# Results of non-financial corporations in 2002 Q4 and summary year-end data (1)

## 1. INTRODUCTION

The data of the CBSO Quarterly Survey (CBQ) relating to 2002 Q4 confirm the initial summary results prepared with data for the first three quarters of the year. These results were published in the January 2003 edition of the Economic Bulletin, following the presentation of the 2001 Annual Survey (CBA) results in Spanish two months earlier. As can be seen in Table 1 and Chart 1, the reporting corporations sustained moderate growth in activity in 2002, posting slightly higher rates than a year earlier (a nominal increase of 4.3% of GVA in 2002 compared with 3.9% in 2001). This performance was achieved amid heightened uncertainty internationally and, consequently, slack productive activity, which but highlighted the relatively favourable performance of Spanish corporations. As can be deduced from the CBQ reporting corporations, growth was basically underpinned by sustained consumption. Despite its greater exposure and external dependence relative to other activities, the performance of the industrial sector was positive, in contrast to previous years. However, all the signs are that the increase in international instability in the second half of the year stalled the recovery that had begun to be perceptible in industry in 2002 Q3 (see Box 1 and Table 2).

On the international front, mention may be made of the effects of the crisis of certain Latin-American countries and of the cancellation of one major telecommunications company's European investments on the earnings of the principal Spanish groups in 2002. These effects have been manifest in the form of heavy net provisioning, which has adversely affected the net profits of the total aggregate of corporations in the sample, though not their ordinary net profits, nor their profitability, since both are calculated based on the surpluses obtained on ordinary activity. Recent developments in the Latin-American countries where the main Spanish investments are concentrated (Argentina, Brazil, Chile and Mexico) show signs of stabilisation and improving expectations. In any event, the climate of uncertainty generated in the second half of the year by the growing tension in the Middle East has affected oil prices and, more generally, confidence and expectations about

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(1) This article is based on the data provided to 14 March 2003 to the CBSO by the 766 corporations which, on average, have reported information to the CBQ survey in the period analysed. In terms of activity, this aggregate of corporations accounts for approximately 14.5% of the GVA of the sector non-financial corporations.

TABLE 1

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

| Databases | CBA structure | CBA | | CBQ (a) | | |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 00Q1-Q4/ 99Q1-Q4 | 01Q1-Q4/ 00Q1-Q4 | 02Q1-Q4/ 01Q1-Q4 |
| Number of corporations / Total national coverage | | 8053/28.9% | 7081/26.0% | 904/16.5% | 864/15.5% | 766/14.5% |
| 1. VALUE OF OUTPUT (including subsidies) | 100.0 | 16.0 | 2.9 | 17.8 | 1.5 | 4.5 |
| Of which: | | | | | | |
| 1. Net amount of turnover and other operating income | 130.0 | 17.4 | 5.6 | 22.3 | 2.9 | 4.7 |
| 2. INPUTS (including taxes) | 69.0 | 20.1 | 2.3 | 24.2 | 0.2 | 4.6 |
| Of which: | | | | | | |
| 1. Net purchases | 42.9 | 23.8 | -2.0 | 30.4 | -2.1 | 5.0 |
| 2. Other operating costs | 25.6 | 14.4 | 7.9 | 9.6 | 3.2 | 3.9 |
| S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2] | 31.0 | 7.5 | 4.1 | 7.9 | 3.9 | 4.3 |
| 3. Personnel costs | 15.9 | 7.5 | 5.2 | 5.5 | 4.6 | 3.9 |
| S.2. GROSS OPERATING PROFIT [S.1 - 3] | 15.1 | 7.5 | 3.0 | 10.0 | 3.3 | 4.6 |
| 4. Financial revenue | 5.3 | 26.3 | 25.8 | 20.9 | 12.6 | -2.6 |
| 5. Financial costs | 4.1 | 26.3 | 14.4 | 34.7 | 9.2 | -6.5 |
| 6. Depreciation and operating provisions | 6.8 | 6.6 | -0.2 | 7.1 | 0.5 | 0.4 |
| S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6] | 9.5 | 8.3 | 12.2 | 8.4 | 7.9 | 7.6 |
| 7. Capital gains and extraordinary revenue | 4.5 | -10.3 | 2.6 | 18.6 | 11.5 | 134.2 |
| 8. Capital losses and extraordinary expenses | 3.7 | 11.0 | 2.9 | -19.1 | 28.3 | 97.3 |
| 9. Other net provisioning | 3.3 | -21.1 | 46.2 | 141.5 | 35.8 | 255.4 |
| 10. Income tax | 1.7 | -15.4 | 1.9 | -20.2 | 0.1 | 7.1 |
| S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10] | 5.3 | 15.3 | -0.8 | 14.6 | -13.0 | -31.2 |
| Memorandum item: | | | | | | |
| FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10] | 14.7 | 10.5 | 7.2 | 12.0 | 5.3 | 4.6 |
| PROFIT RATIOS | | | | | | |
| R.1 Ordinary return on net assets (before taxes) | | 7.4 | 7.6 | 8.4 | 7.9 | 9.0 |
| R.2 Interest on borrowed funds/ interest-bearing borrowing | | 5.0 | 5.1 | 5.6 | 5.2 | 4.6 |
| R.3 Ordinary return on equity (before taxes) | | 9.1 | 9.5 | 10.4 | 10.1 | 12.9 |
| R.4 ROI - cost of debt (R.1-R.2) | | 2.4 | 2.5 | 2.8 | 2.7 | 4.4 |
| R.5 Debt ratio | | 47.3 | 49.0 | 46.3 | 49.9 | 50.7 |

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, 7, 8, 9 and 10.

TABLE 2.a

**Value added, employees, personnel costs and compensation per employee**
**Breakdown by size 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) | |
| | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 |
| **Total** | **7.5** | **4.1** | **3.9** | **4.3** | **4.3** | **2.5** | **0.8** | **0.2** | **7.5** | **5.2** | **4.6** | **3.9** | **3.1** | **2.7** | **3.8** | **3.7** |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 9.9 | 7.6 | — | — | 4.8 | 2.0 | — | — | 9.5 | 7.5 | — | — | 4.5 | 5.4 | — | — |
| Medium | 8.4 | 8.5 | 5.4 | 5.5 | 5.9 | 3.7 | 2.0 | 2.2 | 9.9 | 9.1 | 6.7 | 4.6 | 3.7 | 5.2 | 4.6 | 2.3 |
| Large | 7.3 | 3.4 | 3.8 | 4.2 | 3.9 | 2.3 | 0.6 | 0.0 | 7.0 | 4.6 | 4.4 | 3.9 | 2.9 | 2.2 | 3.8 | 3.9 |
| BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Energy | 13.5 | -5.9 | -6.4 | -2.8 | -3.4 | -2.5 | -3.8 | -3.5 | 0.0 | 3.0 | 2.4 | -0.7 | 3.5 | 5.7 | 6.4 | 2.9 |
| Industry | 6.1 | -0.9 | -2.3 | 2.7 | 2.9 | -1.0 | -0.4 | -1.6 | 6.5 | 2.9 | 3.4 | 2.6 | 3.6 | 3.9 | 3.8 | 4.3 |
| Wholesale & retail trade | 6.8 | 10.5 | 17.2 | 9.9 | 9.1 | 7.2 | 6.1 | 4.5 | 11.3 | 9.1 | 9.3 | 6.9 | 2.0 | 1.7 | 3.0 | 2.3 |
| Transport and communications | 2.5 | 9.2 | 9.4 | 7.2 | 0.5 | 0.1 | -2.4 | -1.2 | 5.5 | 3.1 | 1.4 | 4.2 | 5.0 | 3.0 | 3.9 | 5.5 |

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

the economy picking up, which hinge on this outlook clearing.

Despite the unfavourable international setting, average employment growth in large and medium-sized corporations reporting to the CBQ held at a positive though very small rate in 2002 (0.2%), confirming both the relative resilience being shown by Spanish firms during this period of greater uncertainty and the gradual adverse impact exerted by the international climate in respect of employment generation. The behaviour of average compensation in 2002, which increased by 3.7% compared with 3.8% in 2001, shows a slight containment of wages which should nonetheless become firmer in the coming quarters. The overall performance of employment and average compensation led personnel costs to grow by 3.9% in 2002, a somewhat lower rate than that of GVA (4.3%). As a result, gross operating profit grew at a stronger rate (4.6%), up on the previous year (3.3%), though still clearly below the related rate for 2000 (10%). Financial costs fell across the board owing to interest rate cuts and, once again, this eased corporations' profit and loss accounts. However, despite the advantageous conditions still offered on financial and credit markets, significant increases in borrowing were not apparent, owing possibly to the prevailing climate of uncertainty, highlighting the fact that corporations have opted to defer decisions on new investment to more favourable times.

Lastly, ordinary net profit grew at a similar rate in 2002 as in 2001. That said, owing to the unfavourable performance of financial costs, it grew at a higher rate than GVA and gross operating profit (7.6%, against 4.3% and 4.6% for the latter two variables). In step with this trend, ordinary returns held at high levels (9% for the ordinary return on net assets and 12.9% for that on equity), both slightly up on prior years. Combined with the reduction in borrowing costs (which fell by somewhat over half a point between 2001 and 2002), this meant that the ratio measuring the difference between the return on investment (ROI) and the cost of debt displayed – for yet another year – a clearly positive value. That confirms the favourable position from which Spanish corporations are facing the future, despite the persistence of the economic stagnation and political uncertainty of the international outlook (2).

(2) Box 2 explains why in recent editions of this quarterly article the term "financial leverage" has ceased to be used to denote the ratio measuring the difference between the return on investment and the cost of debt (R.4).

CHART 1

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


NUMBER OF CORPORATIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| CBA | 8,054 | 8,135 | 8,248 | 8,053 | 7,081 | |
| CBQ | 722 | 839 | 891 | 904 | 864 | 766 |

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| CBA | 33.6 | 33.5 | 31.6 | 28.9 | 26.0 | |
| CBQ | 18.7 | 18.2 | 17.8 | 16.5 | 15.5 | 14.5 |

NUMBER OF CORPORATIONS

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|---|---|---|---|---|---|---|
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| CBA | 33.6 | 33.5 | 31.6 | 28.9 | 26.0 | |
| CBQ | 18.7 | 18.2 | 17.8 | 16.5 | 15.5 | 14.5 |

CBA data

CBQ data

Source: Banco de España.
(a) Information available to 14 March 2003 (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 four quarters of 2002 over the same period of 2001.

BOX 1

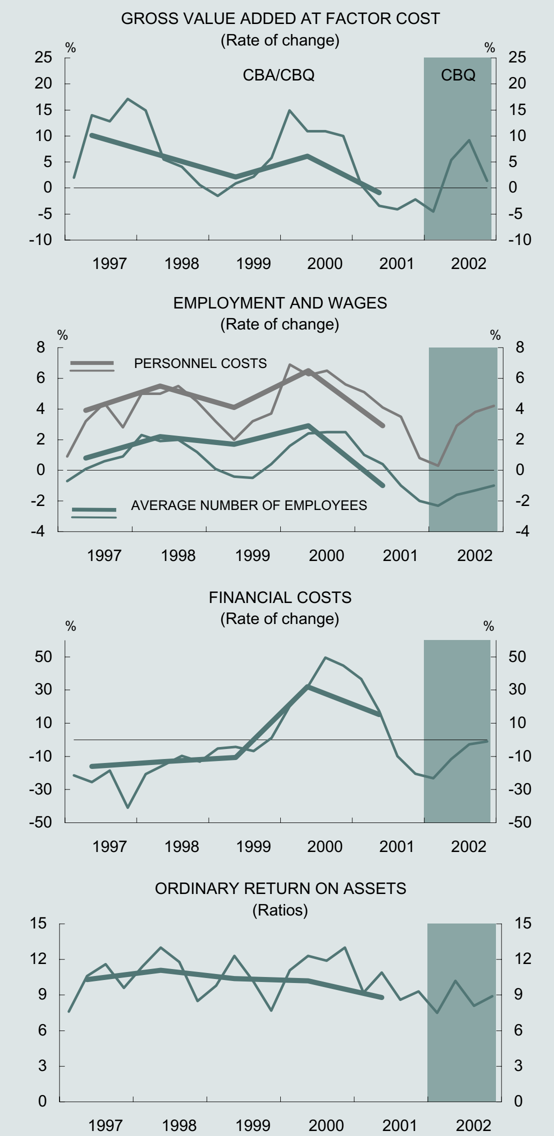
## Analysis of the industrial sector

In 2002 the industrial corporations in the CBQ sample reported moderate growth in their productive activity. Their GVA increased by 2.7% in 2002 as a whole, a significant change in trend from the –2.3% rate recorded in 2001. In fact, the only industries to record negative GVA growth in 2002 were the manufacture of transport equipment and other manufacturing. The recovery was based on the behaviour of investment in capital goods and on the improvement – basically in Q3 – in external activity, which caused the GVA of the industrial corporations to increase by more than 9% in that period. However, in the final months of the year, a return to higher levels of international tension and correlative stagnation in the EU economies once again checked the industrial sector's rhythm of growth and worsened the outlook for future quarters.

Despite the more positive trend in productive activity, industrial corporations still failed to offer any net increase in employment in 2002, recording a decrease of –1.6% in the year as a whole. The one exception was the manufacture of electric, electronic and optical equipment, with clear growth in employment of 2.7%, though this was a lower rate of job creation than in the previous two years (7.1% in 2000 and 3.4% in 2001). In industry as a whole, nevertheless, the quarterly profile of the employment series improved, from a rate of –2.3% in 2002 Q1 to –1% in Q4. Nonetheless, the sector cannot be expected to create new jobs until the stagnant world economic situation is clearer. Average compensation, meanwhile, rose by 4.3% (3.8% in 2001), probably influenced by the effect of the application of wage indexation clauses. The combined effect of these two variables (employment and compensation) was a 2.6% increase in personnel costs in 2002, which was almost one percentage point less than in the previous year. This, together with the reduction in financial costs (–11.4%) due to the fall in interest rates, was not fully passed through to ordinary net profit (which grew by only 1.8%) because the industrial corporations made larger provisions and depreciation charges than in 2001. The combination of the performance of ordinary net profit and that of financial costs enabled industry to record high levels of ordinary profit (8.7% in the case of the ordinary return on net assets and 10.6% in that of the ordinary return on equity), although they were down from those recorded in 2001 and 2000. The ratio that measures the cost of external financing fell by more than one percentage point, and this, together with the rates of return obtained, meant that the spread between the return on investment and the cost of debt remained positive and actually exceeded its 2001 value.

In conclusion, the productive activity of Spanish industry recovered some buoyancy in 2002, although the events stemming from the economic crisis in other countries and international tensions had an adverse effect on the sector in Q4. Since the international situation continued to be surrounded by uncertainty in 2003 Q1 it is difficult to predict the behaviour of industry in the coming quarters, although all the signs are that Spanish corporations are well placed to regain momentum once expectations become clearer.

**Performance of industrial corporations reporting to the CBSO** (a)




NUMBER OF CORPORATIONS

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| CBA | 3,342 | 3,247 | 3,035 | 2,830 | 2,397 | |
| CBQ | 351 342 334 328 | 401 391 385 377 | 420 404 395 386 | 431 411 389 376 | 406 395 382 362 | 393 377 355 223 |

% OF GDP OF THE SUBSECTOR INDUSTRIAL CORPORATIONS

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| CBA | 35.1 | 33.8 | 30.9 | 28.3 | 24.4 | |
| CBQ | 24.9 26.4 24.6 24.6 | 26.2 26.6 24.7 23.8 | 27.3 27.7 25.7 25.7 | 25.7 25.7 24.2 24.6 | 22.0 21.3 20.4 20.5 | 21.3 21.8 19.6 13.3 |

CBA data.

CBQ data.

Source: Banco de España.

(a) Information available to 14 March 2003 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

TABLE 2.b

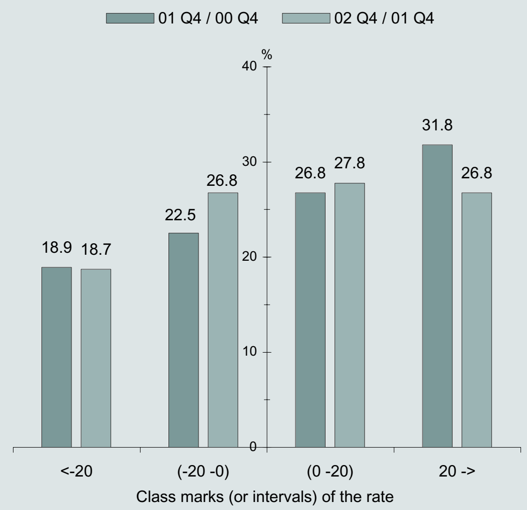
**Employment and personnel costs**
**Details based on changes in staff levels**

| | Total CBQ corporations 2002 Q1-Q4 | Corporations increasing (or not changing) staff levels | Corporations reducing staff levels |
|---|---|---|---|
| **Number of corporations** | **766** | **432** | **334** |
| **Personnel costs** | | | |
| Initial situation 2001 Q1-Q4 (EUR million) | 21,214.6 | 8,902.0 | 12,312.6 |
| Rate 02 Q1-Q4/01 Q1-Q4 | 3.9 | 8.9 | 0.3 |
| **Average compensation** | | | |
| Initial situation 2001 Q1-Q4 (euro) | 35,678 | 33,720 | 37,198 |
| Rate 02 Q1-Q4/01 Q1-Q4 | 3.7 | 2.3 | 5.5 |
| **Number of employees** | | | |
| Initial situation 2001 Q1-Q4 (000s) | 595 | 264 | 331 |
| Rate 02 Q1-Q4/01 Q1-Q4 | 0.2 | 6.4 | -4.8 |
| ***Permanent*** | | | |
| *Initial situation 2001 Q1-Q4 (000s)* | *493* | *205* | *288* |
| *Rate 02 Q1-Q4/01 Q1-Q4* | *0.6* | *7.5* | *-4.3* |
| ***Non-permanent*** | | | |
| *Initial situation 2001 Q1-Q4 (000s)* | *102* | *59* | *43* |
| *Rate 02 Q1-Q4/01 Q1-Q4* | *-1.9* | *2.9* | *-8.7* |

Source: Banco de España.

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost (01 Q4 / 00 Q4, 02 Q4 / 01 Q4)**




Source: Banco de España.

## 2. ACTIVITY

The CBQ data available confirm that productive activity grew moderately throughout 2002 (see Table 1 and Chart 1), with the related rates of change slightly higher than those for the previous year. GVA for the sample of corporations analysed thus grew by 4.3% in 2002, against 3.9% in 2001. Domestic demand, despite showing some signs of tailing off, remained the chief underpinning of business activity, as will be seen later when the results across individual industries are discussed. The flatness characterising some of our main trading partners prevented the expectations of greater foreign buoyancy that emerged during Q3 from firming. In any event, the data in Table 3 confirm the relative increase in foreign purchases and sales, albeit in moderate amounts, which is evidence of Spanish corporations' integration into and dependence on foreign markets.

Sectoral analysis reveals that, excepting the oil refining industry (included under the energy aggregate), which was greatly affected in 2002 by the strong volatility of crude oil prices, growth was recorded in the remaining main aggregates. That reinforces the idea that Spanish companies have reacted more positively than in previous slowdowns. Industry by industry, manufacturing productive activity (which is studied in detail in Box 1) clearly improved, with GVA up by 2.7%, compared with its negative rate of –2.3% in 2001. Analysis of its quarter-on-quarter path shows that the heightening of international tension in the closing months of 2002 and the continuing flatness of certain EU economies have not been conducive to the maintenance of the pick-up seen in this sector in 2002 Q2 and Q3, although manufacturing has continued to trend at a positive rate. The growth rate of GVA in the energy industry was strongly negative in 2002, owing essentially to oil refining, which was linked in turn to crude oil prices. Although oil prices did not cease to grow during 2002, it was not until well into the year that they attained a similar level to that at which they had stood a year earlier. That saw the GVA of refining corporations decelerate by 40.2% in 2002. The electricity sector, forming part of the energy aggregate, performed much more favourably. The positive trend of the demand for electricity (which grew by 3.1% in 2002) and the smaller reduction in its prices compared with previous years were propitious in pushing the GVA of corporations in this industry up to 3.1% for 2002 as a whole, a significantly higher rate than that posted in prior years. Finally, the distributive trade and transport and communications remained the two most buoyant aggregates, recording the biggest increases in activity (9.9% and 7.2%, respectively), though these were not as forceful as the related rises attained in 2001 (17.2% for the distributive trade and 9.4% for transport and communications). The

BOX 2

**Changes in the presentation of the Central Balance Sheet Data Office's information**

The Banco de España Central Balance Sheet Data Office (CBSO) periodically reviews both its methodology and the presentation of the economic and accounting information it compiles so as to enhance its analytical value. Along these lines, this present quarterly report includes changes to the accounting statements and ratios that affect both presentation and the content and names of certain elements. This box briefly addresses the changes, which will be progressively set out and incorporated in the CBSO's papers and publications. These changes are as follows:

1. *Changes affecting the profit and loss account.* First, an attempt has been made to clarify the "cascade" of profit and loss account balances by means of a more direct and intuitive presentation. This is why the "Ordinary net profit" balance has been incorporated into the profit and loss account, having hitherto been presented as a memorandum item. It replaces the "Funds generated from operations" caption, which now becomes a memorandum item. The growing importance of the ordinary net profit for analyses conducted by the CBSO (and by stock market analysts, who use the similar EBIT concept), both for the study of ordinary activity and for calculating the profit ratios, is evident. Moreover, the captions linking the items "Ordinary net profit" and "Net profit" have been set out in detail, making explicit those which are "added" and those which are "subtracted" and avoiding headings with net values, the growth rates of which are usually erratic and, therefore, difficult to understand. Lastly, the first column shows the structure of the account, where analysts can deduct the extent to which the changes in the rate calculated for each specific caption may influence the determination of the outstanding balance involved.

2. *Changes affecting ratios*. The analysis traditionally conducted by the CBSO using the ratios "R.1. Ordinary return on net assets" and "R.2. Cost of borrowed funds" allows for the calculation, based on the difference between the two, of an indicator on the efficiency with which managers invest borrowed funds, and which may also be taken as a reference for investment analysis. As earlier mentioned, this difference has, in recent editions of this quarterly article, ceased to be known as "R.4. Financial leverage"; rather, "R.4. Return on investment (ROI) - cost of debt" is now used to denote the ratio measuring the difference between R.1. and R.2. The change has sought to prevent confusion arising for analysts, for whom the internationally accepted definition of leverage (or gearing) is the ratio of borrowed funds to total funds. From this perspective, a highly geared company is a highly indebted one.

3. *Removal of the breakdown of corporations by their status (public- or private-sector).* The gradually diminishing significance of the aggregate of public-sector corporations in recent years, owing to the privatisation of many of them, has detracted from the analytical value of the aggregate made up of companies of this nature, advising their elimination from papers and publications presenting CBQ results. Nonetheless, the studies prepared drawing on the CBA (annual) data, which refer to a considerably greater number of corporations, will continue to classify corporations on the basis of their public- or private-sector status.

former benefited from sustained private consumption, though signs of a weakening became perceptible in 2002 and have passed through to corporate activity. The favourable trend of transport and communications is largely due to the expansion in telecommunications, based on the positive performance of the mobile telephony segment throughout the year and on the fixed telephony segment in the second half of the year.

Concerning the performance of individually considered corporations in the sample, Chart 2 shows that, in general, the distribution of corporations has concentrated most around more moderate GVA growth rates. Thus, while in 2001 Q4 31.8% of the sample corporations generated increases in GVA in excess of 20%, in the same period in 2002 this percentage slipped to 26.8%.

## 3. EMPLOYMENT AND PERSONNEL COSTS

As with productive activity, the data available on employment show that, in the recent period of instability and slackness of international economic activity, Spanish non-financial corporations did not cut their staff in net terms, which

TABLE 3

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

| | CBA | | CBQ | |
|---|---|---|---|---|
| | 2000 | 2001 | 01 Q1-Q4 (a) | 02 Q1-Q4 (a) |
| **Total corporations** | **8,053** | **7,081** | **864** | **766** |
| Corporations reporting source/destination | 8,053 | 7,081 | 833 | 739 |
| | % | % | % | % |
| **Net purchases** | **100.0** | **100.0** | **100.0** | **100.0** |
| SOURCE OF PURCHASES: | | | | |
| Spain | 64.0 | 65.3 | 80.3 | 78.6 |
| Total abroad | 36.0 | 34.7 | 19.7 | 21.4 |
| *EU countries* | *22.4* | *20.8* | *14.8* | *16.4* |
| *Third countries* | *13.5* | *13.9* | *4.9* | *5.0* |
| **Net turnover** | **100.0** | **100.0** | **100.0** | **100.0** |
| SALES DESTINATIONS: | | | | |
| Spain | 81.3 | 81.4 | 87.3 | 86.9 |
| Total abroad | 18.7 | 18.6 | 12.7 | 13.1 |
| *EU countries* | *14.1* | *13.5* | *7.8* | *9.0* |
| *Third countries* | *4.6* | *5.1* | *4.9* | *4.1* |

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

constitutes a new development given the track record of CBQ data in such periods. In fact, CBQ reporting corporations' average staff numbers increased slightly by 0.2% in 2002. Though this rate is small, and down on 2001 (0.8%), it should be viewed favourably in the light of the slowdown in productive activity in the past two years. The trend of temporary employment (down –1.9%) is prominent as it is the only modality to have been affected by the fall in activity (see Table 2.b). Conversely, permanent employment continued to increase, albeit marginally (0.6%), and at a lesser rate than the previous year (1.3%). Finally, it should be borne in mind that, although the CBQ survey is a good leading indicator of the data for 2002 that will be presented in the November 2003 annual (CBA) edition, experience shows that CBQ employment trends are biased downwards in view of the characteristics of the quarterly database, in which large corporations are predominant. It is therefore more than likely that the CBA survey (with its greater number of small and medium-sized firms) will show a slightly more positive trend than that reflected here. A separate analysis of the behaviour of employment across sectors shows that, as was the case in previous quarters, staff numbers increased most in the distributive trade. In other industries there were net reductions in employment, with manufacturing industry a salient case in terms of impact and significance; its situation worsened slightly in relation to 2001 (a negative rate of –1.6% in 2002, compared with –0.4% in 2001), and this despite the incipient recovery perceptible in productive activity. In the case of the electricity and the transport and communications sectors, the reductions in employment (–3.5% and –1.2%, respectively) have been a constant in recent years, and are part of the transition-to-competition process undertaken by these sectors. In any event, both sectors improved in 2002 relative to the staff cuts of the preceding years. Table 2b shows that the corporations creating employment, essentially permanent employment, are those where average compensation is trending more moderately, while companies destroying jobs, chiefly temporary jobs, are those where average compensation is growing at a faster rate. As Table 4 shows, on information unbiased by the weight of the large corporations, 56.4% of firms have a constant or rising number of employees, despite the unfavourable international circumstances and the meagre increases in activity in 2002.

Average compensation grew by 3.7% in 2002, practically unchanged on 2001. The resulting slight reduction in personnel costs per employee occurred amid a progressive accel-

TABLE 4

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

| | CBA | | | CBQ | | | |
|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 00 Q1-Q4 (a) | 01 Q1-Q4 (a) | 02 Q1-Q4 (a) | 02 Q4 |
| **Number of corporations** | **8,248** | **8,053** | **7,081** | **904** | **864** | **766** | **522** |
| **Personnel costs** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Falling | 21.0 | 18.0 | 22.0 | 24.6 | 28.2 | 33.3 | 36.2 |
| Constant or rising | 79.0 | 82.0 | 78.0 | 75.4 | 71.8 | 66.7 | 63.8 |
| **Average number of employees** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Falling | 22.8 | 24.5 | 28.0 | 35.5 | 40.5 | 43.6 | 42.4 |
| Constant or rising | 77.2 | 75.5 | 72.0 | 64.5 | 59.5 | 56.4 | 57.6 |
| **Average compensation (relative to inflation)** (b) | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Lower growth | 51.4 | 47.2 | 39.2 | 47.3 | 46.7 | 50.0 | 50.5 |
| Higher or same growth | 48.6 | 52.8 | 60.8 | 52.7 | 53.3 | 50.0 | 49.5 |

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

eration over the year, which placed average compensation above 4% in the second half of the year, probably due to the upward effect of wage indexation clauses. The consequences of this for corporate costs and, ultimately, for competitiveness, investment and job creation are evident. As a result, changes in average compensation will foreseeably be tied to those in productivity so as to avoid undesirable effects for inflation and employment. Analysis of the CBQ data in terms of sectoral aggregates highlights the wide differences in average compensation from sector to sector. Growth in the distributive trade (2.3%) was thus more moderate than in the remaining sectors owing to the effect of staff increases, with lower average compensation. In manufacturing industry this rate rose to 4.3%, and in the energy and the transport and communications sectors – where, as previously mentioned, restructuring is under way – average personnel costs grew by around 3% and 5%, respectively, in the course of 2002. Analysis of the distribution of corporations, without the bias derived from their different weight, leads to the conclusion that, in approximately 50% of firms, average compensation was on a par with or outpaced inflation in 2002 (see Table 4). The associated percentage figure in the CBQ data for 2001 was 53.3%, and the difference relative to 2002 is largely due to the persistence of a relatively high inflation rate.

## 4. PROFITS, MARGINS AND RATES OF RETURN

Against the background of sustained though moderate increases in activity, the lesser growth in both employment and average compensation led to growth in personnel costs of 3.9% in 2002, 0.7 points down on 2001 and slightly below the increase in GVA, enabling gross operating profit to grow at a rate of 4.6%, up on that posted by GVA. Financial costs declined by 6.5% as a result of interest rate cuts. Financial revenue also fell, albeit to a lesser extent. Consequently, ordinary net profit, the key variable for calculating profit ratios, grew by 7.6% in 2002, against 7.9% in 2001. Sectoral analysis offers similar conclusions to those discussed for activity (see Table 5). Generally, all the aggregates posted growth based on the above-mentioned trend of ordinary net profit, though such growth was more moderate than in 2001, with the exception of manufacturing, where the growth of ordinary net profit in 2002 (1.8%) was a notable improvement on 2001 (–17%).

The fall in financial costs breaks the trend of recent years, when this variable grew substantially, without this meaning an increase in its weight in the profit and loss account to significant levels (in 2001 it accounted for scarcely 4.2% of the value of output, this being due to the cuts in interest rates prior and immediately subsequent

TABLE 5

**Gross operating profit, ordinary net profit, ordinary return on assets and ROI-cost of debt (R.1-R.2)**
**Breakdown by size and main activity of corporations**
**(Ratios and growth rates of the same corporations on the same period a year earlier)**

| | Gross operating profit | | | | Ordinary net profit | | | | Ordinary return on assets (R. 1) | | | | ROI-Cost of debt (R.1-R.2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CBA | | CBT (a) | | CBA | | CBT (a) | | CBA | | CBT (a) | | CBA | | CBQ (a) | |
| | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 | 2000 | 2001 | 01 Q1-Q4 | 02 Q1-Q4 |
| **Total** | **7.5** | **3.0** | **3.3** | **4.6** | **8.3** | **12.2** | **7.9** | **7.6** | **7.4** | **7.6** | **7.9** | **9.0** | **2.4** | **2.5** | **2.7** | **4.4** |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 10.5 | 7.6 | — | — | 4.2 | 4.3 | — | — | 9.3 | 8.9 | — | — | 3.5 | 2.8 | — | — |
| Medium | 6.5 | 7.7 | 3.5 | 6.7 | 5.4 | 4.7 | 0.2 | 4.2 | 10.4 | 9.9 | 9.7 | 9.7 | 5.4 | 4.7 | 3.9 | 4.9 |
| Large | 7.6 | 2.3 | 3.3 | 4.5 | 8.9 | 13.2 | 8.3 | 7.7 | 7.1 | 7.4 | 7.9 | 9.0 | 2.1 | 2.4 | 2.7 | 4.4 |
| BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Energy | 18.4 | -8.6 | -8.8 | -3.5 | 23.7 | -8.7 | -5.5 | 0.6 | 8.3 | 8.4 | 9.5 | 10.5 | 3.4 | 3.7 | 4.3 | 5.7 |
| Industry | 5.5 | -5.9 | -8.7 | 2.9 | -1.7 | -7.4 | -17.0 | 1.8 | 10.2 | 8.8 | 9.5 | 8.7 | 4.5 | 3.2 | 3.6 | 4.1 |
| Wholesale & retail trade | 1.1 | 12.5 | 28.4 | 13.8 | -3.7 | 20.8 | 46.5 | 16.5 | 11.8 | 12.5 | 11.6 | 11.6 | 6.7 | 7.4 | 6.5 | 6.9 |
| Transport and communications | -0.1 | 14.2 | 15.0 | 9.3 | -6.9 | 43.1 | 42.9 | 33.6 | 5.5 | 8.4 | 8.9 | 11.4 | 0.1 | 2.7 | 3.4 | 6.6 |

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

to Spanish euro area membership). The following table reveals to what extent the change in financial costs has been due to lower interest rates, and to what extent to changes in corporations' greater or lesser resort to borrowing:

| | 02 Q1–Q4/01 Q1–Q4 |
|---|---|
| **Change in financial costs** | **–6.5%** |
| *A. Interest on borrowed funds (1+2)* | *–6.4%* |
| 1. Due to the cost (interest rate) | –11.5% |
| 2. Due to the amountof interest-bearing debt | 5.1% |
| *B. Commissions and cash discounts* | *–0.1%* |

The data in the table confirm that interest rate cuts have been the main cause of the reduction in the weight of financial costs in corporations' profit and loss accounts, duly generating greater resources with which to finance their activity. As the table shows, this was compatible with a small increase in borrowing, evidencing that CBQ corporations have apparently deferred investment decisions for more propitious times. And this despite the favourable terms the financial and credit markets are offering in respect of access to new financing. Another factor Spanish corporations might be considering would be that their level of debt might advise a degree of caution before facing fresh risks. Without evaluating the amount of this debt, what Table 1 shows is that the debt ratio (R.5), reflecting the relationship between total borrowed funds and total resources, has continued growing in 2002.

The growth of ordinary net profit (7.6%) enabled the ordinary returns on net assets (R.1) and on equity (R.3) to rise to 9% and 12.9%, respectively, both up on 2001. That suggests the conditions are in place for investment to take off once expectations are clearer. Across the different sectors, the distributive trade and transport and communications were once again those with the highest profit ratios, in line with what was discussed in connection with their activity. Table 6, which classifies corporations on the basis of their level of profitability, confirms the broadly moderate trend of business activity in 2002. A greater concentration of firms can be seen to have generated returns of between 5% and 10% while, on the contrary, the number of companies with returns at the extremes (both positive and negative) has fallen. The sound performance of ordinary net profit was unable to cushion the decline in total net profit to negative rates (–31.2%), due to the influence of the sizable net provisioning (up 255.4%) by Spanish corporations with heavy investment abroad dur-

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 Q4 | 02 Q4 | 01 Q4 | 02 Q4 |
| **Total corporations** | **100.0** | **100.0** | **100.0** | **100.0** |
| R <= 0% | 27.4 | 26.9 | 31.0 | 31.0 |
| 0% < R <= 5% | 17.0 | 16.7 | 13.0 | 12.6 |
| 5% < R <= 10% | 14.0 | 17.1 | 9.6 | 11.2 |
| 10% < R <= 15% | 10.7 | 10.7 | 9.8 | 9.7 |
| 15% < R | 31.0 | 28.7 | 36.6 | 35.5 |
| **Number of corporations** | **815** | **522** | **815** | **522** |
| | 01 Q1-Q4 | 02 Q1-Q4 | 01 Q1-Q4 | 02 Q1-Q4 |
| MEMORANDUM ITEM: | | | | |
| Average return (Q1-Q4) | **7.9** | **9.0** | **10.1** | **12.9** |

Source: Banco de España.

ing 2002 in order to write down their investment in Latin America and their failed investment in as yet non-operational technologies.

In sum, the productive activity of corporations held on a moderate path in 2002 with increases that were similar though slightly greater than those recorded in 2001. This growth was essentially underpinned by sustained domestic demand, which bore favourably on firms in the distributive trade and in transport and communications. The international setting is currently beset by uncertainty which is affecting the performance of firms in general, and of industrial corporations in particular. Nonetheless, the analysis of events in 2002 reveals the resilience shown by Spanish corporations, which have negotiated adverse economic circumstances without traumatic cuts in activity and staff, maintaining moreover good profit levels.

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