
Results of non-financial corporations in 2003 Q4 and summary year-end data (1)

1. INTRODUCTION

The November 2003 edition of the Economic Bulletin detailed the results of the non-financial corporations reporting to the CBSO Quarterly Survey (CBQ) during the first three quarters of the year. The information now available for the four quarters of 2003 confirms the diagnosis then made, namely sustained growth in activity throughout the year and up on 2002. This performance reveals a 6.3% increase in the nominal gross value added (GVA) of the corporations making up the quarterly sample, compared with 3.4% in 2002. That said, if the refining and fuel marketing corporations (over-represented in the sample and affected over the past two years by sizable changes in crude oil prices) are excluded from the aggregate, the respective rates for 2003 and 2002 would stand at 5.7% and 4.6%, more in line with the performance reflected by Quarterly National Accounts (QNA). Said performance includes the effect of some stagnation in industrial corporations and, as alternative indicators infer, it was sustained by the favourable trend of consumption and construction, and by something of a pick-up in investment in capital goods and a negative contribution of net external demand. As the year unfolded the international situation showed clear signs of recovery, in terms both of the sound US and South-East Asian economic data and of the Latin-American countries overcoming the worst of the crisis besetting them. However, activity in the main euro area countries remained lacklustre, although there are signs of something of a recovery in the data for the closing months, which are expected to be confirmed during 2004. That would contribute to a gradual reduction in the negative contribution of external activity to the growth of Spanish corporations' GVA and, most particularly, to that of firms in the industrial sector, which would be the main beneficiaries of this recovery, since the euro area is the main recipient of its exports.

In terms of employment, the CBQ data show growth of 0.6% in 2003, slightly up on the figure of 0.3% in 2002. This moderate performance (which, due to the bias in the sample, is less favourable than that reflected by the official employment indicators and than that which, on experience, the CBA survey will show at the close of the year 2003) includes the effect of an adverse trend in employment in industry (-0.8%) for the third year running. In sum, the maintaining of a positive and growing rate of change of

(1) This article is based on the data provided to 12 March 2004 by the 754 corporations which, on average, have reported information to the CBQ survey in the period analysed. In terms of activity, the aggregate of corporations accounts for approximately 13.7% 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 on the same period a year earlier

Databases	CBA Structure	CBA		CBQ (a)		
	2002	2001	2002	01 Q1 - Q4 00 Q1 - Q4	02 Q1 - Q4	03 Q1 - Q4 02 Q1 - Q4
Number of corporations / Total national coverage		8124/28.6%	6288/24.9%	870/15.7%	851/15.6%	754/13.7%
1. VALUE OF OUTPUT (including subsidies)	100.0	4.1	2.9	1.4	1.0	4.1
Of which:						
1. Net amount of turnover and other operating income	132.3	6.2	3.7	3.2	2.6	4.5
2. INPUT (including taxes)	67.9	3.3	1.4	0.0	-0.4	2.7
Of which:						
1. Net purchases	40.4	-1.1	-1.0	-3.4	-2.6	1.4
2. Other operating costs	27.3	8.6	6.7	5.5	4.9	6.6
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	32.1	5.7	6.1	4.0	3.4	6.3
3. Personnel costs	16.3	5.6	5.2	4.6	4.3	4.0
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.8	5.9	7.0	3.5	2.6	8.2
4. Financial revenue	2.9	40.8	9.7	37.9	-9.5	4.2
5. Financial costs	3.3	19.1	-4.9	15.2	-2.3	-1.3
6. Depreciation and operating provisions	7.2	3.5	3.5	1.4	1.3	1.2
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	8.2	14.2	8.7	11.4	1.2	15.9
7. Capital gains and extraordinary revenue	8.8	1.6	98.1	15.3	104.8	-40.1
8. Capital losses and extraordinary expenses	5.3	5.6	44.1	-6.6	133.5	-21.0
9. Other net provisioning	9.6	60.4	306.3	60.1	138.8	-86.5
10. Income tax	1.6	6.2	2.3	5.3	-6.9	17.1
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	0.4	-2.1	-90.1	-10.7	(b)	(b)
Memorandum item: FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10]	13.8	9.3	6.6	6.8	2.3	8.6
PROFIT RATIOS						
R.1 Return on investment (before taxes)		7.6	7.7	7.8	8.2	8.3
R.2 Interest on borrowed funds/ interest-bearing borrowing		5.1	4.3	5.2	4.6	4.2
R.3 Ordinary return on equity (before taxes)		9.6	10.7	9.9	11.4	12.1
R.4 ROI - cost of debt (R.1-R.2)		2.5	3.4	2.6	3.6	4.1
R.5 Debt ratio		49.0	51.9	49.8	53.0	52.4

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 different sign.

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)	
	2001	2002	02 Q1 - Q4	03 Q1 - Q4	2001	2002	02 Q1 - Q4	03 Q1 - Q4	2001	2002	02 Q1 - Q4	03 Q1 - Q4	2001	2002	02 Q1 - Q4	03 Q1 - Q4
Total	5.7	6.1	3.4	6.3	2.7	1.6	0.3	0.6	5.6	5.2	4.3	4.0	2.8	3.6	4.0	3.4
SIZE:																
Small	7.7	3.4	—	—	2.1	0.6	—	—	7.6	4.6	—	—	5.4	4.0	—	—
Medium	8.2	7.7	3.4	3.1	4.1	1.8	1.2	0.2	9.4	6.0	4.0	4.8	5.1	4.1	2.8	4.6
Large	5.3	6.0	3.4	6.5	2.5	1.6	0.2	0.7	5.0	5.2	4.3	3.9	2.3	3.5	4.1	3.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-5.9	-0.8	-4.6	9.7	-2.6	-3.2	-3.2	-1.9	2.9	0.4	0.1	2.7	5.6	3.7	3.4	4.7
Industry	0.2	2.8	1.2	1.1	-0.8	-0.8	-1.8	-0.8	3.1	3.1	1.5	2.5	3.9	4.0	3.4	3.3
Wholesale and retail trade	8.8	11.4	9.8	10.4	6.7	6.8	3.9	4.2	8.9	8.7	6.5	7.6	2.0	1.8	2.5	3.3
Transport and communications	14.8	10.0	7.2	4.8	0.5	-2.5	-1.1	-0.1	3.7	5.4	5.3	3.0	3.2	8.1	6.5	3.1

Source: Banco de España.

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

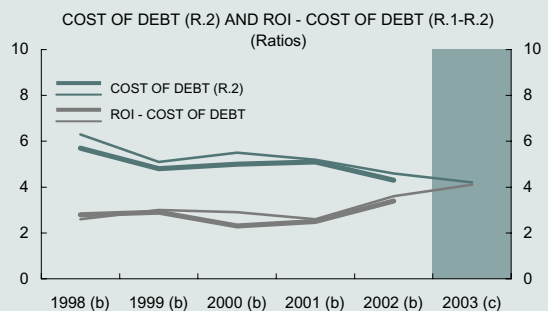
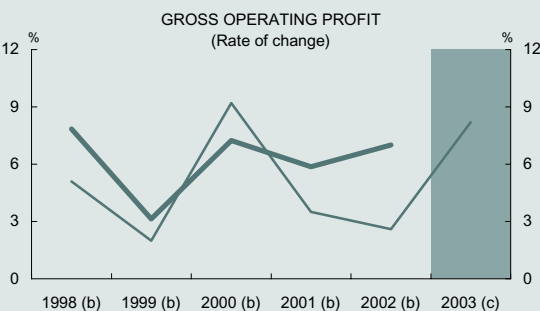
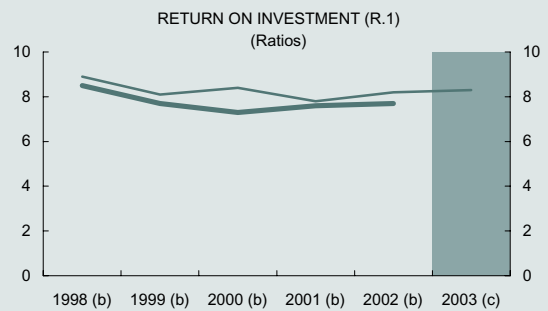
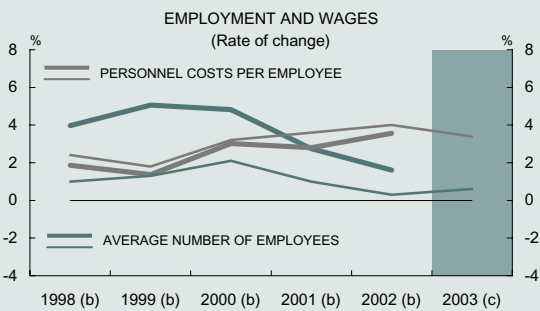
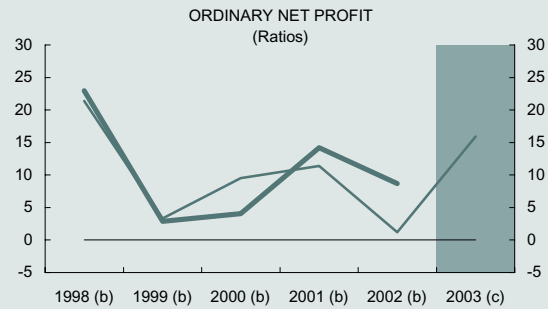
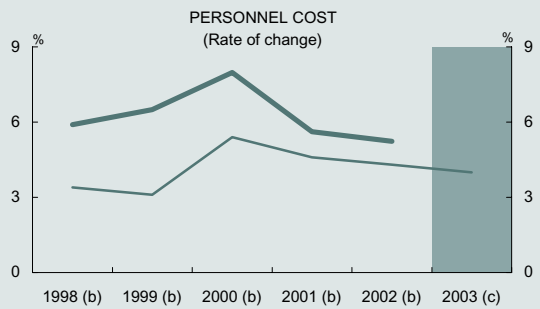
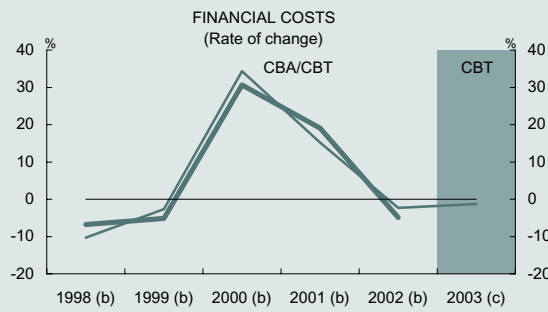
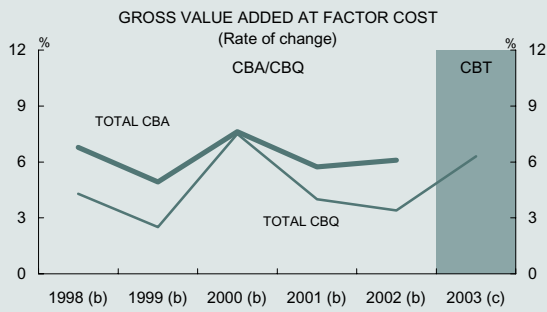
employment in 2003 is further confirmation of the healthy position of corporations during the year and of the favourable conditions in which the firms of the aggregate as a whole are facing the oncoming year, this diagnosis not being valid for industrial corporations. Average compensation grew by 3.4% in 2003, a rate slightly down on 2002 (4%), which is indicative of the fact that the reporting corporations are trending towards more moderate growth. The recent reduction in the CPI will contribute to this positive trend in compensation firming, helping enhance Spanish corporations' competitiveness in the medium and long run.

The performance of employment and compensation taken as a whole meant that personnel costs grew by 4.0% in 2003, compared with GVA of 6.3% the same year. That explains why gross operating profit climbed by 8.2%, against 2.6% in 2002. Financial costs continued on a slightly declining trend in 2003, albeit somewhat slacker than the previous year (-1.3%), since the reductions due to lower rates were largely offset by the increase in debt. Moreover, the inflow of dividends into certain holding companies, arising from profits generated by their foreign subsidiaries, provided for an increase of 4.2% in financial revenue in 2003. This performance, and some stabilisation in

depreciation and operating provisions, explains why ordinary net profit rose by 15.9%, against 1.2% in 2002. These results enabled corporations to maintain a high level of return on investment, higher than in previous years. And that, combined with the fresh reduction in the ratio approximating the cost of borrowing, which held at a minimum, led the spread between both ratios (ROI and cost of debt) to be clearly positive. Finally, mention should be made of net profit, which worsened strongly in 2002, essentially as a result of the extraordinary provisions to recognise the effect wrought on certain Spanish corporations' investments by both the delicate economic situation affecting Latin America and the investment losses in Europe in developing UMTS telephony. Once these effects were absorbed, corporations attained a net profit level in 2003 constituting a high for the quarterly series (28.6% of GVA in 2003 compared with -1.0% of GVA in 2002). This performance cannot be reflected in the rate of change of this variable, since the move from a loss position to a profit-making one precludes calculation of this rate. Further, it is possible that the resumption of a climate of greater stability in Latin America and the roll-out of UMTS technology may contribute to improving net profit as from 2004 by prompting the opposite effects to those recorded in 2002.

CHART 1

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



NUMBER OF CORPORATIONS						
CBA	8,143	8,265	8,153	8,124	6,288	
CBQ	838	884	894	870	851	754
% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS						
CBA	33.6	31.8	30.8	28.6	24.9	
CBQ	18.3	17.9	16.6	15.7	15.6	13.7

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— CBA Data.

— CBQ Data.

Source: Banco de España.

(a) Information available to 12 March 2004 (CBA and CBQ).

(b) The 1998, 1999, 2000, 2001 and 2002 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 four 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 CBO corporations 03 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	754	415	339
Personnel costs			
Initial situation 02 Q1-Q4 (€ m)	21,251.5	11,414.6	9,836.9
Rate 03 Q1-Q4/02 Q1-Q4	4.0	7.9	-0.5
Average compensation			
Initial situation 02 Q1-Q4 (€)	36,783.6	32,895.1	42,583
Rate 03 Q1-Q4/02 Q1-Q4	3.4	3.0	5.0
Number of employees			
Initial situation 02 Q1-Q4 (000s)	578	347	231
Rate 03 Q1-Q4/02 Q1-Q4	0.6	4.8	-5.6
Permanent			
Initial situation 02 Q1-Q4 (000s)	479	280	199
Rate 03 Q1-Q4/02 Q1-Q4	0.5	3.5	-3.8
Non-permanent			
Initial situation 02 Q1-Q4 (000s)	99	67	32
Rate 03 Q1-Q4/02 Q1-Q4	1.4	10.2	-16.9

Source: Banco de España.

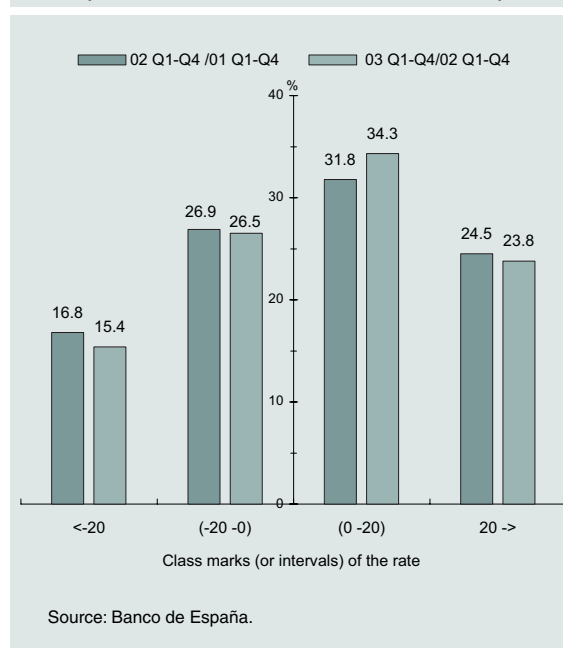
In short, it can be confirmed that the non-financial corporations in the sample were, at end-2003, well poised ahead of 2004 to harness the pick-up in the international economy and, more specifically, the recovery expected in the euro area economy. However, this favourable starting position, which is not extensive to industrial firms, may be affected – to an extent difficult to pinpoint – by the uncertainty generated by the recent terrorist bombings in Madrid on 11 March.

2. ACTIVITY

On the CBQ data available, business activity continued to grow at a sustained rate during 2003, especially in the final quarter. Clearly higher rates than the previous year were posted (see Table 1 and Chart 1), as highlighted by the fact that, in the sample of corporations analysed, GVA grew by 6.3% in 2003 compared with 3.4% in 2002. As has been habitual in the current cycle, consumption and investment in construction were the main underpinnings of business activity, although also accompanying them in 2003 was a certain improvement in investment in capital goods, as other alternative sources confirm. The contribution of foreign activity to output remained negative, since although the international situation improved ap-

CHART 2

Distribution of corporations by rate of change in GVA at factor cost
(02 Q1-Q4 /01 Q1-Q4, 03 Q1-Q4/02 Q1-Q4)



preciably as the year elapsed, the pick-up was more evident in the United States and in the South-East Asian countries, without a recovery in demand having yet come about in the euro area countries. As a result, Spanish firms' exports to the euro area continued to trend very modestly. This is highlighted by Table 3, where the scant buoyancy of exports throughout 2003 can be seen, as can the fact that imports gained in weight during this period.

With the exception of industry, all sectors performed in line with the total aggregate of the sample. GVA in the energy sector increased by 9.7%, as a result of the favourable performance of both electric utilities and refining corporations. The GVA of the electric utilities grew by 7.2%, assisted by the sizeable increases in the demand for electricity (which, adjusted for what the Electricity Network calls "working-time and weather effects", was 4.7% in 2003, one point up on the previous year). Refining corporations saw their margins increase significantly, thanks largely to the fact that the depreciation of the dollar against the euro allowed them to offset the rises in crude oil in 2003, especially in the first half of the year. This meant that GVA in this sector posted an increase of close to 40% over the course of 2003, due partly also to the fact that 2002 levels were very low, following the heavy declines in GVA in that period. If the distortion added by the erraticism of oil prices is stripped out, i.e. if refining and fuel marketing companies are not

TABLE 3

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

	CBA		CBQ (a)	
	2001	2002	02 Q1-Q4 / 01 Q1-Q4	03 Q1-Q4 / 02 Q1-Q4
Total corporations	8,124	6,288	851	754
Corporations reporting source/destination	8,124	6,288	820	727
	%	%	%	%
Net purchases	100.0	100.0	100.0	100.0
SOURCE OF PURCHASES:				
Spain	66.8	67.6	79.3	78.8
Total abroad	33.2	32.4	20.7	21.2
<i>EU countries</i>	19.9	19.4	15.6	16.2
<i>Third countries</i>	13.3	13.0	5.1	4.9
Net turnover	100.0	100.0	100.0	100.0
SALES DESTINATIONS:				
Spain	81.9	83.0	87.0	87.2
Total abroad	18.1	17.0	13.0	12.8
<i>EU countries</i>	13.3	12.6	8.5	9.0
<i>Third countries</i>	4.8	4.4	4.6	3.8

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

considered, GVA growth rates for the aggregate of around 5.7% are obtained in 2003, compared with 4.6% in 2002. That confirms the greater buoyancy of productive activity in 2003, albeit with a somewhat milder profile in line with the trend recorded by the Quarterly National Accounts. Wholesale and retail trade remained on the same expansionary course as in recent quarters, with their GVA rising by 10.4% in 2003, thereby reflecting the continuing robustness of private consumption. Transport and communications companies also continued to grow at a sound pace (4.8%), driven essentially by the expansion of the mobile telephony segment. Finally, and in contrast to the foregoing, industrial corporations (analysed in Box 1) posted GVA growth of 1.1%, virtually unchanged on the previous year. This was largely due to the fact that this particular aggregate was most affected by the slowdown in foreign activity.

Lastly, drawing on the information in Chart 2, it is possible to analyse the distribution of corporations in terms of the rate of change of their GVA. Notably in 2003, there was a rise of almost two points in the percentage of companies posting increases in GVA (from 56.3% in 2002 to 58.1% in 2003), meaning that the favourable performance of the aggregate of firms is exten-

sive to a large number of them considered individually.

3. EMPLOYMENT AND PERSONNEL COSTS

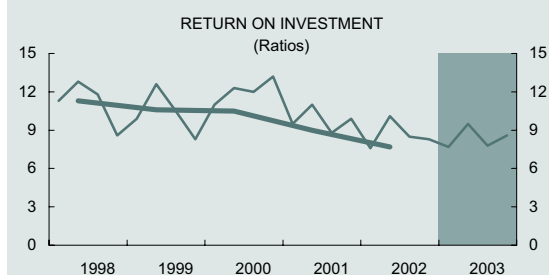
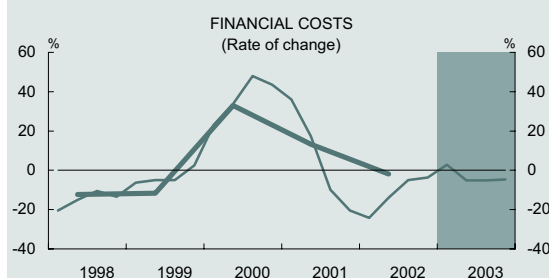
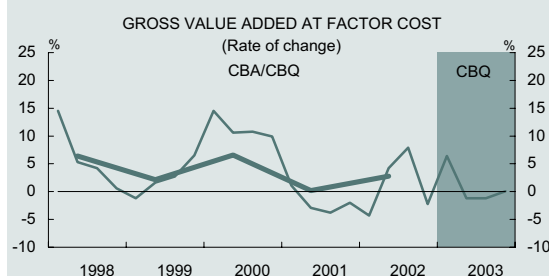
The CBQ data show that there was a rise of 0.6% in employment in 2003, up on the figure for 2002 (0.3%). The particularities of the quarterly sample, in which some sectors undergoing restructuring and systematically reducing staff (such as the electric utilities and transport and communications) have a sizeable weight, appreciably dampen the growth of this caption. In addition, this effect heightened in 2003 Q4 owing to the staffing adjustment by a major telecommunications operator. Consequently, the fact positive values have been sustained in the employment rate for the sample as a whole is consistent with the greater buoyancy of employment arising from the EPA (Labour Force Survey) and other alternative sources. By type of contract, temporary employment grew most strongly in 2003 (1.4%), as Table 2.b shows, reversing the trend of the past two years. Meanwhile, permanent employment continued to grow very mildly (0.5%), at a very similar pace to that of the previous year. Sector by sector, the continuing

Analysis of the industrial sector

The GVA of the industrial corporations making up the quarterly sample grew by scarcely 1.1% in relation to the same period a year earlier. This was the outcome of sharp growth in Q1, but which did not continue in the following quarters, in which activity posted slightly negative rates. Undoubtedly, among the sectors analysed by the CBQ, it is the industrial sector which is still overshadowed by most uncertainty about the future, owing to its dependence on the international and, in particular, the European economic situation. Only the food, beverages and tobacco and the glass, ceramics and metal sub-sectors recorded GVA growth in 2003 worthy of mention (6.8% and 3.2%, respectively). As a direct consequence of these developments in productive activity, industrial corporations as a whole did not – once again – see their staff numbers increase in 2003; on the contrary, for this item they posted a slightly negative rate (–0.8%) which, while this is the third year running they have not recorded net increases in employment, is appreciably up on 2002 (–1.8%). Once more, the two aforementioned sub-sectors (food, beverages and tobacco, and glass ceramics and metal) were alone in recording increases (even though these were mild) during the year as a whole in their average staff numbers. Average compensation grew by 3.3% in 2003, a very similar rate to that in both 2002 and 2001 (3.4%). As discussed in the main body of the text in connection with the total aggregate of corporations, wage growth needs to be more in line with the moderation of inflation, and this without forgetting the particularities of each firm, which should act as an obligatory point of reference in this field. The overall effect of developments in employment and in average compensation meant that personnel costs grew at a rate of 2.5% in 2003 which, as it was higher than that of GVA, led the GOP to decline by –0.6% in the period under study. The reduction in financial costs (–2.9%) allowed for a slight recovery in surpluses, which kept the ONP in 2003 at its 2002 level, a performance which clearly shows the slackness besetting the sector. The overall performance of the ONP and of financial costs enabled industry to sustain satisfactory profit levels, though these were slightly down on previous years in the case of both the return on investment and the return on equity. Lastly, the ratio measuring the cost of debt continued to fall and hit a new low, meaning that the spread between the ROI and cost-of-debt ratios held at positive levels that were virtually unchanged on 2002.

In sum, Spanish industry remained at a low level in terms of productive activity and the generation of surpluses and returns. Further, there are indications, such as the persistence of low rates of employment and the fact that the profile of the quarterly trend of activity in industry in 2003 is diminishing, giving rise to doubts about the sector picking up in the short term. In any event, the expected recovery in activity in the euro area economies is a necessary condition for such a pick-up.

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



NUMBER OF CORPORATIONS

CBA	3,244	3,038	2,974	2,728	2,137
CBQ	402	392	386	377	422
	392	377	406	397	433
	262	252	284	267	253
	284	271	271	254	222
	27.4	28.0	26.2	25.2	21.0
	26.2	25.2	28.4	27.1	21.1
	27.1	27.1	26.6	25.3	20.2
	27.1	27.1	26.6	25.3	19.1
	27.1	27.1	26.6	25.3	20.8
	27.1	27.1	26.6	25.3	20.1
	27.1	27.1	26.6	25.3	18.5
	27.1	27.1	26.6	25.3	13.4

% OF GDP OF THE SUB-SECTOR INDUSTRIAL CORPORATIONS

CBA	34.4	31.2	31.4	27.2	21.6
CBQ	27.4	28.0	26.2	25.2	21.0
	26.2	25.2	28.4	27.1	21.1
	28.4	27.1	27.1	26.6	19.1
	27.4	28.0	26.2	25.2	20.8
	26.2	25.2	28.4	27.1	20.1
	27.1	27.1	26.6	25.3	18.5
	27.1	27.1	26.6	25.3	13.4

— CBA data

- - - CBQ data

Source: Banco de España.

(a) Information available to 12 March 2004 (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	2002	01 Q1-Q4 (a)	02 Q1-Q4 (a)	03 Q1-Q4 (a)
Number of corporations	8,513	8,124	6,288	870	851	754
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	18.1	21.8	28.0	28.3	32.7	30.0
Constant or rising	81.9	78.2	72.0	71.7	67.3	70.0
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	24.5	27.8	31.1	40.2	43.1	45.4
Constant or rising	75.5	72.2	68.9	59.8	56.9	54.6
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	47.4	39.0	48.0	46.8	49.2	43.0
Higher or same growth	52.4	61.0	52.0	53.2	50.8	57.0

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

buoyancy of job creation in companies in the distributive trade was notable. Staffing levels at these firms increased by 4.2% in 2003, 0.3 pp more than in 2002. The remaining sectors saw slight reductions in employment, but these were less than in 2002, as highlighted by the case of energy and transport and communications corporations. Here, it seems the impact of restructuring derived from opening up to competition is gradually diminishing, although one-off adjustments may still arise. Finally, employment in industrial corporations trended at a negative though low rate for the third year running due to the fact that, as indicated above, this sector has been that most affected in recent years by the slackness of foreign markets.

Average compensation grew by 3.4% in 2003, 0.6 pp down on 2002. An analysis of the quarterly profile reveals that this slight moderation in the increase in average wages took place in the second half of the year and particularly in the final quarter, marking a turnaround on the information from previous quarters, which would be consistent with the moderate course of inflation. Table 2.a shows that this performance was underpinned by the decline in average personnel costs in the transport and communications sector. Regarding the breakdown of companies in terms of developments in employment and personnel costs (see Table 4), 57% of firms in the sample saw their wage costs outgrow the inflation rate during 2003,

while in 2002 only 50.8% of firms were in that position, which confirms the persistence of upward inertia here.

Finally, Table 2.b illustrates the differentiated behaviour of the aggregate of corporations whose average number of employees increased (or held stable), and that of those whose staffing levels fell. The group of companies which saw their average number of employees fall in 2003 was that in which average compensation grew at a higher rate (5.0%). As has habitually been the case, average wage cost increases at the companies maintaining or creating new jobs were appreciably lower (3.0%).

4. PROFITS, MARGINS AND RATES OF RETURN

The outlook described, marked by sustained growth in activity along with more contained personnel costs (thanks chiefly to the slight moderation in average compensation), meant that the gross operating profit of firms in 2003 grew by 8.2%, compared with 2.6% the previous year. Financial costs continued to fall slightly in 2003 (posting a rate of -1.3%), somewhat less marked than the previous year's rate (-2.3%). With the following table it is possible to analyse the extent to which this reduction is due to changes in interest rates or to the increase in companies' indebtedness:

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	2002	02 Q1- Q4	03 Q1- Q4	2001	2002	02 Q1- Q4	03 Q1- Q4	2001	2002	02 Q1- Q4	03 Q1- Q4	2001	2002	02 Q1- Q4	03 Q1- Q4
Total	5.9	7.0	2.6	8.2	14.2	8.7	4.2	15.9	7.6	7.7	8.2	8.3	2.5	3.4	3.6	4.1
SIZE:																
Small	7.8	1.5	—	—	3.1	3.9	—	—	9.3	8.1	—	—	3.2	2.8	—	—
Medium	6.7	10.1	2.6	0.8	2.3	10.9	-2.1	2.1	9.7	8.6	8.8	8.9	4.5	4.2	4.0	5.0
Large	5.7	6.9	2.6	8.5	16.6	8.6	1.3	16.6	7.4	7.7	8.2	8.3	2.4	3.4	3.6	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-8.6	-1.2	-6.1	11.9	-12.5	-1.1	-4.9	13.8	8.4	9.4	9.7	8.5	3.7	5.5	5.3	4.9
Industry	-3.6	2.3	0.7	-0.6	-9.4	0.8	1.6	0.0	9.0	7.7	8.7	8.4	3.3	3.0	4.1	4.3
Wholesale and retail trade	8.6	15.4	14.2	14.0	16.0	17.9	12.3	17.8	12.2	12.5	11.3	11.7	7.0	7.8	6.7	7.6
Transport and communications	24.7	13.4	8.6	5.9	86.5	40.8	19.8	9.8	7.7	8.9	10.4	13.4	2.2	4.3	5.3	8.6

Source: Banco de España.

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

	$\frac{03\ Q1-Q4}{02\ Q1-Q4}$
Change in financial costs	+1.3%
A. <i>Interest on borrowed funds (1+2)</i>	-1.5%
1. Due to the cost (interest rate)	-8.3%
2. Due to the amount of interest-bearing debt	+6.8%
B. <i>Commissions and cash discounts</i>	+0.2%

The table shows that the slight reduction in the financial costs borne by companies was due to a reduction in interest-bearing debt, which thus reflected the effect of passing through the interest-rate cuts made over the course of last year, largely offset by the increase in the resort to fresh borrowing, which might denote an incipient recovery in business investment. Nonetheless, the data reflected in the quarterly sample do not allow the course of investment to be clearly discerned; accordingly, data from the annual (CBA) sample for 2003 will be needed to analyse this aggregate more accurately. In any event, financial conditions remain favourable and, insofar as the uncertainty over the international environment is conclusively dispelled, job-creating productive investment should increase. Financial revenue picked up in 2003 after its heavy reduction the previous year. The sound performance of certain foreign subsidiaries,

mainly in Latin America (influenced no doubt by the improvement in this region), led to an inflow of dividends into some of the major Spanish holding companies, which account for the growth of this caption in 2003 (4.2%) following the contraction the previous year, in which the rate recorded was -9.5%. As a consequence, the ordinary net profit (ONP) grew by 15.9% in 2003, far up on the related 2002 figure (1.2%). A sectoral analysis (see Table 5) reveals that, among the sectors featured, it was in the distributive trade that this surplus grew most sharply, while growth was practically zero in industry. However, it was the "Other market services" aggregate (not featured among the sectors published in this article) which, as a result of the increases recorded in certain holding companies' financial revenue, showed the sharpest growth in ONP. The favourable path of ONP (except in industry), along with the notable decline in the extraordinary captions, led to a significant recovery in net profit, which peaked in the quarterly series analysed once the exceptional events (provisioning for potential losses in Latin America and UMTS) which so impacted the result in 2002 were behind. Further factors, among others, that may raise net results in future years are the improved outlook for Latin America and the recent roll-out of products applying UMTS technology.

TABLE 6

Structure of reporting corporations' return on investment and ordinary return on equity

	CBQ			
	Return on investment (R.1)		Ordinary return on equity (R.3)	
	02 Q1-Q4	03 Q1-Q4	02 Q1-Q4	03 Q1-Q4
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0%	23.4	24.1	27.2	26.9
0% < R ≤ 5%	18.8	20.1	14.2	15.6
5% < R ≤ 10%	16.8	15.4	12.9	11.5
10% < R ≤ 15%	11.4	10.9	9.5	9.8
15% < R	29.7	29.5	36.1	36.2
Number of corporations	851	754	851	754
	02 Q1-Q4	03 Q1-Q4	02 Q1-Q4	03 Q1-Q4
MEMORANDUM ITEM:				
Average return	8.2	8.3	11.4	12.1

Source: Banco de España.

The course of activity and of surpluses enabled companies to maintain high levels of ordinary returns. The return on investment stood at 8.3% for 2003 as a whole, marginally higher than in 2002 (8.2%). Across the different sectors of activity, the distributive trade and transport and communications posted notable returns on investment of 11.7% and 13.7%, respectively. Table 6, which offers a breakdown of the corporations in terms of their level of returns, confirms that a situation very similar to that in 2002 was maintained in 2003. These developments, along with the decline recorded in 2003 due to the cost of borrowed funds, meant that the ratio measuring the difference between the return on investment and the cost of debt held at an even more positive level than in 2002, both for the sample as a whole and for the main sectors.

In sum, according to the CBQ, Spanish corporations experienced notable and sustained increases in productive activity in most sectors, up on 2002. This coincided with improvements in employment, although these did not extend to all sectors of activity, notably not to industry. Employee compensation also appears to have moved, particularly in the second half of the year, onto a moderating path, to which the lack of inflationary pressures has contributed. The international outlook appeared to become clearer as the year unfolded, though doubts remain about the onset of a clear recovery in the euro area, and on the uncertain effects that the terrorist bombings on 11 March may exert on agents' confidence. A longer time perspective will be needed to evaluate this matter on firmer grounds.

22.3.2004.