Results of non-financial corporations in 2001 Q1(1)

1. INTRODUCTION

The data of the Central Balance Sheet Office Quarterly Survey (CBQ) for 2001 Q1 point to the continuing loss of momentum in the productive activity of non-financial corporations that began in the second half of the year 2000, as reported in earlier articles. Testifying to this is the fact that the GVA of CBQ non-financial corporations grew by 4.9 %, compared with 7.3 % in 2000 Q1. These developments are in line with the decline in the growth rate of private consumption and the slowdown in investment revealed by other indicators, which also show that productive activity continued to grow, both in nominal and real terms, during the period under review. CBQ rates, in nominal terms, show that the less buoyant growth in output was due to the heavy slowdown in manufacturing, whose GVA increased by 0.1 % in 2001 Q1 (see Box 1). In addition to the foregoing causes, this performance is also attributable to the fact that there was vigorous growth in the reference period for the calculation of this rate (2000 Q1), with rates of up to 18.8 % in manufacturing. This rate was largely the result of the rise in international oil prices during 2000 Q1, which had prompted strong nominal increases in the GVA of the oil refining manufacturing industry, this trend being reversed in 2001 Q1 following the deceleration of oil prices.

In step with this moderate growth in productive activity, CBQ employment also slowed somewhat, though it remained positive (1.2 %). Still notable among all sectors is the performance of wholesale and retail trade, where job creation levels similar to those observed in previous periods were attained. In line with the foregoing, the growth of staff levels in manufacturing slowed slightly, though this did not prevent CBQ reporting corporations from creating employment for the sixth consecutive quarter. Likewise, corporations in the services sector continued to contribute positively to job creation. As for types of jobs, temporary employment rose more strongly. That said, permanent employment also increased, as in the four quarters of 2000, outpacing the growth recorded in the same quarter of the preceding year. Personnel costs per employee quickened in relation to a year earlier to

(1) This article is based on data provided by 725 corporations that reported to the CBQ in the survey period to 14 June 2001. These corporations account for 14.6 % of the total activity of the non-financial corporations sector (measured by gross value added at basic prices).

a growth rate of close to 4 %. If this performance persists, it could detract from the competitiveness of Spanish corporations. The pass-through of increased inflation to wages would obviously jeopardise the job creation process in non-financial corporations. As a result of the behaviour of average compensation and employment, personnel costs rose by 4.9 %. This, in conjunction with the slowdown in output growth, reduced the growth of the gross operating result to 4.8 % in 2001 Q1, compared with 8.1 % in the same period a year earlier. Similarly, in 2001 Q1, financial costs grew by more than 35 % on 2000 Q1, continuing the trend initiated in mid-1999. This increase may be due both to the progressive pass-through of the interest rate rises seen in 2000 to corporate borrowing costs and, above all, to the greater debt incurred in the last twelve months by certain large firms with a significant international presence, mostly to finance investment and strategic positioning in foreign companies. There is no evidence in CBQ of this phenomenon occurring in corporations of other sizes and sectors. At any rate, as shown in Box 2, the cost of financing held at levels auspicious for harnessing the good investment opportunities that may arise from the high profitability ratios which continue to be had.

Finally, owing to the high volatility implicit in the net result (which was influenced in 2001 Q1 by the substantial provisions set aside by large enterprises against losses on their securities portfolios), the behaviour of this variable is less at the root of changes in corporate results than the performance of the net ordinary result. The latter is the gross operating result plus financial results (revenue minus costs) minus depreciation and operating or ordinary provisions (2). The net ordinary result (which is also the stock used by the Central Balance Sheet Office to calculate the profitability ratios in the lower part of Table 1) increased by 7.4 % in 2001 Q1, compared with 12.3 % in the same period in 2000. Against this background, ordinary returns (on both net assets and equity) remained at very similar levels to those attained the preceding year on the whole and even above those recorded in 2000 Q1. The ratio measuring the cost of financing (in practice, interest on borrowed funds to interest-bearing borrowing) rose slightly in relation to the previous period. As a result, although leverage (defined as the difference between the return on assets and the cost of financing) fell from 2.7 to 2.3, it is still clearly positive.

In short, the slowdown in productive activity initiated in the second half of the year 2000 continued during 2001 Q1. Notwithstanding, both GVA and employment maintained significant growth rates. Inflationary pressures and their effect on the expansion of personnel costs remained apparent in the opening months of 2001, bringing about a decrease in the gross operating profit. Thus, margins declined slightly in the total aggregate and, more markedly, in manufacturing, among other sectors. The net ordinary result also slowed, despite which profitability levels are still high and the leverage ratio remains at clearly positive though declining levels, as a consequence of increasing financial costs.

2. ACTIVITY

The CBQ data for 2001 Q1 show that business activity was more moderate than in the same period of the preceding year, in line with the deceleration in train since the second half of 2000. Thus, GVA increased by 4.9 % in 2001 Q1, in nominal terms, compared with 7.3 % in the same period a year earlier (see Table 1 and Chart 1). This lower growth was in part driven by the loss of momentum in domestic demand, in particular in capital goods investment. As a result, the growth rate of GVA in manufacturing was virtually zero (0.1 %). As mentioned in the introduction, this behaviour was strongly influenced by the pass-through to oil refining of the notable rise in oil prices throughout 2000 Q1, which prompted marked nominal increases in GVA last year. As oil price rises were more tempered in 2001 Q1, the nominal growth of manufacturing declined (the GVA of oil refining corporations grew by 3.7 % in 2001 Q1, against 55.6 % in the same period a year earlier). Among the other sectors (see Table 2.a), the performance of the wholesale and retail trade was noteworthy, with a 12.9 % increase in GVA growth, well above the rate recorded in 2000 Q1 (8.2 %). Nonetheless, this rate was also affected by the rise in oil prices in 2000, which

(2) The volatility of the net result is due to the fact that, being the last figure of the cascade, it is usually small in absolute terms and changes frequently from positive to negative values and vice versa, preventing the calculation of a long series of rates. Also taken into account In its calculation are depreciation and extraordinary provisions, i.e. those set aside against capital gains and losses and extraordinary receipts and expenditure, which are not only erratic but cannot either be unequivocally attributed to a specific quarter or reliably reflected by the CBQ.

TABLE 1

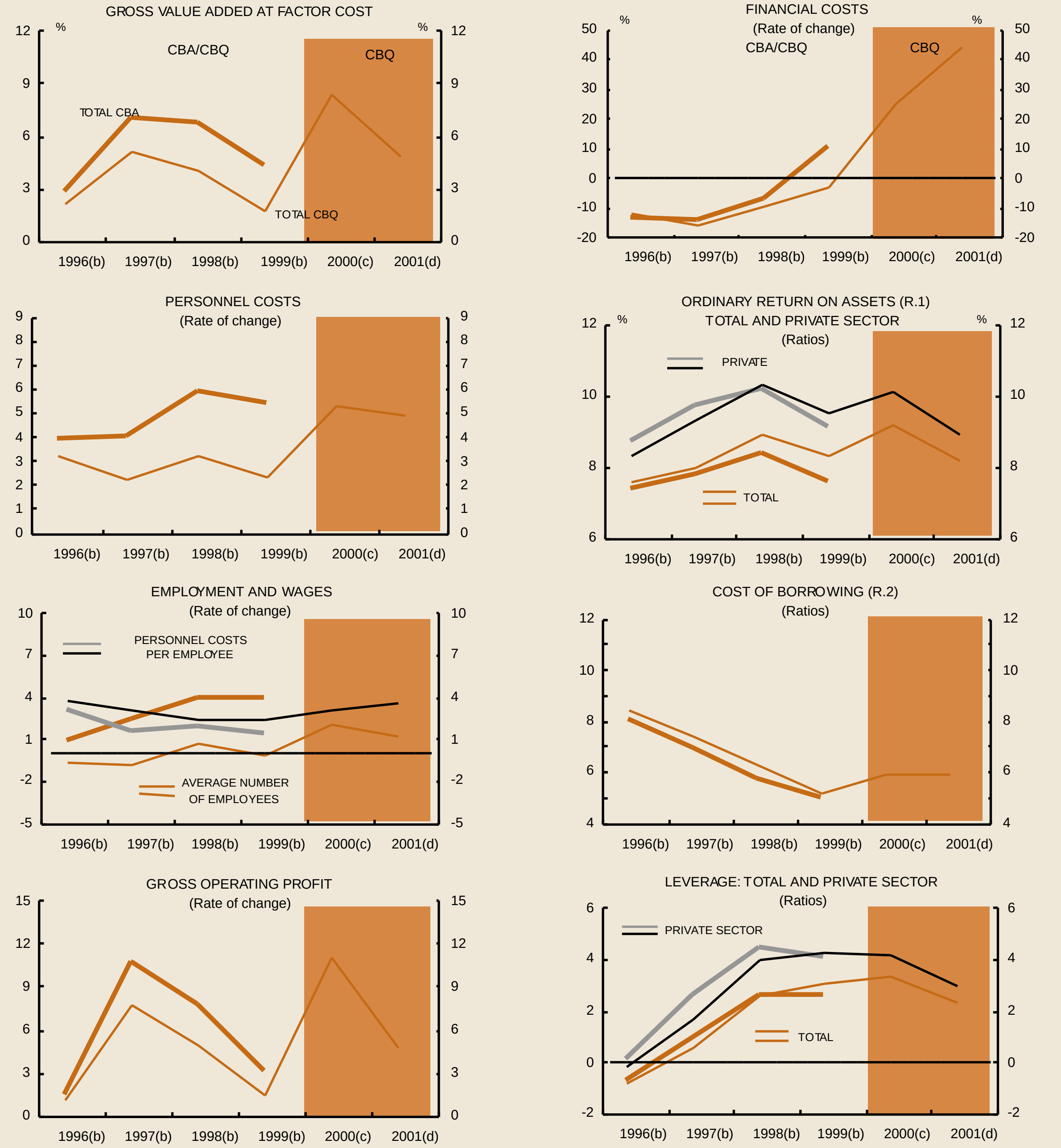
Profit and loss account. Year-on-year performance
(Growth rates of the same corporations on the same period a year earlier)

Databases	CBA 1998	CBA 1999	CBQ (a) 00 Q1-Q4 / 99 Q1-Q4	CBQ (a) 00 Q1/99 Q1	CBQ (a) 01 Q1 / 99 Q1
Number of corporations/total national coverage	8135/34.0%	7325/29.0%	874 / 16.3%	950 / 17.6%	725 / 14.6%
1. VALUE OF OUTPUT (including subsidies)	6.2	9.3	17.0	20.7	6.9
Of which:					
1. Net amount of turnover and other operating income	5.1	7.4	22.3	25.2	8.3
2. INPUTS (including taxes)	5.9	11.8	22.4	30.4	8.1
Of which:					
1. Net purchases	2.8	13.7	28.0	41.9	7.1
2. Other operating costs	11.2	10.9	8.9	12.1	8.7
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	*6.7*	*4.3*	8.4	7.3	4.9
3. Personnel costs	*5.9*	*5.4*	5.3	6.2	4.9
S.2. GROSS OPERATING RESULT [S.1 - 3]	*7.7*	*3.1*	11.0	8.1	4.8
4. Financial revenue	9.3	24.3	11.2	10.3	31.4
5. Financial costs	-6.9	10.4	24.8	10.8	37.4
6. Corporate income tax	15.9	11.9	1.5	13.7	12.2
S.3. FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 6]	10.4	3.7	9.7	7.0	0.5
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	21.7	3.4	12.9	-20.4	21.2
7.1. Depreciation and operating provisions	0.7	7.0	7.3	3.3	-4.2
7.2. Capital losses and extraordinary expenses	54.1	-0.2	25.4	14.9	138.4
7.3. Capital gains and extraordinary revenue	23.3	3.1	17.0	106.5	22.6
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	24.1	3.4	9.8	12.3	7.4
Memorandum item:					
S.4. TOTAL NET PROFIT [S.3 - 7] (% of GVA% at factor cost) (t-1. t) (b)	14.7 - 14.9	16.0 - 15.0	20.8 - 20.2	20.5 - 26.9	25 - 19.5
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	8.4	7.6	9.2	8.0	8.2
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.7	5.0	5.9	5.3	5.9
R.3 Ordinary return on equity (before taxes)	9.7	9.2	11.2	9.6	9.8
R.4 Financial leverage (R.1 - R.2)	2.6	2.6	3.3	2.7	2.3
R.5 Debt ratio	40.0	43.7	43.5	43.4	46.0

Source: Banco de España.
(a) All the data in these columns have been calculated as the weighted average of the quarterly data.
(b) These ratios are obtained for the same corporations in periods t and t-1.
Note: Internal accounting movements have been edited out of items 4, 5, 6, 7.2 and 7.3 in the calculation of rates.

CHART 1

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



NUMBER OF CORPORATIONS

CBA	8,032	8,054	8,135	7,325		
CBQ	725	722	834	881	874	725

% OF GDP OF SECTOR NON-FINANCIAL CORPORATIONS

CBA	34.2	33.9	34.0	29.0		
CBQ	19.1	18.7	18.0	16.9	16.3	14.6

CBA data

NUMBER OF CORPORATIONS

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% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	34.2	33.9	34.0	29.0		
CBQ	19.1	18.7	18.0	16.9	16.3	14.6

CBQ data

Source: Banco de España.
(a) Information available to 14 June 2001 (CBA and CBQ).
(b) The 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 four quarters of 2000 over the same period of 1999.
(d) First quarter of 2001 over the same quarter of 2000.

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)

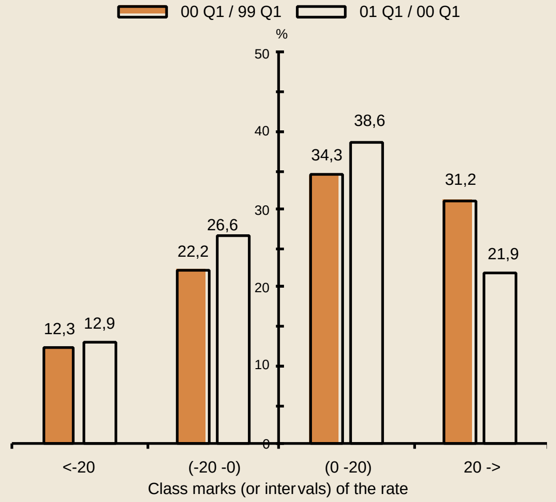
	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	1999	00Q1-Q4 (a)	00 Q1	01 Q1	1999	00Q1-Q4 (a)	00 Q1	01 Q1	1999	00Q1-Q4 (a)	00 Q1	01 Q1	1999	00Q1-Q4 (a)	00 Q1	01 Q1
Total	**4.3**	**8.4**	**7.3**	**4.9**	**3.9**	**2.1**	**2.4**	**1.2**	**5.4**	**5.3**	**6.2**	**4.9**	**1.4**	**3.1**	**3.6**	**3.6**
Total. excluding electricity	**4.3**	**10.5**	**7.9**	**8.0**	**4.4**	**2.7**	**3.0**	**1.7**	**6.0**	**6.2**	**7.2**	**5.3**	**1.6**	**3.4**	**4.1**	**3.6**
SIZE:																
Small	10.9	—	—	—	7.0	—	—	—	8.4	—	—	—	1.4	—	—	—
Medium	10.9	9.5	9.6	2.8	8.3	4.0	3.4	3.9	9.4	7.5	6.9	7.5	1.1	3.4	3.3	3.4
Large	3.2	8.3	7.1	5.0	3.0	1.9	2.3	1.0	4.7	5.1	6.1	4.7	1.7	3.1	3.7	3.7
STATUS:																
Public-sector	-0.2	9.5	4.6	7.1	0.6	0.7	-0.2	1.5	4.5	6.2	5.1	7.0	3.9	5.4	5.4	5.5
Private-sector	5.0	8.2	7.8	4.6	4.8	2.6	3.4	1.2	5.6	4.9	6.5	4.4	0.9	2.3	3.0	3.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	1.3	23.0	18.8	0.1	1.7	1.7	1.4	1.1	3.8	6.0	6.4	4.2	2.1	4.1	4.9	3.1
Electricity. gas and water supply	4.2	1.9	5.2	-3.6	-5.9	-5.1	-4.6	-3.3	-3.6	-2.6	-2.7	1.9	2.4	2.6	2.0	5.4
Wholesale and retail trade	11.3	2.0	8.2	12.9	6.7	7.8	8.6	7.1	9.2	9.2	10.5	10.7	2.3	1.2	1.8	3.4
Transport. storage and communications	0.6	2.1	-1.3	10.6	-1.5	-2.9	-2.1	-3.3	3.1	2.4	3.2	1.8	4.6	5.4	5.4	5.2

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

could not be passed through to sale prices by fuel distribution companies, thus entailing significant reductions in their margins that year. However, a more stable price environment enabled these companies to improve their results in 2001 Q1. At any rate, the wholesale and retail trade fared well, since the rate of change of its GVA, excluding fuel distribution companies, held at 7.7 %. The transport and communications sector also saw strong growth in activity (10.6 % in GVA), following a long period in which the progressive opening up to competition had led to substantial downward adjustments in sale prices and notably higher promotion and advertising costs, duly entailing a pronounced narrowing of margins. However, this situation stabilised in the first quarter of 2001, seemingly owing to the change in strategy in a number of telecommunications sub-sectors, which gave priority to generating value added against gaining potential customers. In the electricity, gas and water supply sector, the electric utilities were affected by a fall in both electricity demand (2.8 % growth compared with 7.2 % in 2000 Q1, due to some degree to milder temperatures during the period) and in rates (the decline in which averaged 2.2 % in 2001), though the latest regulatory changes may also have given rise to lower takings than initially expected. As a result, the sector's GVA declined by 3.6 % during the period under review, despite the fact that the improved capacity to generate hydro-electricity, owing to frequent rain during the period, made for a notable reduction in production costs. The gas companies also contributed significantly to this fall, being affected

CHART 2

Distribution of corporations by rate of change in GVA at factor cost (00 Q1/99 Q1, 01 Q1/00 Q1)



Source: Banco de España.

by a rise in their input prices that could not be fed through in full to sale prices.

The slowdown in productive activity is confirmed by the performance of purchases and sales in 2001 Q1, which evidenced the aforementioned loss of momentum compared with 2000 Q1. During the 12-month period in question, the rate of change of sales ran at 8.3 % and that of purchases at 7.1 %, against 25.2 % and 41.9 %, respectively, the previous year. However, these rates were strongly affected by the effect of oil price rises. Though maintaining a net positive contribution to output, the growth rate of the external activity of reporting corporations was also more moderate (Table 3 shows a fall in the share of purchases/sales from/to foreign markets, due not only to the effect of oil prices, but also to the recent slackness in other economies.

Finally, Chart 2 shows that, in 2001 Q1, the GVA of more than 60 % of the firms included in the reporting corporations aggregate increased, compared with 65.5 % in the year 2000. Furthermore, a shift is observed towards the lower GVA growth rate segment. Thus, 38.6 % of the corporations surveyed exhibited positive GVA growth, albeit below 20 %, against 34.3 % in the same quarter of the previous year. These two observations are clear proof of the abovementioned moderation of productive activity in 2001 Q1.

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ corporations 01 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	**725**	**440**	**285**
Personnel costs			
Initial situation 01 Q1 (EUR million)	4,470.1	2,101.8	2,368.3
Rate 01 Q1/00 Q1	4.9	10.7	-0.3
Average compensation			
Initial situation 01 Q1 (EUR)	9,279	8,250	10,433
Rate 01 Q1/00 Q1	3.6	2.8	6.1
Number of employees			
Initial situation 01 Q1 (000s)	482	255	227
Rate 01 Q1/00 Q1	1.2	7.7	-6.0
Permanent			
Initial situation 00 Q1 (000s)	*401*	*204*	*197*
Rate 01 Q1 / 00 Q1	*0.9*	*5.4*	*-3.7*
Non-permanent			
Initial situation 00 Q1 (000s)	*80*	*50*	*30*
Rate 01 Q1 / 00 Q1	*2.8*	*17.1*	*-20.9*

Source: Banco de España.

3. EMPLOYMENT AND PERSONNEL COSTS

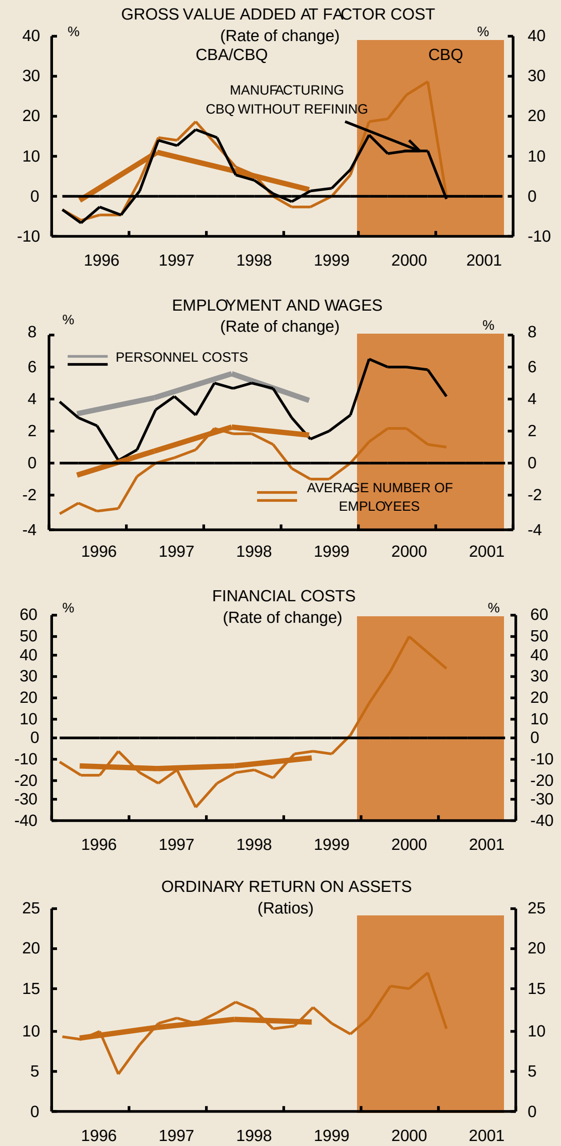
The personnel costs of the CBQ reporting corporations grew by 4.9 % in 2001 Q1, compared with 6.2 % a year earlier. Rather than to developments in average personnel costs, which posted the same rate of change as in 2000 Q1, this lower growth may be due to a lesser increase in employment, in line with the broad-based moderation of productive activity. Thus, average employment rose by 1.2 % in 2001 Q1, against 2.4 % in the same period a year earlier. Notwithstanding, it is worth noting given the composition of the sample of CBQ reporting corporations (large enterprises, some of which are still undergoing staffing adjustments) that net job creation did not fall despite the slowdown. By type of contract, temporary employment posted the higher increase (2.8 %), whereas permanent employment remained practically unchanged (0.9 %). Table 2.a shows that manufacturing (with an increase of 1.1 %) was most representative in the total aggregate and that the wholesale and retail trade (where employment grew by 7.1 %) allowed the declines in other sectors to be countered. Business ser-

BOX 1

Analysis of the manufacturing sector

The weight and representativeness of the manufacturing aggregate, coupled with its explanatory power in respect of short-term economic developments, mean a more detailed analysis of this sector is in order, as in previous articles. During 2001 Q1, and as discussed in this article, manufacturing productive activity slowed, leading the industry's GVA to stagnate. Indeed, the nominal growth of GVA was virtually zero, compared with a rate of 18.8 % in the same quarter a year earlier. Flatter demand, especially in the capital goods investment component, largely explained this. Moreover, the effect of oil prices, on a falling trend in the opening months of this year after the strong increase last year, has also contributed to the moderation of the growth rate of activity in this aggregate. Among the various sub-sectors, "other manufacturing industries", "manufacture of electrical, electronic and optical equipment" and "oil refining" were prominent in that their GVA continued to grow, albeit at a much slower pace than last year. Employment in the manufacturing sector held at a slightly positive rate of change (1.1 %), although somewhat down on a year earlier (1.4 %). As regards average compensation, and in step with the comments made for the entire sample, this variable continued to increase relatively robustly (3.1 %), albeit at a lower rate than that of the mean for the sample as a whole (3.6 %). That confirms the habitual pattern of behaviour of this variable, which eases in the aggregates that generate employment as new workers on starting-level (and therefore lower) pay join the workforce. The overall expansionary trend of employment and of average compensation led personnel costs to grow 4.2 % in 2001 Q1. Given the flatness of GVA, this increase let the operating surplus and funds generated post declines of 3.9 % and 12.7 %, respectively. However, ordinary returns held at substantially high levels, albeit below those a year earlier (the ordinary return on net assets for 2001 Q1 was 10.1 %, against 11.5 % four quarters earlier). The expansionary trend of financial costs (which grew 33.9 %) was due to the inflow of new external financing, given the presence of attractive investment projects against a background of accommodating interest rates (lower than the expected return on investment), although these rates are on the rise. The cost of financing ratio stood at 5.8 % in 2001 Q, one point up on the same period a year earlier. The difference in the levels of the ratios for the ordinary return on net assets and for the cost of financing meant that manufacturing corporations had strongly positive leverage once again (4.3), albeit appreciably down on 2000 Q1 (when it peaked in terms of the series at 6.9). This may be considered a relevant indicator of the sector's current situation.

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



NUMBER OF CORPORATIONS

	1996	1997	1998	1999	2000	2001
CBA	3,231	3,351	3,255	2,756		
CBQ	372 365 350 337	360 351 343 337	408 398 392 384	427 411 401 391	436 414 389 362	336

% OF GDP OF THE MANUFACTURING SECTOR

	1996	1997	1998	1999	2000	2001
CBA	38.9	40.3	43.0	30.1		
CBQ	25.3 25.4 22.6 22.7	25.0 25.7 22.3 22.9	24.1 24.9 22.1 22.3	23.9 24.4 20.5 20.9	25.8 26.1 21.5 21.0	18.8

CBA data.
CBQ data.

Source: Banco de España.

(a) Information available to 14 June 2001 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 3

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

	CBA	CBQ	
	1999	00 Q1-Q4	01 Q1/00Q1
Total corporations	**7,325**	**874**	**725**
Corporations reporting source/destination	7,325	835	703
	%	%	%
Net purchases	**100.0**	**100.0**	**100.0**
SOURCE OF PURCHASES:			
Spain	64.4	74.1	75.6
Total abroad	35.6	25.9	24.4
EU countries	*24.3*	*15.2*	*16.5*
Third countries	*11.3*	*10.7*	*7.9*
Net turnover	**100.0**	**100.0**	**100.0**
SALES DESTINATIONS:			
Spain	80.6	85.4	86.9
Total abroad	19.4	14.6	13.1
EU countries	*14.8*	*10.0*	*8.3*
Third countries	*4.6*	*4.6*	*4.8*

Source: Banco de España.
(a) All the data in these columns have been calculated as the weighted average of the relevant quarters.

vices and CBQ construction corporations (which are grouped in aggregates that do not appear explicitly in the tables published in the quarterly article, owing to the small number of reporting corporations, but are included in the total) contributed significantly to the creation of new jobs. As discussed earlier, the growth rate of average compensation remained unchanged in relation to 2000 Q1 (in both periods, personnel costs per employee grew by 3.6 %). The persistence of inflationary pressures contributed undoubtedly to maintaining the growth rate of average personnel costs at the same level. Tables 2.b and 4 show that in corporations which created or maintained employment (60.9 %), average compensation increased by 2.8 % and employment by 7.7 %, whereas in firms which reduced staff, average compensation grew by 6.1 % and employment declined by 6 %.

In summary, the sectoral information available confirms the observations made in previous quarterly reports. Specifically, the aggregates of employment-creating corporations (manufacturing, and the wholesale and retail trade) exhibit more moderate growth in average compensation, whereas those of employment-shedding corporations (electricity, and transport and communications) displayed above-average growth in average personnel costs. Admittedly, other factors also played a role. But these observations suggest that, to reduce the unemployment rate differential with other euro area or EU Member States, economic agents need to agree on incomes policies and wage reviews that take into account the specific business situation, and that this should be compatible with high investment and job creation rates.

4. PROFITS, MARGINS AND RATES OF RETURN

During 2001 Q1, the gross operating result grew by 4.8 %, against 8.1 % in the same period a year earlier. This was as a direct consequence of a moderation in productive activity. For the same reason and owing also to an increase in financial revenue (31.4 %) and financial costs, the rate of change of funds generated was 0.5 % (see Table 5). By sector, there was a strong increase in the wholesale and retail trade (8.6 %) and a correspondingly forceful decline in manufacturing

TABLE 4

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

	CBA		CBQ			
	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	00 Q1	01 Q1
Number of corporations	**8,135**	**7,325**	**881**	**874**	**950**	**725**
Personnel costs	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	21.4	20.9	30.0	24.5	22.3	25.8
Constant or rising	78.6	79.1	70.0	75.5	77.7	74.2
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	25.7	22.5	39.1	35.4	35.8	39.1
Constant or rising	74.3	77.5	60.9	64.6	64.2	60.9
Average compensation (relative to inflation) (b)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	40.9	51.6	48.8	47.0	41.3	47.5
Higher or same growth	59.1	48.4	51.2	53.0	58.7	52.5

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

(-12.7 %), with both due to the reasons discussed in section 2.

The share of financial costs in the profit and loss account continued to rise, with a 37.4 % increase in Q1. This rate is determined as follows:

	01 Q1/00 Q1
Change in financial costs	**+37.4 %**
A. Interest on borrowed funds (1+2)	*+37.9 %*
Due to the cost (interest rate)	+11.3 %
Due to the amount of interest-bearing debt	+26.6 %
B. Commissions and cash discounts	*–0.5 %*

This table confirms that the increase may be explained, on the one hand, by the fact that the pass-through of interest rate rises in 2000 continued and, on the other, by a greater resort to external financing for new investment projects during the year. Notable among these projects are sizeable share-acquisition transactions by Spanish groups, some in foreign companies, to penetrate specific markets.

Lastly, the performance of the gross operating result, financial revenue and financial costs, and depreciation and operating or ordinary provisions (the latter decreased by 4.2 % as a result of both a decline in depreciation in electric utilities, owing to the downward adjustment of certain recoverable costs that were being depreciated, and lower operating provisions) explains the 7.4 % rise in the net ordinary result during 2001 Q1, compared with 12.3 % a year earlier, which is consistent with the foregoing. The net ordinary result, previously called net operating result in the Central Balance Sheet Office Annual Survey, is the best indicator of corporate results, especially when reference periods other than years are involved, for the theoretical and practical reasons set out in the introduction. The problem is, in short, that the alternative variable to the net ordinary result, i.e. the net result, is highly volatile, as a result of capital gains and losses and extraordinary income and expenditure. Moreover, it is very difficult to assign correctly to a given quarter many of these latter corrections to the value of assets or the recognition of liabilities, which cannot even be reliably reflected in the CBQ. Hence the use of the net ordinary result by the Central Balance Sheet Office, inter alia, to calculate the

TABLE 5

Gross operating profit, funds generated, ordinary return on assets and leverage
Breakdown by 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	00 Q1-Q4 (a)	00 Q1	01 Q1	1999	00 Q1-Q4 (a)	00 Q1	01 Q1	1999	00 Q1-Q4 (a)	00 Q1	01 Q1	1999	00 Q1-Q4 (a)	00 Q1	01 Q1
Total	**3.1**	**11.0**	**8.1**	**4.8**	**3.7**	**9.7**	**7.0**	**0.5**	**7.6**	**9.2**	**8.0**	**8.2**	**2.6**	**3.3**	**2.7**	**2.3**
Total, excluding electricity	**2.1**	**15.3**	**8.6**	**10.6**	**3.8**	**12.9**	**9.0**	**4.9**	**7.8**	**9.8**	**7.8**	**8.2**	**2.5**	**3.6**	**2.3**	**1.9**
SIZE:																
Small	15.1	—	—	—	18.6	—	—	—	10.0	—	—	—	4.6	—	—	—
Medium	13.0	12.5	13.3	-2.7	15.2	11.7	15.5	-4.5	10.8	11.5	13.3	11.8	6.3	5.7	8.4	6.2
Large	1.6	10.9	7.9	5.2	2.3	10.1	6.6	6.3	7.3	9.1	7.8	8.1	2.3	3.3	2.5	2.2
STATUS:																
Public-sector	-16.1	16.8	3.0	7.4	6.2	11.5	5.5	12.8	1.5	4.6	1.9	1.1	-3.9	-1.1	-3.4	-3.9
Private-sector	4.3	10.4	8.6	4.7	3.6	10.1	7.2	5.3	9.1	10.1	9.3	8.9	4.1	4.2	4.1	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	-1.8	44.9	36.5	-3.9	-1.9	42.8	33.8	-12.7	10.7	14.7	11.5	10.1	6.4	9.0	6.9	4.3
Electricity, gas and water supply	6.7	3.2	7.2	-4.8	3.6	6.4	2.9	-3.4	7.3	8.3	8.4	8.3	3.0	2.9	3.4	3.0
Wholesale and retail trade	14.3	-6.8	5.9	15.2	13.0	-1.6	12.8	8.6	11.8	9.0	12.1	13.2	7.6	4.0	8.2	8.2
Transport, storage and communications	-1.4	1.9	-4.5	16.6	2.6	-3.4	-4.0	13.0	6.4	8.6	6.4	11.6	0.1	2.0	0.1	5.5

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

returns at the foot of Table 1. In addition, to avoid some of the above-mentioned problems, many market analysts monitor the performance of results as indicated by the variable they call EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), which is equivalent to the gross operating result shown in Table 1, i.e. a magnitude even higher up the statement of results than the net ordinary result.

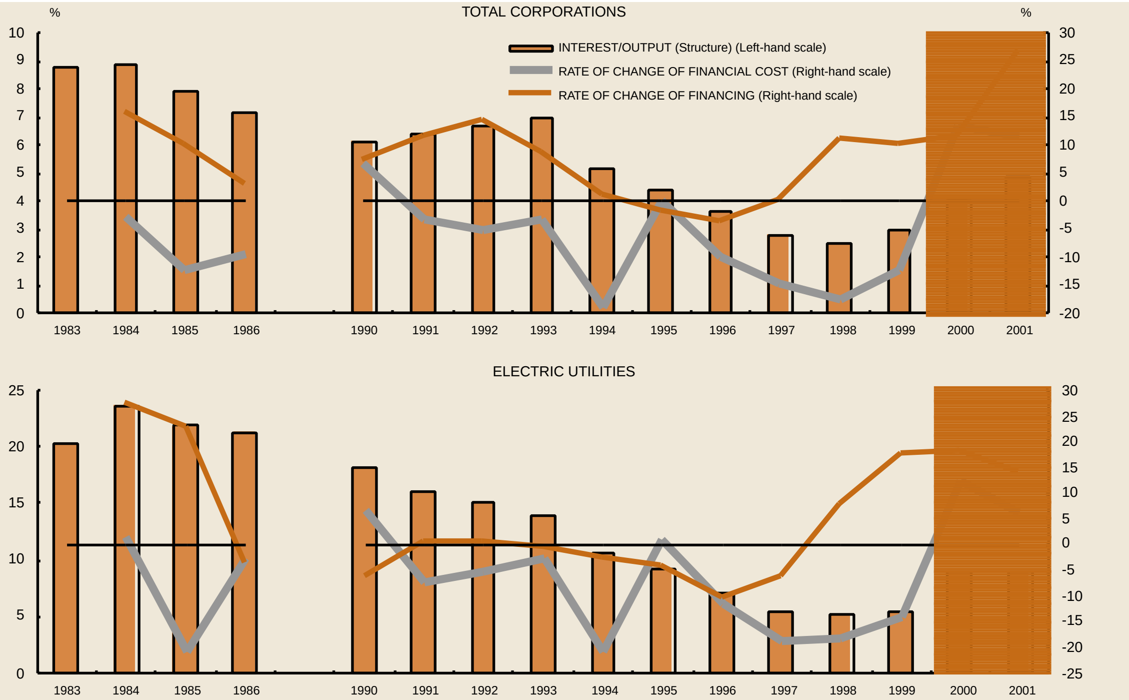
As a result of the foregoing, developments in business activity led to reasonably high ordinary returns (8.2 %), which even outpaced those recorded a year earlier (8 %). Sector by sector, of note again is the wholesale and retail trade ratio, with an ordinary return on assets of 13.2 %, more than one point up on the same quarter a year earlier. By size, medium-sized enterprises exhibited higher returns, attaining an ordinary return on net assets of 11.8 %, compared with 8.1 % in large enterprises. This performance, together with that of the cost of financing, which stood at 5.9 % for all the sample firms in Q1 and was more than half a point up on the same period in 2000, enabled corporations to obtain positive ordinary leverage (2.3), down on 2000 Q1 (2.7). By sector, all the aggregates showed positive leverage, the conclusions drawn in this case being similar to those applicable to the whole sample. Finally, Table 6

BOX 2

Financial charges in the profit and loss account of non-financial corporations

The percentage of income that economic agents assign to payment of the financial burden (i.e. interest arising on debt) is a significant indicator of changes in the financial effort and, deriving from this, of changes in the income disposable for other ends (including saving and/or investment). As to non-financial corporations, a change in the "financial costs/production" structure is not in itself an indicator of financial or economic health (1). But the study of changes and of the associated determining factors (level of debt and cost of financing) enables knowledge to be had of the financial conditions facing corporations. The study of this percentage for all the CBA and CBQ reporting corporations, throughout the available data series (1984 to 2001, see accompanying chart), offers a conclusion: that recent increases in the cost of financing and in the level of debt, though they may have raised the proportion of production assigned to cover financial charges, hold the proportion in question at relatively moderate values (in 2001 this percentage stands below 5 % for the quarterly group of corporations), compared with the values recorded in the time series (6 % at the start of the nineties; 9 % in 1984). Given the substantial weight of corporations in the electricity sector in the sample available, and owing to their specific productive and financial structure, it is worth performing an independent analysis of the percentage referred to and its components for the group of reporting electric utilities. The accompanying chart shows that the profile of these variables is similar in the electric utilities to that of the reporting corporations as a whole. It also illustrates that both the starting level at the beginning of the series and the final level in 2001 differ in respect of the proportion of production that the electric utilities assign in payment of financial charges.

(1) Per se, a change in this ratio does not involve an improvement or deterioration in the position of companies. An increase in the cost of financing available to corporations clearly, all other things being equal, involves a reduction in the return on equity (the return on assets is not affected by how the corporation is financed or at what cost) and a decline in the ordinary result (and in entrepreneurial income, according to the ESA 95 denomination). However, an increase in external financing explicitly bearing interest involves, all other things being equal, an increase in financial costs but generates, at the same time, an increase in the return on equity if the cost of financing is less than the return obtained on investment made with such funds (i.e. the return on assets).



Source: Banco de España.

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)	
	00 Q1	01 Q1	00 Q1	01 Q1
Total corporations	**100.0**	**100.0**	**100.0**	**100.0**
R <= 0 %	20.2	20.4	23.9	24.2
0 % < R <= 5 %	17.3	18.0	14.0	15.2
5 % < R <= 10 %	14.0	14.9	9.9	10.5
10 % < R <= 15 %	12.1	11.5	8.0	9.7
15 % < R	36.4	35.2	44.2	40.4
Number of corporations	**950**	**725**	**950**	**725**
MEMORANDUM ITEM:				
Average return	**8.0**	**8.2**	**9.6**	**9.8**

Source: Banco de España.

distributes the firms according to their returns, regardless of size or status. The table shows similar situations in 2000 Q1 and 2001 Q1, though a slight shift towards somewhat lower levels of return is observed in this latter period (while in 2000 Q1 slightly over 51 % of corporations had obtained returns below 10 %, in 2001 this rate rose to 53.3 %), further evidencing the slowdown referred to throughout the article.

The overall picture confirms that, since mid-2000, Spanish corporations have been posting more moderate growth rates than in the previous period, although they are still creating employment and maintaining high rates of return. Insofar as external factors, such as international oil prices, offer expectations of increased stability, confidence may be regained both at the domestic and international level, thus boosting growth rates. Notwithstanding, economic agents should show greater adaptability than to date to the changing conditions imposed by exogenous factors. Hence, more flexible adjustment mechanisms should be sought and costs should be kept in step with efficiency and productivity factors to allow sustained and employment-generating growth in the corporate sector.

22.6.2001.