Results of non-financial corporations in 1999 and the first three quarters of 2000 (1)

1. INTRODUCTION

As is customary in late November, the Banco de España presents here the results of the Central Balance Sheet Office Annual Survey (CBA) for the previous year (1999 in this instance), and those of the Central Balance Sheet Office Quarterly Survey (CBQ) for the first three quarters of the current year. The data now available for 1999 broadly confirm the initial results obtained by the CBQ, which were published in the April 2000 *Economic Bulletin.* Specifically, these showed that, during 1999, the companies reporting to the Central Balance Sheet Office continued on the expansionary path they had embarked on in 1996, based on healthy domestic consumption and on the progressive pick-up in exports, which became particularly patent in the final quarter of the year. That said, the decline in prices in those industries progressively opening up to competition, combined with the increase in the prices of certain inputs, led the nominal growth of value added in 1999 to moderate in relation to the previous years. It should be noted that all the Central Balance Sheet Office variables are defined in nominal terms, which prevents distinguishing the price component from the real component. The gradual acceleration in activity observed over the course of the second half of 1999 meant that the year 2000 began against a backdrop of relative confidence, especially in manufacturing in the light of the recovery in foreign activity. There was, however, some uncertainty over the upward course of crude oil prices. As a result, the opening months of 2000 saw notable growth in productive activity, with gross value added (GVA) increasing at a far higher rate than a year earlier owing to the resilience of domestic and foreign demand. Nonetheless, the data for 2000 Q3 show signs of a slowdown in activity compared with the two preceding quarters, though these are not discernible in the nominal change in the GVA of the CBQ corporations taken as a whole, owing

(1) The information in this article relates to the 6014 corporations which voluntarily sent their data to the Central Balance Sheet Office (the CBA survey) in the ten months to 31 October 2000, and to the 774 corporations which, on average, sent their data to the Central Balance Sheet Office (the CBQ survey) in the period to 17 November 2000. The corporations reporting to the CBA account for 27.1 % of total activity in the sector non-financial corporations (measured in terms of gross value added), while the coverage is 14.7 % in the case of the CBQ. There is a lag of 11 months in the publication of the CBA data (which are prepared on the basis of full, detailed profit and loss accounts and balance sheets) with respect to the cut-off date for the accounts, a lag which falls to three months in the case of the CBQ data (which are prepared on the basis of estimates of the most significant captions).

TABLE 1

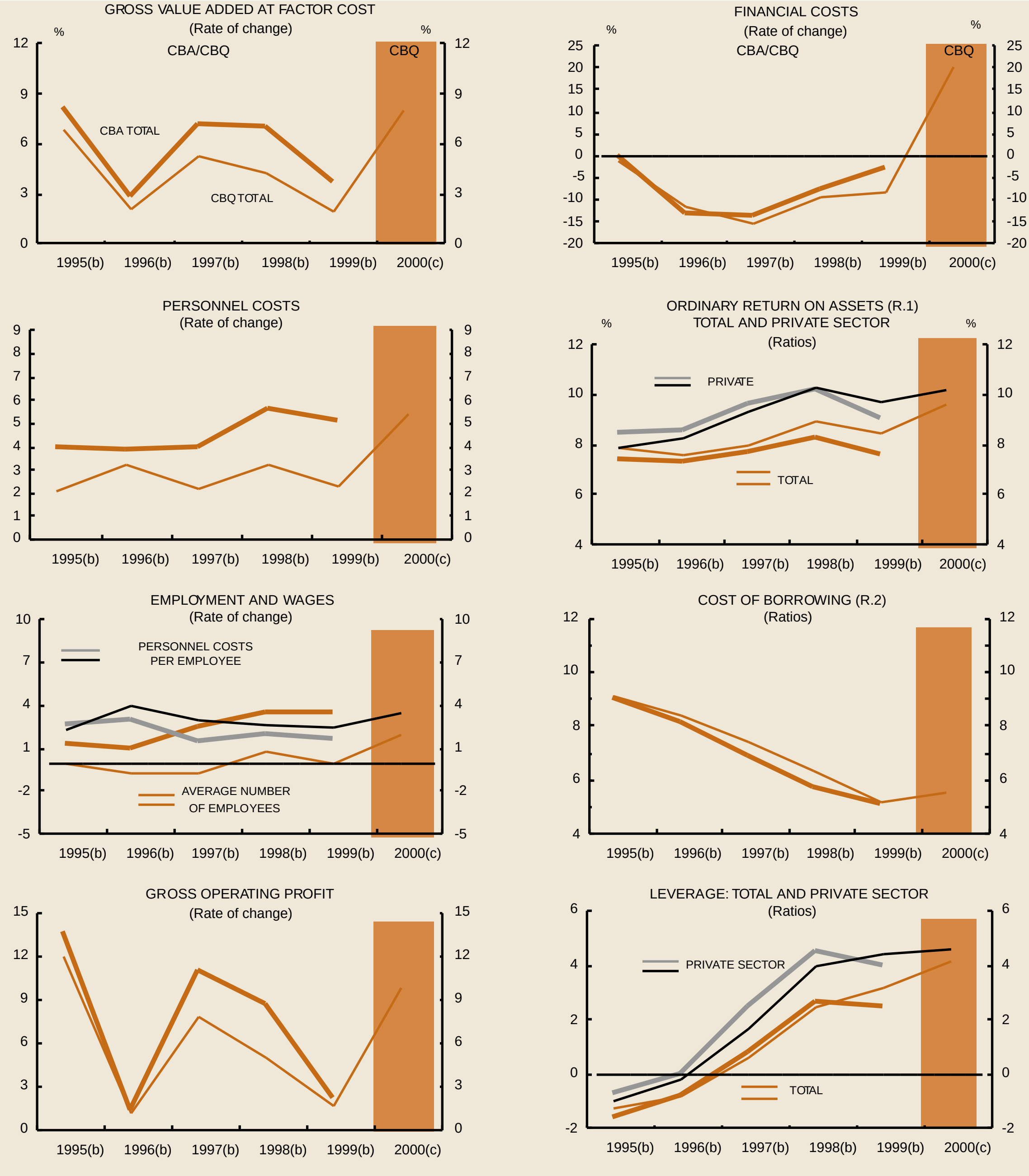
Profit and loss account. Year-on-year performance
(Growth rates of the corporations on the same period a year earlier/
% of GVA at factor cost in the case of the net profit)

		CBA		CBQ		
	Databases	1998	1999	99 Q1-Q4/ 98 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)
	Number of corporations / Total national coverage	7646 / 32.2 %	6014 / 27.1 %	877 / 16.5 %	890 / 17.0 %	774 / 14.7 %
1.	VALUE OF OUTPUT (including subsidies)	6.4	8.6	9.7	7.8	23.3
	Of which:					
	1. Net amount of turnover and other operating income	7.2	10.1	10.6	8.8	23.8
2.	INPUTS (including taxes)	6.1	11.2	14.9	12.2	33.1
	Of which:					
	1. Net purchases	3.3	13.3	18.5	14.0	42.3
	2. Other operating costs	11.2	10.2	10.7	10.8	11.3
S.1.	GROSS VALUE ADDED AT FACTOR COST	*7.0*	*3.7*	*1.9*	*1.7*	*8.0*
3.	Personnel costs	*5.6*	*5.1*	*2.3*	*1.4*	*5.4*
S.2.	GROSS OPERATING RESULT	*8.6*	*2.2*	*1.6*	*1.9*	*9.8*
4.	Financial revenue	9.9	10.2 (b)	32.1 (b)	36.8 (b)	46.9 (b)
5.	Financial costs	-7.5	-2.7 (b)	-8.2 (b)	-11.0 (b)	20.1 (b)
6.	Corporate income tax	23.4	10.5	19.8 (b)	17.2 (b)	23.3 (b)
S.3.	FUNDS GENERATED FROM OPERATIONS	10.7	3.0	5.7	5.6	13.0
7.	Depreciation and provisions	20.3	-1.7	6.7	6.0	5.5
S.4.	TOTAL NET PROFIT (% of GVA at factor cost)	15.0	15.1	20.9	24.6	32.1
	PROFITABILITY RATIOS					
R.1	Ordinary return on net assets (before taxes)	8.3	7.6	8.5	8.7	9.6
R.2	Interest on borrowed funds/ interest-bearing borrowing	5.7	5.1	5.2	5.2	5.5
R.3	Ordinary return on equity (before taxes)	9.7	9.1	10.3	10.7	11.9
R.4	Financial leverage (R.1 - R.2)	2.6	2.5	3.2	3.5	4.1
R.5	Debt ratio	39.9	43.7	42.4	41.8	41.9

Source: Banco de España.
(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.
(b) Adjusted for one-off operations.

CHART 1

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



NUMBER OF CORPORATIONS

CBA	8,127	8,032	8,049	7,646	6,014	
CBQ	722	725	722	834	877	774

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	34.4	34.2	33.7	32.2	27.1	
CBQ	19.7	18.2	17.6	15.9	16.5	14.7

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CBA data. CBQ data.

Source: Banco de España.

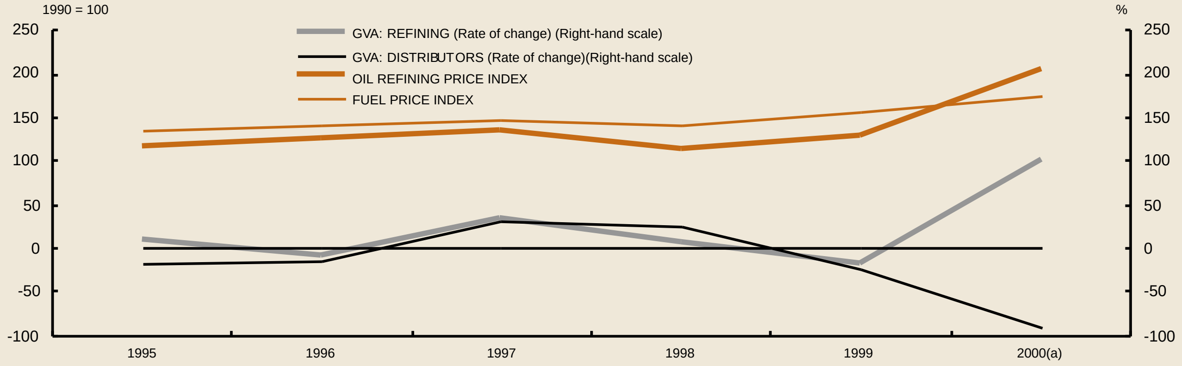
(a) Information available to 17 November 2000 (CBA and CBQ).

(b) The 1995, 1996, 1997, 1998 and 1999 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

(c) Average of the first three quarters of 2000 in relation to the same period in 1999.

CHART 2

Effect of crude oil prices on value added



Sources: Banco de España and INE.
(a) Average of the first three quarters of 2000.

to the influence exerted here by the high growth rate of the oil refining corporations' GVA. Thus, in the first nine months of the year 2000 under analysis, GVA grew by 8 %, six percentage points up on the same period a year earlier (see Table 1). However, if the oil refining industries were stripped out of this total, the quarterly growth for the whole sample would fall by three points and, moreover, it would show a gradual deceleration (the growth rates of this aggregate in relation to the same period in 1999 are 6.2 %, 5.2 % and 4.2 % in Q1, Q2 and Q3, respectively).

The fact that productive activity held at a favourable level both in 1999 and, especially, in the first nine months of 2000, also explains the sizeable and continuous increases in employment throughout the period. Nonetheless, the effects of labour shedding in certain sectors of activity continued to be present in the rates relating to the total aggregate of corporations in the survey, particularly those sectors undergoing far-reaching changes arising from restructuring processes brought about by the liberalisation of markets, which distorts the rate of job creation for the CBQ group of corporations downwards. In step with the growth of employment, personnel costs increased notably in 1999 and 2000. The annual data for 1999 show greater growth than that projected previously by the CBQ survey, owing to the fact that the annual database – which is used to prepare the data for 1999 – includes small and medium-sized corporations, and it is these whose workforces and, in parallel, whose personnel costs are most growing. Average employee compensation in 1999 held at a moderate growth rate of 1.6 %, showing that new staff are paid below-average wages. However, there was a rise in average compensation in the first nine months of 2000, no doubt influenced by wage settlements under collective bargaining agreements against a background of higher inflation. Evidently, this increase in labour costs, together with the possible pass-through of a portion of higher fuel prices, entails a risk for the competitiveness of industries exposed to foreign markets. Job creation in the first three quarters of 2000 was in line with developments in productive activity, although the profile of the employment series reveals something of a slowdown in Q3.

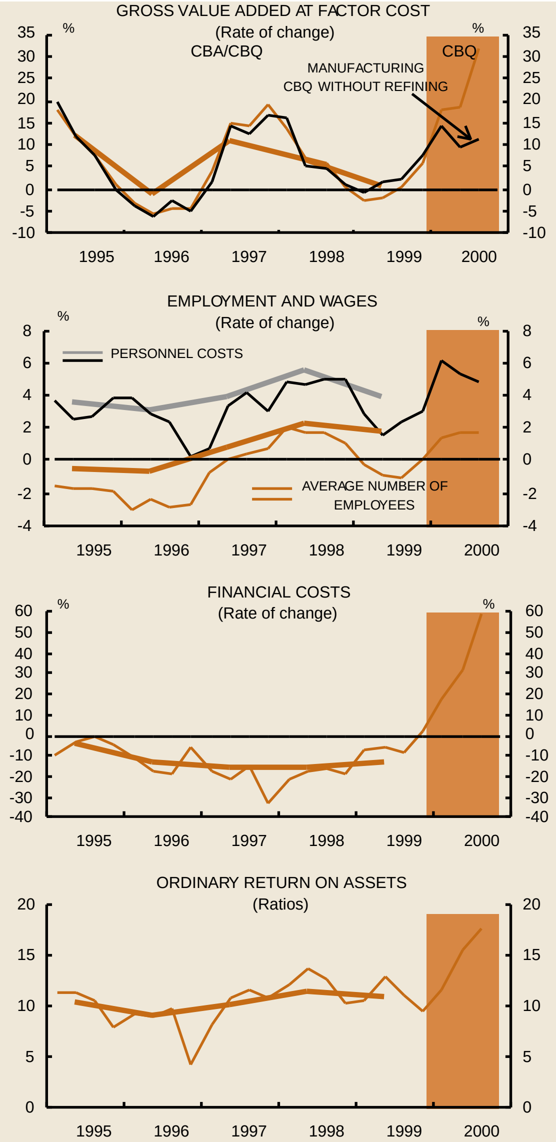
Gross operating profit, or the operating margin, grew by 2.2 % in 1999 and by 9.8 % in the first three quarters of 2000, thanks to the strong recovery in manufacturing and in particular, for the reasons already mentioned, to the growth of the oil refining corporations. The fall in interest rates in previous periods continued to be passed through to the corporations during 1999, which was reflected in an ongoing decline in financial costs. However, the 2000 data show a change in the trend of these costs, with an increase of 20.1 %, basically due to greater recourse by the corporations to the financial markets to obtain funds and to the increase in the cost of borrowing in 2000, which rose from 5.2 % at end-1999 to 5.8 % in Q3. That said, the cost of borrowing remained low, and this, together with the high returns that continued to be earned (9.6 % on net assets and 11.9 % on equity), enabled leverage ratios to hold at high positive levels, both in 1999 and during the first three quarters of 2000, which is very favourable for investment.

BOX 1

Analysis of the manufacturing sector

As is customary in these quarterly articles, this box specifically studies the manufacturing sector, owing to its weight, its representativeness within the sample and its interest from the viewpoint of short-term economic analysis. During 1999, the productive activity of the aggregate of manufacturing corporations was virtually stagnant, with GVA growth of 0.6 %, compared to 6.6 % in 1998. The rate was affected by two factors: the downturn in foreign activity, from which the sector only began to emerge in the latter part of the year; and the sharp contraction of margins among the refining corporations (referred to several times in the article). The result was that GVA, in nominal terms, remained practically unchanged at its 1998 level. In 2000, the situation changed significantly. First, the recovery in foreign activity, which, as seen, began in the second half of 1999, explains why the productive activity of the manufacturing corporations increased in all sub-sectors. Second, in the refining industry gross value added grew strongly (at rates that are completely unprecedented in the time series, which date back to 1993). The main body of the article offers some additional remarks on this phenomenon. Finally, the combination of these two effects produced 22.7 % growth in GVA in manufacturing, in the first three quarters of 2000. However, the analysis of the quarterly series, for the various different manufacturing sub-sectors, shows that some of them have seen a slowdown in their output growth, and in the case of manufacture of transport material there was even a reduction in GVA in Q3. In step with these developments, 1999 saw a more moderate rise in employment in manufacturing than in 1998 (1.8 %, as against 2.2 %). The rate of 1.6 % calculated for this aggregate of corporations in the first three quarters of 2000 is highly positive, since it should be compared with that obtained in the same period of 1999 for the CBQ sample of corporations (–0.8 %). As commented, the quarterly sample generates less employment, since it does not include so many small and medium-sized corporations as the annual sample. The average compensation paid in 1999 by manufacturing corporations grew by 1.8 %, against the average rate of 3.6 % recorded in the first three quarters of 2000. There seems to have been an upward correction to the wages in these industries in parallel with the rise in prices. Financial costs, following a number years of continuous decline, began to grow in 2000, at a rate of 35.9 % over the first nine months, basically due to the effect of new investment and not the level of interest rates. Also, given its limited weight in the profit and loss account, the importance of this expenditure in total corporate costs remained very low. This change of trend in financial costs occurred as a result of both the rises in interest rates and the greater recourse by the corporations to external financing, given the favourable conditions still offered on the market, despite the increases in rates. These developments meant that, while funds generated fell by 3.2 % in 1999, in the first three quarters of 2000 the rate became very strongly positive (30.7 %). Likewise, ordinary rates of return held in 1999 at a high level (the rate of return on net assets stood at 10.7 %), albeit below the 1998 level (11.2 %). In the first nine months of 2000, in line with the expansion of activity and the generation of funds and profits (with the short-term impact of the profits of the refining corporations), rates of return grew considerably, with that on net assets reaching 14.6 %. As for the cost of borrowing, despite the rise in 2000, it remained at a very favourable level for the corporations, especially when compared with the rates of return mentioned above (the cost of borrowing rose from 4.4 % in 1999 to 5.7 % in the first nine months of 2000). This enabled the leverage of the manufacturing sector to remain positive and well-above zero, both in 1999 (6.3) and in the first nine months of 2000, when it reached 8.9 (an exceptionally high level, distorted upwards by the special situation of the refining corporations).

Performance of the manufacturing corporations reporting to the Central Balance Sheet Office (a)



NUMBER OF CORPORATIONS

CBA	3,264	3,231	3,348	3,091	2,447	
CBQ	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

% OF GDP OF THE MANUFACTURING SECTOR

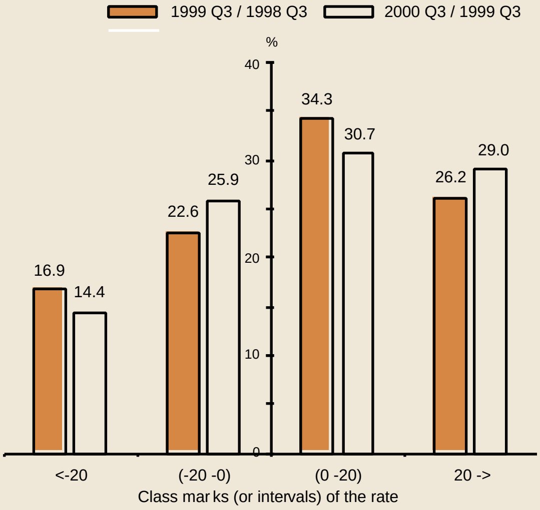
CBA	40.0	38.9	40.3	43.0	30.1	
CBQ	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CBA data.
CBQ data.

Source: Banco de España.
(a) Information available to 17 November 2000 (CBA and CBQ).The CBQ data are growth rates on the same quarter of the previous year.

CHART 3

Distribution of corporations by rate of change in GVA at factor cost (99 Q3/98 Q3 and 00 Q3/99 Q3)



Source: Banco de España.

In short, after 1999, a year of more moderate growth in activity than in the preceding period, and even of some stagnation in manufacturing, the first half of 2000 saw activity resume a strongly expansionary path, which only in Q3 showed signs of falling off somewhat. This change in trend has not affected the rates of return reported by the corporations, which remain high.

2. ACTIVITY

Table 1 and Chart 1 indicate that, according to the CBA data for 1999, the GVA of the sample corporations continued to increase, consolidating the path embarked upon in mid-1996, although at a more moderate rate than in previous years. This slowdown was mainly a consequence of the slackness discernible in manufacturing as a whole, which was affected primarily by the negative performance of its foreign activity in the first half of 1999. The pick-up in foreign activity from the final quarter of 1999 and very positive sustained rates of growth of domestic demand explain why the year 2000 opened more favourably, with the CBQ recording GVA growth of 8 % in the first three quarters, compared with a CBA rate of 3.7 % for 1999. However, it should be taken into account that the contribution of the oil-refining industry to this nominal change of 8 % in 2000 amounts to 2.9 percentage points, as a consequence of the strong impact of the increase in prices on the nominal growth of its value added.

As already mentioned, the accounting information available does not enable that part of the increase in the GVA of the refining industries in 2000 which is attributable to the oil price increases being passed through to the firms marketing oil (unlike the policy in 1999) to be clearly distinguished. Chart 2 depicts the GVA and prices (according to Central Balance Sheet Office data) of the corporations refining oil and of those marketing fuels up to and during the year 2000, showing how their behaviour has differed. Notable is the rise in the GVA of the refining corporations in 2000, as a consequence of their passing on of higher crude oil prices, in contrast to the fall in that of the marketing corporations, which have not fully passed on their higher input prices.

Leaving aside the discussion of the fuel refining industries, in the first three quarters of 2000 there was a certain slowdown in activity, comparing with the same period a year earlier, which was most evident in Q3, doubtless attributable to the recent trend in domestic demand. The growth rate of the GVA of all the firms, excluding the refining sector, was 5.2 % in the period since the beginning of 2000, i.e. practically twice the rate in the same period a year earlier. Analysis of the other productive sectors (manufacturing as a whole is analysed in Box 1) shows that the significant growth in activity in the wholesale and retail trade up to end-1999, consistent with the trend in domestic consumption, seems to have been interrupted in 2000, although the performance of this sector is affected by the price of refined oil and fuel, in the same way that activity in the manufacturing sector is affected by crude oil prices. Evidence of this is the fact that, when corporations marketing fuel are excluded from the wholesale and retail trade sector, its rate of growth rises from -1.3 % to 12.3 %. In the first three quarters of 2000, as in 1999, the sectors “electricity, gas and water supply” and “transport and communication” recorded increases in activity, falling prices and narrowing margins. This was the result of their being opened up to competition, which also explains their moderate increases in GVA (5.3 % and 0.5 %, respectively).

Finally, Chart 3 shows the distribution of the corporations by their GVA growth rates, without taking into account their size and weight in the sample. Comparing the annual growth in 2000 Q3 with that of the same period of 1999, there was a reduction in the percentage of firms posting GVA growth. However, there was a certain increase in the segment of corporations with rates above 20 %, reflecting the strength of the expansion in the first half.

BOX 2

The results of small corporations

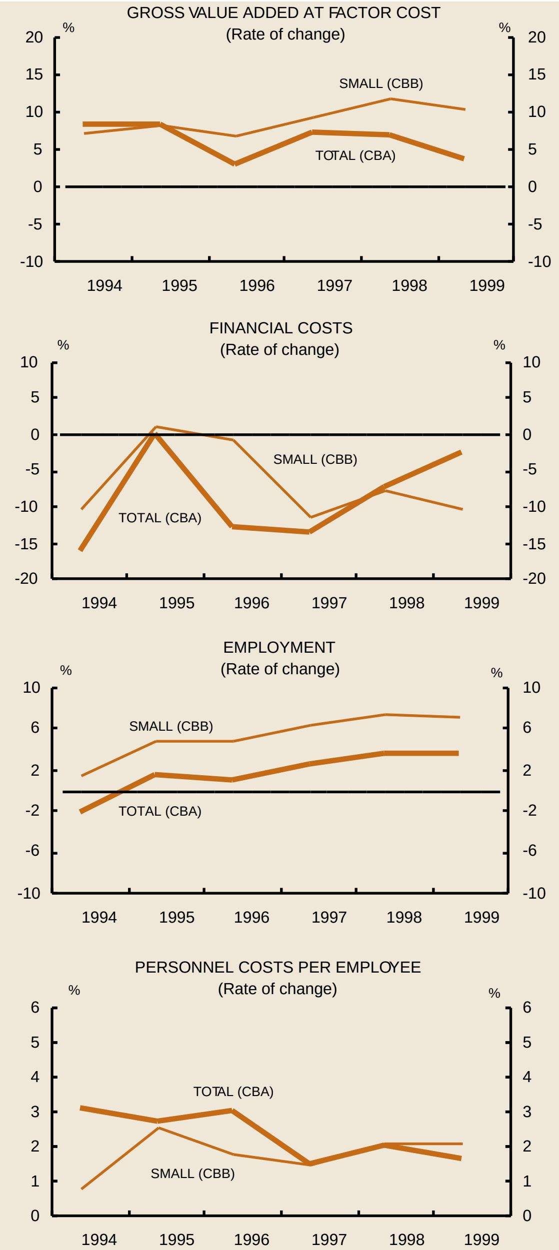
This box summarises the main features characterising the performance of small Spanish corporations in 1999. The analysis is based on the Central Balance Sheet Office database containing the information provided by the Mercantile Registries (CBBE/RM). Although this information is not as detailed as the CBA annual database, the large number of corporations included in the sample means that conclusions can be drawn on the main magnitudes of the aggregate profit and loss account, and also that certain basic details of the balance sheet can be analysed. As at the closing date of this article, in mid-November 2000, 1998 data were available for 238,552 corporations (representing 12 % of the GVA of non-financial corporations) and 1999 data for 40,290 corporations (representing 2.1 % of such GVA). As can be seen in the adjoining charts, the CBB data display similar profiles to the CBA data, although the trends of the main aggregates are more pronounced.

As regards activity, the performance of small corporations was positive in 1999, with GVA growth of 10.2 %. Although slightly down on the 11.8 % rate recorded in 1998, this growth confirms that the economy was also highly buoyant in the sector of small and medium-sized corporations. All the major sectors displayed similar behaviour to the aggregate, i.e. notable growth in GVA in 1999, albeit below 1998 levels. The only exception to this pattern was construction, which posted higher GVA growth in 1999 than in 1998.

In line with the expansion of activity, personnel costs also rose considerably, basically due to the clear increases in employment recorded by small corporations on aggregate since 1994. Employment grew at a rate of 7.1 % in 1999, very similar to the 7.5 % rate recorded in 1998. The across-the-board nature of this process of employment creation, clearly reflected in all sectors, is confirmed by the fact that 35.1 % of the sample corporations analysed created employment, the highest proportion since 1991. Personnel costs in terms of wages and salaries grew by 2.3 %. This was a moderate rate, when the rise in inflation in 1999 is taken into account, probably affected by the lower cost of newly hired staff. As regards sectors, average wages and salaries grew more moderately in those in which employment rose most forcefully, confirming the above comment about the effect of newly hired staff on average personal costs.

As a consequence of the expansion of activity, gross operating profit also increased at a brisk rate, although more moderately than in 1998 (9.7 % in 1999, against 13.8 % in 1998). Meanwhile, financial costs remained on a declining path, falling by 10.5 %. Their relative weight in the profit and loss account dropped to the extent that they only represented 1.6 % of total output, a historic low for this series. The result of all this, as well as of sustained growth in other costs and revenue, was growth of 10.9 % on the previous year in funds generated, and a total net profit in 1999 equal to 13.2 % of GVA, an all-time high in the series for this aggregate studied by the Central Balance Sheet Office. This whole scenario involved the generation of a very satisfactory ordinary return on equity (the only rate of return calculated in a comparable manner as for the CBA). At 11.7 % this was even higher than the 11.2 % obtained in 1998. Hotels and restaurants and the wholesale and retail trade stand out among the various sectors as those in which returns grew most in comparison with 1998, although all sectors without exception obtained very positive rates of return in 1999.

In conclusion, the analysis of small corporations confirms the healthy situation of the Spanish economy. The expansion of productive activity and employment has extended to corporations of all sizes and to all sectors of activity. The healthy overall situation in 1998 of corporations with less than 50 employees was consolidated in 1999.



NUMBER OF CORPORATIONS (a)

CBA	7,857	8,127	8,032	8,049	7,646	6,014
CBB (b)	48,499	130,789	173,590	223,506	238,552	40,290

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	35.1	34.4	34.2	33.7	32.2	27.1
CBB (b)	3.0	7.0	8.9	10.9	12.0	2.1

CBA data.
CBBE/RM or CBB data.
Corporations with fewer than 50 employees.

Source: Banco de España.
(a) Information available to 17 November 2000 (CBA and CBB).
(b) The data for the Employment and Personnel costs per employee charts relate to the sub-set of corporations with consistent employment data (50% of the total of CBB).

TABLE 2.a

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

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	00 Q1-Q3 (a)	00 Q1-Q3 (a)
Total	**3.7**	**1.9**	**1.7**	**8.0**	**3.5**	**-0.1**	**-0.3**	**2.0**	**5.1**	**2.3**	**1.4**	**5.4**	**1.6**	**2.4**	**1.8**	**3.4**
Total, excluding electricity	**3.7**	**1.2**	**1.0**	**8.7**	**3.9**	**0.6**	**0.4**	**2.7**	**5.7**	**3.0**	**2.3**	**6.6**	**1.8**	**2.5**	**2.0**	**3.7**
SIZE:																
Small	9.9	—	—	—	5.8	—	—	—	7.3	—	—	—	1.4	—	—	—
Medium	10.6	5.9	6.8	11.1	7.9	4.1	3.6	4.5	9.0	5.8	5.3	8.1	1.1	1.7	1.7	3.4
Large	2.7	1.7	1.4	7.7	2.6	-0.5	-0.7	1.7	4.5	2.0	1.1	5.1	1.8	2.6	1.8	3.4
STATUS:																
Public-sector	0.3	0.8	0.3	9.4	0.5	0.7	0.9	0.7	4.6	4.9	4.6	6.5	4.0	4.1	3.6	5.8
Private-sector	4.2	2.2	2.0	7.6	4.3	-0.4	-0.8	2.3	5.2	1.4	0.3	5.0	1.0	1.8	1.1	2.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	0.6	0.4	-1.4	22.7	1.8	-0.6	-0.8	1.6	3.8	2.5	2.3	5.5	2.0	3.0	3.0	3.8
Electricity, gas and water supply	4.0	4.8	4.3	5.7	-5.9	-7.3	-7.9	-6.0	-3.6	-3.4	-5.9	-3.6	2.4	4.2	2.3	2.5
Wholesale and retail trade	11.4	6.9	9.3	-1.3	6.8	6.4	5.9	7.9	9.3	7.7	7.1	9.1	2.3	1.2	1.1	1.1
Transport, storage and communications	0.4	-1.7	-1.4	0.5	-1.8	-4.5	-4.4	-2.9	2.8	0.1	-1.3	3.7	4.7	4.8	3.3	6.8

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

3. EMPLOYMENT AND PERSONNEL COSTS

Employment continued to grow in the Spanish economy in step with activity during the period analysed, rising by 3.5 % in 1999 and by 2 % in the first three quarters of 2000. The significance of the CBQ figure should be stressed, since the related CBA figures are always better. This is because the CBA sample includes many more smaller corporations which, owing to their dynamism, contribute very positively to employment creation (2). In the case of the annual database, moreover, the 1999 figures show net employment growth for the fifth year running, with a progressive improvement in permanent employment, which rose by 2.6 %, following a 3.2 % rise in 1998. Temporary employment, meanwhile, continued to grow at a higher rate than permanent in 1999 (6.9 %, against the above-mentioned 2.6 % rate). Developments in the first three quarters of 2000 continued to be affected by the oft-mentioned persistence of certain one-off adjustments in very specific corporations and sectors (undergoing reorganisation or liberalisation) which, being quantitatively very significant, distort the CBQ data downwards. Specifically, the restructuring processes mentioned are concentrated in the electricity, gas and water supply and transport and communication sectors. If the corporations referred to were removed from the sample, employment

(2) Box 2 gives further details of the behaviour of small corporations, obtained from the sample of firms that file their accounts at the Mercantile Registries (CBBE-RM).

growth would be even more notable. Table 2.a shows that merely removing the electricity sector from the sample increases the growth rate to 2.7 % in 2000. Employment in manufacturing, meanwhile, in step with the more muted growth in its activity grew by 1.8 % in 1999, a positive rate but down on 1988. The vigorous expansion of activity in this sector in the first three quarters of 2000 was naturally accompanied by an acceleration in the rate of employment creation. According to the CBQ this rate rose to 1.6 %, from –0.6 % in 1999. Of the sectors shown in Table 2.a, which are the most significant in the CBQ, wholesale and retail trade was the one in which employment grew most vigorously (7.9 % in the first nine months of 2000, as against 5.9 % in the same period of 1999), despite the slowdown in consumption in 2000 Q3 referred to above. Personnel costs rose by 5.1 % in 1999, almost the same rate as in the first three quarters of 2000 (5.4 %). This outturn was strongly governed by the employment creation recorded in the period analysed.

Average compensation (personnel costs per worker) grew by 1.6 % in 1999, slightly down on the 2 % rate of 1998, and also less than the 3.4 % rate recorded in 2000 to date. The greater moderation in 1999 was influenced by the differences in wages between newly hired and existing staff, as can be seen in Table 2.b, and as discussed below. The data for the year 2000 reflect an upward correction, arising from the incorporation of the rise in inflation into the wage settlements under the various collective agreements. By sector, as explained for the whole of the sample, those sectors with the largest increases in employment (wholesale and retail trade and construction in 1999, together with money factoring in 2000) are also the ones that display more moderate growth in average compensation.

Table 2.b confirms the above comments on employment. It can be seen that the 495 corporations that increased their workforces did so at a rate of 11.5 %, with a notable increase in permanent employment (9.4 %). By contrast, among those that destroyed employment (279), the decline was 10.6 %. As for average compensation, it continued to rise more slowly among the corporations creating employment, although the gap with those reducing their workforces narrowed to 0.3 percentage points. This is explained by the upward wage pressures associated with the rises in inflation, which offset the effect on compensation of newly hired workers, and also by the fact that the costs associated with dismissals are largely covered by provisions, which means that the rate of compensation for the corporations reducing their workforces is considerably understated.

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ corporations 2000 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	**774**	**495**	**279**
Personnel costs			
Initial situation 1999 Q1-Q3 (EUR million)	13,398.9	6,942.9	6,456.0
Rate 00 Q1-Q3/99 Q1-Q3	5.4	16.3	-6.4
Average compensation			
Initial situation QI-III 1999 (EUR)	26,369	23,941	29,480
Rate 00 Q1-Q3/99 Q1-Q3	3.4	4.3	4.6
Number of employees			
Initial situation 1999 Q1-Q3 (000s)	509	290	219
Rate 00 Q1-Q3/99 Q1-Q3	2.0	11.5	-10.6
Permanent			
Initial situation 1999 Q1-Q3 (000s)	*434*	*229*	*205*
Rate 00Q1-Q3/99Q1-Q3	*0.4*	*9.4*	*-9.7*
Non-permanent			
Initial situation 1999 Q1-Q3 (000s)	*75*	*61*	*14*
Rate 00Q1-Q3/99Q1-Q3	*11.1*	*19.3*	*-23.9*

Source: Banco de España.

Finally, Table 4 shows that the percentage of corporations in which employment rose increased in 1999 (almost 77 % of the corporations, as against 74.2 % in 1998), for the third year running. The CBQ results for the first three quarters of 2000 show a very similar situation in 2000 Q3 and in 1999 (around 62 % in both cases), although it should be noted that in the first two quarters of 2000 this same percentage had been close to 65 %. Meanwhile, the percentage of corporations in which the growth of average compensation exceeded inflation increased significantly (52.1 % of the sample corporations in 2000 Q3, as against 45.9 % in the same quarter of 1999), despite the increase in the rate of inflation. This could have an adverse impact on employment creation in the short and medium term.

4. PROFITS, MARGINS AND RATES OF RETURN

As a result of the trends in activity and personnel costs, gross operating profit rose by 2.2 %, significantly down on the 8.6 % rate in

TABLE 3

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

	CBA		CBQ	
	1998	1999	99 Q1-Q4 (a)	00 Q1-Q3 (a)
Total corporations	**7,646**	**6,014**	**877**	**774**
Corporations reporting source/destination	7,646	6,014	823	739
	%	%	%	%
Net purchases	**100.0**	**100.0**	**100.0**	**100.0**
SOURCE OF PURCHASES:				
Spain	66.3	64.4	74.2	70.3
Total abroad	33.7	35.6	25.8	29.7
EU countries	*23.3*	*23.4*	*16.3*	*14.9*
Third countries	*10.4*	*12.2*	*9.5*	*14.8*
Net turnover	**100.0**	**100.0**	**100.0**	**100.0**
SALES DESTINATIONS:				
Spain	80.4	80.8	89.2	85.8
Total abroad	19.6	19.2	10.8	14.2
EU countries	*14.6*	*14.3*	*7.5*	*9.3*
Third countries	*5.0*	*4.9*	*3.3*	*5.0*

Source: Banco de España.
(a) All the data in these columns have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of corporations.

1998. In the first nine months of 2000, this surplus (which measures the operating margins, i.e. those which remunerate the assets invested and, inter alia, provide funds for internal financing of investment) returned to rates of growth in line with the trend in GVA, reaching 9.8 % for the period mentioned. Financial costs, which continued to fall in 1999 owing to the successive reductions in interest rates (3), began to increase in the first three quarters of 2000, following six years of continuous reductions in the profit and loss accounts of non-financial corporations. The rise in financial costs in the first nine months of 2000 of 20.1 % basically stems from the greater recourse to external sources of financing, since the change owing to the rate of interest is still small. Specifically:

	00 Q1-Q3/99 Q1-Q3
Change in financial costs	**+20.1 %**
A. Interest on borrowed funds (1+2)	*+19.1 %*
Due to the cost (interest rate)	+5.8 %
Due to the amount of interest-bearing debt	+13.3 %
B. Commissions and cash discounts	*+1.0 %*

This table confirms that the increase in financial costs stems from two sources. On one hand, it is explained by the increase in interest

(3) In the annual monograph of the Central Balance Sheet Office (available in Spanish only), the profit and loss account in absolute terms show an increase in financial costs in 1999. However, this rise was due to the operations of just two large national corporations, which reorganised the structure of their corporate groups, creating new subsidiaries and increasing financial interdependence within the group. The current flows arising from these operations, that are unprecedented in the time series, have been adjusted for the sole purposes of calculating the rates of change, so that they reflect more accurately the behaviour of Spanish corporations as a whole.

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 6,014 corporations 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 profits/losses, 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 profits.

Structure of the profit and loss account

		Number of corporations / Total national coverage	**6014 / 27.1 %**
		YEAR	1999
1.		VALUE OF OUTPUT (including subsidies)	100,0
	1.	Net amount of turnover and other operating income	122,4
	a.	Other items	-22,4
2.		INPUTS (including taxes)	67,2
	1.	Net purchases	42,5
	2.	Other operating costs	25,3
	b.	Other items	-0,5
S.1.		GROSS VALUE ADDED AT FACTOR COST (1 - 2)	32,8
	3.	Personnel costs	17,0
S.2.		GROSS OPERATING RESULT (S.1 - 3)	15,8
	4.	Financial revenue	3,1
	5.	Financial costs	3,1
	6.	Corporate income tax	2,0
	c.	Other income included in funds generated	-0,1
S.3.		FUNDS GENERATED FROM OPERATIONS (S.2 + 4 - 5 - 6 + c)	13,7
	7.	Depreciation and provisions	11,4
	d.	Other income not included in funds generated	2,7
S.4.		TOTAL NET RESULT (S.3 - 7 + d)	5,0
	e.	Proposed distribution of dividends	3,1
	f.	Retained earnings	1,9
		Memorandum item:	
S.5.		SELF-FINANCING (S.3 - e = f + 7 - d)	10,7

TABLE 4

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

	CBA		CBQ			
	1998	1999	98 Q1-Q4 (a)	99 Q1-Q4 (a)	99 Q3	00 Q3
Number of corporations	**7,646**	**6,014**	**834**	**877**	**869**	**531**
Personnel costs	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	21.3	21.5	27.7	30.1	31.1	24.8
Constant or rising	78.7	78.5	72.3	69.9	68.9	75.2
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	25.8	23.2	40.3	39.2	38.1	38.0
Constant or rising	74.2	76.8	59.7	60.8	61.9	62.0
Average compensation (relative to inflation) (b)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	40.7	52.7	42.7	48.9	54.1	47.9
Higher or same growth	59.3	47.3	57.3	51.1	45.9	52.1

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

rates, and on the other, by the increase in the recourse to external sources of financing for new investment. Despite the rise in the cost of borrowing, the market continues to offer very favourable financial conditions when the cost incurred is compared with the return on other financial assets.

The increase in financial costs in the first three quarters of 2000 did not affect the growth of funds generated, which rose by 13 % in this period, following more moderate growth in 1999, in line with the trend in activity that year. In any event, it should be noted that, after six years of constant decline, the relative importance of financial costs in the profit and loss account has declined (in 1993 they represented 7.6 % of the value of output and in 2000 Q3 just 3.4 %), so that increases in financial costs have a smaller impact on the funds generated by the corporations. By sector (see Table 5), notable were the sharp increases in funds generated in manufacturing, with growth of 34.1 % in the first nine months of 2000, and the deterioration in those generated in wholesale and retail trade. After several years of significant growth, funds generated in the latter sector fell in the first three quarters of 2000 by –12.9 %, a rate which, as mentioned in the section on activity, is basically determined by the adverse trend in the operating surplus of corporations marketing fuel.

Ordinary returns (both on net assets and on equity) held at sustained levels in 1999, in line with productive activity, although they were slightly lower than in 1998, rising again in the first nine months of 2000. This rise took place across all sectors of activity, with the exception of wholesale and retail trade, for the reasons mentioned above. In the first three quarters of 2000 the ordinary return on net assets stood at 9.6 %, while the annual figure for 1999 was 7.6 %. The cost of borrowing, after reaching a new low in 1999 of 5.1 %, rose slightly to stand in the first nine months of 2000 at 5.5 %. In

TABLE 5

Gross operating profit, funds generated, ordinary return on assets and leverage
Breakdown size, ownership status and main activity of corporations
(Ratios and growth rates of the same corporations on the same period a year earlier)

	Gross operating result				Funds generated				Return on assets (R. 1) (a)				Leverage (a)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)	1999	99 Q1-Q4 (a)	99 Q1-Q3 (a)	00 Q1-Q3 (a)
Total	**2.2**	**1.6**	**1.9**	**9.8**	**3.0**	**5.7**	**5.6**	**13.0**	**7.6**	**8.5**	**8.7**	**9.6**	**2.5**	**3.2**	**3.5**	**4.1**
Total, excluding electricity	**1.0**	**-0.8**	**-0.3**	**10.6**	**2.8**	**6.8**	**5.1**	**15.6**	**7.7**	**8.5**	**8.8**	**10.7**	**2.4**	**3.0**	**3.3**	**4.8**
SIZE:																
Small	14.4	—	—	—	16.7	—	—	—	10.2	—	—	—	4.7	—	—	—
Medium	12.6	5.9	9.1	15.0	15.9	12.1	9.1	16.3	11.1	10.4	10.9	13.1	6.6	5.8	6.4	7.7
Large	0.9	1.4	1.6	9.6	1.5	5.5	5.5	12.8	7.3	8.4	8.6	9.5	2.2	3.1	3.4	3.9
STATUS:																
Public-sector	-14.3	-7.4	-7.8	14.8	9.4	5.5	4.1	10.7	1.6	3.4	3.7	6.3	-3.9	-1.8	-1.4	1.0
Private-sctor	3.4	2.7	3.1	9.3	2.6	5.7	5.8	13.5	9.0	9.7	10.0	10.2	4.0	4.4	4.8	4.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	-3.4	-1.8	-5.7	43.8	-3.2	1.3	0.5	34.1	10.7	11.1	11.6	14.9	6.3	6.3	6.9	9.2
Electricity, gas and water supply	6.4	7.5	7.7	8.3	3.6	3.7	7.6	8.0	7.2	8.4	8.6	7.9	2.9	3.7	4.0	2.8
Wholesale and retail trade	14.3	6.6	13.1	-13.7	12.7	10.3	14.9	-12.9	11.9	11.0	11.7	8.4	7.9	6.2	7.0	3.9
Transport, storage and communications	-1.5	-3.0	-1.3	-1.5	2.4	2.4	-1.3	-4.2	6.4	6.4	6.6	10.5	0.1	0.5	0.7	3.9

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

view of the high rates of return in the two periods analysed, neither of these rates was an obstacle to high positive levels of leverage being recorded once again. This is the best indication that Spanish corporations are still experiencing a cyclical boom, and that conditions remain conducive to new investment and employment growth, in spite of the slowdown in productive activity discerned in 2000 Q3.

Finally, Table 6 shows the distribution of the corporations by their rates of profitability, irrespective of their size and status. In 2000 Q3 the situation was similar to that existing a year earlier. The only significant difference was a slight shift towards higher levels of profitability (45.3 % of the corporations obtained returns on net assets of over 10 %, as against 44.2 % in 1999). In short, 1999 was a year of sustained growth for the corporations, although it was more moderate than in 1998, with a progressive recovery in manufacturing and rising inflation, as a result of the sharp increase in oil prices. In 2000, the favourable expectations resulted in a strong expansion in all areas (activity, employment and returns), with a resumption of the strong growth in the economy that began in 1996. However, the persistence of rising oil prices, the increase in the inflation rate and the expansion of wage costs may begin to affect the excellent business conditions. In any event, if all the agents involved act prudently when taking decisions, the contraction should not involve more than a slight cyclical slowdown, from which business may even emerge strengthened.

TABLE 6

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

	CBQ			
	Ordinary return on net assets (R. 1)		Ordinary return on equity (R.3)	
	99 Q3	00 Q3	99 Q3	00 Q3
Total corporations	**100.0**	**100.0**	**100.0**	**100.0**
R <= 0 %	22.9	22.5	25.5	24.8
0 % < R <= 5 %	17.6	16.5	14.3	14.0
5 % < R <= 10 %	15.4	15.7	10.8	10.9
10 % < R <= 15 %	12.6	14.2	10.3	11.9
15 % < R	31.6	31.1	39.1	38.4
Number of corporations	**869**	**531**	**869**	**531**
MEMORANDUM ITEM:				
Average return	**8.5**	**11.3**	**10.7**	**14.5**

Source: Banco de España.

5. INVESTMENT AND FINANCING

The above analysis of the 1999 data is based on Chapter II of the annual monograph of the Central Balance Sheet Office (available in Spanish only), supplemented by the CBQ data for the first three quarters of 2000, also based on tables with a particularly business-oriented presentation. However, there is another accounting approach, that of general economic analysis, as set out in Chapter III of the annual monograph, which enables balances and aggregates that are useful for macroeconomic analysis to be obtained. This is what Table 7 offers, with a summary of the capital and financial account, based on the CBA data for 1997 to 1999. Unlike the CBQ, the CBA data is sufficiently detailed to enable these accounts to be prepared.

In 1999, there was positive net lending overall by the corporations included in the CBA sample, for the fifth year running, although the total amount was very small (4). The strong generation of funds, with a substantial increase in gross saving, was sufficient to finance the investment made during the year, leaving practically zero net lending (0.2 %). However, it should be taken into account that there was a sharp rise in gross fixed capital formation in 1999, to 25.2 % of GVA, the highest percentage since 1995. As regards net financial transactions, the table shows the importance in 1999 of the acquisition of shares and other equity, a substantial part of which took place in foreign markets. In 1999, the large national corporations undertook concentration and group reorganisation operations without precedent in the time series. This was because the restructuring of the electricity sector, in compliance with the legal requirement to separate the activities of electricity generation, distribution and marketing, coincided with other operations for internal reorganisation and to acquire foreign subsidiaries. The latter, aimed basically at increasing the Spanish presence in Latin American

(4) Box 2 of the Central Balance Sheet Office annual monograph (available in Spanish only) gives some useful data on the number and sector of activity of the corporations created and wound up each year, as well as on the different structure and sign of the current and accumulation accounts of such corporations, with respect to those of existing corporations. This box shows how it is precisely the newly created corporations that record significant net borrowing (as a result of the large investment needed to start up the corporation and the absence of entrepreneurial income and gross saving during the first year of its life). This phenomenon means that the existence of net borrowing for the aggregate obtained by the system of national accounts for the sector non-financial corporations is compatible with the existence of net lending (practically zero in 1999) by the corporations of the CBA sample (mainly generated by the large national corporations).

TABLE 7

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

	% of GVA at basic prices		
Databases	1997	1998	1999
Number of corporations / Total national coverage (a)	8049/33.7%	7646/32.2%	6014/27.1%
Year	1997	1998	1999
1. Capital resources	28.8	31.9	32.2
1. Gross saving	28.1	29.9	30.6
2. Net capital transfers	0.6	2.0	1.6
2. Uses of capital	25.0	25.5	32.0
1. Gross capital formation	23.9	24.1	30.7
1. Gross fixed capital formation	20.2	20.4	25.2
2. Change in stocks	3.7	3.7	5.5
2. Other uses of capital	1.1	1.4	1.3
3. Net lending (+), borrowing (-) (1- 2.1 - 2.2 = -4)	3.8	6.4	0.2
4. Net liabilities incurred minus net financial assets acquired	-3.8	-6.4	-0.2
1. Debt securities issued	-1.4	-2.6	4.0
2. Equity	0.0	-0.6	-24.2
3. Credit from credit institutions	6.4	4.5	3.6
4. Credit from rest of the world	-0.2	4.2	11.1
5. Credit from other resident sectors	-1.1	-5.2	-1.4
6. Insurance technical reserves: pension funds	0.6	-0.1	0.8
7. Trade credit and other liabilities net of other assets	-8.1	-6.6	6.0
MEMORANDUM ITEM:			
Investment in tangible fixed assets (b)	9.9	10.2	11.7

Source: Banco de España.
(a) Measured in relation to the gross value added at basic prices of the sector Non-financial corporations.
(b) 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 corporations with more than 100 employees.

markets, mainly affected telecommunications and manufacturing corporations, with those of the refining sector being particularly important, in quantitative terms. At the same time and for the same reason, loans vis-à-vis the rest of the world expanded rapidly in the corporations analysed.

The overall situation described above – even with the slowdown discerned in 2000 Q3 – characterised by strong growth of activity, earnings or funds and employment, together with sustained high levels of profitability and of positive leverage, explains the phenomenon described above of reorganisation and international expansion of Spanish corporations (in which the former state-owned monopolies and corporations in the deregulated sectors are playing a prominent role). This change of conduct also shows the maturity of the Spanish economy, with patterns of behaviour similar to those of the major economies and the desire of national corporations to exploit their natural advantages in the process of globalisation.

21.11.2000.