Results of non-financial firms in 1998 and in the first three quarters of 1999 (1)

1. INTRODUCTION

At the same time as in previous years, the Banco de España hereby presents the results of the Central Balance Sheet Office Annual Survey (CBA) for the latest completed year (in this case 1998), and those of the Central Balance Sheet Office Quarterly Survey (CBQ) for the first three quarters of the current year (1999).

The annual CBA data for 1998 confirm what was indicated by the CBQ sample of firms in March 1999, and which subsequent information has been confirming, namely that economic growth, based on the healthy performance of final consumption expenditure and on capital investment, firmed in 1998. The slowdown in exports in 1998 was reflected in the activity of the CBA firms belonging to the sectors most open to foreign markets, in particular manufacturing, where value-added actually fell from the fourth quarter of 1998. Against this backdrop, 1999 commenced amid relative business uncertainty, which translated into more moderate growth in productive activity in the first few months of the year than in the previous year. Compared to the same period a year earlier, in the first three quarters of 1999 there was a decline in the rate of growth of the nominal GVA of the CBQ firms. This reflects the effect of the fall in the prices of certain output (charges in the communications sector) and the rise in the prices of certain inputs (of the oil refining sector). Removing these effects, the positive performance of activity in the third quarter continues to be based on the behaviour of demand and on a progressive recovery in the external sector.

As was also anticipated with the presentation of the CBQ data for the fourth quarter of 1998, the CBA results now confirm that growth in productive activity during 1998 was accompanied by strong employment growth in the reporting firms. Personnel costs rose both in 1998

(1) The information published in this article relates to the 5,877 firms which voluntarily sent their data to the Central Balance Sheet Office (the CBA survey) to October 29th, and to the 763 firms which, on average, sent their data to the Central Balance Sheet Office (the CBQ survey) to November 17th 1999. In the first case, the firms reporting to the CBA account for 34.7% of the total activity of the non-financial firms sector (measured in terms of gross value added at factor cost, GVA), while in the case of the CBQ the coverage is 16.2%. The information collected by the CBA is received with a greater delay than that of the CBQ (the lag in publication with respect to the closing date of the accounts is 11 months, as against three in the case of the CBQ), but it is more detailed, while the CBQ information is more up-to-date and summarised. The profiles of the two sources of information are linked, so that the quarterly data satisfactorily anticipate those published subsequently on the basis of the annual information.

TABLE 1

Profit and loss account. Year-on-year performance
(Growth rates the same firms on the same period a year earlier /
% of GVA at factor cost in the case of the net result)

Data bases	CBA		CBQ		
	1997	1998	98 Q1-Q4 / 97 Q1-Q4 (a)	98 Q1-Q3 (a)	99 Q1-Q3 (a)
Number of firms / Total national coverage	7716/37.3 %	5877/34.7 %	825/19.7 %	838/20.1 %	763/16.2 %
1. VALUE OF OUTPUT (including subsidies)	10.0	6.1	2.9	3.7	7.4
Of which:					
1. Net amount of turnover and other operating income	9.9	6.7	3.2	4.3	8.6
2. INPUTS (including taxes)	11.5	5.8	2.2	2.5	11.1
Of which:					
1. Net purchases	11.8	3.2	0.6	1.5	12.1
2. Other operating costs	10.6	10.5	7.0	6.3	12.3
S.1. GROSS VALUE ADDED AT FACTOR COST	7.0	6.7	4.0	5.5	2.5
3. Personnel costs	4.0	5.0	3.2	3.8	0.7
S.2. GROSS OPERATING RESULT	10.9	8.6	4.8	7.0	3.9
4. Financial revenue	11.3	9.8	15.4	2.3	36.3
5. Financial costs	–13.7	–8.7	–8.9	–8.3	–7.6
6. Corporate income tax	21.1	33.6	17.7	17.4	20.1
S.3. FUNDS GENERATED FROM OPERATIONS	17.2	10.2	8.1	9.2	8.4
7. Depreciation and provisions	25.3	17.8	–5.3	–3.6	6.9
S.4. TOTAL NET RESULT (% of GVA at factor cost)	14.9	15.8	19.1	20.0	24.7
PROFITABILITY RATIONS					
R.1. Ordinary return on net assets (before taxes) (b)	7.6	8.4	8.9	8.9	9.2
R.2. Interest on borrowed funds/ interest-bearing borrowing	6.7	5.7	6.4	6.4	4.8
R.3. Ordinary return on equity (before taxes) (b)	8.0	9.7	10.0	10.0	11.2
R.4. Debt ratio	38.9	39.6	37.3	37.6	36.8
R.5. Leverage (R.1 – R.2) (b)	0.8	2.7	2.5	2.5	4.5

Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.

(b) Ratio calculated in accordance with the new methodology explained in this article and in the annual monograph of the Central Balance Sheet Office.

CHART 1

Non-financial firms reporting to the Central Balance Sheet Office (a)

NUMBER OF FIRMS

CBA	7.838	8.111	8.019	7.716	5.877	
CBQ	615	722	727	725	825	763

% OF GDP OF NON-FINANCIAL FIRMS SECTOR

CBA	34,6	36,9	38,6	38,0	34,7	
CBQ	18,4	21,5	20,9	20,6	19,7	16,2

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CBA data

CBQ data

Source: Banco de España.

(a) Information available to November 17th 1999 (CBA and CBQ).

(b) The 1994, 1995, 1996, 1997 ad 1998 data are based on information from the firms included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

(c) The 1999 data are the average of the three quarters of 1999 in relation to the same period in 1998.

and in the first nine months of 1999, due to the take-off of the creation of both permanent and temporary jobs. As is becoming customary, and as explained in previous editions of this article, this trend is diminished (and in some quarters even reversed) when the quarterly series (obtained from the CBQ) is analysed. This is because the staff adjustment processes in large firms belonging to very specific sectors introduce a significant bias into the CBQ sample, in which they have a disproportionate weight. Employment creation was especially intense in small and medium-sized firms (see Box 1). Average compensation grew at a slightly higher rate than the CPI in 1998, although levels remained relatively moderate in that year and in 1999. It should be taken into account however that the stability of the growth in average compensation is due primarily to the effect on the overall figure of the lower starting wages paid to newly hired workers.

Together the positive developments in activity and personnel costs prompted significant growth in the gross operating result in 1998, which moderated in the first nine months of 1999. The weight of financial costs in the firms' profit and loss accounts continued to fall, in both absolute and relative terms, in step with the decline in interest rates. The negative rates of change in this variable, recorded both in 1998 and in the first three quarters of 1999, explain why financial costs reached their lowest level to date in the series of available data (in 1999 they represented 2.5 % of the whole of the output of the firms analysed, whereas in 1983, when the Central Balance Sheet Office series begin, this percentage was 9 %). The aforementioned reduction is based on the cumulative effect of the passing through of the successive reductions in interest rates to the firms' cost of debt. This has brought the cost-of-debt ratio (interest on borrowed funds or R.2) down to record lows. Favourable business expectations, combined with the cheapness of sources of financing, prompted the firms to increase their indebtedness, both in 1998 and in the first three quarters of 1999, and thereby capitalise on the favourable credit market conditions. However, the debt ratio continued to decline slightly, as a consequence of the increase in equity. This gave rise to a very positive outlook for the sample firms which, in both 1998 and 1999, posted even higher returns [on both net assets (R.1) and equity (R.3)] than in 1997. As mentioned above, this growth in returns was accompanied by a reduction in the cost of debt and, as a result, leverage (R. 5) was positive and rising in both 1998 and the first three quarters of 1999.

In short, the recovery during 1998 in the rates of growth of activity and in returns was accompanied by growth in employment and productive investment in the sample firms, thus confirming what is indicated by alternative sources. The information available for 1999 seems to indicate a similar situation, although two one-off factors (the lowering of telephone charges and the rise in the prices of the oil inputs of the refining industry) had an excessively negative impact on the performance in this period, given the weight of these activities in the CBQ sample. In any event, if instead of analysing the first three quarters of 1999 together, the third quarter is compared with the same period a year earlier (see Box 2 on manufacturing), then a very positive performance is apparent in the latest period too. As a result, the climate of confidence might be expected to hold steady and the current levels of profitability of productive investment, conducive to the creation of employment, to firm.

2. NOMINAL GROSS VALUE ADDED

As mentioned in the introduction, the information obtained by the CBA confirms that business activity grew in 1998 at similar rates to the previous year, consolidating the expansionary path that began in mid-1996. The CBQ information for the first three quarters of 1999 shows a certain continuity in the expansion of productive activity, albeit at a more moderate rate [the rate of change of nominal gross value added (GVA) in this period was 2.5 %; see Table 1 and Chart 1]. The setback suffered by manufacturing at the beginning of the year (already observed in the final quarter of 1998), as a consequence of the instability in foreign markets, and the price developments in certain sectors in the third quarter of 1999 (there was a fall in the final prices applied in the telecommunications sector and an increase in the purchase prices in the oil refining sector), referred to below, were instrumental in this moderation. Analysis of the series of quarter-on-quarter data for 1999, having removed the price effect mentioned above, shows a slightly expansionary profile behind the moderation. In addition, experience would suggest that the CBA data for 1999, which will become available within a year, will show a higher growth rate since, unlike the CBQ, the CBA incorporates the contribution of many small and medium-sized firms. The expansion of business activity continued to be based, both in 1998 and in 1999, primarily on buoyant private consumption and investment. The external activity of the reporting firms, meanwhile, slowed significantly, due to the crisis that has afflicted certain foreign economies. Foreign trade was particularly severely affected in the final quarter of 1998

BOX 1

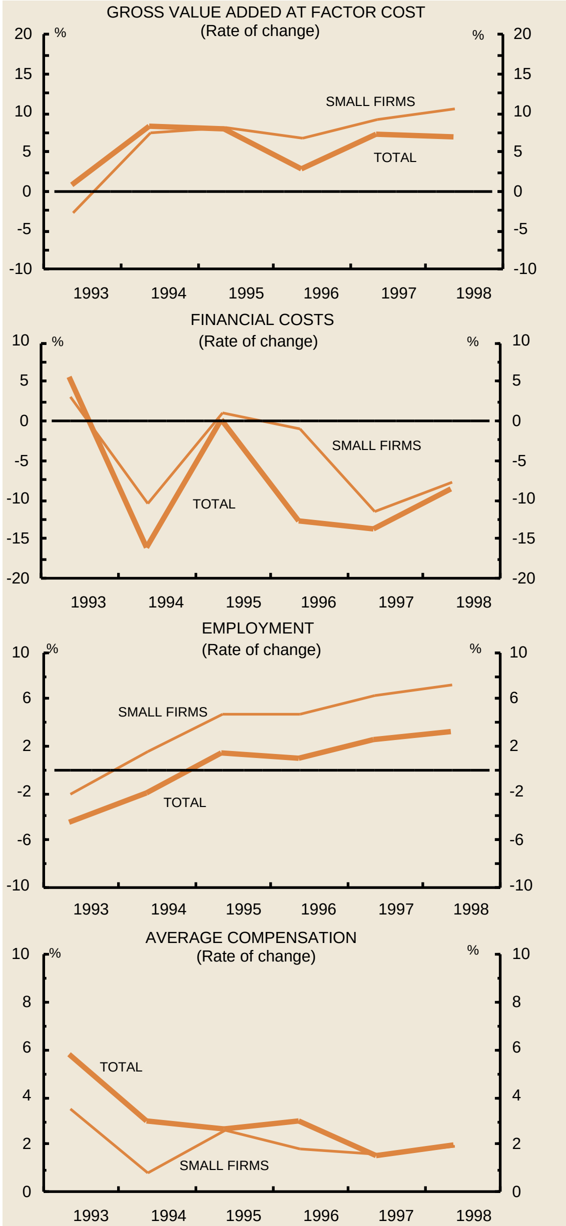
Results of small firms

As in late November 1998, when the annual monograph relating to 1997 and previous years was presented, this box summarises the main features characterising the performance of small Spanish firms in 1998, in relation to the preceding period. This box refers to the tables in the monograph relating to firms with less than 50 employees. The source of these tables is the database maintained by the Central Balance Sheet Office containing the data provided by the Mercantile Registries of Spain (CBBE/RM), which is obtained from the balance sheets filed by firms pursuant to Law 19/1989. Although this database is not as detailed as that of the annual survey of the Central Balance Sheet Office (CBA), it does permit conclusions to be drawn regarding the main magnitudes of the aggregate profit and loss account and the main headings of the balance sheet. As at the closing date of this article data were available for 218,303 firms for 1997 (representing 12.3% of the GVA of non-financial firms) and 38,763 firms for 1998 (2.5%). As can be seen in the adjoining charts, the CBB displays similar profiles to the CBA, although the paths of its main aggregates have more pronounced slopes.

As regards productive activity, GVA grew by 10.7% in 1998, which was above the 9.2% rate recorded in 1997 and consolidates the growth trend announced on the occasion of the presentation of the 1997 results. All the major groupings of activity increased or sustained the rates achieved in 1997, a period in which they had displayed strong growth. Personnel costs grew at high rates as a natural consequence of the increases in employment that have been recorded by small firms on aggregate since 1994 (employment grew by 6.4% in 1997 and by 7.2% in 1998). The growth in employment took place across all the major sectors of activity. The developments in employment and personnel costs together gave rise to growth of 2.5% in average wages and salaries in 1998 for the sample as a whole. As has been becoming usual in the CBA and the CBQ, the sectors with the largest increases in employment were those in which average wages and salaries grew at moderate rates, whereas other sectors, such as manufacturing and the distributive trade, recorded lower employment growth and above-average growth in average wages and salaries. These data also appear to confirm that the hiring of new workers had a decisive effect in the restraint of the average staff costs.

As a consequence of the positive performance of activity, the gross operating result also grew at a strong rate (12.1% in 1998, as against 10.2% in 1997). Financial costs continued to decline and also displayed, in the aggregate of small firms, a gradual reduction in their relative weight, falling by 7.8% in 1998 to represent only 1.8% of the total output of these firms in that period. These developments in the operating surplus and financial costs, combined with those in the rest of the costs and revenues, explains why funds generated grew by 15.6% with respect to the previous year, and why the net result reached 12.5% of GVA in 1998 (an unprecedented level in the series studied by the Central Balance Sheet Office for this aggregate). All this explains why the return on equity, R.3 (the only ratio calculated in a comparable manner in both the CBBE/RM and the CBA), was rising, to reach 10.7% in 1998 for the aggregate of all sectors, and increased across all sectors and sizes.

In short, the results of small firms, according to of this alternative database, confirm the currently favourable condition of the Spanish economy, in terms of activity, employment and profitability. At the same time, since these firms with less than 50 employees are more sheltered from foreign competition, the negative effects of the international crisis were not so apparent as in the case of the large and medium-sized firms.



NUMBER OF FIRMS (a)

	1993	1994	1995	1996	1997	1998	
CBA	7.336	7.838	8.111	8.019	7.716	5.877	
CBB	29.684	48.499	130.799	173.612	218.303	38.763	b)

% OF GDP OF NON-FINANCIAL FIRMS SECTOR

	1993	1994	1995	1996	1997	1998	
CBA	32,6	34,6	36,9	38,6	38,0	34,7	
CBB	1,8	3,0	7,5	10,1	12,3	2,5	b)

CBA data.
CBB (CBBE/RM) data.
Firms with less than 50 employees.

Source: Banco de España
(a) Data available to November 17th 1999 (CBA and CBB).
(b) In the case of the Employment and Average compensation charts, the data correspond to the sub-group of firms reporting consistent employment data (50% of the CBB total).

TABLE 2.a

Value added, employees, personnel costs and average compensation
Breakdown by size, ownership status and main activity of firms
(Growth rates of the same firms on the same period a year earlier)

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	1998	98 Q1-Q4	98 Q1-Q3	98 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	98 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	98 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	98 Q1-Q3
Total	**6.7**	**4.0**	**5.5**	**2.5**	**3.0**	**0.5**	**0.6**	**–0.6**	**5.0**	**3.2**	**3.8**	**0.7**	**1.9**	**2.7**	**3.2**	**1.3**
Total, except electricity sector	**7.9**	**6.0**	**7.8**	**2.3**	**3.4**	**1.1**	**1.2**	**0.3**	**5.5**	**3.9**	**4.4**	**1.8**	**2.0**	**2.8**	**3.2**	**1.6**
SIZE:																
Small	8.2	—	—	—	4.0	—	—	—	7.2	—	—	—	3.1	—	—	—
Medium	10.2	8.2	9.3	6.5	5.7	3.4	3.2	5.0	8.9	6.8	7.3	6.8	3.1	3.2	3.9	1.7
Large	6.2	3.8	5.3	2.3	2.5	0.2	0.4	–1.2	4.3	2.9	3.5	0.1	1.8	2.7	3.1	1.3
OWNERSHIP STATUS:																
Public-sector	5.2	4.5	6.3	4.6	–1.2	0.2	–0.1	1.7	2.1	2.9	3.8	4.9	3.4	2.7	4.0	3.2
Private-sector	6.9	3.9	5.3	2.2	4.1	0.6	0.9	–1.2	5.7	3.2	3.8	–0.5	1.5	2.7	2.9	0.8
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	6.6	6.5	8.9	–1.0	2.0	1.4	1.7	–0.6	5.5	4.8	4.9	2.4	3.4	3.3	3.1	3.1
Production and distribution of electricity, gas and water	0.0	–3.2	–2.8	3.3	–6.0	–6.1	–5.1	–8.6	–2.0	–2.4	–0.7	–7.3	4.3	3.9	4.6	1.5
Distributive trade	14.3	11.5	11.4	9.0	8.4	3.7	3.2	5.8	9.5	6.1	6.2	6.8	1.1	2.3	2.9	1.0
Transport, storage and communications	5.9	4.0	5.8	1.3	–0.8	–1.7	–1.6	–5.6	2.8	1.3	2.4	–3.0	3.7	3.0	4.1	2.7

Source: Banco de España.
(a) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ firms 1999 Q1-Q3	Firms increasing (or not changing) staff levels	Firms reducing staff levels
Number of firms	**763**	**448**	**315**
Personnel costs			
Initial situation 1998 Q1-Q3 (EUR millions)	13 078.5	5 789.7	7 288.8
Rate 99 Q1-Q3/98 Q1-Q3	0.7	9.2	–6.5
Average compensation			
Initial situation 1998 Q1-Q3 (EUR)	26 196.9	23 631.7	28 809.5
Rate 99 Q1-Q3/98 Q1-Q3	1.3	0.8	3.6
Number of employees			
Initial situation 1998 Q1-Q3 (thousands)	498	245	253
Rate 99 Q1-Q3/98 Q1-Q3	–0.6	8.4	–9.6
Permanent			
Initial situation 1998 Q1-Q3 (thousands)	*436*	*200*	*236*
Rate 99 Q1-Q3/98 Q1-Q3	*–1.2*	*6.5*	*–8.0*
Non-permanent			
Initial situation 1998 Q1-Q3 (thousands)	*62*	*45*	*17*
Rate 99 Q1-Q3/98 Q1-Q3	*4.4*	*13.3*	*–24.8*

Source: Banco de España.

and in the first few months of 1999. Manufacturing was the sector hit most severely by the fall in exports. Its growth was more restrained (see Table 2.a and Box 2) both in 1998, when its GVA grew by 6.6 %, against almost 11 % in 1997, and in the first three quarters of the current year, when it posted a cumulative negative rate of -1 %. However, in the third quarter the trend changed and its GVA grew. Table 3 provides certain structural information on these variables and confirms that basically it was domestic sales that remained buoyant and sustained the rate of growth of productive activity in 1999. The recent signs of recovery in foreign economies are having a positive, albeit still weak, impact on foreign activity, which can be expected to become greater in the coming months. Imports were much more dynamic than exports, although the available aggregate data for 1998 do not show this clearly, due to the effect of the sharp falls in the price of crude oil that year.

Analysing productive activity by sector, the distributive trade was notably buoyant. The firms in this sector posted the strongest business expansion, both in 1998 and in the first

TABLE 3

Purchases and turnover of firms reporting data on purchasing sources and sales destinations
Structure

	CBA		CBQ (a)	
	1997	1998	98 Q1-Q4/97 Q1-Q4	99 Q1-Q3/98 Q1/Q3
Total firms	**7 716**	**5 877**	**838**	**763**
Firms reporting source/destination	7 716	5 877	771	717
	%	%	%	%
Net purchases	**100.0**	**100.0**	**100.0**	**100.0**
SOURCE OF PURCHASES:				
Spain	65.8	65.5	69.2	73.5
Total abroad	34.2	34.5	30.8	26.5
EU countries	*22.3*	*23.8*	*22.9*	*16.9*
Third countries	*11.9*	*10.7*	*8.0*	*9.6*
Net turnover	**100.0**	**100.0**	**100.0**	**100.0**
SALES DESTINATIONS:				
Spain	80.4	79.9	86.1	88.4
Total abroad	19.6	20.1	13.9	11.6
EU countries	*14.6*	*15.1*	*10.4*	*7.6*
Third countries	*5.0*	*5.0*	*3.6*	*4.0*

Source: Banco de España.

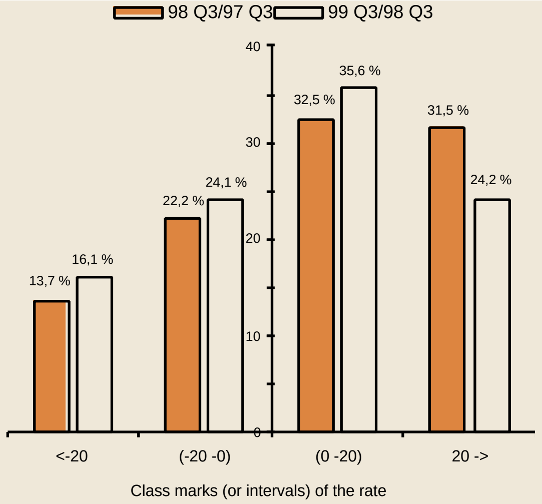
(a) All the data in this column have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of firms.

nine months of 1999 (their GVA grew by 14.3 % and 9 %, respectively), due to being the main beneficiaries of the increase in private consumption. The lowest output growth in 1998 was seen in the electricity, gas and water production sector in 1998 (in fact, its value-added was stagnant in nominal terms). The reductions in electricity charges and the changes arising from the liberalisation of the sector (essentially the commencement of operations in the market for electrical energy) explain why the nominal value of this sector's output was flat in 1998 (with a rate of change of 0 %), a year in which the demand for electricity nevertheless grew strongly. In the first nine months of 1999, when the demand for electricity was again highly favourable, nominal output grew, despite the effects of the reduction in charges agreed for 1999. It should be borne in mind that the legal measures adopted to accelerate liberalisation in this sector and in telecommunications (in which there was also a reduction in charges in 1999) have had a short-run effect on the rate of growth of GVA and will probably continue to affect it in future quarters, to the extent that the number of competitors rises and they participate increasingly more actively in both markets. Manufacturing was especially influenced in the second half of 1998 by the fall in foreign activity. This was reflected in the growth of 6.6 % in its GVA, which was significantly below the 1997 rate of 10.9 %. In the first nine months of 1999 the GVA of manufacturing fell, although as the year has elapsed clears signs of recovery have been apparent. Finally, the transport, storage and communications sector grew both in 1998 and in the first three quarters of 1999, although less and less strongly, due to the effect of the price developments referred to above. As regards size, it was the large firms which, both in 1998 and in 1999, saw a slowdown in the growth of their value-added in nominal terms. As for ownership status, the declining relative importance of the public sector and the significant changes that have taken place in recent years make it difficult to draw conclusions from its data.

Chart 2 shows the distribution of firms by the rate of change in their GVA, without any account being taken of their size and weight in the sample. The main conclusion to be drawn from the chart is that there was still a majority of firms in which GVA was growing (in the third

CHART 2

Distribution of firms by rate of change in GVA at factor cost (99 Q3/98 Q3, 98 Q3/97 Q3)



Source: Banco de España.

quarter of 1999 GVA grew in 59.9 % of all firms), although the proportion was lower than in 1998, and their growth rates lower.

3. EMPLOYMENT AND PERSONNEL COSTS

The most notable development in the periods analysed, without a doubt, was the generalisation of the creation of both permanent and temporary employment by the firms of both the annual and quarterly samples. In the case of the annual sample, the 1998 data show net employment growth for the fourth consecutive year. Moreover, the series has a marked expansionary profile (the 1998 rate reached 3 %) that is particularly strong in the case of permanent employment, which grew by 3.1 %, an unprecedented rate in the last 10 years of the annual series. The CBQ, which anticipated this effect for 1998, also confirms that the favourable trend in this item continued in 1999, although in a somewhat more subdued fashion. As is traditional when analysing employment, the preliminary figure provided by the quarterly data (0.5 % for 1998) is completed and corrected with the data published later by the CBA (3 %). The latter covers smaller firms as well which, due to their buoyancy, contribute positively in expansionary times like the present to the creation of employment. Meanwhile, as mentioned above and in previous editions of this article, the existence of certain adjustments in very specific firms and sectors (in the process of being reorganised or liberalised), which are isolated but quantitatively very significant, distorts the CBQ data downwards. This restructuring is concentrated in the electricity, gas and water production and distribution and the transport and communications sectors, and it results in a fall in employment in the CBQ as a whole of –0.6 % in the first nine months of 1999. If the data relating to these firms is excluded then there is clear growth in both permanent and temporary employment. Table 2.a shows that positive, albeit still low, employment growth is obtained (0.3 % in the first three quarters of 1999) merely by removing the electricity sector from the sample. In manufacturing, the rate of change of employment, reflecting the slowdown in the value-added of the sector, fell from 2.0 % in 1998 to -0.6 % in the first three quarters of 1999. Of the sectors shown in Table 2.a, which are the most significant in the quarterly database, the distributive trade was the only one to increase, notably moreover, its workforce (by 5.8 % in the first nine months of 1999, and by 8.4 % in 1998). Personnel costs rose by 5 % in 1998 and by 0.7 % in the first three quarters of 1999, reflecting the behaviour of employment in 1998 and 1999 discussed above.

Average compensation (personnel costs per worker) grew by 1.9 % in 1998, which was higher than the rates of 1.5 % in 1997 and 1.3 % in the first nine months of 1999. In each case this rate is influenced by the differences between the wages of newly hired workers and of existing staff, as can be seen in Table 2.b and as is discussed below. A sectoral analysis of average compensation shows the impact on the total aggregate of the intense generation of employment detected in the distributive trade. This is the sector in which most newly hired workers are concentrated and, consequently, it also has the lowest rate of growth of average compensation, at around 1 %, well below the rate for the rest of the sectors. Finally, it should be pointed out that the costs associated with the major staff adjustments carried out in certain large firms in the first nine months of 1999 have not been reflected in the data discussed. In fact, in the accounting information provided by the CBQ firms, personnel costs usually include compensation for dismissal. However, given the exceptional nature of the adjustments, some firms have opted not to record such compensation under this heading of their profit and loss accounts, setting aside a provision for staff restructuring with a counterpart entry in the balance sheet.

Table 2.b, relating to the first nine months of 1999, shows that in the aggregate of firms which reduced their staff levels (by -9.6 % overall), average compensation grew by 3.6 %, sig-

BOX 2

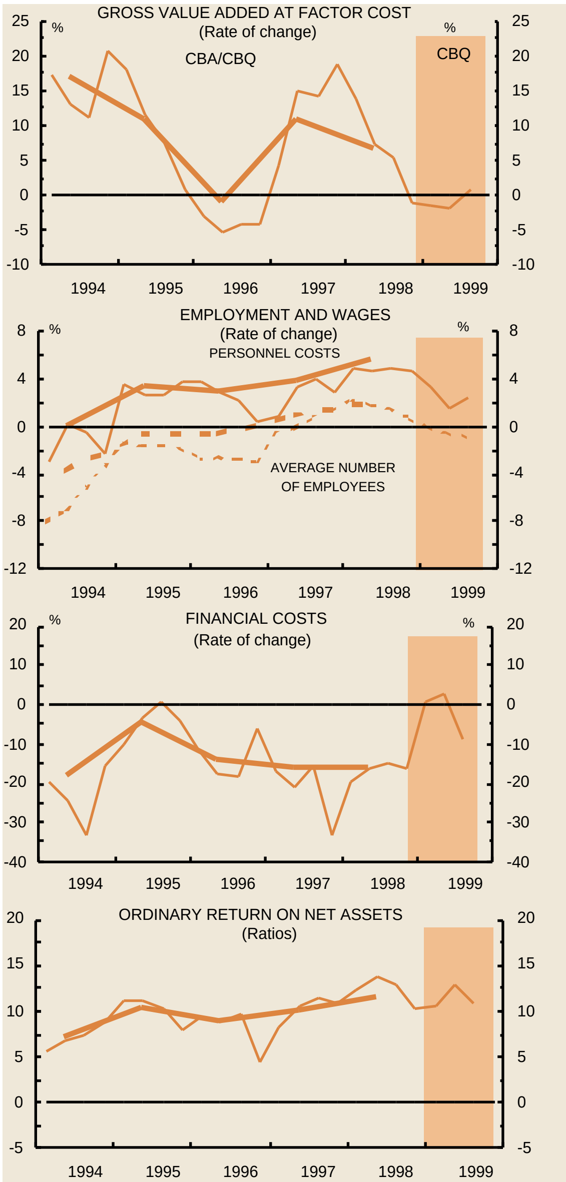
The manufacturing sector

As in previous editions of this article, this box describes the behaviour of manufacturing firms. This sector is well represented in the Central Balance Sheet Office databases and is of great interest for short-term economic analysis. In 1998 developments in the manufacturing sector were positive, as shown by the fact that its GVA grew at a nominal rate of 6.6%, below the 10.9% rate recorded in 1997, as a consequence of the effect of the international crisis on foreign trade in mid-1998. This effect continued into the first quarter of 1999, and a certain change in trend only began to be recorded in the third quarter of 1999, although the sector continued to grow at negative rates (in the first three-quarters its nominal GVA contracted by –1%, whereas in the first two quarters it fell by -1.8%). It is not possible to infer similar falls in activity, as measured by GVA at constant prices, due to the effect on the nominal growth of the oil refining sector, which was severely affected by the rise in the international prices of crude oil inputs (its GVA fell by 21.8% in the first three quarters of 1999). Among the other sectors, that of food and drink and tobacco and transport equipment (in the case of the latter, in line with the growth of new registrations) should be highlighted. These made positive contributions to activity growth, both in 1998 and in the first nine months of 1999, although without managing to offset in 1999 the negative affects discussed above.

In accordance with the developments mentioned above, there was a clear generation of employment in 1998, at rates of 2%. This was interrupted in 1999, for the reasons set out in relation to the growth of GVA in this aggregate (in parallel with the reduction in nominal growth, the workforces of manufacturing firms were reduced by –0.6% during this period). Average compensation grew by 3.4% in 1998 and by 3.1% in the first three quarters of 1999, which was significantly above the rate of inflation. Furthermore, the workforces of the food, drink and tobacco and transport equipment sectors, in which staff adjustment processes were identified, posted larger increases in average compensation.

The continuous reductions in financial costs contributed in 1998 to the 9.2% increase in funds generated. This rate was well above the growth observed in the first three quarters of the present year (1.4%), basically as a consequence of the slowdown in nominal growth. Nonetheless, there was a certain, albeit moderate, recovery in the third quarter (funds generated grew by 4%), permitting an improvement in expectations regarding the year-end. Profitability increased slightly in 1998, to reach 11.4%, the highest level for the last 10 years, which has been sustained in the first nine months of 1999. Moreover, the further reduction in the cost of debt helped sustain leverage in the manufacturing sector at exceptionally high levels, both in 1998 (5.6%) and in the first nine months of 1999 (6.9%). As mentioned in the main body of this article, it is to be hoped that these levels of profitability, which have benefited from a trend in financial costs that is drawing to a close, will not lead firms to relax their control over their costs, given the inflation differential which continues to exist vis-à-vis Spain's European competitors.

Performance of the manufacturing firms which report to the Central Balance Sheet Office (a)



NUMBER OF FIRMS

CBA	3.127	3.258	3.225	3.202	2.458	
CBQ	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

%OF GDP OF TOTAL MANUFACTURING FIRMS

CBA	37,2	39,3	38,2	38,5	31,7	
CBQ	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CBA data.
CBQ data.

Source: Banco de España
(a) Information available to November 17th 1999 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 4

Personnel costs, employees and average compensation
% of firms in specific situations

	CBA		CBQ			
	1997	1998	97 Q1-Q4 (a)	98 Q1-Q4 (a)	98 Q3	99 Q3
Number of firms	**7 716**	**5 877**	**725**	**825**	**817**	**596**
Personnel costs	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	24.1	20.5	31.8	27.8	26.7	31.2
Constant or rising	75.9	79.5	68.2	72.2	73.3	68.8
Average numer of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	28.3	25.3	50.3	40.2	40.3	37.9
Constant or rising	71.7	74.7	49.7	59.8	59.7	62.1
Average compensation (relative to inflation) (b)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	44.0	40.2	41.1	42.1	39.1	50.4
Higher or same growth	56.0	59.8	58.9	57.9	60.9	49.6

Source: Banco de España.
(a) Arithmetic mean of the four quarters.
(b) Twelve-month percentage change in the CPI.

nificantly above the 1.3 % for the sample as a whole. The 448 firms which created employment in the first nine months of 1999 (58.7 % of the firms) increased their staff levels by 8.4 % (within which the 6.5 % increase in permanent employment stands out). Due to the lower wages paid to newly hired or workers, average compensation in this group of firms only grew by 0.8 %.

Finally, Table 4 shows that in 1998 the percentage of firms in which employment rose increased considerably (almost 75 % of firms, as against 71.7 % in 1997), as was also the case in 1999 (in the third quarter of the year the percentage was 62 %, more than two percentage points higher than in the same quarter of the previous year). As for average compensation, the percentage of firms in which it grew at a higher rate than inflation declined significantly (from 60.9 % in the third quarter of 1998 to 49.6 % in the same period of 1999), with the rise in the price index in 1999 certainly having a significant impact on this result. It should not be forgotten however that, to preserve the capacity to create jobs, it is necessary to constantly monitor upward movements in all the firms' various expenditure items, including their wage costs, and these should be related to, besides nominal indicators, the real variables which justify their growth, i.e. productivity gains.

4. RESULTS, MARGINS AND PROFITABILITY (2)

As a consequence of the paths taken by activity and personnel costs, the Gross Operating Result grew by 8.6 % in 1998, a somewhat lower rate than in 1997 (10.9 %). This rate fell to 3.9 % in the first three quarters of 1999. The slowdown in productive activity in 1999, together with the expansion of employment, is therefore compatible with sustained growth of surpluses, albeit at a lower rate than in 1998.

Financial costs continued to decline in both the periods analysed. In 1998 the fall was 8.7 % and in the first three quarters of 1999 it was 7.6 %. Nonetheless, as pointed out in previous editions of this article, the weight of this item in the

(2) Coinciding with the publication of the annual monograph with the results for 1998 and this article, the calculation of the profitability ratios has been modified, both for the CBA and for the CBQ. The new profitability ratios are more summary indicators, which evaluate the capacity to generate profits, in the absence of extraordinary operations and net capital gains, that is to say, they only take into consideration results arising from ordinary operations. At the same time, the valuation of the tangible fixed assets at current prices has been approximated in the denominator of the profitability ratios, in order to overcome the technical problems arising from balance sheet restatement. The methodological note in the annual monograph (in its printed and CD-ROM versions) provides greater details on these matters.

BOX 3

Structure of the profit and loss account

The CBQ quarterly questionnaire is made up of 23 different profit and loss account captions, compared with the 94 requested in the annual questionnaire (CBA). A summary presentation of the profit and loss account, like that in Table 1, is appropriate for this article, due to the differences in detail of the information and the need to link the two sources. The object of this box is to show, by presenting the structure of the profit and loss account that, for the 5,877 firms which had, at the time of writing, responded to the CBA, the weight in this account of the captions which have been omitted (those preceded by the letters a, b, c and d) in order to enable this link to be made is not significant, and that in no case does their absence preclude or distort the analysis and comparisons made.

Although full details of these captions can be found in the Central Balance Sheet Office annual monograph, it is perhaps worth detailing the contents of two of them here. The first is caption “c. Other income included in funds generated”, which basically comprises extraordinary results, capitalised interest and other revaluations, and ordinary provisions for liabilities and charges. The other is caption “d. Other income not included in funds generated”, which includes capital gains and losses, income and expenses relating to other years and deferred results.

Structure of the profit and loss account

		Number of firms / Total national coverage	**5877/34.7 %**
		YEAR	1998
1.		VALUE OF OUTPUT (including subsidies)	100.0
	1.	Net amount of turnover and other operating income	119.5
	a.	Other items	–19.5
2.		INPUTS (including taxes)	66.3
	1.	Net purchases	41.8
	2.	Other operating costs	23.4
	b.	Other items	–1.1
S.1.		GROSS VALUE ADDED AT FACTOR COST (1 – 2)	33.7
	3.	Personnel costs	17.6
S.2.		GROSS OPERATING RESULT (S.1. – 3)	16.1
	4.	Financial revenue	2.5
	5.	Financial costs	2.8
	6.	Corporate income tax	1.9
	c.	Othe income included in funds generated	0.0
S.3.		FUNDS GENERATED ROM OPERATIONS (S.2. + 4 – 5 – 6 + c)	13.9
	7.	Depreciation and provisions	12.1
	d.	Other income not included in funds generated	3.5
S.4.		TOTAL NET RESULT (S.3. – 7 + d)	5.3
	e.	Proposed distribution of dividends	3.0
	f.	Retained earnings	2.3
Memorandum item:			
S.5.		SELF-FINANCING (S.3. – e = f + 7 – d)	10.9

TABLE 5

Gross operating result, funds generated, ordinary return on assets and leverage
Breakdown by size, ownership status and main activity of firms
(Growth rates of the same firms on the same period a year earlier)

	Gross operating result				Funds generated				Ordinary return on assets (R.1) (a)				Leverage (a)			
	CBA	CBQ (b)			CBA	CBQ (b)			CBA	CBQ (b)			CBA	CBQ (b)		
	1998	98 Q1-Q4	98 Q1-Q3	99 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	99 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	99 Q1-Q3	1998	98 Q1-Q4	98 Q1-Q3	99 Q1-Q3
Total	8.6	4.8	7.0	3.9	10.2	8.1	9.2	8.4	8.4	8.9	8.9	9.2	2.7	2.5	2.5	4.5
Total, except electricity sector	11.2	8.4	11.7	2.8	11.7	12.1	14.0	7.8	8.7	9.3	9.4	9.6	2.8	2.7	2.8	4.8
SIZE:																
Small	10.0	—	—	—	15.4	—	—	—	10.2	—	—	—	3.1	—	—	—
Medium	11.9	10.2	12.3	6.2	12.5	10.9	14.8	8.1	11.1	10.5	10.9	11.2	5.0	4.6	4.8	6.8
Large	8.3	4.5	6.8	3.8	9.9	8.0	8.9	8.5	8.1	8.8	8.8	9.1	2.5	2.4	2.4	4.3
STATUS:																
Public-sector	18.8	8.2	12.1	2.7	10.6	33.8	45.8	13.1	0.9	3.1	3.4	4.7	–4.6	–3.3	–2.8	0.5
Private-sector	8.0	4.4	6.5	4.0	10.2	6.3	6.6	7.7	10.4	10.3	10.3	10.1	4.6	3.9	3.8	5.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	8.0	9.1	14.8	–4.9	9.2	8.1	13.9	1.4	11.4	12.3	13.0	11.4	5.6	6.7	7.3	6.9
Production and distribution of electricity, gas and water	0.7	–3.6	–3.5	6.8	5.1	–1.0	–1.8	11.2	7.5	8.2	8.0	8.5	2.3	2.2	1.9	3.7
Distributive trade	21.3	19.2	19.0	12.8	20.2	19.6	19.6	13.4	12.3	10.8	10.2	11.7	6.8	4.7	4.0	7.1
Transport, storage and communications	8.6	6.0	8.4	4.0	11.9	14.8	15.0	3.5	7.3	8.0	7.9	8.0	0.9	0.9	1.0	3.0

Source: Banco de España.
(a) Ratio calculated in accordance with the new methodology explained in this article and in the annual monograph of the Central Balance Sheet Office.
(b) The data in these columns have been calculated as the arithmetic mean of the quarterly data.

firms' profit and loss accounts has been reduced very significantly, to represent 2.5 % of total output in 1999 (when in 1983 it represented 9 %). The effects of the changes in the cost of finance and in the amount of debt on the fall in financial costs are as follows:

	99 Q1-Q3/98 Q1-Q3
Change in financial costs	*–7.6 %*
A. Interest on borrowed funds (1+2)	*–10.3 %*
1. Due to the cost (interest rate)	–28.5 %
2. Due to the amount of interest-bearing debt	18.5 %
B. Commissions and cash discounts	*2.7 %*

This table confirms that the reductions in interest rates have continued to be passed through to corporate costs, and that firms are increasingly resorting to external funds to finance new investment, capitalising on the favourable conditions offered in the market. This higher borrowing has been evident since 1998.

The favourable path of net financial charges in both the periods studied enabled funds generated to grow by 10.2 % in 1998 and by 8.4 % in the first three quarters of 1999. At the sectoral level, the highlights were once again the strong increases in the distributive trade's funds generated, with growth of 20.2 % in 1998 and 13.4 % in the first nine months of 1999, and the fall in the growth of funds generated in manufacturing from 9.2 % in 1998 to 1.4 % in the first three quarters of 1999. As was also the case with the activity of the sector, the quarter-on-

TABLE 6

Structure of reporting firms' ordinary returns on net assets and on equity

	CBQ			
	Ordinary return on net assets (R.1)		Ordinary return on equity (R.3)	
	98 Q3	99 Q3	98 Q3	99 Q3
Total firms	**100**	**100**	**100**	**100**
R ≤ 0 %	19.1	19.1	23.6	22.4
0 % < R ≤ 5 %	16.7	17.9	13.2	14.4
5 % < R ≤ 10 %	16.9	16.4	13.2	11.9
10 % < R ≤ 15 %	13.2	12.3	10.3	11.1
15 % < R	34.1	34.3	39.7	40.2
Number of firms	**838**	**763**	**838**	**763**
MEMORANDUM ITEM:				
Average return	9.3	9.0	10.5	11.2

Source: Banco de España.

quarter profile of the series of data displays a moderate trend towards a progressive recovery.

The ordinary returns on net assets and on equity (calculated using the new method described in a Box 5 of the annual monograph) held at very high levels. In 1998, the return on net assets (R.1) reached 8.4 % for the sample as a whole, the highest level recorded in the annual series since 1989. In the light of the quarterly data available, this level may be surpassed in 1999, when these same results are presented within a year from now (in the first nine months of 1999 this ratio stood at 9.2 %). As already pointed out this growth was accompanied by a continuous reduction in the cost of debt (ratio R.2, interest on borrowed funds), so that leverage (R.5) was again at a record high in the annual series (2.7 % for 1998) and in the quarterly series (4.5 % for the first three quarters of 1999). This is further evidence of the favourable situation of non-financial firms as a whole, and of the favourable conditions existing for investment and employment creation.

Finally, Table 6 enables conclusions to be drawn regarding the distribution of the firms according to their profitability, without any account being taken of their size or ownership status. The most important result is that during the third quarter of 1999, although the percentage of firms posting a positive ordinary return on net assets (R.1) held steady (at close to 80 %), the reduction in the cost of debt (R.2) meant that the percentage of firms earning a positive return on equity continued to increase in that quarter.

In short, 1998 was a positive year for the firms as regards activity, employment and profitability, owing to the favourable performance of domestic consumption and investment. Nonetheless, there was a certain slowdown in the second half of the year, owing to the effects of the International crisis. This negative effect continued to be perceived at the beginning of 1999, although as the year has unfolded there has been a progressive strengthening of manufacturing industries and a certain firming of growth rates. The firms' current levels of profitability are conducive to investment, growth and employment stability.

5. INVESTMENT AND FINANCING

The 1998 results discussed above are based on the information in Chapter II of the annual monograph of the Central Balance Sheet Office, together with the CBQ data for the first three quarters of 1999. This viewpoint gives rise to a very firm-focused presentation. However, there is another accounting approach, based on general economic analysis, which enables balances and aggregates to be obtained that are useful for macroeconomic analysis. This is precisely what Table 7, a summary of the capital and financial account, provides. It is prepared on the basis of the CBA information for 1998, the CBQ information not being sufficiently detailed for these balances to be obtained.

In 1998, the CBA sample firms as a whole were, for the fifth year running, had a positive fi-

TABLE 7

Capital and financial flows
(Structure: GVA at market prices = 100)

	Structure		
Databases	1996	1997	1998
Number of firms / Total national coverage	8073/36.5 %	7716/38.0 %	5877/39.7 %
Year	1996	1997	1998
1. Capital resources	29.9	29.1	32.6
1. Gross saving	26.2	27.9	30.2
2. Net capital transfers	3.7	1.2	2.4
2. Uses of capital	24.4	25.0	24.6
1. Gross capital formation	22.5	23.1	22.3
1. Gross fixed capital formation	20.0	19.3	19.2
2. Change in stocks	2.5	3.8	3.1
2. Other uses of capital	1.9	1.9	2.3
3. Financing capacity (+), borrowing requirements (–) (1 – 2.1 – 2.2 = –4)	5.5	4.1	8.0
4. Net change in liabilities minus net change in assets	–5.5	–4.1	–8.0
1. Securities other than equity	–1.7	–2.2	–5.0
2. Equity capital	–2.8	–0.9	3.3
3. Credit from credit institutions	–6.6	6.2	5.0
4. Credit from abroad	–2.0	0.0	4.2
5. Trade credit and credit between other resident sectors	6.1	–1.3	–6.3
6. Pension funds	0.9	0.6	0.2
7. Other liabilities net of other financial assets	0.6	–6.5	–9.4
MEMORANDUM ITEM:			
Investment in tangible fixed assets (a)	11.5	9.8	9.7

Source: Banco de España.

(a) With respect to net tangible fixed assets at the start of the year. This ratio, calculated within the conceptual scope of business accounting, is obtained from the subset of firms with more than 100 employees.

nancing capacity. The strong generation of funds, in the form of a substantial increase in their gross saving, enabled their investment expenditure for the year to be covered, and a surplus over and above this to be generated of 8 % of GVA. All in all, gross fixed capital formation also grew at a healthy rate (6 %). It should be noted that this result, which is unusual up to a point (during cyclical upturns non-financial firms normally need to borrow funds and do not have a positive financing capacity), is largely due to the presence in this sample of: (i) very large firms which, since they commenced their activity some time ago (the telecommunications sector), have already made the bulk of their investment; and (ii) firms belonging to mature and, at least temporarily, saturated sectors (the electricity sector). The financing capacity generated by the firms took the form of large financial investments, both long-term (basically loans to group companies and share purchases) and short-term (basically deposits), in which the capital gains generated by the privatisations carried out during 1998 were placed.

26.11.1999.