
Results of non-financial corporations in the first two quarters of 2003 (1)

1. INTRODUCTION

The data of the CBSO Quarterly Survey (CBQ) on business activity in the first half of 2003 show notable buoyancy, confirming the results reported for the first quarter of the year. In the first half as a whole, gross value added (GVA) rose by 8% in nominal terms with respect to the same period a year earlier (see Table 1 and Chart 1). This is confirmed when allowance is made for how corporate earnings in the sector have been affected by the crude oil price rises early in the year. Both this overall performance and the step-up in activity in the first six months of 2003 by the trading and industrial firms reporting to the CBQ are in line with the growth of private consumption and of investment in capital goods recorded by other sources. Factors that have favourably influenced these developments are the abatement of uncertainty in the international setting, the alleviation of the situation of certain Latin-American economies and the improved expectations in the United States in the last few months. However, the doubts persisting abroad, basically about some of the main European economies, could have repercussions for Spanish firms in the future, particularly in the industrial sector where activity is more dependent on trade with these countries.

In step with the favourable trend in activity, employment continued to grow for the third consecutive quarter at a rate of 1.0% (which, although modest, has to be judged in the context of a sample of large, mostly industrial corporations, as is that of the CBQ), confirming the gradual recovery initiated in the second half of 2002. As in recent quarters, average compensation has continued to post notable increases (4.4% on this occasion), of greater size than those seen in the first half of 2002. This may be a temporary phenomenon associated with the application of the indexation clauses during the early months of the year, but if it spreads generally throughout firms, it may affect their competitiveness, particularly that of industrial firms, and bear on the deceleration of the rate of inflation in the economy. As a result of these developments, personnel costs again reached growth rates unseen since 2001 of around 5.4%. This level, since it is lower than the growth of GVA, explains the strong growth of 10% in the surplus, or gross operating profit. Despite the decline in financial revenue and the slight increase

(1) This article is based on the data provided to 17 September 2003 by the 721 corporations on average that voluntarily reported to the CBSO Quarterly Survey (CBQ). These corporations account for 14% of the total activity of the non-financial corporations sector (measured as gross value added at basic prices).

TABLE 1

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

Databases	CBA structure	CBA		CBQ (a)		
	2001	2000	2001	02 Q1-Q4/ 01	02 Q1-Q2	03 Q1-Q2
Number of corporations / Total national coverage		8053/28.9%	7081/25.9%	845/15.6%	880/15.9%	721/14.0%
1. VALUE OF OUTPUT (including subsidies)	100.0	16.0	2.9	2.2	-0.8	5.6
Of which:						
1. Net amount of turnover and other operating income	130.0	17.4	5.6	2.8	1.2	5.2
2. INPUTS (including taxes)	69.0	20.1	2.3	0.7	-2.7	4.2
Of which:						
1. Net purchases	42.9	23.8	-2.0	-0.5	-4.4	2.7
2. Other operating costs	25.6	14.4	7.9	4.6	3.1	6.8
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	31.0	7.5	4.1	4.7	2.4	8.0
3. Personnel costs	15.9	7.5	5.2	4.0	3.7	5.4
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.1	7.5	3.0	5.3	1.2	10.0
4. Financial revenue	5.3	26.3	25.8	-1.2	9.1	-7.2
5. Financial costs	4.1	26.3	14.4	-4.3	-9.7	0.4
6. Depreciation and operating provisions	6.8	6.6	-0.2	0.4	1.1	4.5
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	9.5	8.3	12.2	10.8	8.9	10.8
7. Capital gains and extraordinary revenue	4.5	-10.3	2.6	70.2	190.0	-10.8
8. Capital losses and extraordinary expenses	3.7	11.0	2.9	141.6	85.3	4.4
9. Other net provisioning	3.3	-21.1	46.2	98.9	(b)	-94.4
10. Income tax	1.7	-15.4	1.9	2.8	1.7	12.1
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	5.3	15.3	-0.8	(b)	(b)	(b)
Memorandum item:						
FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10]	14.7	10.5	7.2	6.6	6.1	7.7
PROFIT RATIOS						
R.1 Return on investment (before taxes)		7.4	7.6	8.9	8.3	8.4
R.2 Interest on borrowed funds/ interest-bearing borrowing		5.0	5.1	4.6	4.5	4.2
R.3 Ordinary return on equity (before taxes)		9.1	9.5	12.7	11.5	12.1
R.4 ROI - cost of debt (R.1-R.2)		2.4	2.5	4.3	3.8	4.2
R.5 Debt ratio		47.3	49.0	52.8	52.0	52.5

Source: Banco de España.

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

(b) Rate not significant or not calculable because the relevant figures are of opposite sign.

Note: Internal accounting movements have been edited out of items 4, 5, 7, 8, 9 and 10 in the calculation of rates.

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			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2
Total	4.1	4.7	2.4	8.0	2.5	0.2	0.2	1.0	5.2	4.0	3.7	5.4	2.7	3.8	3.5	4.4
SIZE:																
Small	7.6	—	—	—	2.0	—	—	—	7.5	—	—	—	5.4	—	—	—
Medium	8.5	4.6	4.0	0.2	3.7	1.4	1.2	1.1	9.1	4.1	3.8	5.5	5.2	2.7	2.6	4.4
Large	3.4	4.7	2.3	8.4	2.3	0.1	0.1	0.9	4.6	3.9	3.7	5.4	2.2	3.8	3.6	4.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-5.9	-0.2	-5.7	16.0	-2.5	-3.1	-2.7	-1.9	3.0	0.0	-0.2	3.5	5.7	3.2	2.6	5.5
Industry	-0.9	2.4	0.4	4.9	-1.0	-1.5	-2.1	0.4	2.9	2.2	1.3	4.6	3.9	3.8	3.5	4.2
Wholesale and retail trade	10.5	9.3	10.0	8.9	7.2	4.4	5.3	4.4	9.1	6.7	7.6	8.2	1.7	2.2	2.2	3.6
Transport and communications	9.2	7.4	5.1	4.7	0.1	-1.0	-0.9	0.3	3.1	4.4	3.6	5.4	3.0	5.5	4.5	5.1

Source: Banco de España.

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

in financial costs (which had shown negative rates of change in 2002), the behaviour of gross operating profit fed through to ordinary net profit (growth of 10.8% with respect to the first half of 2002), which is the relevant variable for calculating profitability. As noted in the article on 2003 Q1, the slight rise in financial costs (barely 0.4%) was due to increases in indebtedness (now growing at nearly 7%) and in commissions, since the impact of interest rates continued to decline.

As a result of the foregoing developments, and of the performance of ordinary net profit in particular, profit ratios remained higher than in the same period a year earlier. The implications of this favourable situation are best summed up by the difference between the ratio that measures the ordinary return on net assets (2) (or return on investment) and that which measures the cost of debt (3). This difference was four percentage points in the period analysed here and, as noted in this article in previous Economic Bulletins, evidences the favourable financial situation of firms. As regards extraordinary transactions, which, to-

(2) Ordinary net profit plus earned interest divided by total assets.

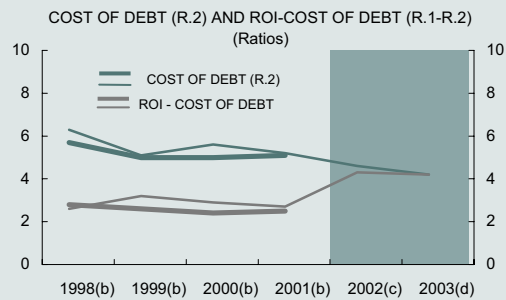
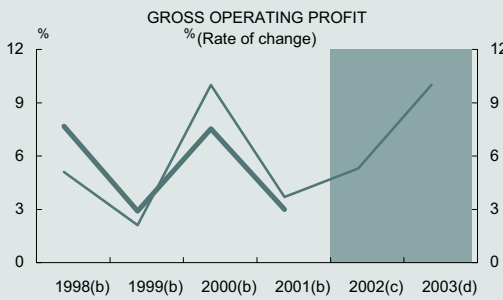
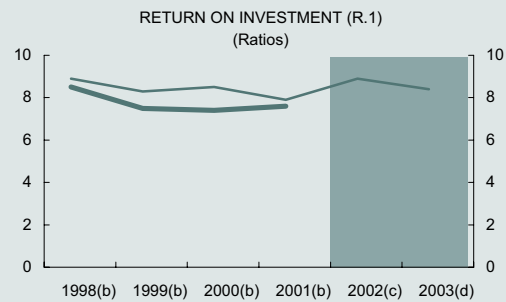
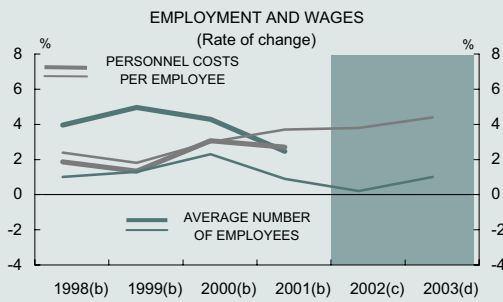
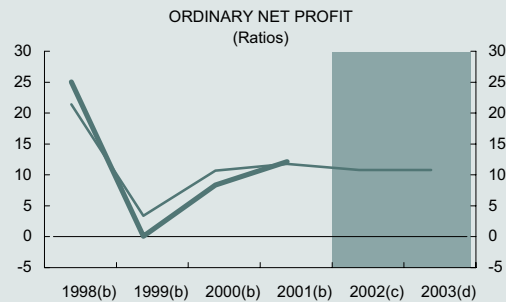
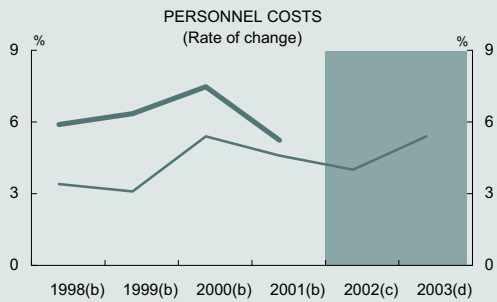
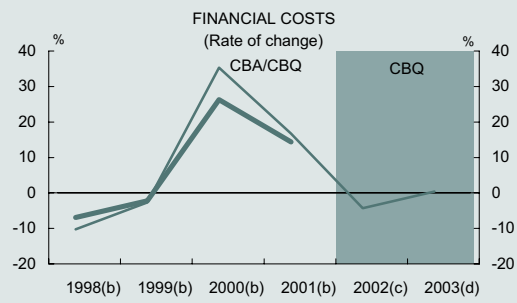
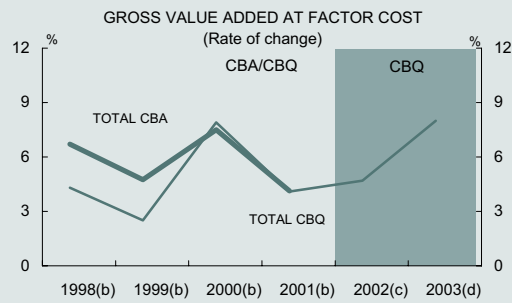
(3) Interest borne divided by borrowed funds.

gether with income tax, are added to or subtracted from ordinary net profit to arrive at net profit (i.e. total profit), it should be noted that the erratic and extremely volatile nature of these extraordinary revenues and expenses may, as in 2002, give rise to a negative net profit. This prevents the rate of change of this balance from being calculated for 2002 and for the period to date of 2003, in which the net profit has turned positive again. As pointed out in this article in the past, the high provisioning in the first half of 2002 to cover the loss of value of Spanish groups' investments in Argentina and other Latin American countries and to write off failed foreign investments in communications technologies was the main reason for the negative net profit in 2002. This setback has nothing to do with the income generated in that period, which once again bears out the wisdom of calculating returns on the basis of ordinary profits.

In sum, in the first two quarters of 2003 the firms reporting to the CBQ have sustained the recovery initiated in the second half of 2002 and which firmed in Q1 this year. The reporting corporations have continued to create jobs, while average compensation has kept growing at relatively high rates. The available data also point to a certain upturn in borrowing to fi-

CHART 1

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



NUMBER OF CORPORATIONS

	1998(b)	1999(b)	2000(b)	2001(b)	2002(c)	2003(d)
CBA	8,135	8,248	8,053	7,081		
CBQ	839	892	906	868	845	721

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

	1998(b)	1999(b)	2000(b)	2001(b)	2002(c)	2003(d)
CBA	33.6	31.6	28.9	25.9		
CBQ	18.3	17.9	16.7	15.7	15.6	14.0

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— CBA data.

— CBQ data.

Source: Banco de España.

- (a) Information available to 17 September 2003 (CBA and CBQ).
- (b) The 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 relative to the same period of 2001.
- (d) Average of the first two quarters of 2003 relative to the same period of 2002.

TABLE 2.b

Employment and personnel costs
Details based on changes in staff levels

	Total CBQ corporations 03 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	721	405	316
Personnel costs			
Initial situation 02 Q1-Q2 (€ m)	10,490.7	5,328.6	5,162.1
Rate 03 Q1-Q2/02 Q1-Q2	5.4	9.0	1.7
Average compensation			
Initial situation 02 Q1-Q2 (€)	18,556	16,345	21,509
Rate 03 Q1-Q2/02 Q1-Q2	4.4	3.2	7.4
Number of employees			
Initial situation 02 Q1-Q2 (000s)	566	326	240
Rate 03 Q1-Q2/02 Q1-Q2	1.0	5.6	-5.3
Permanent			
Initial situation 02 Q1-Q2 (000s)	467	262	205
Rate 03 Q1-Q2/02 Q1-Q2	0.7	3.9	-3.4
Non-permanent			
Initial situation 02 Q1-Q2 (000s)	99	64	35
Rate 03 Q1-Q2/02 Q1-Q2	2.1	12.5	-16.5

Source: Banco de España.

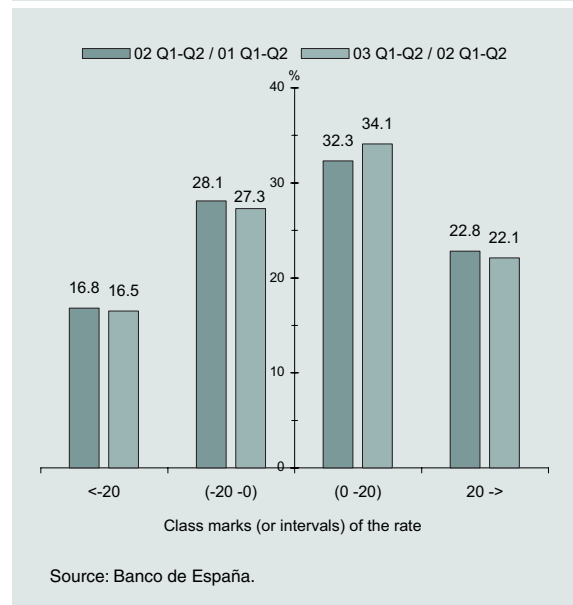
nance productive investment, in response to the stimulus of favourable financial conditions and high rates of return available. Also, unlike in 2002, in 2003 to date Spanish firms have not had to devote significant resources to writing down investments abroad in order to restore balance to their financial position. This, together with the more stable international situation and the other factors mentioned above, makes for a situation conducive to investment and job creation.

2. ACTIVITY

In the first half of 2003 the productive activity of Spanish firms continued on the growth path apparent in the first three months of the year, bettering by far the performance in 2002. The GVA generated by the sample firms increased by 8% in the first two quarters of 2003, compared with 2.4% in the same period a year earlier and with 4.7% for the whole of 2002 (see Table 1 and Chart 1), confirming the progressive acceleration in Spanish productive activity since the beginning of 2003 in response to the buoyancy of private consumption and, more recently, to the recovery of investment in capital goods, both documented by sources other than the CBSO. This performance was against a backdrop of considerably lower uncertainty in

CHART 2

Distribution of corporations by rate of change in GVA at factor cost
(02 Q1-Q2 / 01 Q1-Q2, 03 Q1-Q2 / 02 Q1-Q2)



Source: Banco de España.

the international sphere. The calculation of the GVA growth rate in the first two quarters of 2003 is affected by how much oil prices rose in the first two quarters of 2003 with respect to the same period of 2002. To the extent that this rise was passed on by the refineries, it led to high GVA growth of refineries in 2002 Q2. However, even if the influence of this factor on the GVA of the industrial sector is disregarded, the trend in 2003 to date has been for activity to expand. Indeed, if the refineries and fuel distributors (see below) are excluded from the sample, GVA continues to grow faster in the first two quarters of 2003 than it did in the same period of 2002 (5.4% against 3.9%). Noteworthy as regards external activity was that in 2003 to date there has been a slight increase in the percentage of sales in foreign markets (see Table 3) and an even greater increase in purchases in these markets.

Activity increased in all sectors, although at differing paces. The GVA of the energy and industrial sectors rose by 16.0% and 4.9%, respectively, in both cases clearly higher than the rates in the first half of 2002 and in 2002 as a whole. In the case of energy, this change was particularly marked, since in the first six months of 2003 its GVA grew at the rate indicated, whereas it declined by 5.7% in the same period of 2002. The average crude oil price rise in the first six months of 2003 with respect to the average levels in the first half of 2002 significantly influenced the increase in GVA recorded by the refining sector. This behaviour was also appar-

TABLE 3

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

	CBA	CBQ (a)	
	2001	02 Q1-Q4/01 Q1-Q4	03 Q1-Q2/02 Q1-Q2
Total corporations	7,081	845	721
Corporations reporting source/destination	7,081	814	693
	%	%	%
Net purchases	100.0	100.0	100.0
SOURCE OF PURCHASES:			
Spain	65.3	78.9	78.4
Total abroad	34.7	21.1	21.6
<i>EU countries</i>	20.8	15.9	16.6
<i>Third countries</i>	13.9	5.2	5.0
Net turnover	100.0	100.0	100.0
SALES DESTINATIONS:			
Spain	81.4	86.9	86.3
Total abroad	18.6	13.1	13.7
<i>EU countries</i>	13.5	8.4	9.6
<i>Third countries</i>	5.1	4.7	4.1

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

ent in the electricity sector, the GVA of which grew by 5.6% in the first half of 2003, thanks to higher demand (up 4% in the first half of 2003) and to increased hydroelectric generation, which reduced production costs. In industry, which is analysed in greater detail in Table 1, activity recovered significantly in the first half of 2003. GVA was up by 4.9%, against 0.4% in the same period a year earlier and 2.4% for 2002 as a whole, as a result of the upturn in investment in capital goods in 2003. The wholesale and retail (distributive) trade has continued to grow at a good pace in 2003 to date (GVA up 8.9%, against 10.0% in the same period of 2002), with rates similar to those of previous periods and in line with that of private consumption. Also, as in the case of refining firms, if the effect exerted on the GVA of fuel distributors (firms forming part of the distributive trade that are scantily represented in the CBQ) by oil price rises (which, since they could not be passed on in full, led to slightly negative GVA growth in the first six months of 2003) were stripped out, the strength of the distributive trade aggregate in 2003 would be more clearly visible (its GVA growth would be 10% in 2003, against 6.1% in 2002). The transport and communications sector again grew at a good pace in 2003 to date, with GVA up 4.7% (against 5.1% in the same period a year earlier). This performance reflects,

among other factors, the strong growth of mobile telephony firms, mainly based on services associated with the new technologies.

Finally, Chart 2, which analyses the distribution of sample firms by GVA growth without taking size into account, shows that the growth of the "total CBQ reporting firms" aggregate is not evenly distributed among its components. The chart shows that the percentage of firms whose GVA increased in the first half of 2003 (56.2%) was higher than the percentage whose GVA increased in the first half of 2002 (55.1%). Conversely, 43.8% of firms showed negative GVA growth in the first half of 2003, against 44.95% in the first half of 2002. This statistic confirms that the growth of activity in the first six months of 2003 was not only more marked, but also more general.

3. EMPLOYMENT AND PERSONNEL COSTS

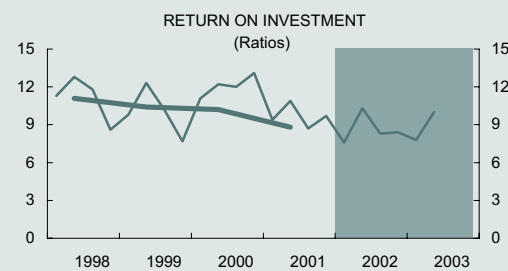
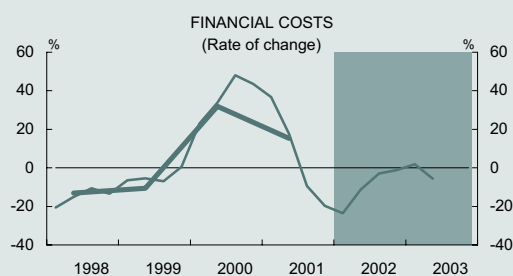
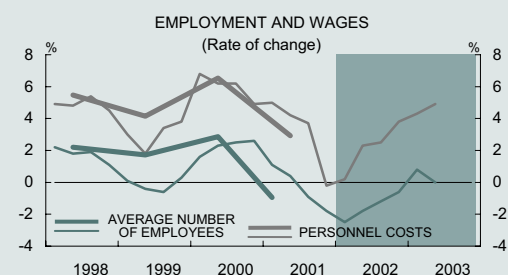
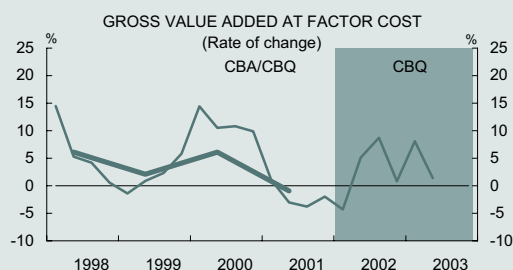
In the first half of 2003 the personnel costs of firms grew by 5.4%, as a result of increases in both employment (1%) and average compensation (4.4%). The greater vigour shown by business activity in the period analysed was accompanied, for the third quarter running, by on-

Analysis of the industrial sector

The industrial sector is one of the areas of the economy that has shown the clearest signs of recovery with respect to the same period a year earlier. After a first half in 2002 in which GVA grew by only 0.4%, the same period of 2003 saw GVA rise by 4.9%, up even on the figure for 2002 as a whole (2.4%). This rise is explained by a recovery of investment in capital goods which, moreover, has been across the board in all the sub-sectors comprising the industrial sector. However, analysis of the quarter-on-quarter profile shows a slowdown in 2003 Q2, particularly in *chemicals industry* firms. Their greater exposure to other markets, particularly those in certain European countries, has led them to be more directly affected by the sluggishness in the euro area, impairing the recovery that had been apparent in the sector early in the year. By contrast, the *food, beverages and tobacco* and *glass, ceramics and metal processing* sub-sectors exhibited greater buoyancy in Q2. In step with activity, employment also posted a rise which, although slight, broke the negative trend prevailing in 2002. Thus, in the first half, employment in industry rose by 0.4%, against a fall of 2.1% in the same period of 2002. Except in the *chemicals industry* and *other manufacturing* sub-sectors, there were net increases in workforce numbers. Average compensation grew by 4.2%, which was very similar to the rate for the sample as a whole (4.4%). This growth was fairly widespread across the firms analysed by the CBQ and posed an obstacle to the improved competitiveness of Spanish firms, particularly that of industrial firms so strongly exposed to foreign competition. The two headings (employment and average compensation) led personnel costs to grow by 4.6%, nearly the same as GVA. This enabled increases of 5.4% in gross operating profit and of 7.9% in ordinary net profit, the latter marking a substantial improvement on the figure for the first half of 2002 (-0.1%). This performance of ordinary net profit resulted in ordinary returns remaining at high levels similar to those achieved in 2002. The interest rate cuts slightly reduced the ratio that measures the financial costs of industrial firms (4.2% in the first half of 2003), which meant that, for yet another quarter, the spread between the return on investment and the cost of debt was positive and similar to the level in preceding periods

In sum, a progressive recovery of activity, based on improved investment in capital goods, seems to be taking root in Spanish industry. However, certain uncertainties persisting on the international front affect this sector in particular, given its exposure to foreign competition. Also, the maintenance and/or wider diffusion of the recent trend in average compensation would mean that the competitiveness of Spanish companies would be at risk. It is natural that, as in the other sectors, industry is capitalising on highly favourable financing conditions and high returns which may provide for a rise in productive investment or, in other words, the generation of employment.

Performance of industrial corporations reporting to the CBSO (a)



		NUMBER OF CORPORATIONS			
CBA		3,247	3,035	2,830	2,397
CBQ		402	392	378	421
		386	405	396	387
		433	413	391	378
		405	395	383	364
		398	362	369	341
		346	276		
		% OF GDP OF THE SUB-SECTOR INDUSTRIAL CORPORATIONS			
CBA		33.8	30.9	28.3	24.4
CBQ		27.4	28.0	26.2	25.2
		27.9	28.4	26.3	26.3
		26.6	26.6	25.2	22.2
		25.4	21.8	21.0	21.1
		22.2	22.2	21.1	22.2
		22.6	21.1	19.5	20.6
		17.4			

— CBA data.
- - - CBQ data.

Source: Banco de España.

(a) Information available to 17 September 2003 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

TABLE 4

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

	CBA		CBQ			
	2000	2001	01 Q1-Q4 (a)	02 Q1-Q4 (a)	02 Q1-Q2	03 Q1-Q2
Number of employees	8,053	7,081	868	845	880	721
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	18.1	21.8	28.3	33.4	33.0	27.4
Constant or rising	81.9	78.2	71.7	66.6	67.0	72.6
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	24.5	27.8	40.3	43.7	44.1	44.0
Constant or rising	75.5	72.2	59.7	56.3	55.9	56.0
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	47.4	39.1	46.8	49.7	50.0	41.3
Higher or same growth	52.6	60.9	53.2	50.3	50.0	58.7

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

going job creation, this time at a higher rate than that in the first half of 2002 and that in 2002 as a whole (both 0.2%). The particular characteristics of the quarterly sample, in which large firms belonging to sectors undergoing re-organisation and staffing adjustments have a significant relative weight, highlight the importance of this employment trend, although quantitatively it does not represent a very large increase, and confirm the recovery initiated in mid-2002. As regards contractual terms, both permanent and temporary employment increased, although in relative terms the latter grew more. Sectoral analysis shows increases in average workforce numbers in all sectors except energy. As has now become customary, this aggregate continued to reflect the effect of staffing adjustments undertaken in the electricity sub-sector as part of the liberalisation process in progress, although the available information suggests that these adjustments are drawing to an end. Employment in industry and in transport and communication rose in the first six months of 2003, in marked contrast to the behaviour before then. As regards transport and communication, the positive rate posted (0.3%) signifies that the downward trend in employment in these sectors in recent years, closely linked to the opening up of telephony markets and firms to competition, has been reversed, although this liberalisation process has seemingly not yet come to an end. Finally, the wholesale and retail trade once again recorded the

highest rate of job creation (4.4%), albeit below that in the first half of 2002 (5.3%).

Average compensation continued to grow at an even higher pace than in previous quarters (4.4% in the first six months of 2003, against 3.5% in the same period of 2002), outstripping the year-on-year rate of inflation recorded in June (2.7%). After an initial period in 2002 in which greater moderation was achieved, this trend was broken in Q3 that year and growth rates returned to around 4%, similar to those in 2001, apparently due to the application of indexation clauses linked to an inflation rate that stood at 4% at the end of 2002. Table 2b, which classifies firms according to whether or not they have destroyed jobs, shows that the firms that maintained or increased their workforces recorded, as is customary, smaller growth in average compensation (around 3%), while the firms that destroyed jobs saw average compensation rise by 7.4%. The upward trend in average compensation spread throughout all sectors. Meriting special mention are the relative increases in the wholesale and retail trade (growth of 3.6%, against 2.2% in the first six months of 2002) which, although still the most moderate in the sample, have started to reflect the upward pressure on average personnel costs.

Finally, Table 4 classifies firms based on certain variables related to employment and compensation. Notably, the percentage of

TABLE 5

**Gross operating profit, ordinary net profit, return on investment 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				Return on investment (R. 1)				ROI-Cost of debt (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2	2001	02 Q1- Q4	02 Q1- Q2	03 Q1- Q2
Total	3.0	5.3	1.2	10.0	12.2	10.8	8.9	10.8	7.6	8.9	8.3	8.4	2.5	4.3	3.8	4.2
SIZE:																
Small	7.6	—	—	—	4.3	—	—	—	8.9	—	—	—	2.8	—	—	—
Medium	7.7	5.4	4.3	-6.5	4.7	0.9	1.4	-9.6	9.9	9.4	9.9	8.7	4.7	4.6	5.1	4.7
Large	2.3	5.3	1.1	10.7	13.2	11.4	9.3	11.8	7.4	8.8	8.2	8.4	2.4	4.2	3.7	4.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-8.6	-0.2	-7.3	19.8	-8.7	6.2	-3.8	6.1	8.4	10.9	9.5	8.6	3.7	6.2	4.8	4.8
Industry	-5.9	2.6	-0.8	5.4	-7.4	1.7	-0.1	7.9	8.8	8.7	9.0	8.9	3.2	4.1	4.4	4.7
Wholesale and retail trade	12.5	12.4	13.1	9.9	20.8	14.8	20.5	21.8	12.5	11.8	10.7	11.0	7.4	7.0	6.3	6.6
Transport and communications	14.2	9.5	6.2	4.2	43.1	24.0	22.3	5.3	8.4	10.8	9.7	13.2	2.7	6.0	4.9	8.5

Source: Banco de España.

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

firms at which compensation increased more quickly than inflation was up by nearly nine percentage points in the first half of 2003, which poses a threat for competitiveness and, in short, for the medium-term growth of Spanish firms.

4. PROFITS, MARGINS AND RATES OF RETURN

The foregoing picture of the performance of Spanish firms allows an optimistic judgement to be ventured as to the future, although tempered by the caution befitting a scenario in which international instability persists and in which additional efforts are needed to improve competitiveness. Against this background, the increases in gross operating profit (10.0%) and in ordinary net profit (10.8%) in the first six months of 2003 can be regarded as confirming that judgement. The higher rate of growth of gross operating profit in the first six months of 2003 with respect to the same period a year earlier was underpinned by the performances of energy and industry, which grew much faster than in 2002, and of the wholesale and retail trade, which continued to grow at high rates. Financial costs held practically unchanged in the period analysed, with an increase of 0.4% in

the first half of 2003, the breakdown of which is as follows:

	<u>03 Q1-Q2/ 02 Q1-Q2</u>
Change in financial costs	+0.4%
A. Interest on borrowed funds (1+2)	+0.1%
1. Due to the cost (interest rate)	-6.7%
2. Due to the amount of interest-bearing debt	+6.6%
B. Commissions and cash discounts	+0.5%

From the table it can be concluded that in the first half of 2003 the financial burden disclosed by firms' profit and loss accounts was practically the same as in the first half of 2002, owing to two movements in opposite directions: a reduction in the cost of debt, and an almost totally offsetting inflow of new funds, both relatively moderate. Moreover, although the available data suggest that firms are gradually taking advantage of the favourable financing conditions due to the low interest rates, the CBQ lacks data to confirm that the large Spanish firms are undertaking large-scale investment projects (4). Given that the financial costs and the other two items (financial revenue and de-

(4) Construction and public works firms are not well represented in the CBQ.

TABLE 6

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

	CBQ			
	Return on investment (R. 1)		Ordinary return on equity (R. 3)	
	02 Q1-Q2	03 Q1-Q2	02 Q1-Q2	03 Q1-Q2
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0 %	21.0	24.2	24.2	27.1
0 % < R ≤ 5 %	19.6	19.5	14.9	15.3
5 % < R ≤ 10 %	16.5	14.7	13.0	10.7
10 % < R ≤ 15 %	11.8	11.8	10.0	10.3
15 % < R	31.1	29.8	37.9	36.6
Number of corporations	880	721	880	721
	02 Q1-Q2	03 Q1-Q2	02 Q1-Q2	03 Q1-Q2
MEMORANDUM ITEM:				
Average return	8.3	8.4	11.5	12.1

Source: Banco de España.

preciation and operating provisions) needed to calculate ordinary net profit from gross operating profit have changed only moderately, it is obvious that the growth of ordinary net profit in 2003 is due to increased activity. Regarding the performance of extraordinary revenue and expenses, Table 1 shows that the write-downs forced upon some of the major Spanish firms have come to an end. These write-downs were required because of the situation of certain investments in Argentina and other Latin American (and even European) countries, and their most immediate consequence was a drastic fall in total net profit (i.e. final profit), which, since it turned negative in 2002, prevents the rates of change from being calculated for 2002 and for 2003 to date, when total net profit turned positive again. Unlike in 2002, in 2003 to date no write-downs like those described above have been required. This, together with the fact that everything seems to indicate that these countries have moved into a more stable period, augurs a rapid recovery and, in short, a return to a situation in which the income generated in the production process can be used for investment rather than rebuilding impaired financial positions.

This situation enabled firms to report high returns in the first half of 2003 which were practically identical to those in the same period of 2002. Specifically, the return on investment (ROI) was 8.4% in the first half of 2003, up slightly on the first six months of 2002. All sec-

tors performed favourably, with high ordinary returns similar to or even above those in 2002 (see Table 5). Table 6, which shows the performance of the sample firms according to the return generated by them, shows that in the first two quarters of 2003 there was a shift en masse by firms towards lower levels of return than in the same period of 2002, but with an increase of 0.6 percentage points in average return on equity. Further, since the ratio that measures the cost of debt has remained unchanged or decreased slightly for all the sectors analysed, the spread between these two ratios (ROI minus cost of debt) remained positive and even grew in comparison with that in the first half of 2002, confirming that the sample firms are in a good position to undertake investments if the international situation is favourable. However, everything seems to indicate that, given the historically low interest rates, there is not much room for further cost cutting by this means, so any widening of this spread will have to come from increases in return rather than from additional reductions in the cost of debt.

In short, in the first half of 2003 Spanish firms performed satisfactorily as regards activity and employment, confirming the recovery initiated in mid-2002. The available data point to a certain upturn in borrowing to finance productive investment, in response to the stimulus of favourable financial conditions and high rates of return available. Also, unlike in 2002, in 2003 to

date Spanish firms have not had to devote significant resources to writing down investments abroad in order to restore balance to their financial position. This, together with the more stable international situation, makes for a scenario conducive to investment and job creation. The developments described took place against a background in which inflation was being increasingly contained and confidence progressively recovering, due, among other things, to a certain easing of the international situation and

to improvements in some international economies (basically the United States and Latin America). That said, risks still persist in the world economy and domestically that may jeopardise these developments, such as the stagnation of growth in certain EU countries and the risk to competitiveness stemming from the recent trend in average compensation in Spanish firms.

18.9.2003.