% in 2019 H1, more than 15 pp below the figure recorded in the same period of 2018.

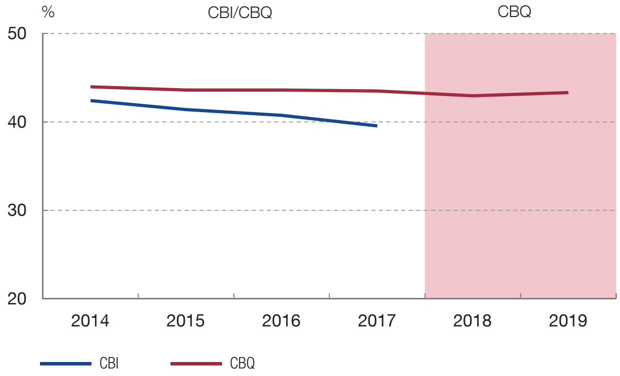
As a result of developments in ordinary profit, the aggregate rates of return in 2019 H1 stood at slightly lower levels than in the previous year. The return on investment was 4%, 0.2 pp down on 2018 H1, and the return on equity edged down 0.3 pp to 5.5%. The median values for these indicators also show a declining trend, in the case both of the return on investment, which fell from 5.6% to 5.2%, and in that of the return on equity, which decreased by 0.4 pp to 7.6% (see Table 7). This table also

Chart 4

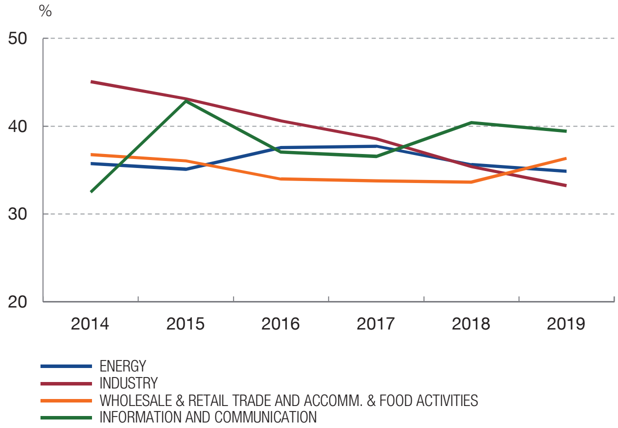
DEBT RATIOS ROSE IN 2019, WHILE THE DEBT BURDEN RATIO CONTINUED TO DECREASE SLIGHTLY

Debt levels rose somewhat in 2019 H1. By contrast, the debt burden ratio continued to decline, albeit more moderately than in previous years.

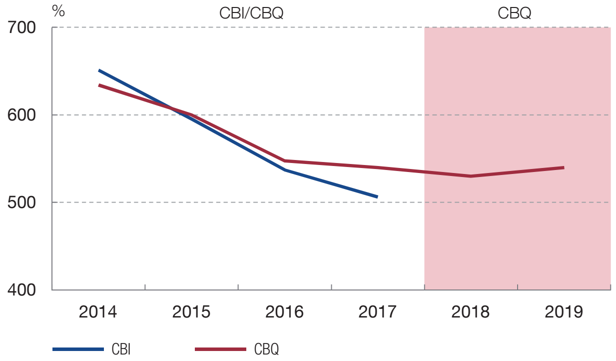
1 E.1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



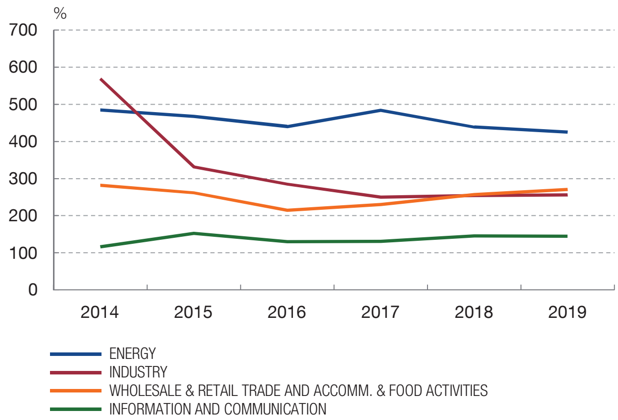
2 E.1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



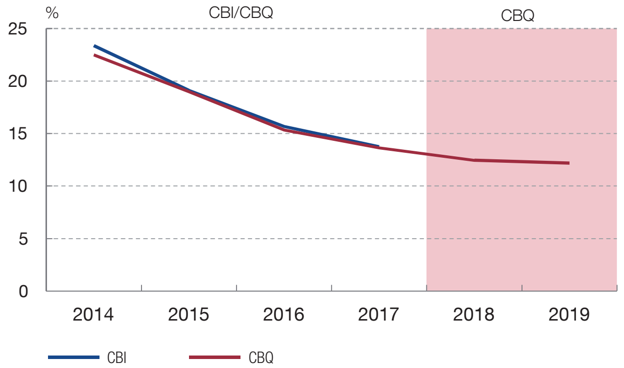
3 E.2. INTEREST-BEARING BORROWING (b) / (GOP + financial revenue) (c)
TOTAL CORPORATIONS
Ratios



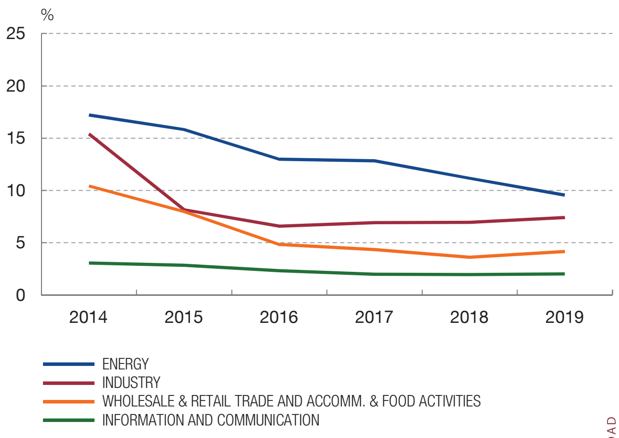
4 E.2. INTEREST-BEARING BORROWING (b) /(GOP + financial revenue) (c)
BREAKDOWN BY SECTOR. CBQ



5 INTEREST BURDEN
TOTAL CORPORATIONS
(Interest on borrowed funds) / (GOP + financial revenue) (c)



6 INTEREST BURDEN
BREAKDOWN BY SECTOR. CBQ
(Interest on borrowed funds) / (GOP + financial revenue) (c)



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SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Equity includes an adjustment to current prices.
b Calculated from final balance sheet figures. Includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
c The costs and revenue included in these ratios are calculated on the basis of cumulative four-quarter amounts.

shows the increase in the percentage of firms that posted negative values in 2019.

The sectoral breakdown of the aggregate return on investment reveals disparate behaviour. Thus, the sharpest declines were recorded in industry (of 2 pp, to 6.5%) and in wholesale and retail trade and accommodation and food service activities (of 1.7 pp, to 7.6%) (see Table 8), while energy was the only sector to post increases (returns rose by somewhat more than 1 pp, to 4.7%).

The average cost of borrowing fell by 0.1 pp in 2019 H1, to 2.1%. Consequently, the spread between the return on investment and the cost of borrowing was practically the same as that of the previous year, at around 2 pp. Nonetheless, this figure continues to be lower than that recorded on average in the pre-crisis years.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, rebounded slightly in 2019 H1 to 43.3%, 0.3 pp up on the 2018 figure. The breakdown of the information by sector shows that this rise largely reflected the increase in the wholesale and retail trade and accommodation and food services sector, since the other sectors posted slight declines (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 grew slightly, to 540% (compared with 530% in 2018 H1). By sector, this indicator increased again in the wholesale and retail trade and accommodation and food services sector, holding practically stable in the other sectors. The ratio that measures the interest burden fell by 0.2 pp in 2019 to 12.2%, which was due to the decline in financial costs. The sectoral breakdown shows a declining trend in this ratio in energy and relative stability in the other sectors.

26.9.2019.

Box 1

CHANGES IN THE SIZE OF SPANISH NON-FINANCIAL CORPORATIONS BETWEEN 2007 AND 2017

This Box analyses how the average size of Spanish firms has changed following the recession which broke out in 2008 and in the cyclical recovery which took place from 2014. This matter is important both at firm level and because of its impact on the macroeconomic environment. Thus the ample evidence of a strong link between size and productivity[1] suggests that larger firms have higher productivity, which makes for greater economic growth in aggregate terms. Also, larger firms can more readily diversity their business activity (e.g. gearing it to foreign markets) and sources of financing.[2]

The analysis draws on the integrated CBSO database, which contains annual information on some 600,000 non-financial corporations up to 2017 inclusive. As is quite common in the literature, in this exercise the size of a firm is proxied by its average number of workers.[3]

The information from the integrated CBSO database shows that between 2007 and 2013 the average headcount of Spanish non-financial corporations decreased by more than 20% (see Chart 1). This decline was sharper in the SMEs segment (fall of 25%) than in large firms (12%), and was particularly strong in construction and in information and communication. The subsequent expansionary phase allowed the firms in the sample to raise somewhat their average headcount between 2014 and 2017, although they did not reach the levels of ten years earlier. The breakdown by size shows that the recent recovery was more marked among larger firms and, as a result, their average headcount at the end of the analysis period was practically the same as before the crisis, while the average headcount of SMEs continued to be 22% lower. The sectoral breakdown shows that the average headcount in 2017 remained below that of 2007 in all sectors of activity.

The evidence described so far is calculated from variable samples (i.e. the firms analysed in 2007 are not the same as those examined in 2017) and is presumably influenced to a large extent by the significant creation and destruction

Chart 1
CHANGE IN AVERAGE NUMBER OF EMPLOYEES BY FIRM

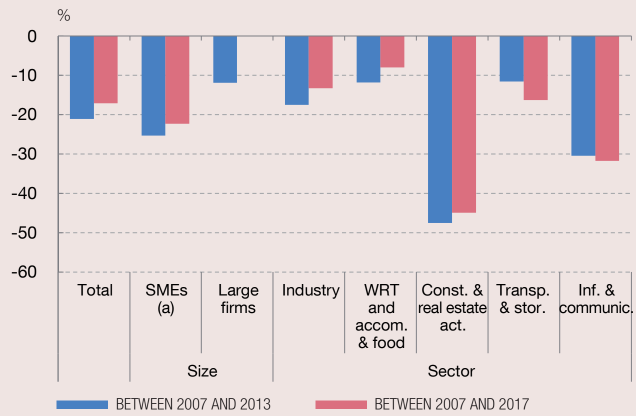
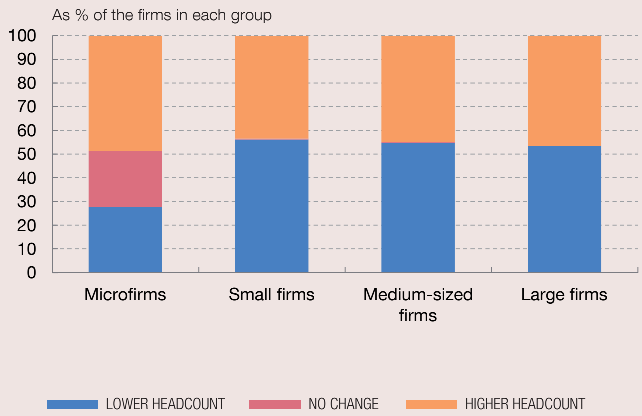


Chart 2
CHANGES IN AVERAGE HEADCOUNT BETWEEN 2007 AND 2017. BREAKDOWN BY SIZE SEGMENT (b) (c)



SOURCE: Banco de España.

a SMEs are defined as firms with fewer than 250 employees.
b This analysis is conducted on a sub-sample of around 150,000 firms on which information at the start and the end of the analysis period is available.
c Large firms are defined as having 250 or more employees, medium-sized firms as having between 50 and 249 employees, small firms as having between 10 and 49 employees, and microfirms as having nine or less employees.

1 See Chapter 4 of the Banco de España's 2015 Annual Report, and the article "Growing by learning: firm-level evidence on the size-productivity nexus" by Enrique Moral, March 2018.

2 See, for example, "Evolución de las inversiones en el extranjero de las empresas españolas e implicaciones para su estructura financiera y rentabilidad", *Boletín Económico,* December 2011, or "Recent developments in non-bank financing of Spanish firms", Economic Bulletin 4/2018.

3 In particular, the customary dividing line between large firms and SMEs, set at 250 employees, is applied. As explained below in the Box, SMEs may be further divided into three sub-categories: microfirms, small firms and average-sized firms.

of firms in Spain during the period considered. It was probably also affected by other factors such as, for example, those associated with corporate mergers, divisions or reorganisations. For these reasons, it is useful to supplement the foregoing analysis with another based on a fixed sample of firms that survived the crisis period and remained active in the more recent expansionary phase. In this respect, the integrated CBSO database allows the identification of a sub-sample of around 150,000 firms for which we have information from before the recession (2007), at the end of the recession (2013) and for the last year covered by this database (2017).

When the analysis of Chart 1 is reproduced for this sub-set of firms, the resulting profile is similar to that obtained for the full sample, although the size of the variations is more moderate. This seems natural given that the firms in this sub-sample are among those which successfully weathered the recession. It can also be seen that some sectors behaved more strongly in the recovery than the full sample did. Thus, for example, in the wholesale and retail trade and accommodation and food service activities sector, the firms that managed to remain in business in the period 2007-2017 had an average headcount in 2017 which was slightly higher than at the beginning of the crisis.

The sub-sample of firms used in the aforementioned exercise also allows us to gauge how widespread were the changes described above. To carry out this analysis, we classified the firms into four categories solely on their average headcount at the beginning of the period (2007). In particular, the firms were divided into microfirms (up to nine employees), small firms (10 to 49 employees), medium-sized firms (50 to 249 employees) and large firms (more than 250 employees).

Chart 2 shows that, against a background in which headcount reductions predominated in nearly all size segments, this phenomenon was compatible with increases in the average headcount of a significant proportion of firms in each category (between 43% and 49%). In particular, 45% of medium-sized firms bettered their pre-crisis headcount, and 4% of them even changed category, becoming large firms by the end of the period analysed.

In summary, on information from the integrated CBSO database, between 2007 and 2017 that average headcount of Spanish non-financial corporations decreased. This phenomenon was fairly widespread across sectors, albeit mainly linked to SMEs. A supplementary analysis conducted on a sample of firms that remained active throughout the whole period under analysis suggests that a significant proportion of these firms raised their average headcount above its level before the crisis.