Results of non-financial corporations in 2001 and in the first three quarters of 2002 (1)

1. INTRODUCTION

This article analyses the data submitted to the Central Balance Sheet Data Office by the reporting corporations for the year 2001 [annual database or CBA, whose results are the subject of a monograph distributed at the same time as this article is released (2)] and, basically, for the first three quarters of 2002 (quarterly database or CBQ), which give a preliminary view of the results for the year as a whole.

As seen in Chart 1 and Table 1, the CBA data for 2001 broadly confirm the conclusions drawn in April 2002 when discussing the CBQ results for that year, namely that the year was characterised by a progressive slowing of activity – which steepened in the second half of the year – stemming from the deceleration of foreign demand and of investment in capital goods. The path of oil prices was also the main reason for the sharp reduction in GVA in the energy sector (especially in the petroleum refining subsector). The events of the last few months of 2001 (11th September terrorist attacks, US economic recession and crisis in Argentina) were decisive in shaping a scenario of great uncertainty and, in consequence, were responsible for the slackness of productive activity. The slowdown in the productive activity of Spanish corporations, which dates back to 2001, has continued during 2002, but there has been some improvement on the performance to 2002 Q2 discussed in the last of these articles. In particular, compared with the slowdown in their productive activity in 2001, signs of recovery among the industrial corporations have strengthened as 2002 has elapsed. The positive performance of industrial firms in the second and third quarters of this year (see Box 1), along with some weakness in wholesale and retail trade and transport and communications and a fall in activity in energy (which maintained the previous year's trend), explains why the sample firms have, on aggregate, recorded a lower rate of growth than in the previous year, although the rate has increased as the year has unfolded.

Employment also slowed progressively in 2001, relative to 2000, and in the first three

(1) The information published in this article relates to the 6,266 firms that had responded to the annual survey for 2001 by the end of October 2002, and to the 748 that, on average, had reported to the CBQ up to 14 November 2002. In the case of the CBA, the firms represented account for 24.7% of all the activity of the sector non-financial corporations (as measured by the gross value added at basic prices of this sector), while in the case of the quarterly sample the coverage is 14.1%.

(2) The title of the monograph, published in November 2002, is *Banco de España. Central de Balances. Resultados anuales de las empresas no financieras 2001*.

TABLE 1

Profit and loss account. Year-on-year changes
Growth rates of the same corporations over the same period a year earlier

	CBA		CBQ (a)		
Databases	2000	2001	01 Q1-Q4 / 00 Q1-Q4	01 Q1-Q3	02 Q1-Q3
Number of corporations / Total national coverage	8053/28.9%	6267/24.7%	852 / 15.3%	871 / 15.5%	748 / 14.1%
1. VALUE OF OUTPUT (including subsidies)	16.0	3.0	1.2	3.4	2.5
Of which:					
1. Net amount of turnover and other operating income	17.4	5.7	2.7	4.9	2.9
2. INPUTS (including taxes)	20.1	2.6	-0.3	3.3	2.2
Of which:					
1. Net purchases	23.8	-1.9	-2.5	1.5	2.3
2. Other operating costs	14.4	8.5	2.7	5.5	2.6
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	*7.5*	*3.9*	*3.9*	*3.7*	*3.0*
3. Personnel costs	*7.5*	*5.4*	*4.5*	*5.2*	*3.8*
S.2. GROSS OPERATING PROFIT [S.1 - 3]	*7.5*	*2.4*	*3.5*	*2.5*	*2.4*
4. Financial revenue	26.3	21.0	12.2	18.1	-2.0
5. Financial costs	26.3	12.0	9.4	18.5	-9.5
6. Corporate income tax	-15.4	3.8	5.9	-0.2	2.4
S.3. FUNDS GENERATED FROM OPERATIONS [S.2+4-5-6]	5.9	6.0	4.6	3.3	4.5
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	5.5	11.4	15.2	36.2	42.6
7.1. Depreciation and operating provisions	6.6	-0.3	0.7	0.7	0.3
7.2. Capital losses and extraordinary expenses	-2.9	17.5	19.6	33.3	216.4
7.3. Capital gains and extraordinary revenue	-4.7	2.3	1.3	-29.2	152.0
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	8.3	10.2	7.6	4.5	6.9
Memorandum item:					
TOTAL NET PROFIT [S.3 - 7]	15.3	-3.1	-11.5	-20.9	-34.4
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	7.4	7.6	8.2	7.4	8.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.0	5.0	5.3	5.4	4.6
R.3 Ordinary return on equity (before taxes)	9.1	9.5	10.6	9.1	11.5
R.4 ROI - cost of debt (R.1 - R.2)	2.3	2.5	2.9	2.0	3.9
R.5 *Debt ratio*	47.3	49.3	51.1	50.9	51.0

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)		
	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3
Total	**3.9**	**3.9**	**3.7**	**3.0**	**2.4**	**0.8**	**0.9**	**0.2**	**5.4**	**4.5**	**5.2**	**3.8**	**2.9**	**3.7**	**4.3**	**3.6**
SIZE:																
Small	7.3	—	—	—	1.8	—	—	—	7.4	—	—	—	5.5	—	—	—
Medium	8.5	5.7	3.6	7.0	3.7	2.1	2.0	2.7	9.1	6.9	7.1	4.5	5.2	4.7	5.0	1.8
Large	3.3	3.8	3.7	2.7	2.2	0.6	0.8	0.0	4.8	4.3	5.0	3.7	2.5	3.7	4.2	3.7
STATUS:																
Public-sector	7.2	7.0	7.7	3.9	2.0	1.3	1.2	-0.1	6.4	6.2	7.5	6.5	4.3	4.8	6.2	6.6
Private-sector	3.6	3.5	3.1	2.8	2.4	0.6	0.8	0.4	5.2	4.1	4.7	3.0	2.6	3.5	3.9	2.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-6.0	-6.4	-7.1	-3.6	-2.5	-3.8	-3.7	-3.6	3.0	2.4	3.5	-1.4	5.7	6.4	7.5	2.3
Industry	-1.0	-2.7	-2.7	3.3	-1.6	-0.4	0.1	-1.8	2.8	2.8	3.9	2.1	4.5	3.2	3.8	4.0
Wholesale & retail trade	10.6	17.9	16.3	10.1	7.2	6.1	6.1	4.9	9.0	9.3	9.3	7.1	1.7	3.0	3.0	2.1
Transport and communications	8.6	9.5	9.9	5.2	0.5	-2.4	-2.7	-0.9	3.8	1.7	2.1	3.9	3.3	4.2	4.9	4.8

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

quarters of 2002, relative to the figures available for 2001. The CBA data for 2001 show, once again, a much higher employment growth rate than the CBQ (2.4%, as against 0.8%), owing to the biases in the sample already discussed in previous editions of this article, although it was significantly below the rates of previous years (5% in 1999 and 4.3% in 2000). In the first three quarters of 2002, employment rose by 0.2%, as against the above-mentioned CBQ rate of 0.8% in 2001. However, when the CBA data for 2002 become available this rate, which was positive despite the slowdown, will be corrected upwards. This trend in employment, which is consistent with that recorded by the EPA, despite the difference in the level of the rates, as a consequence of the above-mentioned biases, coincides with a fall in the proportion of temporary workers, a phenomenon that began to become apparent in 2001. On CBA data, average compensation in 2001 grew at a similar rate to 2000 (personnel costs per worker increased by 2.9% in 2001, slightly below the rate of 3.1% recorded in 2000), while in the first three quarters of 2002 the CBQ shows an increase with respect to the CBA data for 2001, the quarter-on-quarter series containing evidence of a slight increase in average compensation, possibly in response to recent developments in inflation. If this upturn is confirmed it might be an obstacle to recovery in productive activity, investment and, in short, to job creation.

Against this background, the operating surplus, or gross operating profit, which had fallen drastically in 2001, held steady in the first three months of 2002, growing at the same rate as in the same period of the previous year (2.4%). In spite of this stagnation of the surplus in 2001 and 2002, ordinary net profit grew in 2001 and in the first three quarters of 2002 at higher rates (10.2% and 6.9% respectively), owing to further declines in net financial costs (due basically to the interest rate reductions from the last quarter of 2001 and also to the slowdown in debt), following their increase in 2000, and to the moderate behaviour of ordinary depreciation and pro-

CHART 1

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

NUMBER OF CORPORATIONS

CBA	8,054	8,135	8,249	8,053	6,267	
CBQ	722	835	883	903	852	748

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	33.6	33.5	31.6	28.9	24.7	
CBQ	18.7	18.0	16.9	16.4	15.3	14.1

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CBA data.

CBQ data.

Source: Banco de España.
(a) Information available to 14 November 2002 (CBA and CBQ).
(b) The 1997, 1998, 1999, 2000 and 2001 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 2002 over the same period of 2001.

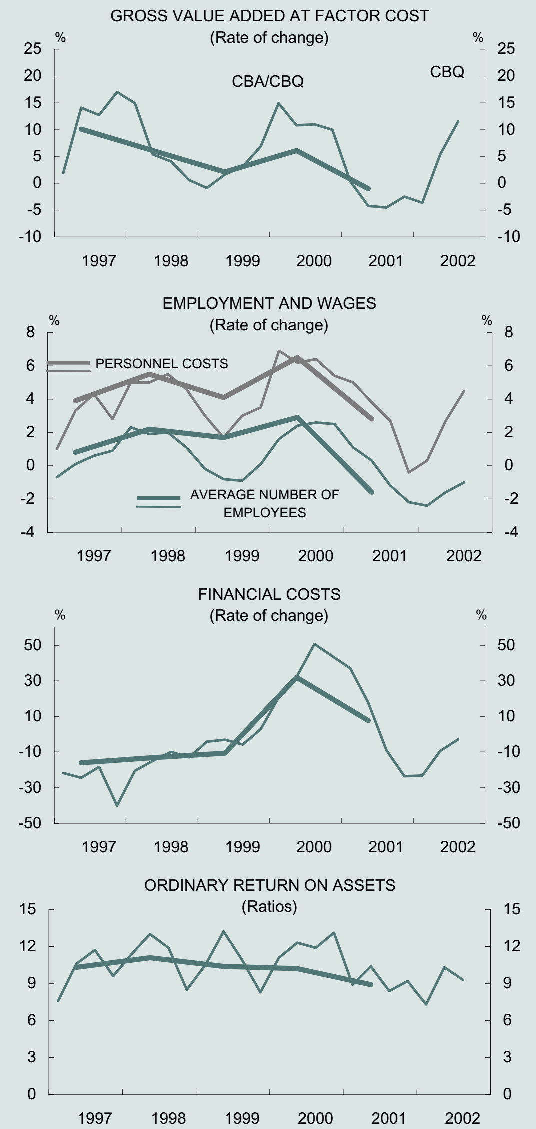
BOX 1

Analysis of the industrial sector

The aggregate made up of industrial corporations is analysed separately in the CBQ articles. This is due to its high coverage and significance and because it is a potential indicator of the effects of the international setting on the Spanish economy, given the impact of this setting on the output of industrial corporations, which are those most exposed to foreign competition. In 2001, and according to CBA data, which substantiate those released by the quarterly samples, the productive activity of this aggregate was negative (its GVA fell by 1%). That had not occurred since 1996 and was the outcome of the impact of shrinking foreign trade and the sluggishness of investment in capital goods on these corporations. Only the subsectors of food, beverages and tobacco and that of electrical, electronic and optical material and equipment retained positive growth rates. Although this slackness initially passed through to the opening months of 2002, as the year has unfolded a turnaround in GVA appears to have become perceptible, and over the first nine months of 2002 GVA posted growth of 3.3% for industry as a whole. This trend was common to all the subsectors making up the aggregate, although particular mention may be made of the growth of GVA in glass, ceramics and metal working and in electrical, electronic and optical equipment (6.4% and 6.3%, respectively). Employment also worsened appreciably in 2001. In step with the slowdown in productive activity, staffing at industrial corporations fell in 2001 by 1.6%, a decline unseen – as with GVA – since 1996. The ongoing trend of job destruction continued in the first three quarters of 2002 (–1.8% over the period as a whole). While here, too, the quarterly profile reveals a progressive slackening of the decline in employment, the resumption of positive rates will be conditional upon the international setting (potential developments in trading partners and the sign and amount of the impact of the resolution of the Iraqi international conflict) and upon the course of average remuneration in the coming quarters. In 2002, the average compensation paid by industrial corporations was above the average of the CBQ sample (it was 4%, when the total for the sample was 3.6%), having quickened in relation to the comparable quarterly period (in 2001, the growth of this item was 3.2% in industry). Industrial corporations must meet the challenge of competitiveness through cost moderation, the recovery of investment, improved managerial practices and the adaptation and upgrading of human resources. These developments in employment and average compensation led personnel costs to grow moderately in the two years in question (2.8% in 2001 and 2.1% in the three quarters of 2002); notwithstanding, gross profit fell in 2001 (–6.2%), but this made for a pick-up in 2002 (4.7% to September 2002). Likewise, ordinary net profit, which influences the level of profitability, has picked up in 2002 after contracting strongly in 2001, bolstered by the heavy decline in financial costs in 2002 (–13.8%). As a result, the profitability ratios, after their decline in 2001, have stabilised at levels close to 9% (in the case of the ordinary return on net assets) and 10.8% (in that of the return on equity). In combination with the continuing decline in the cost of borrowed funds since 2000, this has enabled the spread between the return on investment and the cost of debt (i.e. R.1-R.2) (1) to increase in the first three quarters of 2002, though less so than in more expansionary previous periods. In sum, while industry has since 2000 undergone a clear contraction in productive activity which has borne adversely on employment generation and profitability ratios, in recent months in 2002 it has begun to show signs of recovering.

(1) The Central Balance Sheet Office defines this as the difference between the return on investment (R1) and the cost of debt (R2). See Box 2 in the annual monograph.

Performance of industrial corporations reporting to the CBSO (a)



NUMBER OF CORPORATIONS

CBA	3,342	3,247	3,035	2,830	2,183	
CBQ	352 343 335 329	402 392 386 378	418 402 393 384	430 410 387 374	402 390 377 352	383 356 252

% OF THE GDP OF THE SUBSECTOR INDUSTRIAL CORPORATIONS

CBA	35.1	33.8	30.9	28.3	22.5	
CBQ	25.7 28.2 26.4 26.1	26.8 27.4 25.6 24.7	25.7 26.2 24.1 24.2	25.6 25.6 24.0 24.3	20.5 19.5 18.8 19.5	20.7 21.5 13.9

CBA data.

CBQ data.

Source: Banco de España.

(a) Information available to 14 November 2002 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

TABLE 2.b

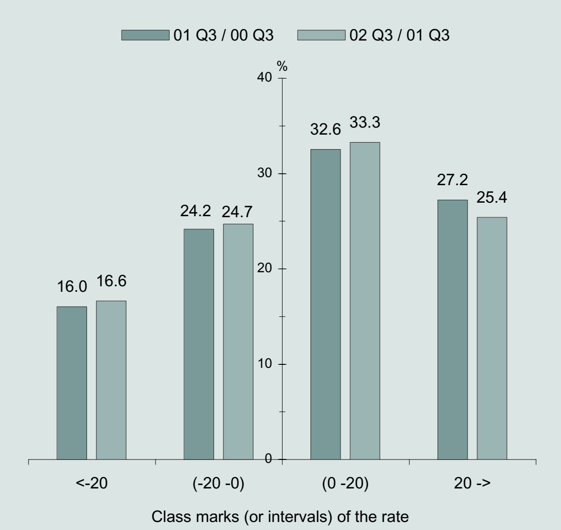
Employment and personnel costs
Details based on changes in staff levels

	Total CBQ corporations 2002 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	**748**	**422**	**326**
Personnel costs			
Initial situation 2001 Q1-Q3 (EUR million)	15,213.5	6,362.0	8,851.5
Rate 02 Q1-Q3 / 01 Q1-Q3	3.8	9.7	-0.5
Average compensation			
Initial situation 2001 Q1-Q3 (euro)	26,562	25,347	27,748
Rate 02 Q1-Q3 / 01 Q1-Q3	3.6	2.6	4.8
Number of employees			
Initial situation 2001 Q1-Q3 (000s)	570	251	319
Rate 02 Q1-Q3 /01 Q1-Q3	0.2	6.8	-5.0
Permanent			
Initial situation 2001 Q1-Q3 (000s)	*472*	*194*	*278*
Rate 02 Q1-Q3/01 Q1-Q3	*1.0*	*8.3*	*-4.0*
Non-permanent			
Initial situation 2001 Q1-Q3 (000s)	*98*	*57*	*41*
Rate 02 Q1-Q3/01 Q1-Q3	*-3.6*	*2.0*	*-11.2*

Source: Banco de España.

CHART 2

Distribution of corporations by rate of change in GVA at factor cost (01 Q3 / 00 Q3, 02 Q3 / 01 Q3)



Source: Banco de España.

visions. This favourable performance of financial costs, and in consequence of ordinary net profit, did not prevent a significant deterioration in total net profit in 2001 and 2002, as a result of the extraordinary losses arising basically from the provisions made by certain large firms on their foreign investments, which were not offset by the extraordinary revenues of other firms, although the latter behaved very favourably. In any case, since the ordinary return on net assets (R. 1) is not calculated on the basis of total net profit (as it includes certain erratic elements), but rather ordinary net profit, the ratios referred to reflect the positive performance of the latter. This fact, along with the reduction, for the reasons mentioned above, in the ratio that measures interest on borrowed funds (R.2), explains why the spread between ROI and the cost of debt (R.4 = R.1 – R.2) is still positive, which is the same as saying (see Box 2 of the annual monograph for 2001) that the ordinary return on equity (R.3) (i.e. the return to the owners of the firms) exceeds the ordinary return on net assets

This positive situation with regard to the spread between ROI and the cost of debt (almost 4 percentage points in the first three quarters of 2002, as against 2.5 in 2001) would, by all indications, warrant a recovery in productive investment. The CBA data show a pick-up in the gross fixed capital formation of the sample firms (nominal growth of 17.8% in 2001), indicating the execution of construction investment projects by some large firms, although investment in capital goods remained weak. These projects introduce an upward bias into the total gross capital formation of the firms. Indeed, the investment of small and medium firms (the worst represented in the CBA), according to the information available, did not follow the same trend as that of the large firms, but rather slowed somewhat, in line with the stagnation in business start-ups during this period. It is the combined effect of these factors that explains the slowdown in investment in 2001 with respect to 2000 according to the National Accounts (the CBQ data for 2002 give no information on investment). Investment can be expected to recover when the current uncertainties (delay in the expected recovery in other economies, continuation of the stock market crisis, international instability, etc.) dissipate. In short, although all the firms are maintaining healthy returns (the spread between ROI and the cost of debt for the medium and small firms is very positive, as seen in Table 5), meaning they can weather the current economic slowdown without large imbalances emerging, the expected returns on capital investment projects are clearly still overshadowed by the current climate of uncertainty, while the rise in the debt ratio is beginning to weigh on investment decisions. However, all the indications are that the circumstances are right for investment to take off again once expectations improve.

BOX 2

Results of small corporations

The annual monograph published at this time of year by the Central Balance Sheet Data Office (CBSO) includes a chapter dedicated to analysing the results of small and medium-sized firms, with a data series spanning the 1992-2001 period. This aggregate, with low coverage in the CBA database (that used in this article), can be better analysed in the information obtained by the CBSO in collaboration with the Mercantile Registries, drawing on the accounts filed with these Registries in compliance with the obligation to file annual accounts. The source database is known as CBBE/RM, or CBB. The information in question is not in the abundant detail characterising the CBA data; however, it does offer a very high number of corporations for company sizes and sectors of activity that the CBA sample finds difficult to cover. The information thus offered for 2000 and 2001 (and, in brackets, the coverage in terms of GVA) in the monograph relates to 231,751 (10%) and 44,501 (2%) companies, respectively. Nonetheless, the lesser degree of detail of the accounting information in this database means there are limitations that prevent certain analyses from being conducted (financing and investment flows) and certain variables from being calculated (ROI and cost of debt). In any event, the study of activity, employment, compensation and the main margins and results can be carried out without any problem once the information filed with the Mercantile Registries (1) is edited.

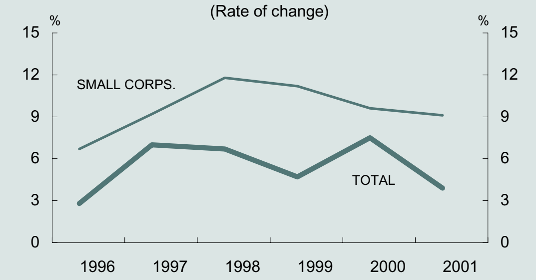
Analysis of the data reveals that the year 2001 involved a slight slowdown in respect of the aggregate of small corporations. In practice, they repeated the GVA growth rate for the previous year: 9.1% in 2001, only half a point below that recorded in 2000. In terms of sectors, the biggest increase in activity in nominal terms was in transport and communications (10.9%), signifying considerably sharper growth than the previous year (6.9%). Activity also increased substantially in the sectors other business activities (10.4%), construction (8.5%) and other services (8.5%), although these growth rates tended to reflect a mild slowdown compared with those attained in 2000. Personnel costs increased strongly by 10.5% in 2001, although this rate was, as with that of GVA, somewhat down on the previous year (11.3%). However, the slowdown in the growth of this item on the profit and loss account derives from the differing behaviour of its components. Thus, the growth rate of employment fell to 5.3% in 2001, i.e. one point down on the previous year, a trend witnessed in activities across the board. Personnel costs, for their part, grew by 4% in 2001, slightly up on 2000 (3.7%). The parallel reduction in the growth rates of GVA and of personnel costs therefore allowed for slightly higher growth in gross profit, with a rate of 6%.

Financial costs in the aggregate of small corporations grew strongly for the second year running. The lack of detail to the information filed by these corporations prevents a proper calculation of the cost-of-debt ratio, meaning it is impossible to ascertain to what extent the growth of financial costs is due to changes in interest rates or to the inflow of fresh borrowed funds. In any event, the increase in this caption was the main reason why ONP contracted in 2001 (–2.5%). Consequently, and due to the trend of ONP, the ordinary return on equity (calculated drawing on the latter surplus) declined slightly, standing at 11% in 2001 compared with 11.4% in 2000. The ratio nevertheless continued to show high profitability, similar to that of the previous year, both in the sample as a whole and in the main sectors analysed.

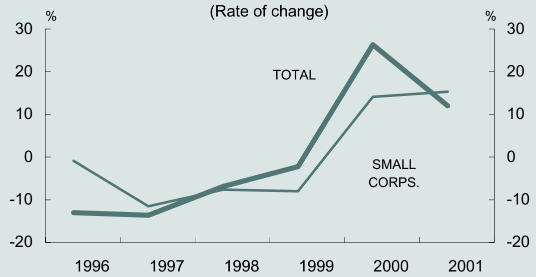
In sum, the outcome of the year for small Spanish corporations in 2001 was a slight slowdown in activity and in employment which, in any event, continued to grow forcefully. Likewise, the prevailing high level of profitability enables small domestic corporations to face the current phase of business uncertainty.

(1) The methodological note preceding the publication reports on the filtering of the annual accounts in detail. The filtering process leads, on average, to around half of the corporations available being rejected as unsuitable for this study. Thus, the annual accounts received and processed between the Mercantile Registries and the Banco de España are far greater in number than (virtually double) the figures offered in this article.

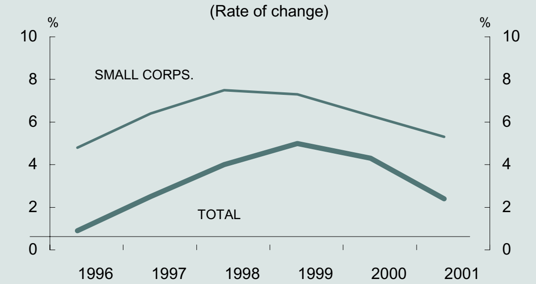
GROSS VALUE ADDED AT FACTOR COST
(Rate of change)



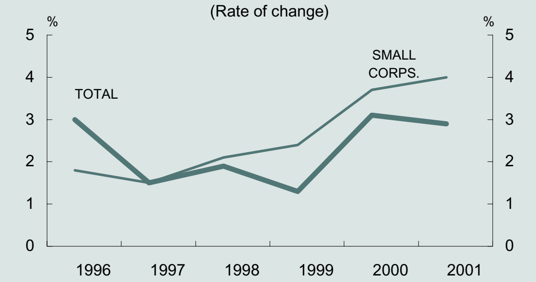
FINANCIAL COSTS
(Rate of change)



EMPLOYMENT
(Rate of change)



PERSONNEL COSTS PER EMPLOYEE
(Rate of change)



NUMBER OF CORPORATIONS (a)

CBA	8,032	8,054	8,135	8,249	8,053	6,267
CBB (b)	173,575	223,471	238,468	211,842	231,751	44,501

% OF THE GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	34.1	33.6	33.5	31.6	28.9	24.7
CBB (b)	9.0	10.9	12.1	10.6	10.8	2.0

CBA data.
CBQ data.

Source: Banco de España.
(a) Information available to 14 November 2002 (CBA and CBB).
(b) In the case of the charts on Employment and Personnel costs per employee, the data relate to the sub-set of companies with consistent employment data (50% of the CBB total).

TABLE 3

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

	CBA		CBQ (a)	
	2000	2001	01 Q1-Q4 / 00 Q1-Q4	02 Q1-Q3 / 01 Q1-Q3
Total corporations	**8,053**	**6,267**	**852**	**748**
Corporations reporting source/destination	8,053	6,267	823	722
	%	%	%	%
Net purchases	**100.0**	**100.0**	**100.0**	**100.0**
SOURCE OF PURCHASES:				
Spain	64.0	64.8	80.2	78.7
Total abroad	36.0	35.2	19.8	21.3
EU countries	22.4	21.3	*14.9*	*16.5*
Third countries	13.5	13.9	*4.9*	*4.8*
Net turnover	**100.0**	**100.0**	**100.0**	**100.0**
SALES DESTINATIONS:				
Spain	81.3	81.6	87.3	87.5
Total abroad	18.7	18.4	12.7	12.5
EU countries	14.1	13.3	*7.8*	*8.6*
Third countries	4.6	5.1	*4.8*	*3.8*

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

2. ACTIVITY

The productive activity of Spanish firms, as measured by GVA, grew at a year-on-year rate of 3.9% in 2001, a significantly more moderate rate than in 2000 (7.5%). This trend has run into 2002, as shown by the CBQ data for the first three quarters of the year, when GVA grew at a rate of 3% year-on-year (see Table 1 and Chart 1). This slowdown in the firms' activity was largely a consequence of the uncertain international situation, which led to a decline in external activity in 2001, and of the fall in investment in capital goods, while analysis of the various subsectors of activity (see Table 2.a) seems to show that private consumption (although more weakly so from 2002) and investment in construction have been underpinning activity growth in recent years. Purchases and sales, which grew at rates of between 2% and 3%, confirm the loss of momentum in activity over the last two years. As for foreign trade, its negative contribution in 2001 is clearly seen in Table 3, which confirms the reduction in the weight of exports and imports. A recovery in transactions with EU countries seems to be gathering steam in 2002.

By sector, the performance of the wholesale and retail trade was positive (with GVA growth of 10.6% in 2001 and 10.1% to September 2002). This sector has been notably buoyant in 2002 to date, despite the loss of momentum in private consumption in the first few months of the year. The transport and communications sector also recorded an increase in activity, with significant GVA growth rates, both in 2001 (8.6%) and in 2002 (5.2%), although with the same slowing trend during the year as recorded for the sample as a whole. In industry a change of trend seems to have begun in the last few months of 2002. Specifically, while GVA fell by 1% in this sector in 2001, a positive growth rate has been recorded again in 2002 to date (3.3%). Also, the quarterly profile shows a progressive improvement as the year has elapsed (see Box 1). Finally, the most negative performance was in energy, in which GVA fell both in 2001 (–6%) and in 2002 (–3.6%), basically due to oil refining. As mentioned in previous articles (see the last one, on the first two quarters of 2002), international oil prices were one of the factors responsible for the reduction in the sector's GVA in 2001, and this after oil prices had caused an increase of a similar size in 2000. If the effect of the refining firms is removed, the energy sector's growth rates are very different to those before this adjustment (2.4% in 2001 and 3% in the first three quarters of 2002, as opposed to 0.2% and 3.7% in the same periods). Both rates, which fall within the margins

TABLE 4

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

	CBA		CBQ			
	2000	2001	00 Q1-Q4	01 Q1-Q4	01 Q3	02 Q3
Number of corporations	**8,053**	**6,267**	**903**	**852**	**841**	**582**
Personnel costs	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	18.0	21.8	24.5	28.1	28.3	33.3
Constant or rising	82.0	78.2	75.5	71.9	71.7	66.7
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	24.5	28.4	35.3	40.5	41.6	42.6
Constant or rising	75.5	71.6	64.7	59.5	58.4	57.4
Average compensation (relative to inflation) (b)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	47.2	38.9	47.3	46.7	45.7	49.9
Higher or same growth	52.8	61.1	52.7	53.3	54.3	50.1

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

of moderation described for the sample as a whole, are more in line with the trend in demand, which despite continuing to grow, has also slowed progressively (electricity demand, adjusted for temperature and calendar effects, grew by 5.2% in 2001 and by 2.8% to August 2002, the latest figure published). Other factors have been favourable to output in nominal terms, such as the fact that electricity tariffs have fallen by less than in previous years, and also unfavourable, such as the lesser use of hydroelectric power stations in 2002, which has entailed greater use of conventional thermal power stations, with higher production costs, to generate electricity. The overall effect of these changes explains the mild increases in activity in this sector.

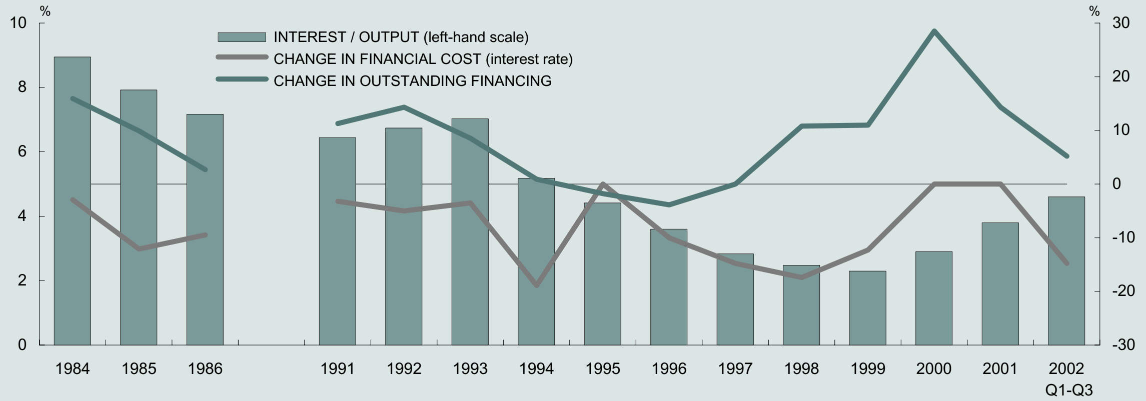
Overall, the scenario described for the productive activity of the firms is one of slowdown and moderate growth, although rates still exceed those recorded by other EU economies. According to Chart 2, which shows how the GVA growth rates of the firms of the sample are distributed, their performance was similar in 2002 Q3 to that in 2001 Q3, although slightly worse. In both periods, the proportion of firms with positive rates of GVA growth is practically identical. The most significant change is a slight reduction in the percentage of firms with GVA increases of more than 20% (down from 27.2% in 2001 Q3 to 25.4% in 2002 Q3), providing further evidence of a slowdown.

3. EMPLOYMENT AND PERSONNEL COSTS

In step with productive activity, employment also decelerated progressively, both in 2001 and in the first three quarters of 2002. As compared with a rate of increase of 4.3% in 2000, average staff rose by 2.4% in 2001. With regard to 2002, employment grew slightly in the first nine months of the year, by 0.2%, which should be compared with the 0.8% rate of job creation recorded by the CBQ in 2001. Although, as mentioned in the section on activity, the annual and quarterly samples recorded identical GVA growth rates (3.9%), this was not the case for employment, owing to the high weight in the CBQ of large firms belonging to sectors undergoing reorganisation, which gives rise to downward bias. As a result, when more small and medium-sized firms are included, the rate for 2002 can be expected to be higher. Another positive aspect is that, according to the CBQ, permanent employment continued to grow in 2002 (by around 1%, see Table 2.b), which would appear to confirm the greater strength of business and confidence in firms in comparison with previous downturns, insofar as the slackness in the economy has not been accompanied by drastic staff adjustments like those made in the years leading up to 1994. Since 1995 the reporting firms have increased their workforces, and especially their temporary staff numbers. However, the CBQ data indicate that some large firms are in the process of con-

CHART 3

Financial costs and their components



Source: Banco de España.

verting temporary workers into permanent ones, which would reduce the proportion of temporary employment.

Once again, the wholesale and retail trade was the best performing sector in terms of job creation, with increases of 7.2% and 4.9% in the periods analysed (see Table 2.a). In transport and communications the rate in 2001 was the same as in 2000 (0.5%), representing a halt in the destruction of employment that had been taking place continuously since 1992. This trend improvement firmed in the first nine months of 2002 since, although the rate of increase in employment was –0.9%, this was a better performance than that recorded by the CBQ in 2001 (–2.7). Meanwhile, both industry and energy reduced their average staffing levels in 2001 and in the first nine months of 2002. Indeed, the signs of recovery in industry in this latter period (see Box 1) have still not affected the firms' capacity to generate employment. Energy has continued to reduce its average staff levels, as a direct consequence of various reorganisations and realignments, especially in the electricity subsector, as a result of liberalisation. In short, the deceleration in the economy has not prevented the firms analysed continuing to increase their staffing levels in aggregate terms, although it has reduced the rate of job creation, and negative rates have even been recorded in those sectors sustaining the sharpest deteriorations in productive activity.

Average compensation increased by 2.9% in 2001, very similar to the 3.1% rate recorded in 2000. In the first three quarters of 2002, the quarterly sample, which for the reasons given in relation to employment traditionally records higher increases in personnel costs, recorded a rate of increase in average compensation of 3.6%, up 0.7 percentage points on the CBA rate for 2001. The quarter-on-quarter profile reveals something of a pick-up in average compensation as 2002 has elapsed, possibly reflecting a certain reaction to the path of inflation, which may give rise to future imbalances. Table 2b, which divides the firms into those that have destroyed and those that have created employment, shows that among the firms that reduced their workforces employment fell by 5% and average compensation grew by 4.8%, while among the rest of the firms the average number of workers grew by 6.8%, with an increase in wage costs of only 2.6%. By sector of activity, the wholesale and retail trade, the most active in terms of job creation, was also notable for the moderate growth in its average compensation in 2001, such moderation spreading to all the sectors in 2002. In the sample as a whole, the moderate growth of average compensation, combined with the lower employment growth, meant that personnel costs grew in 2002 by 3.8%, as against 5.4% in 2001, and 7.5% in 2000.

Finally, Table 4 gives percentages of firms based on how their employment and staff costs data have performed. It can be seen that the percentage of firms destroying employment in 2002 Q3 was one percentage point higher than in the same quarter of 2001. Meanwhile, 49.9% of firms kept the growth in their average personnel costs below inflation in 2002 Q3, as against 45.7% in the same period of 2001.

4. PROFITS, MARGINS AND RATES OF RETURN

The slowdown has affected both activity and personnel costs in 2001 and 2002. How-

TABLE 5

Gross operating profit, funds generated, ordinary return on assets and ROI - cost of debt
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				Ordinary return on assets (R. 1)				ROI - cost of debt (R.1 - R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3	2001	01 Q1-Q4	01 Q1-Q3	02 Q1-Q3
Total	**2.4**	**3.5**	**2.5**	**2.4**	**6.0**	**4.6**	**3.3**	**4.5**	**7.6**	**8.2**	**7.4**	**8.5**	**2.5**	**2.9**	**2.0**	**3.9**
SIZE:																
Small	7.1	—	—	—	5.1	—	—	—	9.1	—	—	—	2.9	—	—	—
Medium	7.7	4.1	-1.0	10.3	5.2	2.6	-2.8	10.1	9.8	9.9	10.2	10.9	4.6	4.1	4.4	6.2
Large	1.8	3.5	2.7	2.0	6.1	4.7	3.6	4.2	7.4	8.1	7.3	8.4	2.4	2.9	1.9	3.8
STATUS:																
Public-sector	10.1	8.6	8.3	-1.9	-0.5	1.0	0.4	-11.0	1.1	2.5	2.7	2.5	-4.0	-2.7	-2.6	-1.8
Private-sector	2.1	3.1	2.1	2.7	6.2	4.9	3.6	5.8	8.5	9.0	8.1	9.3	3.5	3.7	2.7	4.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-8.7	-8.8	-9.8	-4.3	-7.5	-6.2	-6.9	-0.2	8.1	9.5	8.5	9.3	3.4	4.3	3.2	4.5
Industry	-6.2	-8.8	-10.0	4.7	-5.0	-10.4	-10.6	3.0	8.9	9.2	9.2	9.0	3.6	3.3	3.0	4.3
Wholesale & retail trade	12.7	30.1	26.1	13.8	9.3	25.7	24.2	11.0	12.6	11.2	11.1	9.8	7.5	6.1	5.8	5.4
Transport and communications	12.8	15.0	15.4	6.1	5.6	16.0	13.4	9.0	8.0	9.0	9.2	10.9	2.5	3.5	3.6	6.1

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

ever, the growth rates of the latter have exceeded those of activity and, consequently, gross operating profit (GOP) grew, both in 2001 and in the first three quarters of 2002, at a slower rate than in previous periods (2.4% in both periods, down from 7.5% in 2000). Ordinary net profit (ONP) increased by 10.2% in 2001 and by 6.9% in the first nine months of 2002. The favourable performance of ONP was assisted by the trend in the net financial burden. Interest rate reductions in 2001 and, especially, in 2002 pushed down the cost of financing applied by financial intermediaries to firms. This, together with the strong growth in 2001 in financial income (mainly due to the increase in dividends received by some large conglomerates), explains the performance of this variable in the two periods analysed. The table below quantifies, for the first three quarters of 2002, the extent to which the change in the financial costs paid by the firms was attributable to the change in interest rates and to an increase in net borrowing (see the time series in Chart 3):

	02 Q1-Q3/01 Q1-Q3
Change in financial costs	**–9.5%**
A. Interest on borrowed funds (1+2)	*–9.6%*
1. Due to the cost (interest rate)	–14.8%
2. Due to the amount of interest-bearing debt	+5.2%
B. Commissions and cash discounts	*+0.1%*

This information confirms that, in 2002, the weight of financial costs in corporations' cost structures lessened thanks to the fall in interest rates. Moreover, although the level of debt grew, it did so to a lesser extent than in previous years (in 2001 and 2000 it grew by 16% and 28%, respectively), when corporations resorted heavily to foreign financing in order to finance the takeover of non-resident companies by Spanish firms. Box 3 and the following section review debt in greater detail.

The growth of ONP did not feed through to the final net result which, conversely, posted appreciably negative rates of change both in 2001 (–11.5%) and in the first three quarters of 2002

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)	
	01 Q3	02 Q3	01 Q3	02 Q3
Total corporations	**100.0**	**100.0**	**100.0**	**100.0**
R <= 0 %	23.1	24.0	27.5	26.8
0 % < R <= 5 %	20.9	16.7	15.7	13.7
5 % < R <= 10 %	14.9	17.4	11.8	12.3
10 % < R <= 15 %	13.0	11.7	9.7	9.4
15 % < R	28.1	30.3	35.3	37.7
Number of corporations	**841**	**582**	**841**	**582**
MEMORANDUM ITEM:				
Average return	**6.8**	**8.9**	**8.2**	**11.9**

Source: Banco de España.

(–34.4%). This was due to the high extraordinary expenses recorded by certain large corporations, essentially as a result of the provisioning set aside for investment abroad (mainly in Latin America and, in 2002, also in third-generation telephony), which was recorded in 2002 Q2. As discussed in previous reports, although these exceptional events may affect future investment and financing decisions, it is more meaningful to conduct the analysis of profitability and of the related ratios on the basis of the profit arising on ordinary activities, using the ordinary net profit (ONP), which only takes into account those expenditure and revenue items linked essentially to productive activity. That provides for obtaining ordinary rates of return which, both in 2001 and in the first three quarters of 2002 analysed, held at a high level, up even on the period immediately prior to this. That the return on investment (R.1) (see the bottom of Table 1 and Box 2 in the annual monograph) should rise in a period of slowing activity and a decelerating surplus is consistent, since the sum of the ONP and financial costs (the numerator of the ratio) has grown slightly in relation to the previous year’s figure, without net assets (the denominator of the ratio) having increased at the same time to counter the momentum of the former. In sum, the extraordinary expenses recorded in 2001 and 2002, which affect net profit by reducing it, have not influenced the ordinary profitability ratios, which have continued to rise.

Sector by sector, and as shown in Table 5, the level of the respective returns on investment (12.6% and 8%) and the associated improvement on 2000 profitability levels (11.3% and 5.5%) were notable in both the wholesale and retail trade and the transport and communications sector. In 2002, both sectors maintained a high level of profitability, particularly transport and communications, due to buoyant mobile telephony results. Energy (greatly affected by the downtrend in oil prices) and manufacturing (where productive activity worsened considerably) posted lower rates of return than the previous year, with profits having stabilised in 2002 at a virtually identical level to 2001. In short, while a slight deterioration in the profitability of certain sectors was detected in 2001, this has stabilised in the first three quarters of 2002, and has risen in some sectors. This, in combination with the maintenance of the cost of financing in 2001 and with its reduction in 2002, enabled corporations to sustain in both periods a clearly positive spread between the return on investment (ROI) and the cost of debt (R.1 – R.2). Table 6, which offers a view of how profitability varies across corporations irrespective of their size, reports that from 2001 Q3 to 2002 Q3 there was a slight shift towards higher levels of profitability, showing that the soundness of business is relatively generalised.

In the light of the foregoing picture, the slowdown in activity in 2001 and 2002 may be affirmed to have been accompanied by a slight improvement recently in certain significant sectors of activity. Also, Spanish corporations remain profitable and in a healthy position, owing

BOX 3

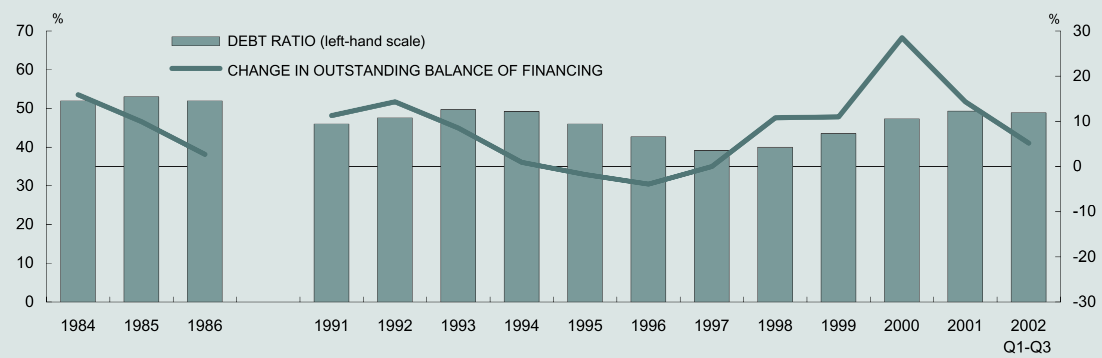
Analysis of debt

The analysis of non-financial corporations' debt, like any financial instrument, can be either dynamic, considering flows for the year, or static, analysing here the outstanding balance of financing at the end of the period in question (1). As regards the study of the financial situation of corporations, the analysis of debt should clarify the financial instruments comprising it and bear in mind how the balance sheets used in calculations are valued. The definition of debt used in CBSO studies covers exclusively interest-bearing liabilities, and not trade liabilities, which are netted from assets for these purposes. As a result, the debt ratio, which is one of the elements that allows the solvency of companies to be evaluated, is the outcome of interest-bearing liabilities over total liabilities (equity plus interest-bearing liabilities). As to the valuation system used, the information available to the CBSO provides for obtaining ratios of debt to total liabilities calculated both at book values and at market prices (or rather, the approximation made hereto by the CBSO, which is explained in detail in the annual monograph). However, the debt ratio in Table 1 uses the accounting information provided by the reporting corporations, which is equivalent to liabilities valued at historical price. Accordingly, the degree of connection between the trend of financing flows and the debt ratio will not be affected by revaluations and/or by losses in the value of the remaining liabilities included in the ratio denominator (namely, shares and other equity, in terms of ESA 95, or own funds, in business accounting terms), since these are not considered when valuing balance sheets at historical prices. Financing flows received and debt levels (debt ratio) do not always fully coincide since, as can be deduced from the composition of the debt ratio, their value depends both on the net flow of financing for the year (which increases or reduces the value of the numerator and denominator) and on changes in own funds during the year, which are affected by net issues of shares and the retaining of profits generated during the year.

The chart accompanying this box shows how the changes in financing flows and in debt levels complement one another. Between 1992 and 1994 there was an increase in non-financial corporations' debt ratio which coincided with a slowing of the resort to external sources of financing. The fall in profits which, during these recession years, affected a good number of corporations, prompted a reduction in own funds and, consequently, a slight increase in the debt ratio, evidencing a deterioration in the financial position of companies. As from 1994 the debt ratio fell, bottoming out in 1997, owing both to the negative values in the net change in the outstanding balance of financing and to the pick-up in profits during those years. As from 1997 there was a progressive and growing resort to fresh borrowed funds, earmarked largely for financing the substantial financial investment made during those years, especially in 1999, 2000 and 2001, and which was the main cause behind the growth of the debt ratio in the recent period. It is interesting that the debt ratio should not have grown as much as was expected in the three years mentioned, given the trend of borrowed funds. The reason is that corporations also increased their own funds strongly in these years, through capital increases. That eased the growth of the debt ratio, holding it at similar levels to those prior to the 1994 crisis. Finally, both in 2001 and in the first three quarters of 2002, the growth rate of funds borrowed by corporations has slowed in the light of the greater slackness of activity and fewer investment opportunities in the market. Also, the risk associated with certain investments abroad (Latin America, UMTS in Europe) has led major domestic groups to assess their investment and financing policies very closely, adopting greater caution than in the recent past. Analysis of the debt ratio shows that since 2000 its growth has tended to slow, standing – with slight changes – at around 50% for the total CBSO sample of non-financial corporations.

(1) This and other ratios may also be calculated on the basis of an approximation to the average balance, as the arithmetic mean of two consecutive observations. Depending on the type of study and ratio involved, it may be worth providing information on average levels, if these are deemed more significant than the end-of-period position.

Borrowed funds and the debt ratio



Source: Banco de España.

TABLE 7

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

	Percentage of GVA at basic prices		
Databases	1999	2000	2001
Number of corporations / Total national coverage (a)	8249 / 31.6 %	8053 / 28.9 %	6267 / 24.7 %
Years	1999	2000	2001
1. Capital resources	30.0	29.9	28.3
1. Gross saving	28.9	29.3	28.9
2. Net capital transfers	1.1	0.6	-0.6
2. Uses of capital	33.2	33.1	31.9
1. Gross capital formation	31.5	32.2	30.4
2. Other uses of capital	1.7	0.9	1.5
3. Net lending (+)/borrowing (-) (1- 2.1 - 2.2 = -4)	-3.2	-3.2	-3.6
4. Net increase in liabilities less net acquisitions of financial assets	3.2	3.2	3.6
1. Securities other than shares	3.9	-2.6	0.4
2. Shares and other equity	-22.0	-9.0	-8.5
3. Loans from financial institutions	3.4	11.3	7.1
4. Loans from the rest of the world	10.1	15.6	-2.4
5. Loans from other resident sectors	2.3	-6.9	8.2
6. Insurance technical reserves: pension funds	0.7	-2.1	-2.5
7. Trade credits and other accounts payable net of other assets	4.7	-3.1	1.3

Source: Banco de España.
(a) Average relative to the gross value added at basic prices of the sector non-financial corporations.

largely to the favourable performance of financial costs, the consequence in turn of the interest rate reductions that resumed as from end-2001. The delays in expectations of recovery in certain international economies are curbing the momentum of productive activity but, given the aforementioned financial conditions, there is hope that once such expectations firm, the Spanish economy will resume higher growth rates.

5. FINANCING AND INVESTMENT FLOWS

The information compiled by the CBA provides for the analysis of some of the investment and financing flows of the reporting corporations, in this instance up to 2001. As Table 7 shows, net liabilities incurred by companies in the sample exceeded their net acquisitions of financial assets in 2001 for the third year running. That means companies needed to borrow (i.e. the outstanding balance of their net financial transactions was negative), highlighting the fact that saving generated plus capital transfers did not suffice to finance investment, whereby it was necessary to resort to external sources of financing, as is habitual in the corporate sector. This additional financing, measured by the net increase in liabilities incurred, was to be seen specifically in the financial transactions included in the lower half of Table 7. The figures infer that in 2001 corporations increased their investment in equities largely by means of the resort to credit from financial institutions and from other corporations, mainly from group companies. Also of note was the strong decline in loans from abroad, the flow of which, after growing sharply in previous years, was negative in 2001. There was similarly a reduction in pension funds, in line with the declining trend of these liabilities initiated in previous years, owing to the legal obligation to convert internal funds set up in non-financial corporations (which did not always have an explicit counterpart on the asset side) into external funds, under the supervision of the Directorate General of Insurance. This transfer process should be completed by end-2002 (Royal Decree-Law 1588/1999 and the General Budget Law for 2001). Lastly, although the analysis of debt is included in Box 3, it should be pointed out that, as the chart accompanying this Box shows, the increase in liabilities incurred has made for a rising debt ratio (interest-bearing borrowed funds over remunerated liabilities) for the 1997-2002 period, although it has slowed in recent years.

Of potential interest regarding investment, i.e. the growth rate of gross fixed capital formation calculated by the Central Balance Sheet Data Office, is to ascertain whether the investment decisions of the reporting corporations are consistent with the profitability ratios obtained. It is of no interest and meaningless to set this investment growth rate against alternative estimates of gross fixed capital formation relating to the economy as a whole or to all non-financial corporations in view of the different scope of reference involved (the CBA can only calculate rates for the group of corporations in its sample). The analysis conducted shows an investment rate for the CBA reporting corporations of 17.8% in 2001, which appears to be consistent, in principle, with the positive rates of return of these companies. A more detailed analysis has shown that this rate is highly influenced by the undertaking of major investment projects in construction (not in capital goods) by large corporations in the sample. That masks the trend of gross fixed capital formation in small and medium-sized companies, which is not as favourable and which is not reflected in the aggregate rate owning to the limited representativeness of these companies in the CBA. The information on small and medium-sized companies does not show a trend in investment consistent with that of the large corporations. Rather, it highlights a certain slowdown that is in keeping with the flatness in business start-ups seen in this period. It is the combination of these factors that explains the investment trend portrayed by National Accounts, which shows a slowdown in investment in 2001 compared with 2000. It is foreseen this deceleration will be put behind once the prevailing uncertainty (delay in the expectations of recovery in other economies, prolongation of the stock market crisis, international instability, etc.) checking the take-off of investment is dispelled. In sum it is clear that, despite the fact all corporations are maintaining a reasonable level of profitability (Table 5 shows that the spread between the ROI and the cost of debt is very positive at small and medium-sized firms), expectations of a return on new investment projects are still overshadowed by the present uncertainty.

18.11.2002.