
Results of non-financial corporations in 2001 Q4 and summary year-end data (1)

1. INTRODUCTION

As in previous articles, the data compiled by the Central Balance Sheet Office Quarterly Survey (CBQ) for 2001 Q4 show that the productive activity of non-financial corporations lost momentum during 2001. This was mainly due to the slowdown in external demand and investment in capital goods, as alternative sources show (see Table 1 and Chart 1). The diminished pace of activity exerted a greater influence on manufacturing firms, which were especially affected by these adverse factors. That marked a contrast with the favourable results achieved in 2000, especially in the first six months when significant growth in the value added generated by these corporations was detected (see Table 2.a and Box 1) (2). Mention should also be made of the decline in the GVA of energy corporations, largely as a result of the fall in crude oil prices in 2001. Against the background of this slowdown, events in the second half of the year (the terrorist attacks of 11 September in the United States, the US economic recession and the crisis in Argentina) did not significantly affect activity in the Spanish economy except for very specific sectors. However, they were reflected in the profit and loss accounts of certain large corporate groups and, by raising uncertainty, they have contributed to delaying expectations of recovery.

Set against this slowdown in activity, employment developments were in line with the circumstances facing corporations. Employment growth rates were low and appreciably below the related rates in 2000. Average employment grew by 0.9% in 2001, compared with 2.2% in 2000. Nonetheless, the fact the rate of change of employment is still higher than zero should be favourably viewed. And this despite the slowdown in activity and the bias present in the CBQ sample (where certain sectors undergoing restructuring are over-represented). That shows a departure from the behaviour in previous episodes of deceleration, which were accompanied by marked declines in employment. Permanent employment grew at a rate of 1.1%, up

(1) This article is based on data provided to 15 March 2002 by the 758 corporations which, on average, reported data relating to the four quarters of 2001 to the CBSO. The GVA of this aggregate of corporations accounts for approximately 14.2% of the GVA of the sector non-financial corporations.

(2) As explained in Box 2, the CBQ will henceforth be using the same aggregation of activities as the Spanish National Accounts. In short, this involves classifying refining corporations – which were, to date, in the manufacturing grouping – along with mining and quarrying firms and with electric, gas and water utilities, thereby forming a new grouping of “energy corporations”. The manufacturing grouping, excluding refining corporations, is now called “industrial corporations”.

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			CBQ (a)			
	1998	1999	2000	98 Q1- Q4/97 Q1- Q4	99 Q1- Q4/98 Q1- Q4	00 Q1- Q4/99 Q1- Q4	01 Q1- Q4/00 Q1- Q4
Number of corporations/total national coverage	8135/33.7%	8159/31.3%	7238/26%	835/18.0%	882/17.0%	896/16.5%	758/14.2%
1. VALUE OF OUTPUT (including subsidies)	6.2	9.2	16.1	2.6	8.9	17.2	1.3
Of which:							
1. Net amount of turnover and other operating income	7.3	10.7	17.6	3.4	10.6	22.3	2.5
2. INPUTS (including taxes)	5.9	11.5	20.4	1.6	13.7	23.1	-0.3
Of which:							
1. Net purchases	2.8	13.0	24.4	-0.3	16.5	28.5	-2.8
2. Other operating costs	11.3	9.2	13.5	7.0	10.8	9.8	3.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	6.7	4.6	7.2	4.1	1.9	7.9	4.1
3. Personnel costs	5.9	6.2	7.1	3.2	2.4	5.4	4.5
S.2. GROSS OPERATING PROFIT [S.1 - 3]	7.7	2.9	7.3	4.9	1.5	9.9	3.7
4. Financial revenue	9.3	5.2	24.9	14.4	15.5	23.0	16.0
5. Financial costs	-6.9	-2.0	16.0	-9.3	-3.1	29.4	17.0
6. Corporate income tax	15.9	10.6	-2.7	12.5	3.4	-11.3	19.7
S.3. FUNDS GENERATED FROM OPERATIONS [S2 + 4 - 5 - 6]	10.4	2.1	5.1	8.3	4.6	11.7	3.0
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	8.1	10.0	3.0	0.2	11.1	12.7	10.3
7.1. Depreciation and operating provisions	-1.3	8.8	5.1	-5.3	6.5	8.0	0.2
7.2. Capital losses and extraordinary expenses	40.2	2.9	-7.4	-6.4	-24.2	25.9	-13.9
7.3. Capital gains and extraordinary revenue	31.8	-0.2	-8.4	-25.5	-37.7	24.3	-36.0
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	25.0	0.3	12.5	24.3	2.8	10.1	7.4
Memorandum item:							
TOTAL NET PROFIT [S.3 - 7]	7.6	-4.8	22.6	22.7	-5.3	10.0	-3.7
PROFIT RATIOS							
R.1 Ordinary return on net assets (before taxes)	8.5	7.6	7.4	8.9	8.3	8.4	8.2
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.7	5.0	4.8	6.4	5.2	5.5	5.3
R.3 Ordinary return on equity (before taxes)	9.9	9.2	9.3	10.0	10.1	10.4	10.5
R.4 Financial leverage (R.1 - R.2)	2.8	2.6	2.6	2.5	3.1	2.9	2.9
R.5 Debt ratio	40.0	43.7	47.1	37.4	42.9	45.6	49.8

Source: Banco de España.

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

Note: internal accounting movements have been edited out of items 4, 5, 6, 7.2 and 7.3 in the calculation of rates.

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 (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4
Total	4.6	7.2	7.9	4.1	4.7	4.5	2.2	0.9	6.2	7.1	5.4	4.5	1.4	2.5	3.1	3.6
SIZE:																
Small	11.0	9.5	—	—	7.1	4.6	—	—	8.7	9.1	—	—	1.5	4.3	—	—
Medium	11.6	8.7	9.6	5.6	8.8	5.9	3.9	2.7	10.3	9.8	7.4	7.4	1.4	3.7	3.4	4.6
Large	3.4	6.9	7.8	4.0	3.8	4.2	2.0	0.7	5.4	6.6	5.3	4.3	1.5	2.3	3.2	3.6
STATUS:																
Public-sector	0.2	7.7	10.5	10.7	0.8	-0.3	0.8	1.3	4.7	3.9	6.5	6.9	3.9	4.2	5.7	5.5
Private-sector	5.3	7.1	7.4	3.3	5.6	5.7	2.7	0.8	6.5	7.9	5.1	4.0	0.9	2.1	2.3	3.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	1.2	13.5	13.8	-7.3	-4.4	-3.5	-4.6	-3.7	-3.4	-0.2	-1.7	3.0	1.0	3.5	3.0	7.0
Industry	2.1	6.4	11.6	-3.3	1.7	3.0	2.2	-1.1	4.2	6.9	6.2	2.8	2.4	3.8	3.9	3.9
Wholesale and retail trade and repair services	11.7	6.6	1.3	17.4	7.0	9.7	7.9	6.4	9.6	11.2	9.3	9.6	2.4	1.3	1.3	3.0
Transport and communications	-0.3	1.1	2.0	9.6	-0.5	-0.7	-2.7	-2.7	3.9	3.7	2.9	1.7	4.5	4.4	5.8	4.5

Source: Banco de España.

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

on the year 2000 (0.6%), which may reflect both the effectiveness of the measures adopted to promote longer contracts and the relatively confident outlook of firms as regards the future course of the economy. Temporary employment also posted positive rates although, for obvious reasons, it was more vulnerable to the slow-down in activity. Average compensation continued to grow in 2001 (3.6%), following the upward trend maintained since 1999 and the rise in the inflation rate, and despite low productivity growth.

As a result of developments in employment and average compensation, personnel costs outpaced GDP growth (GVA grew by 4.1%, personnel costs by 4.5%), leading to a notable reduction in the nominal growth rate of the gross operating profit to 3.7% in 2001 (9.9% in 2000). Financial costs continued on the high-growth trend initiated in the year 2000, climbing at a rate of 17% owing to the strong resort to borrowed funds in order to finance the taking of positions in new markets and the acquisition, in the telecommunications sector, of UMTS licenc-

es. In fact, this increase in financing was recorded in the second half of 2000, but its effects were manifest in financial costs for the year 2001. The balance sheets submitted by the reporting corporations in 2001 Q4 show a change in the rate of increase of indebtedness, which is in step with the slackness of investment observed by other information sources, as a result of the climate of greater uncertainty.

Both funds generated from operations and the ordinary net profit also showed more moderate growth than in 2000, in line with what occurred in the case of GVA and the gross operating profit. Notwithstanding, the ordinary return on net assets (R1) and on equity (R3) held at similar levels to those of the previous year. This is consistent with the performance of the ordinary net profit, which slowed in relation to the previous year. Since the cost of borrowing (interest on borrowed funds or R.2) also held stable at very similar values to those of the previous year, leverage was the same as in 2000 (2.9%), the best evidence that the return on investment was outgrowing financial costs. Final-

CHART 1

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



Source: Banco de España.

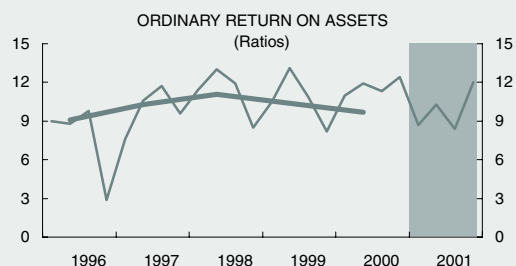
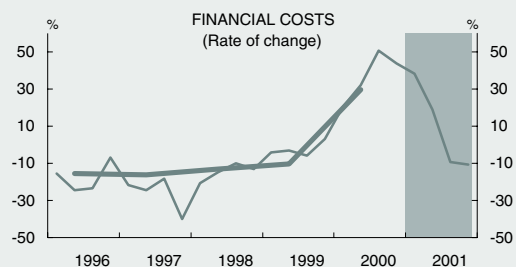
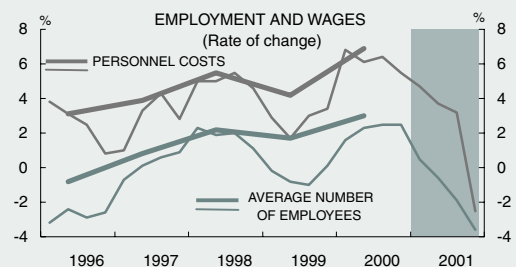
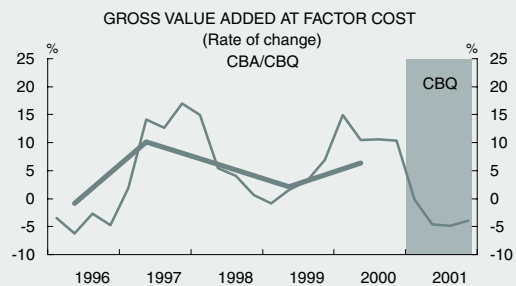
- (a) Information available to 15 March 2002 (CBA and CBQ).
- (b) The 1996, 1997, 1998, 1999 and 2000 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).
- (c) Average of the four quarters of 2001 over the same period of 2000.

Analysis of the industrial sector (1)

In 2001, surpluses in the industrial sector contracted significantly, with a slowdown that steepened as the year unfolded. After markedly expansionary developments in 2000, thanks to the recovery in external demand (especially during the first half of the year), it was in fact this same component which performed worst in 2001, against a deteriorating and recessionary international background. Investment in capital goods also helped to accentuate the slowdown in Spanish industry in 2001. GVA posted a rate of -3.3%, declining in all sub-sectors except in the chemical industry (0.6%) and in food, beverages and tobacco (3.5%), whose rates were nonetheless also down on 2000. In step with the deterioration in activity, employment fell by 1.1% in 2001, compared with growth of 2.2% the previous year. Here, too, there were across-the-board declines, with the exception of the electrical, electronic and optical material and equipment industry, which was the only sub-sector where employment clearly increased (3.7%), though this was far below the previous year's figure (7.1%). Average compensation continued to sustain a high rate of growth, with a rate for 2001 of 3.9%, the same as in 2000. In line with the comments on the overall quarterly sample, these data seem to show that the pressure exerted upward by the collective bargaining system means that average compensation adjusts to the contemporaneous behaviour of inflation. As a result of the developments in employment and compensation, personnel costs rose by 2.8% in 2001. Thus, both gross operating profit and funds generated continued to show significant falls in 2001, owing to the slowdown in activity in the industrial sector. Ordinary returns also reflected this deterioration, standing, in the case of the return on net assets, at 9.6% in 2001, as against 11.7% the previous year. However, thanks to financial costs remaining at moderate levels, practically identical to those recorded in 2000 (6.2%), leverage held at high positive levels (3.5), although it has traced a continuous downward path since 1999 (6.1 in 1999 and 5.5 in 2000). The existence of positive leverage could be considered an indicator of the propensity to invest. However, it is a necessary but not sufficient condition, given that the existence of business expectations in which the returns obtained on capital invested are currently being sustained or increased plays a fundamental role in the taking of investment decisions. Against this background, the downward path of leverage mentioned above may be influencing the taking of decisions on new investment by firms, which would help to explain the stagnation of investment detected in other sources of information. The initial data for 2002 seem to portend a slight and progressive recovery in business confidence, which, if confirmed, could revitalise the economic activity of industrial firms.

(1) As per the Spanish National Accounts definition. Firms engaged in oil refining are not included. See Box 2.

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



		NUMBER OF CORPORATIONS				
CBA		3,221	3,342	3,247	3,021	2,547
CBQ		364	357	342	329	362
		357	343	335	329	402
		335	329	392	386	420
		392	378	404	395	386
		420	429	408	385	372
		385	372	404	387	404
		372	404	387	357	219
		404	387	357	219	
		% OF GDP OF THE INDUSTRIAL SECTOR				
CBA		34.8	35.1	33.8	30.7	25.6
CBQ		27.8	26.4	24.5	23.5	25.7
		26.4	24.5	28.2	26.4	26.8
		24.5	23.5	26.1	26.8	27.4
		28.2	26.1	27.4	25.6	24.7
		26.1	26.8	24.7	25.8	26.3
		26.8	24.7	24.2	24.1	24.2
		24.7	25.8	24.1	25.2	23.5
		25.8	24.1	25.2	23.5	23.8
		24.1	25.2	23.5	23.8	20.5
		25.2	23.5	23.8	20.5	19.4
		23.5	23.8	20.5	19.4	18.1
		23.8	20.5	19.4	18.1	12.9

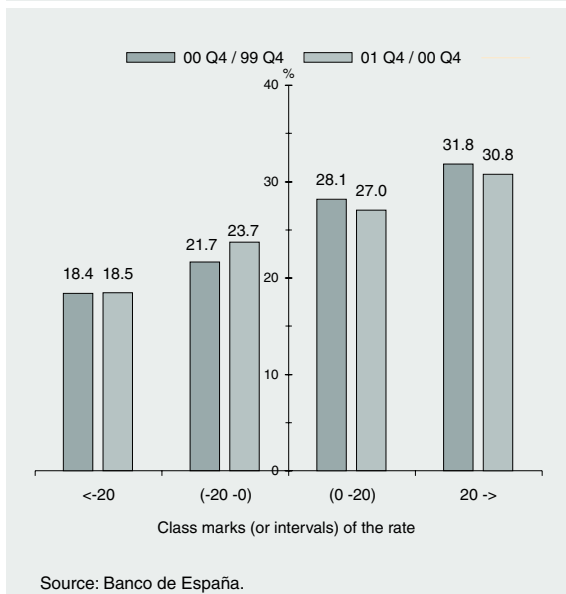
— CBA data.
— CBQ data.

Source: Banco de España.

(a) Information available to 15 March 2002 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

CHART 2

Distribution of corporations by rate of change in GVA at factor cost (00 Q4 / 99 Q4, 01 Q4 / 00 Q4)



ly, the total net profit figure for the aggregate was affected by highly volatile factors of an atypical and exceptional nature, meaning that it does not reflect short-term developments in productive activity, although it evidently affects corporations' balance sheets and their dividend distribution policies (3). In 2001, the net profit of the corporations analysed fell by 3.7% (see the memorandum item in Table 1), reflecting the net effect of opposite-running impulses in respect of depreciation and operating provisions, capital losses, capital gains and extraordinary income and expenditure.

In sum, an outlook of moderate growth in activity appears to be taking shape for the corporations sampled, against the background of the slowdown in demand and of expectations in the wake of the events on September 11th, the US deceleration and the crisis in Argentina. The apparent coupling of wage revisions to actual inflation, and not to productivity gains in each sector, fuelled the rise in average compensation in 2001 and had adverse effects on employment. That said, and unlike in previous downturns, employment did not run at negative rates, not even in the group of very large industrial

(3) Although developments in net profit are always a reference to take into account, stock market analysts usually pay greater attention to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), which is equivalent to the "Gross operating profit" in Table 1 and which follows a course connected to that of the "Ordinary net profit" (net of depreciation and operating provisions), which is the concept used by Central Balance Sheet Office in its profit ratios.

TABLE 2.b

**Employment and personnel costs
Detail according to changes in staff levels**

	Total CBQ corporations	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	758	448	310
Personnel costs			
Initial situation (EUR million)	19,169.5	9,211.8	9,957.7
Rate 01 Q1-Q4 / 00 Q1-Q4	4.5	13.1	-3.4
Average compensation			
Initial situation 00 Q1-Q4 (EUR)	36,828	33,867	39,515
Rate 01 Q1-Q4 / 00 Q1-Q4	3.6	3.2	5.2
Number of employees			
Initial situation 00 Q1-Q4 (000s)	524	272	252
Rate 01 Q1-Q4 / 00 Q1-Q4	0.9	9.5	-8.4
Permanent			
Initial situation 00 Q1-Q4 (000s)	435	214	221
Rate 01 Q1-Q4 / 00 Q1-Q4	1.1	8.1	-5.8
Non-permanent			
Initial situation 00 Q1-Q4 (000s)	89	58	31
Rate 01 Q1-Q4 / 00 Q1-Q4	0.3	14.6	-27.1

Source: Banco de España.

corporations making up the CBQ sample. Against this backdrop, corporations' surpluses increased in an appreciably more moderate way than in the previous period, but still in a setting of high returns. The overall analysis of these results provides for confidence that, in the future, Spanish corporations may be in a sound position to resume a path of higher growth in activity and employment once the expected pick-up in the international economy begins.

2. ACTIVITY

The CBQ data for the four quarters of 2001 (see Table 1 and Chart 1) show a slowdown in productive activity, sustained throughout the year. This was mainly attributable to the declines recorded by energy and industrial firms. The total GVA of all the firms thus grew at a significantly lower rate than in the previous year (in 2001 their GVA grew by 4.1%, as against 7.9% in 2000). The reasons for these developments are to be found in the progressive weakening of external demand, influenced by a hardly favourable international environment, together with the fall in investment in capital goods, which resulted in a decline in industrial activity, almost across the board. CBQ imports and exports data confirm this observation (Table 3), showing significant reductions, comparing with 2000, both in the percentage of purchases made

New set of sectoral aggregates

Establishing the information included in the databases of the Central Balance Sheet Office as a source of information in its own right and for the purposes of comparison, has highlighted the need for the set of aggregates used by the Central Balance Sheet Office to be harmonised with those of other sources. Specifically, the need has been identified for analysts to be supplied with a comparison between the Spanish National Accounts (CNE) data by branch of activity and the classifications used by the Central Balance Sheet Office in its publications. Until now the aggregates supplied by the Central Balance Sheet Office, following NACE-93, included petroleum refining under manufacturing, while the CNE classifies refining, along with electricity, gas and water and mining and quarrying, in the sector called «Energy». This different classification made it difficult to directly compare Central Balance Sheet Office and National Accounts data for two such basic aggregates as industry and energy. With effect from this issue, therefore, the Central Balance Sheet Office will use the CNE classification when reporting the results of its annual and quarterly surveys, provided that it has sufficient information on the aggregates in question. As regards these quarterly articles, the sectoral breakdowns referred to are: energy (which includes corporations engaged in petroleum refining, along with those engaged in mining and quarrying and the electricity, gas and water utilities); industry (manufacturing industry, other than petroleum refining); wholesale and retail trade and repairs (identical to the wholesale and retail trade aggregate published up until now) and transport and communications (identical to the aggregate transport, storage and communications published up until now). The latter two aggregates have merely had their names changed to those used in the CNE.

When reporting the annual data, it is not going to be possible to offer all the details of the CNE, owing to insufficient Central Balance Sheet Office information with respect to certain branches of activity. Specifically, the agriculture, fisheries and construction branches in the CBA and CBQ databases are going to be included under the heading «activities with low coverage in the Central Balance Sheet Office», both in chapter 15 of the *Boletín estadístico* of the Banco de España and in future editions of the annual monograph.

abroad and in that of exports, whose weight in the total turnover of the CBQ non-financial corporations fell.

At the sectoral level, however, it can be seen that the behaviour of the various aggregates was not uniform. As already mentioned, the sectors displaying a negative performance were energy and industry, with changes in GVA of -7.3% and -3.3%, respectively. In the case of energy, on one hand the sector suffered the consequences of the high level of volatility that has in recent years characterised crude oil prices, which fell significantly in 2001, following strong growth the previous year. On the other hand, GVA was practically unchanged in electricity, since the fall in revenue stemming from the lowering of tariffs and the reduction in revenue to cover the costs of the transition to competition was offset by the increase in revenue arising from growth in electricity demand (according to the sector's statistics, it rose by 5.2% in 2001) and from the greater generation of hydro-electric power, with lower production costs.

Declines in GVA were recorded in all branches of industry (which is analysed in greater detail in Box 2). By contrast, in transport

and communication and wholesale and retail trade and repairs (repair of motor vehicles, motorcycles and mopeds), GVA increased by 9.6% and 17.4% respectively. Telephony played a major part in the growth of GVA in transport and communication, increasing its margins slightly with respect to previous years and generating significant additional revenues with new services. The growth of the wholesale and retail trade in 2001 was based both on the sustained positive behaviour of private consumption and, above all, on the recovery in the margins of firms marketing fuel, owing to the fall in the price of their main input. As mentioned in the introduction, this picture of moderate activity growth was affected in the final quarter of the year by the attacks of 11 September and subsequently exacerbated by the repercussions of the crisis in Argentina. However, even the profit and loss accounts of firms in the sectors most affected by these events, air transport and tourism, still do not show an excessively negative impact.

Finally, Chart 2, which shows the number of corporations distributed according to their rate of change of GVA, irrespective of their size, confirms what has been stated above regard-

TABLE 3

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

	CBA		CBQ	
	1999	2000	00 Q1-Q4 (a)	01 Q1-Q4 (1)
Total corporations	8,159	7,238	896	758
Corporations reporting source/destination	8,159	7,238	857	732
	%	%	%	%
Net purchases	100.0	100.0	100.0	100.0
SOURCE OF PURCHASES:				
Spain	64.7	63.8	73.2	80.2
Total abroad	35.3	36.2	26.8	19.8
<i>EU countries</i>	24.5	22.2	16.5	14.9
<i>Third countries</i>	10.8	14.0	10.3	4.9
Net turnover	100.0	100.0	100.0	100.0
SALES DESTINATIONS:				
Spain	80.8	81.1	84.8	86.8
Total abroad	19.2	18.9	15.2	13.2
<i>EU countries</i>	14.5	14.2	10.7	8.1
<i>Third countries</i>	4.7	4.7	4.5	5.1

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

ing the slowdown in activity. Thus, while in 2000 Q4 40.1% of the corporations recorded falls in their GVA, in the same quarter of 2001 this percentage rose to 42.2%. Moreover, the category reserved for corporations with increases in GVA of more than 20% was the one that declined most. This confirms the impact of the slowdown, especially in this final part of the year.

3. EMPLOYMENT AND PERSONNEL COSTS

The moderation in productive activity in 2001 meant that the increase in employment was very small (0.9%) and well below that of the previous year (2.2%). As in the case of GVA, the rate of employment growth fell throughout the year, especially in its final months. In terms of the type of contract, temporary employment grew less than permanent employment, being the type that tends to decline most during recessions. Permanent employment grew by 1.1% in 2001, actually exceeding somewhat the previous year's rate (0.6%). This could be interpreted to mean that firms are taking advantage of regulatory changes that aim to boost hiring on permanent contracts. The annual (CBA) data, which will be available for the year 2001 in November 2002,

have always shown higher employment growth than the quarterly (CBQ) data, which are analysed here. However, the qualitative type information reflected in Table 4 shows that the slowdown in job creation has been accompanied by a gradual increase in the number of corporations in which employment has fallen (in 2001, 41% of the firms, and in 2000, 35.4%). In line with the slowdown in activity, the sectors showing the largest declines (industry and energy) were also those recording falls in employment. In addition, the transport and communication sector, despite the favourable performance of its GVA growth in 2001, also recorded notable reductions in employment, as a result of the opening up to competition taking place in this sector. This process has led some of the most important corporations to make progressive reductions in their staffing levels, so as to adapt to the new competitive market conditions. Finally, wholesale and retail trade was the only sector, among those best represented in the CBQ sample, to increase its workforce. This has certainly been the most resilient sector in the face of the 2001 downturn, having increased its employment by 6.4% that year, slightly below the rate for 2000.

Average compensation in the corporations that make up the quarterly sample (approximated by personnel costs per worker) sustained

TABLE 4

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

	CBA			CBQ			
	1998	1999	2000	99 Q1-Q4 (a)	00 Q1-Q4 (a)	01 Q1-Q4 (a)	01 Q4
Number of corporations	8,135	8,159	7,238	882	896	758	502
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Falling	21.4	21.0	18.3	30.0	24.5	27.5	36.0
Constant or rising	78.6	79.0	81.7	70.0	75.5	72.5	64.0
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Falling	25.7	22.8	24.2	39.1	35.4	41.0	45.0
Constant or rising	74.3	77.2	75.8	60.9	64.6	59.0	55.0
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	40.9	51.3	47.3	48.7	47.2	46.6	48.6
Higher or same growth	59.1	48.7	52.7	51.3	52.8	53.4	51.4

Source: Banco de España.

(a) Weighted average of the relevant quarters for each column.

(b) Twelve-month percentage change in the CPI.

the upward trend of the last two years, growing by 3.6% in 2001 as a whole, as against 3.1% the previous year, and 2.6% in 1999. As already mentioned in previous articles, this was largely a result of upward pressures arising from the current inflation rate being taken as a reference in collective bargaining, for the recovery of purchasing power losses. However, employment growth would be benefited if wage increases were linked to firm productivity and the market situation, and thus to firms' medium-term results, instead of the overall consumer price index being taken as the main criterion for updating. In all sectors, except wholesale and retail trade, above-average increases were recorded. In the case of wholesale and retail trade average compensation in 2001 rose by 3%, which is doubtless related to being the sector in which employment rose most (new employees being paid below-average wages). However, even this sector, like the other productive branches, showed an upward trend in relation to the increases in average compensation recorded in previous years. Table 4 shows that this development is common to most firms, given that in 53.4% of corporations average personnel costs rose by more than prices during the period. Table 2.b allows an analysis to be made distinguishing between corporations creating employment and those shedding jobs. The strong expansion in 2001 in average remuneration is again apparent in both groups. Thus, corporations increasing their workforces, did so

at a rate of 9.5%, with their average compensation growing by 3.2%. Meanwhile, those that reduced employment recorded a rate of change of -8.4% in employment and of 5.2% in average compensation.

To conclude in relation to employment developments, it is worth pointing out that even in this unfavourable situation, employment continued to grow at positive rates, which is a new phenomenon when comparing with historical experience in similar circumstances. In any case, if Spanish corporations and those of the other euro area countries have benefited since the inception of Monetary Union from greater business opportunities abroad, in addition to lower interest rates, it is important that such opportunities should not be jeopardised by the remuneration of employment being increased by more than productivity, since this has a negative effect on foreign competitiveness and, ultimately, employment.

4. PROFITS, MARGINS AND RATES OF RETURN

The moderation of productive activity during 2001 meant that the surpluses linked to this performance (gross operating profit, funds generated and ordinary net profit) also showed smaller increases than in the previous year. In the case of ordinary net profit, the slowdown

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 profit				Funds generated				Return on assets (R. 1)				Leverage			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4	1999	2000	00 Q1-Q4	01 Q1-Q4
Total	2.9	7.3	9.9	3.7	2.1	5.1	11.7	3.0	7.6	7.4	8.4	8.2	2.6	2.6	2.9	2.9
SIZE:																
Small	15.0	10.1	—	—	18.1	6.0	—	—	10.0	9.3	—	—	4.6	3.6	—	—
Medium	13.4	7.4	13.0	3.0	13.8	5.9	14.2	1.2	11.0	10.4	11.6	11.1	6.5	5.5	5.9	5.3
Large	1.3	7.2	9.8	3.8	0.5	5.0	11.6	3.0	7.2	7.2	8.3	8.1	2.2	2.4	2.8	2.9
STATUS:																
Public-sector	-16.7	27.0	19.5	18.5	-9.1	28.4	14.6	10.4	1.3	1.2	4.4	2.9	-4.1	-4.0	-1.3	-2.4
Private-sector	4.0	6.4	9.0	2.7	2.5	4.1	11.4	2.4	8.9	8.5	9.2	8.9	4.0	3.7	3.7	3.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	3.0	18.4	18.8	-9.9	1.9	14.5	16.5	-4.6	7.3	8.3	9.1	9.5	3.0	3.5	3.7	4.2
Industry	-0.7	5.7	19.2	-9.9	-2.3	2.2	22.6	-10.3	10.4	9.7	11.7	9.6	5.9	4.0	5.5	3.5
Wholesale and retail trade and repair services	14.6	0.8	-8.6	28.1	14.4	-1.8	-2.2	22.6	12.5	11.7	8.5	11.8	8.1	6.8	3.6	6.8
Transport and communications	-3.7	-1.2	1.4	15.0	-0.5	0.5	2.5	9.2	5.9	6.3	7.7	10.2	-0.3	0.6	1.4	4.7

Source: Banco de España.

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

was less intense than in that of the other accounting balances, basically owing to the stabilisation of the expenditure on depreciation and operating provisions included in its calculation (4). The analysis by sector of activity confirms what has already been stated regarding productive activity; the sectors whose operating profits, or surpluses weakened most were energy and industry, while transport and communication and, in particular, wholesale and retail trade were, for the reasons already mentioned, more buoyant. By size, it should be noted that surpluses declined most sharply in medium-sized firms, although the slowdown also affected large corporations.

(4) The behaviour of this item is influenced by the smaller provisions made by electricity utilities for the depreciation of the assets acquired in the context of the regulated market, as a consequence of the downward revision to income from compensation for transition to competition (CTC). The accounting system adopted, which meant that these assets were written off instead of being progressively depreciated, this being the practice in force until 2000, which is when the reduction in the CTC was established.

The financial costs payable by the corporations in 2001 grew for the third year running, and although they did so at a high rate (17%), they followed a downward path over the year, remaining practically unchanged in the final quarter. The growth of this item in the profit and loss account in 2001 was not determined by the trend in the cost of borrowing, which in the year as a whole remained at very similar average levels, even below those of 2000, but to the increase in borrowing (financing received) which, in annual average terms, was higher in 2001 than in 2000, although the entry of new financing occurred mainly at the end of 2000. Since the increase in financial costs in any year is due to changes in interest rates and the change in financing during the period, in both cases with respect to the preceding period, the increase detected in 2001 stemmed from the increase in financing towards the end of 2000. The following table gives a breakdown of the change in financial costs in an attempt to approximate the extent to which it is attributable to rises in interest rates, and to higher borrowing:

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 Q4	01 Q4	00 Q4	01 Q4
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0 %	28.3	26.5	33.0	30.7
0 % < R ≤ 5 %	14.1	15.3	10.3	11.0
5 % < R ≤ 10 %	13.7	15.5	9.8	12.2
10 % < R ≤ 15 %	12.5	11.8	9.6	9.2
15 % < R	31.4	30.9	37.4	37.1
Number of corporations	836	502	836	502
MEMORANDUM ITEM:				
Average return	8.7	10.8	10.5	15.5

Source: Banco de España.

	<i>01 Q1-Q4/00 Q1-Q4</i>
Change in financial costs	+17.0%
A. <i>Interest on borrowed funds</i>	
(1 + 2)	+17.6%
1. Due to the cost (interest rate)	-3.6%
2. Due to the amount of interest-bearing debt	+21.2%
B. <i>Commissions and cash discounts</i>	-0.6%

The data confirm what has already been stated regarding the importance of higher borrowing as the factor explaining the increase in financial costs. The growth in financial costs fell throughout 2001 and had practically levelled out by the end of the year, which means that more restrained growth can be expected in 2002.

In conclusion, the business scene described for 2001 enabled the firms to generate, on their ordinary operating activity, sufficient surpluses to sustain high levels of ordinary returns (both on net assets and equity). In the case of the return on assets, it was slightly more moderate than in 2000, while the return on equity, by capturing the positive effect of the falls in the cost of borrowing, was slightly higher than in 2000 (see Table 5). Likewise, all sectors and size categories for which data are given in the tables show levels of profitability that were either unchanged or slightly down from those of the pre-

vious year. It may be concluded from Table 6, which presents the distribution of corporations according to their level of returns, that there was an increase in the percentage of corporations reporting positive returns, albeit with ratios that shifted towards more moderate values than recorded in the same quarter a year earlier. The slight reductions in the ordinary return on assets and in the cost of borrowing meant that leverage held at the same value as in the previous year, being markedly positive and stable. This indicator confirms that Spanish corporations in 2001 confronted the downturn with greater resilience than on previous occasions and are in a favourable position to resume growth at previous rates, insofar as the current uncertainty lifts and the pick-up in the international economies is confirmed. To a large extent, the slowdown has been caused by the trends in exogenous factors. Accordingly, those factors which are controllable by domestic agents (wage moderation and reflection of the particular conditions of the firms, investment in human capital, promotion of new technologies) should be used to improve the competitiveness of the corporations. This would result in increases in investment and, ultimately, the creation of new jobs and the securing of existing ones.

18.3.2002.