

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2004 Q1

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*Introduction*¹

According to the Central Balance Sheet Data Office (CBSO) quarterly survey (CBQ) for 2004 Q1, the reporting corporations sustained a level of activity similar to that achieved at the end of 2003. The nominal growth rate of gross value added (GVA) in 2004 Q1 was 4.9%, compared with 6.3% a year earlier (see Table 1 and Chart 1). If the data for oil refiners is excluded, owing to the bias arising from sharp swings in oil prices, the GVA growth rate of the reporting corporations for 2004 Q1 is 6.2%, compared with 4.1% for the same period in 2003.

These results are mainly based on the strength of wholesale and retail trade, the GVA of which grew by 10.7%, in line with developments in 2003. This confirms the significant contribution of private consumption to GDP growth, as reflected by Quarterly National Accounts (QNA) data. The increase in value added in the industrial sector was again moderate, in spite of the signs of recovery in capital goods investment, due in part to the moderate growth in exports and to the rise of imports.

The rate of change of personnel costs in the reporting corporations dropped considerably to 1.9% in 2004 Q1, from 4.8% in 2003 Q1. This was the result of both the behaviour of employment in these corporations and more moderate average compensation growth. Employment fell by 0.6% in 2004 Q1, although this figure was heavily influenced by the adjustment in staffing levels at a large telecommunications company. Were the data from this company to be excluded, employment would have risen by 0.4% which, although not particularly high, more accurately reflects activity in the sample corporations as a whole. It should also be recalled that the characteristics of the CBQ corporations (large industrial corporations in sectors undergoing restructuring), means that their rate of job creation tends to be low. The rise in average compensation was also very moderate, at 2.4%, one-and-a-half percentage points lower than in the same period a year earlier, in line with the slowdown in the rate of inflation during 2003.

As a result of the low increase in personnel costs, gross operating profit grew by 7.2% in relation to the same period a year earlier, which was very similar to the rate in 2003 Q1. The growth of ordinary net profit by 17.4% over the period in question, compared with 13.4% in 2003 Q1, can be explained by the rise in operating profits and, once again, the decrease in financial costs as a result of further reductions in interest rates. This allowed firms to increase their level of ordinary returns which, together with a renewed fall in the cost of external financing to historically low levels, resulted in the spread between the return on investment and the cost of debt being considerably wider than in 2003 Q1. The rate of change in net profit (-27.2%) was mainly due to the negative performance of capital gains and extraordinary income in 2004 Q1. The level of net profit for this period was positive at 26.4% of GVA, compared with 25.4% for the whole of 2003.

To conclude, the CBQ data show that in the first few months of this year, Spanish corporations maintained a level of activity similar to that of last year, and it is hoped that the signs of a recovery in activity will continue to strengthen in the next few quarters. High returns are still being achieved, principally because of the moderate rise in personnel costs and

1. This article is based on the data provided to 14 June 2004 by the 690 corporations that voluntarily reported to the CBSO Quarterly Survey (CBQ). These corporations account for 13.5% of the total activity of the non-financial corporations sector (measured as gross value added at basic prices).

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES
Growth rates of the same corporations on the same period a year earlier

TABLE 1

Databases	CBA STRUCTURE	CBA		CBQ (a)		
	2002	2001	2002	03 Q1-Q4 / 02 Q1-Q4 (a)	03 Q1 / 02 Q1	04 Q1 / 03 Q1
Number of corporations / Total national coverage		8,441/30.2%	7,510/27.3%	814/15.0%	863/15.5%	690/13.5%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	4.0	2.7	3.9	7.7	2.7
Of which:						
1. Net amount of turnover and other operating income	130.7	6.5	3.5	4.5	6.5	4.1
2. INPUTS (including taxes)	68.2	3.1	1.6	2.7	8.6	1.4
Of which:						
1. Net purchases	40.8	-1.5	-0.8	1.4	10.7	-1.3
2. Other operating costs	27.2	8.7	6.7	6.6	8.1	5.7
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	31.8	5.9	5.3	5.7	6.3	4.9
3. Personnel costs	16.6	5.8	5.2	3.8	4.8	1.9
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.2	6.0	5.4	7.3	7.6	7.2
4. Financial revenue	2.8	40.9	-7.8	16.4	3.5	-3.7
5. Financial costs	3.2	19.3	-3.7	-2.3	0.0	-6.1
6. Depreciation and operating provisions	7.0	4.4	4.4	0.0	3.9	-2.1
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	7.8	13.8	5.0	20.0	13.4	17.4
7. Capital gains and extraordinary revenue	8.4	4.1	99.6	-30.4	57.4	-67.5
8. Capital losses and extraordinary expenses	5.0	10.6	38.8	-17.8	50.4	-37.6
9. Other net provisioning	9.1	92.4	196.9	-74.6	-83.3	(b)
10. Income tax	1.5	5.1	4.6	19.7	22.5	21.4
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	0.6	-19.0	-82.6	(b)	120.9	-27.2
Memorandum item: FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10]	13.3	9.6	4.7	10.2	6.6	6.2
PROFIT RATIOS						
R.1 Return on investment (before taxes)		7.4	7.6	8.3	6.1	6.8
R.2 Interest on borrowed funds/ interest-bearing borrowing		5.1	4.3	4.2	4.2	3.9
R.3 Ordinary return on equity (before taxes)		9.3	10.4	11.8	7.8	9.2
R.4 ROI - cost of debt (R.1 - R.2)		2.4	3.3	4.1	1.9	2.9
R.5 Debt ratio		49.1	51.5	52.2	52.2	51.2

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.

the positive developments, once again, in financial costs. However, uncertainties remain in the growth expectations for the euro area, where the recovery seen in the United States, Japan and Latin America has yet to be confirmed. This is undermining buoyancy in some sectors of the economy, notably the industrial sector. Lastly, the increase in oil prices in April and May could lead to inflationary pressures and have a negative impact on business expectations. Nevertheless, in general terms, Spanish firms are well placed to sustain the buoyancy of their activity, by increasing investment and employment, and their rates of return.

**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

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	2002	03 Q1 -Q4 (a)	03 Q1	04 Q1	2002	03 Q1 -Q4 (a)	03 Q1	04 Q1	2002	03 Q1 -Q4 (a)	03 Q1	04 Q1	2002	03 Q1 -Q4 (a)	03 Q1	04 Q1
Total	5.3	5.7	6.3	4.9	1.5	0.4	0.8	-0.6	5.2	3.8	4.8	1.9	3.7	3.4	4.0	2.4
SIZE																
Small	3.9	—	—	—	1.2	—	—	—	5.1	—	—	—	3.9	—	—	—
Medium	7.7	2.9	0.6	10.7	2.1	0.2	1.0	0.3	6.1	4.6	6.0	4.2	3.9	4.4	4.9	3.9
Large	5.1	5.9	6.7	4.6	1.4	0.4	0.7	-0.6	5.1	3.7	4.7	1.7	3.7	3.3	3.9	2.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	-4.1	8.6	11.2	-1.3	-3.2	-1.5	-2.0	-2.5	0.1	2.7	3.9	0.8	3.4	4.3	6.0	3.5
Industry	2.4	1.2	6.4	1.4	-0.8	-0.7	0.4	-2.4	3.0	2.5	3.8	-0.1	3.9	3.2	3.4	2.3
Wholesale and retail trade	11.1	10.0	6.5	10.7	6.6	4.2	3.6	4.4	8.8	7.8	8.1	5.0	2.1	3.5	4.4	0.6
Transport and communications	9.6	3.8	4.1	5.9	-2.1	-0.5	-0.2	-2.0	5.3	2.5	3.1	0.7	7.5	3.0	3.4	2.7

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 04 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
NUMBER OF CORPORATIONS		690	381	309
PERSONNEL COSTS				
Initial situation 03 Q1 (€ m)		5,446.6	3,062.4	2,384.2
Rate 04 Q1 / 03 Q1		1.9	6.6	-4.2
AVERAGE COMPENSATION				
Initial situation 03 Q1 (€ m)		9,503.5	8,737.2	10,710.7
Rate 04 Q1 / 03 Q1		2.4	2.5	3.8
NUMBER OF EMPLOYEES				
Initial situation 03 Q1 (€ m)		573.1	350.5	222.6
Rate 04 Q1 / 03 Q1		-0.6	4.0	-7.8
Permanent	Initial situation 03 Q1 (€ m)	475.6	290.7	184.9
	Rate 04 Q1 / 03 Q1	-0.7	3.3	-6.9
Non-permanent	Initial situation 03 Q1 (€ m)	97.5	59.8	37.7
	Rate 04 Q1 / 03 Q1	0.0	7.4	-11.7

SOURCE: Banco de España.

Activity

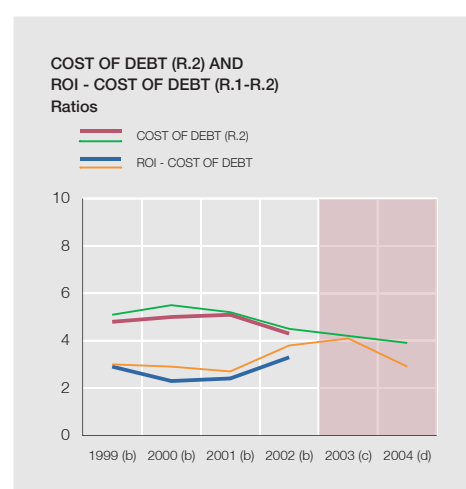
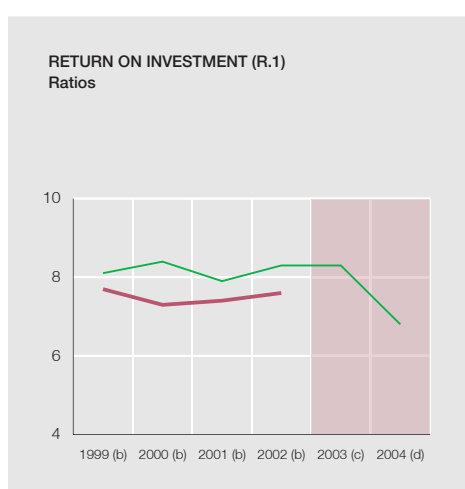
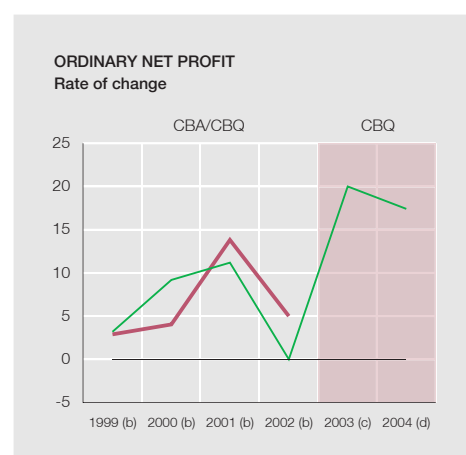
The CBQ data show that the GVA of the reporting corporations grew at a lower rate (4.9%) in 2004 Q1 than in the same period in 2003 (6.3%). However, these rates were affected by developments in relation to oil refining corporations in 2003 and 2004, owing to their large weight in the sample (see Table 2A). In the first few months of 2003, these corporations experienced an extraordinary increase in their margins and, therefore, in their GVA. This increase was greater than the rise in crude oil prices, basically because market prices were passed through to *output*, whereas *inputs* had been purchased at a lower price. In the first few months of 2004 the opposite occurred, principally as a result of the rise in the value of *inputs*,



SOURCE: Banco de España.

- a. Information available to 14 June 2004 (CBA and CBQ).
 b. 1999, 2000, 2001 and 2002 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
 c. Average of the four quarters of 2003 in relation to the same period in 2002.
 d. Data for 2004 Q1 in relation to 2003 Q1.

which had been purchased at a higher price (see Chart 2). If the GVA of the sample corporations is calculated without the oil refining corporations (which are overrepresented in the sample, and thus distort the results of the sample as a whole when their GVA fluctuates), productive activity grew by 6.2% in 2004 Q1, compared with 4.1% in 2003 Q1, a trend more in line with that reflected by alternative sources of data on developments in activity in 2004 Q1. Meanwhile, the contribution of external demand to this growth continued to be negative; although both imports and exports recovered in strength, following their sluggishness in 2003, imports recovered more sharply, to 26.5% of total purchases (against 21.8% in the



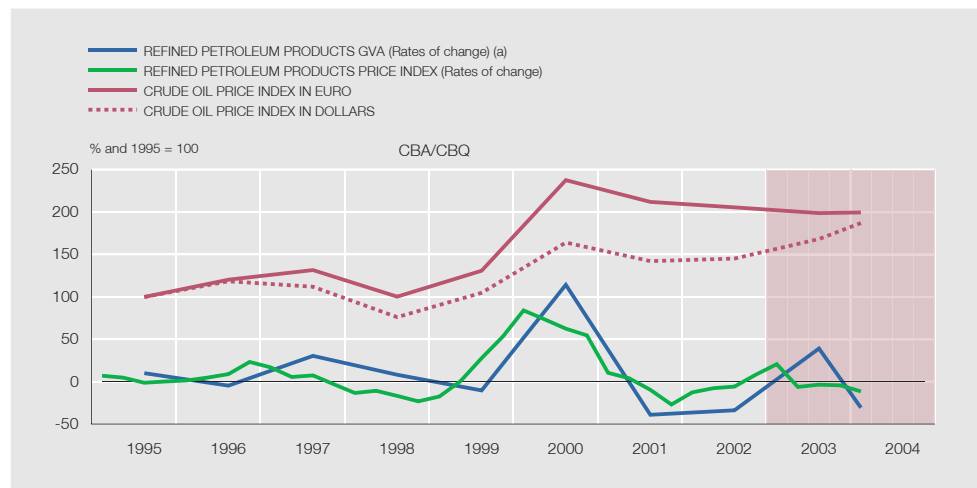
Reporting non-financial corporations		1999	2000	2001	2002	2003	2004
Number of corporations	CBA	8,265	8,513	8,441	7,510	—	—
	CBT	885	894	869	851	814	690
% of GDP of the sector non-financial corporations	CBA	31.8	30.8	30.2	27.3	—	—
	CBT	17.9	16.6	15.8	15.6	15.0	13.5

SOURCE: Banco de España.

- a. Information available to 14 June 2004 (CBA and CBQ).
 b. The 1999, 2000, 2001 and 2002 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
 c. Average of the four quarters of 2003 relative to the same period of 2002.
 d. Data for 2004 Q1 relative to the same period of 2003.

whole of 2003), while exports increased more moderately (see Table 3). The basic explanation for these developments is that, despite the notable improvement in world economic activity, domestic demand continued to be very weak in the main euro area countries. Therefore, exports to these countries grew moderately, and this mainly affected the performance of the industrial sector.

In terms of the sectoral breakdown (see Table 2A), the CBQ data confirm that the growth of productive activity extended to most of the corporations and sectors analysed. Worth



SOURCES: Banco de España and IMF.

a. 2003 and 2004 are CBQ data.

mentioning are the developments in the wholesale and retail trade (10.7%), in line with the strong performance in private consumption, and in transport and communications (5.9%). The energy sector (which includes oil refining corporations) was the only sector to record a decline in GVA in nominal terms (-1.3%); as described above, this was due to developments in relation to oil refining corporations. Excluding these corporations, the GVA of the energy sector grew by 3.4% in the first three months of 2004, a rate which reflects growth in the electricity sector and which is consistent with the rise in demand over the period (according to Red Eléctrica de España, the demand for electricity attributable to economic activity grew by 3.6%). Finally, industry displayed moderate growth in the first three months of 2004, with a GVA increase of 1.4%, which is practically identical to growth in 2003 (1.2%), but substantially lower than that of 2003 Q1, when GVA grew by 6.4%. In spite of the recovery of capital goods investment, there is strong evidence to suggest that the ongoing weakness of the main euro area countries has held back the recovery in industrial activity, since this area is included in the sales destinations of some large corporations (Box 1 analyses trends in this sector of activity for the reporting corporations in detail).

Lastly, Chart 3 shows how corporations are distributed according to their GVA growth without taking their size or sector into account. The chart confirms that the improvement in productive activity became somewhat more widespread; during 2004 Q1 vis-à-vis the same period in 2003, the percentage of corporations whose GVA decreased dropped while the percentage of corporations whose GVA increased rose.

Employment and personnel costs

In 2004 Q1 the personnel costs of CBQ sample firms grew by 1.9%, a notably lower rate than in the same period of 2003 (4.8%). This is due both to the employment rate, which fell slightly (-0.6%), and to the more moderate growth of average compensation (2.4%).

The employment rate for 2004 Q1 (-0.6%) was significantly biased by a one-off adjustment to the workforce of a large telecommunications company. Were this company to be excluded from the sample, the rate of growth in employment would be 0.4% which, while not high, is more in line with the trend observed in the CBQ in the recent past (for 2003

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS

TABLE 3

Structure

		CBA	CBQ	
		2002	03 Q1-Q4 / 02 Q1-Q4 (a)	04 Q1 / 03 Q1
Total corporations		7,510	814	690
Corporations reporting source/destination		7,510	784	671
Percentage of net purchases according to source	Spain	68.4	78.2	73.5
	Total abroad	31.6	21.8	26.5
	EU countries	19.5	16.8	19.8
	Third countries	12.1	5.0	6.7
Percentage of net turnover according to destination	Spain	82.7	87.2	84.2
	Total abroad	17.3	12.8	15.8
	EU countries	12.9	8.7	11.9
	Third countries	4.4	4.1	3.9

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarters.

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION

TABLE 4

Percentage of corporations in specific situations

		CBA		CBQ			
		2001	2002	02 Q1-Q1 (a)	03 Q1-Q4 (a)	I 03	I 04
NUMBER OF CORPORATIONS		8,441	7,510	848	814	863	690
PERSONNEL COSTS		100	100	100	100	100	100
Falling		21.8	27.9	32.9	30.4	24.6	31.7
Constant or rising		78.2	72.1	67.1	69.6	75.4	68.3
AVERAGE NUMBER OF EMPLOYEES		100	100	100	100	100	100
Falling		27.9	30.6	43.0	45.1	43.6	44.9
Constant or rising		72.1	69.4	57.0	54.9	56.4	55.1
AVERAGE COMPENSATION RELATIVE TO INFLATION		100	100	100	100	100	100
Lower growth (b)		39.2	47.5	49.5	43.1	41.6	41.8
Higher or same growth (b)		60.8	52.5	50.5	56.9	58.4	58.2

SOURCE: Banco de España.

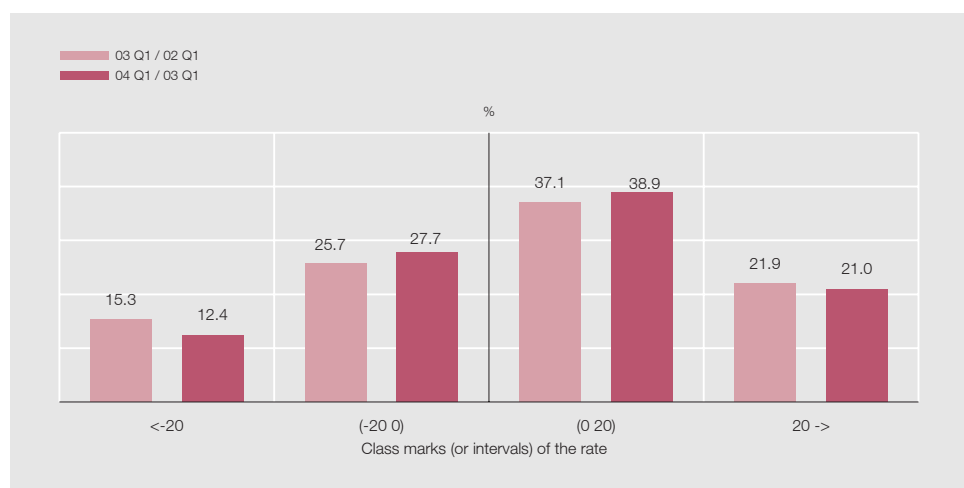
a. Weighted average of the relevant quarters for each column.

b. Twelve-month percentage change in the CPI.

as a whole, employment also posted a 0.4% growth rate). However, in addition to the above-mentioned bias, it should be noted that some large firms belonging to other sectors within the CBQ sample, such as energy (in particular the electricity sector) and transport and communications, which have a considerable weight in the sample, have been reducing their workforce in recent months because of restructuring and opening-up to competition. In any event, the employment data is somewhat mixed, so that a sectoral analysis is needed in order to better understand its composition. In addition to the energy (-2.5% rate) and transport and communications (-2.0%) sectors mentioned above, the wholesale and retail trade was noteworthy because, as in the case of activity, it was the

**DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE
IN GVA AT FACTOR COST**

CHART 3



SOURCE: Banco de España.

sector which performed best, with a 4.4% rise in employment in 2004 Q1, almost one percentage point above that of a year earlier. At the other extreme, the industrial sector saw its average workforce fall for the fourth consecutive quarter, having recorded a rate of -2.4% in the period under review, as a result of the lack of buoyancy in the sector's productive activity.

The 2.4% increase in average compensation recorded in 2004 Q1 indicates an ongoing moderation, consistent with the slowdown in inflation in 2003 and early 2004. It would be best if factors such as oil price developments, which could have an effect on the indices used to determine wage increases, were to be passed on to firms on the basis of developments in productivity and not in a generalised manner. In terms of the sectoral breakdown, this trend towards more restrained wage growth was recorded across all sectors. Worth mentioning again is wholesale and retail trade, where average compensation grew by 0.6%, demonstrating, as in previous periods, the connection between job creation and moderate rises in average compensation. This is generally apparent in Table 2B, which shows that average compensation paid by firms that increased (or did not vary) their number of staff grew by 2.5%, whereas compensation paid by firms that reduced their staff levels rose by 3.8%.

Analysis of Table 4 offers some conclusions on the general findings commented on above. Comparing 2004 Q1 with 2003 Q1, the decline in personnel costs affected more companies than in the previous period (31.7%, compared with 24.6% in 2003 Q1). However, this situation can be explained more by developments in employment than by average compensation, since the percentage of firms that maintained or increased their average compensation above inflation was negligible and the percentage of companies in which the number of employees decreased was slightly higher than in 2003 Q1.

**Profits, margins and rates
of return**

The picture painted thus far enabled firms to sustain, in 2004 Q1, a high rate of gross operating profit (which grew by 7.2%) and of ordinary net profit (which rose by 17.4%). Of the four sectors described in Table 5, wholesale and retail trade and transport and communications (both market services) had the highest ordinary net profits, which benefited from the decline in

**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

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	2002	03 Q1 -Q4 (a)	03 Q1	04 Q4	2002	03 Q1 -Q4 (a)	03 Q1	04 Q4	2002	03 Q1 -Q4 (a)	03 Q1	04 Q4	2002	03 Q1 -Q4 (a)	03 Q1	04 Q4
Total	5.4	7.3	7.6	7.2	5.0	20.0	13.4	17.4	7.6	8.3	6.1	6.8	3.3	4.1	1.9	2.9
SIZE																
Small	2.2	—	—	—	4.8	—	—	—	8.3	—	—	—	2.9	—	—	—
Medium	9.9	0.7	-6.9	19.5	7.7	1.9	-13.8	32.6	8.5	8.6	7.4	9.8	4.0	4.6	3.4	6.3
Large	5.0	7.6	8.3	6.8	4.7	20.9	15.1	16.7	7.6	8.2	6.1	6.7	3.3	4.0	1.9	2.8
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	-5.5	10.5	13.4	-1.9	-7.4	16.5	14.5	5.9	9.0	8.2	7.7	8.7	5.1	4.6	4.0	5.1
Industry	1.5	-0.5	10.0	3.3	-2.7	-0.2	12.4	3.4	8.0	8.1	7.5	7.7	3.4	4.0	3.2	4.1
Wholesale and retail trade	14.4	12.8	4.6	17.7	16.9	13.4	3.6	20.4	12.3	11.7	11.5	11.8	7.6	7.6	6.9	7.8
Transport and communications	12.9	4.7	4.9	9.8	38.3	9.7	12.0	20.7	8.6	11.2	8.8	12.7	3.9	6.6	4.0	8.4

SOURCE: Banco de España.

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

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 6

		CBQ			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		03 Q1	04 Q1	03 Q1	04 Q1
Number of corporations		863	690	863	690
	R <= 0%	26.7	24.6	29.7	28.1
Percentage of corporations by profitability bracket	0% < R <= 5%	21.1	22.8	16.9	15.9
	5% < R <= 10%	13.4	13.9	10.2	11.2
	10% < R <= 15%	12.9	12.2	10.1	10.0
	15% < R	26.0	26.5	33.1	34.8
Memorandum item					
Average return		6.1	6.8	7.8	9.2

SOURCE: Banco de España.

financial costs of 6.1% in 2004 Q1. This decline can be explained by both interest rate and debt developments, such that:

	<i>04 Q1/03 Q1</i>
Change in financial costs	-6.1%
A. <i>Interest on borrowed funds (1+2)</i>	-6.4%
1. Due to the cost (interest rate)	-7.2%
2. Due to the amount of interest-bearing debt	+0.8%
B. <i>Commissions and cash discounts</i>	+0.3%

The CBQ data for Spanish industrial corporations shows that this sector sustained moderate increases in its activity in 2004 Q1, similar to those seen in the last few months of last year. However, the GVA growth rate, at 1.4%, was much lower than a year earlier (6.4%), which suggests that productive activity in the sample corporations has not received a decisive boost, despite other sources indicating an incipient recovery in capital goods investment in this period. Among the reasons for this lack of impetus are the contraction in profit margins in some industrial sub-sectors and the continued sluggishness of external demand, linked strongly to the ongoing situation in euro area countries, where there are no clear signs of a recovery. Within this sector, only the food, beverages and tobacco industry, which is linked more closely to domestic consumption, recorded clear growth in productive activity in 2004 Q1, with an 8.1% increase in its GVA. At the other extreme, noteworthy are glass, ceramics and metal processing, chemicals and other manufacturing industries, which recorded falls in their GVA of -0.9%, -1.1% and -2.3% respec-

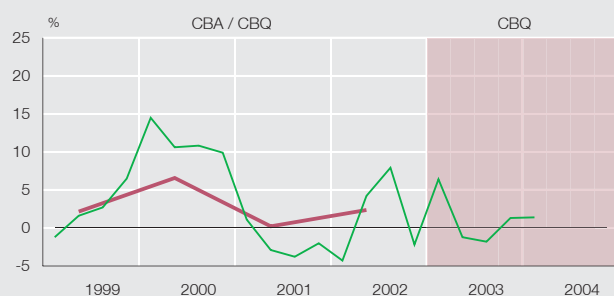
tively. In line with productive activity, employment fell in 2004 Q1 by -2.4%, when in 2003 Q1 it grew by 0.4%. This was one reason for the recovery in profits, which was seen across all the industrial sub-sectors.

The behaviour of average compensation was similar to, but more moderate than, that in other sectors under review, growing by 2.3%, one percentage point less than a year earlier. As mentioned above in relation to the rest of the firms, subdued inflation has been a decisive factor in explaining this behaviour in the industrial sector, which is necessary in a sector so exposed to external competition, and particularly to competition from countries with lower labour costs. These trends in employment and average compensation meant that personnel costs were practically unchanged in this quarter (-0.1%), thus allowing somewhat more positive growth rates for both gross operating profit and ordinary net profit (3.3% and 3.4% respectively), although these were a long way off the increases seen in 2003 Q1.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO (a)

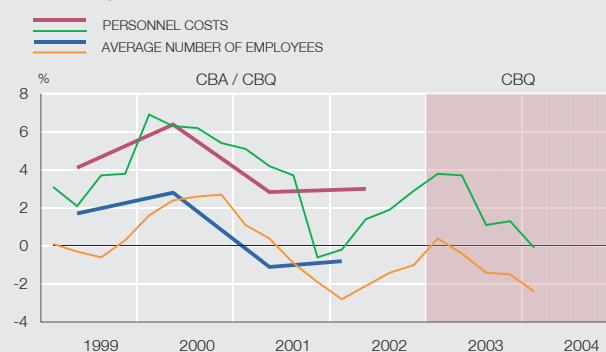
GROSS VALUE ADDED AT FACTOR COST

Rate of change



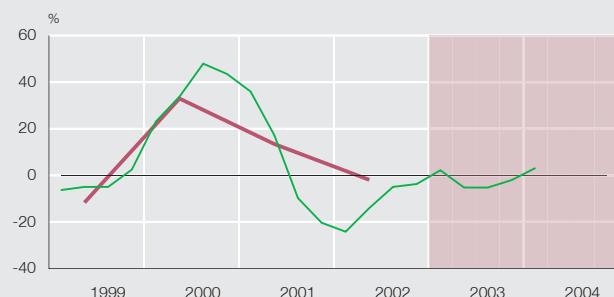
EMPLOYMENT AND WAGES

Rate of change



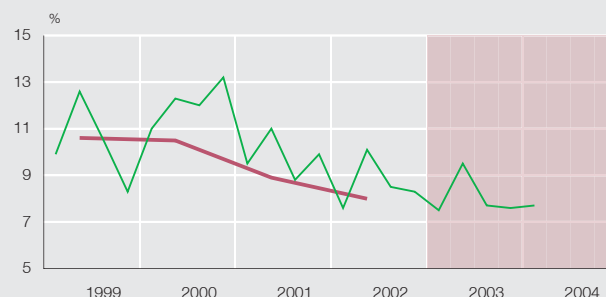
FINANCIAL COSTS

Rate of change



RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS		1999	2000	2001	2002	2003	2004
Number of corporations	CBA	3,038	2,974	2,814	2,424	—	—
	CBT	422 406 397 387 433 413 391 377 403 393 381 364 389 375 364 352 369 360 344 314 282	—	—	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	31.2	31.4	28.2	24.3	—	—
	CBT	28.4 29.0 27.1 27.1 26.6 26.7 25.3 25.4 22.2 21.8 20.6 21.0 21.0 21.1 20.3 19.1 20.5 20.2 19.1 17.7 16.5	—	—	—	—	—

SOURCE: Banco de España.

a. Information available to 14 June 2004 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

However, this behaviour was sufficient to maintain ordinary returns at levels similar to those of 2003 Q1. On the other hand, as the ratio which measures the cost of debt fell again, to a historical low of 3.6%, the spread between the return on investment and the cost of debt continued to post clearly positive values (4.1%) which were higher than in the previous year. It is therefore still reasonable to expect that, to the extent that the situation in the euro area is clarified and its major economies regain their buoyancy, a recovery of the

Spanish industrial sector will follow. However, other risk factors, associated with the existence of new, increasingly better prepared and more competitive rivals on the world stage should not be overlooked. Therefore, Spanish industry needs to make an extra effort, as much in terms of modernisation and technological advances as in the search for an appropriate pricing and cost structure, to enable it to compete and face the challenges presented by this new landscape with confidence.

The table shows that the decline in financial costs in 2004 Q1 was the result of lower actual rates paid by firms for their interest-bearing debts (approximated by the "cost of external financing" ratio), which allowed interest expenditure to fall by 7.2%. These lower costs were offset slightly by higher financial costs as a result of the increase in debt, which rose by a little under one percentage point over the period. This shows that, in spite of the favourable conditions that the market continues to offer, there has generally been no major net recourse to external funds, although there have been notable inflows in some firms, counteracted by debt repayments in other firms in the sample. Overall, the signs are that most firms have opted to wait and see before embarking on projects requiring additional financing. This reduced demand for external financing explains the fall in the debt ratio in the period under review in an environment marked by high returns.

Against this background, during 2004 Q1, ordinary rates of return were sustained at significant levels, slightly above those recorded during the same period in 2003. The ordinary return on assets was 6.8% for the sample as a whole, almost one percentage point higher than a year earlier. In wholesale and retail trade and transport and communications it stood at 11.8% and 12.7% respectively, both these figures being higher than in 2003 Q1, by more than four percentage points in the case of transport and communications. The improved rates of return are confirmed in Table 6; most importantly, the percentage of firms which recorded negative returns in 2004 Q1 compared with a year earlier dropped by a little over two percentage points (24.6% against 26.7%). Furthermore, the "interest on borrowed funds" ratio fell again, to a historically low level of 3.9%, so that the ratio measuring the spread between the return on investment and the cost of debt once again posted a clearly positive value of 2.9%, which was considerably higher than the 1.9% recorded by this ratio in 2003 Q1.

Lastly, net profit was affected by certain extraordinary events working in opposite directions. There was a strong decline in extraordinary income in 2004 Q1 in relation to 2003 Q1, considerable gains having been made on share sales in the latter period, which were not repeated this year. This decline was not offset by capital losses and extraordinary expenses and other net provisions, the latter falling in relation to 2003 Q1, since the provisions made in previous years to cover potential losses on investments in South America and in European subsidiaries responsible for developing UMTS telephony were stopped and even reversed. The overall effect was that net profits fell by -27.2%, although this is not representative of the favourable situation enjoyed by firms because, independently of the developments recorded, an extremely high level of profits, amounting to 26.4% of GVA, was generated in 2004 Q1. This is among the highest percentages of recent years and exceeds the rate for 2003 as a whole.

In summary, the performance of firms in 2004 Q1 was similar to that recorded at the end of 2003, albeit slightly more favourable. A positive trend in ordinary profits was maintained, thanks largely to moderation in personnel costs and a further reduction in financial costs, which explains the maintenance of high returns. The outlook for employment, once certain biases have been excluded from the data, is for continued buoyancy. Against this background, the prospects for the industrial sector are more uncertain; this sector has been affected by the absence of a clear upturn in the euro area economies, and it is also subject to other risk factors related to the recent hike in oil prices, which may affect the strengthening of the expansion of Spanish industry.