Introduction

As Table 1 and Chart 1 show, during the first half of 2004 the overall set of corporations reporting to the Central Balance Sheet Data Office annual (CBA) and quarterly (CBQ) surveys maintained a growth rate similar to that of the past three years, although something of a slowdown in the rate of change for this period (a nominal increase in GVA of 5.1%) compared with the first half of 2003 (6.1%) is discernible. However, as specified in previous articles, this performance has been highly influenced by the course of oil prices and its effects on corporations in the refining sector, which are over-represented in the CBQ sample. Excluding this sector, the GVA of the aggregate grew 5.1% in the first half of 2004, up from 4.7% in 2003 Q1. The recent period can thus be affirmed to have been characterised by a sustained and relatively stable nominal growth path.

Underpinning the expansion of activity has been the performance of services companies, especially in wholesale and retail trade, and the improvement in industrial corporations during 2004 Q2. The buoyancy of wholesale and retail trade is consistent with the trend of private services and with consumption, as reflected in QNA figures, though a deceleration can be seen in respect of the GVA growth of business enterprises during the same period a year earlier. This slight moderation in business activity is also influenced by the greater cost of fuel marketing and wholesale and retail trade corporations’ inputs. The recovery in industrial corporations is also in line with the QNA results for 2004 Q2, and with the take-off witnessed in investment in capital goods (also according to QNA figures). The scant data available on exports by CBQ corporations indicate that the improvement in the euro area economy had not yet led to a significant increase in Spanish exports to its member countries during the first half of the year.

Personnel costs grew by 2.4% during the first half of 2004, down from 4.6% in the same period a year earlier. This was the result of a 0.5% reduction in staffing and a 2.9% increase in average compensation over the first six months of 2004 as a whole. As indicated in the last report (published in the July 2004 *Economic Bulletin*), employment has been strongly affected by the staffing adjustments at a major corporation in the telecommunications sector. If this corporation is disregarded, the estimated rate of change for employment amounts to 0.6%, a figure which, first, reflects the weight of these one-off adjustments at the corporations making up the CBQ sample; and further, it confirms the generalisation of job creation even in a sample such as the CBQ one, which includes some large companies belonging to sectors in the process of opening up to competition (the electricity sector, and transport and communications), which in most cases are also immersed in employment adjustment processes. Average compensation (which posted an increase of 2.9% in the first half of the year) held on a trend of greater containment in relation to the rate recorded in the same period in 2003 (3.8%), as anticipated by the Q1 data. Its quarterly profile over the year shows, however, a slightly rising trend, in parallel with the behaviour of the inflation rate.

As a result of the moderate trend of personnel costs during the period in question in 2004, gross operating profit grew at a rate of 7.2%, only slightly down on a year earlier (7.4%). This, along with the favourable trend of financial revenue (which increased by 21.7% owing to the inflow of dividends from subsidiaries abroad) and of financial costs (which fell again, this time by 5.4%, as a result of the decline in interest rates), led ordinary net profit to increase by 22.5%, a substantially higher rate than that obtained in the first six months of 2003 (12.1%). Consequently, returns on investment held at high, and growing, levels compared with 2003.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS TABLE 1

Growth rates of the same corporations on the same period a year earlier

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2002	2001	2002	03 Q1-Q4/ 02 Q1-Q4	03 Q1-Q2/ 02 Q1-Q2	04 Q1-Q2/ 03 Q1-Q2
Number of corporations		8,438	7,695	827	854	721
Total national coverage		30.2%	27.9%	15.2%	15.5%	14.0%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	4.0	2.7	3.9	4.5	4.9
Of which:						
Net amount of turnover and other operating income	131.1	6.5	3.6	4.5	3.9	5.8
2. INPUTS (including taxes)	67.9	3.2	1.6	2.8	3.5	4.7
Of which:						
Net purchases	40.3	-1.4	-0.8	1.5	2.7	4.0
Other operating costs	27.5	8.7	6.7	6.6	5.6	6.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1-2]	32.1	5.9	5.1	5.7	6.1	5.1
3. Personnel costs	16.7	5.8	5.3	3.8	4.6	2.4
S.2. GROSS OPERATING PROFIT [S.1-3]	15.4	5.9	4.8	7.3	7.4	7.2
4. Financial revenue	2.8	40.9	-7.8	21.4	5.6	21.7
5. Financial costs	3.2	19.1	-3.8	-0.9	0.7	-5.4
6. Depreciation and operating provisions	7.0	4.3	4.4	0.0	3.8	-2.8
S.3. ORDINARY NET PROFIT [S.2 + 4-5-6]	8.0	13.6	3.8	20.8	12.1	22.5
7. Capital gains and extraordinary revenue	5.5	-11.8	59.5	-11.5	-3.1	-63.1
8. Capital losses and extraordinary expenses	5.0	10.5	35.6	-26.8	-8.6	-45.3
9. Other (net provisioning and income tax)	7.6	30.4	109.8	-53.8	-75.5	15.1
S.4. NET PROFIT [S.3 + 7-8-9-10]	0.9	-17.6	-75.9	(b)	(b)	-9.3
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.6	7.8	7.8	6.7	7.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	5.1	4.4	4.2	4.2	3.9
R.3 Ordinary return on equity (before taxes)	S.3/E	9.5	10.7	11.0	9.0	10.7
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	2.5	3.5	3.6	2.5	3.7
R.5 Debt ratio	IBB/NA	48.3	50.4	52.2	52.4	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.
c.The variables in the formulas are expresed as absolute values. NA = Net Assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-Bearing-Borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions and cash discounts (5.2).
Note: Internal accounting movements have been edited out of items 4,5,7,8 and 9.

Thus, in the first half of 2004, the return on investment and the ordinary return on equity were 7.6% and 10.7%, respectively, both clearly up on the same period a year earlier (6.7% and 9%). The trend of the return on investment and the additional reduction in the cost of external financing meant that the ROI – cost of debt spread was also clearly positive, comfortably exceeding the mid-2003 level. Lastly, the excellent performance of the ordinary profit is reflected in that of net profit since, despite the lower extraordinary revenue received during the first half of 2004 (which account for the net profit having fallen by 9.3%), this balance represents 27% of the total GVA generated in the period.

In sum, the latest CBQ information highlights – bearing in mind the particularities of the corporations making up this sample – the fact that during the first half of 2004 Spanish corporations continued to post a sustained growth rate, substantially unchanged on the previous period.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Growth rate 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	CBT (a)			CBA	CBT (a)			CBA	CBT (a)			CBA	CBT (a)		
	2002	03 Q1-Q4	03 Q1-Q2	04 Q1-Q2	2002	03 Q1-Q4	03 Q1-Q2	04 Q1-Q2	2002	03 Q1-Q4	03 Q1-Q2	04 Q1-Q2	2002	03 Q1-Q4	03 Q1-Q2	04 Q1-Q2
Total	5.1	5.7	6.1	5.1	1.6	0.5	0.8	-0.5	5.3	3.8	4.6	2.4	3.6	3.3	3.8	2.9
SIZE																
Small	4.0	—	—	—	1.2	—	—	—	5.3	—	—	—	4.1	—	—	—
Medium	7.1	3.1	1.2	6.8	2.2	0.1	0.6	-0.1	6.1	4.5	5.5	3.9	3.8	4.4	4.9	4.0
Large	4.9	5.8	6.4	5.0	1.6	0.5	0.8	-0.5	5.2	3.7	4.5	2.3	3.6	3.2	3.7	2.8
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	-4.9	8.5	11.0	1.2	-3.0	-1.4	-1.8	-2.2	0.2	2.6	3.1	2.2	3.3	4.1	5.0	4.5
Industry	2.4	1.4	2.6	3.9	-0.8	-0.9	-0.1	-1.5	3.1	2.5	3.8	1.4	3.9	3.4	3.9	2.9
Wholesale and retail trade	11.2	10.0	9.7	6.8	6.9	4.3	4.3	4.3	8.9	7.7	8.1	4.7	1.9	3.3	3.6	0.4
Transport and communications	9.6	3.8	4.0	5.4	-2.0	-0.5	-0.1	-2.1	5.3	2.5	3.3	0.9	7.4	3.0	3.4	3.1

SOURCE: Banco de España.

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

Against this background, services corporations – especially those engaging in wholesale and retail trade – are holding on a positive trend, in line with the buoyancy of household consumption, and a take-off in industrial activity is perceptible, with employment trending favourably except in sectors subject to staff adjustment processes. These developments, combined with the moderate trend of personnel costs, improved financial revenue and the persistent decline in financial costs, account for the favourable course of ordinary net profit and, in short, for the continuing high profit ratios. On the basis of these data, the firming of world economic growth, which already encompasses the euro area economies, is expected to contribute to underpinning the pick-up in business investment, as shown by other information sources. Nonetheless, certain risks persist, associated essentially with the Middle East crisis and oil prices. These may generate inflationary pressures and dent short-term growth expectations.

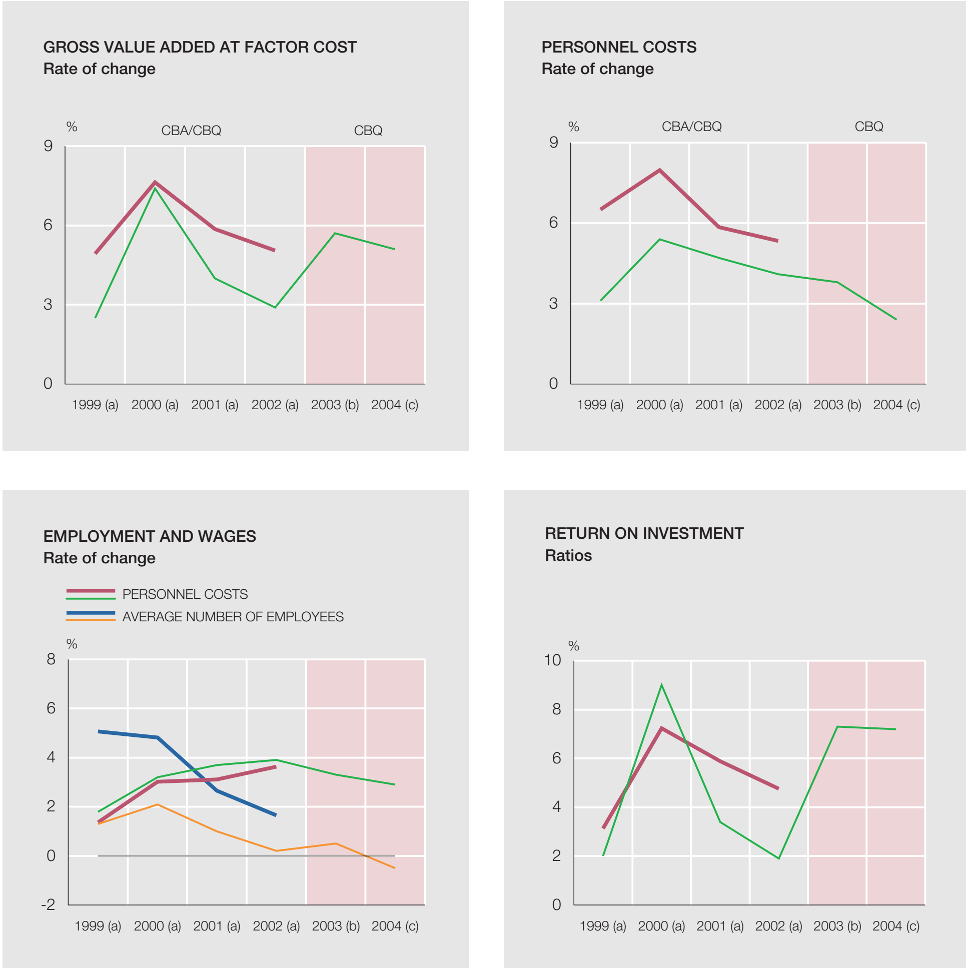
Activity

The CBQ data show that the reporting corporations' activity grew sustainedly during the first half of 2004. GVA grew at a nominal rate of 5.1%, down on the figure of 6.1% a year earlier (see Table 2.A). Influencing this slowdown have been oil refining corporations, which have been greatly affected by the strong rise in oil prices and in margins in this sector. No comment would be necessary on the influence of this on the rates of the aggregate were the representation of refining corporations in line with that of the other sectors, but the fact is that virtually all the companies engaging in this activity are part of the CBQ sample, meaning that the disturbances affecting them overly influence the results for the aggregate. This is evident if it is borne in mind that these corporations showed growth of 5% in the first six months of 2004 after having posted growth of 98.1% in the first half of 2003 and that, if they are eliminated for the calculation of the aggregate, GVA growth for the rest of the sample resulted in figures of 5.1% and 4.7% in 2004 and 2003, respectively.

The increase in productive activity is due to the favourable trend of wholesale and retail trade corporations, underpinned by the course of private consumption, and to the pick-up in industrial activity, which is benefiting from the growth in investment in capital goods. As regards external activity, Table 3 shows that the weight of imports increased in the first half of 2004 in rela-

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (a)

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		1999	2000	2001	2002	2003
Number of corporations	CBA	8,265	8,513	8,438	7,695	—
	CBT	885	895	869	852	827
% of GDP of the sector non-financial corporations	CBA	31.8	30.7	30.2	27.9	—
	CBT	17.9	16.6	15.8	15.6	15.2

SOURCE: Banco de España.

a. 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).
b. Average of the four quarters of 2003 in relation to the same period in 2002.
c. Data for the first two quarters of 2004 in relation to the same period in 2003.

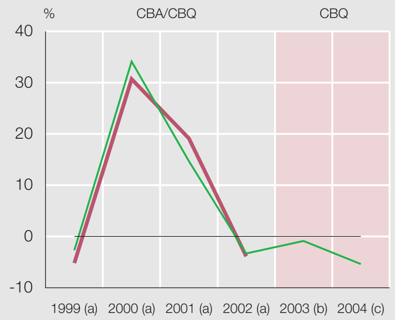
tion to their relative significance in 2003, while that of exports declined slightly. That is consistent with the fact that the contribution of external demand to GDP remained negative, as evidenced by alternative sources. Table 3 also displays the fall in the percentage of turnover intended for other European Union countries, which reveals that the situation in these countries, despite showing greater stability and vigour, has not yet made for a full recovery in trading activity.

At a more detailed level of analysis, it was once again wholesale and retail trade corporations which recorded the sharpest increase in productive activity (GVA grew by 6.9%), although the

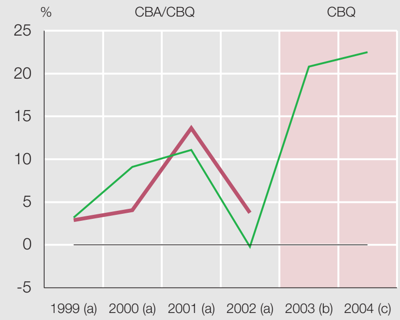
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont.)

CHART 1

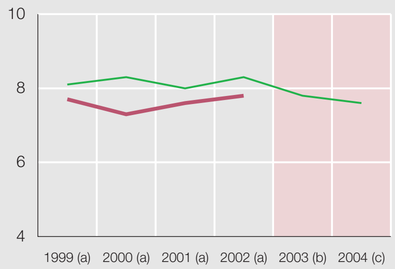
FINANCIAL COSTS
Rate of change



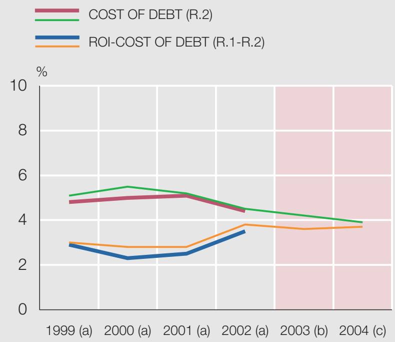
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



COST OF DEBT (R.2) AND
ROI - COST OF DEBT (R.1-R.2)
Ratios



REPORTING NON-FINANCIAL CORPORATIONS		1999	2000	2001	2002	2003	2004
Number of corporations	CBA	8,265	8,513	8,438	7,695	—	—
	CBQ	885	895	869	852	827	721
% of GDP of the sector non-financial corporations	CBA	31.8	30.7	30.2	27.9	—	—
	CBQ	17.9	16.6	15.8	15.6	15.2	14.0

SOURCE: Banco de España.

a. 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).
b. Average of the four quarters of 2003 in relation to the same period in 2002.
c. Data for the first two quarters of 2004 in relation to the same period in 2003.

increase was not as big on this occasion as the previous year (9.7%). Nonetheless, this slowdown has been influenced by the impact of crude oil and refining prices on fuel marketing corporations. Excluding these latter companies (which, in view of their fragmentation, are not as well represented in the sample as refining corporations), the rate of change of GVA in the wholesale and retail trade sector would decline by 0.1 pp in the period under study (10.5%, against 10.4% in the first half of the years 2003 and 2004, respectively). This information confirms the data available in other sources on the course of private consumption which, though one of the driving forces of economic growth, appears to be beginning to show signs of peter-

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 04 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		721	396	325
PERSONNEL COSTS				
Initial situation 03 Q2 (€m)		11,089.3	6,357.1	4,732.2
Rate 04 Q2/ 03 Q2		2.4	6.9	-3.7
AVERAGE COMPENSATION				
Initial situation 03 Q2 (€)		19,213.1	17,807.0	21,510.0
Rate 04 Q2/ 03 Q2		2.9	2.8	4.6
NUMBER OF EMPLOYEES				
Initial situation 03 Q2 (000s)		577	357	220
Rate 04 Q2/ 03 Q2		-0.5	4.0	-7.8
Permanent	Initial situation 03 Q2 (000s)	480	299	181
	Rate 04 Q2/ 03 Q2	-0.6	3.2	-6.8
Non-permanent	Initial situation 03 Q2 (000s)	97	58	39
	Rate 04 Q2/ 03 Q2	0.0	8.3	-12.2

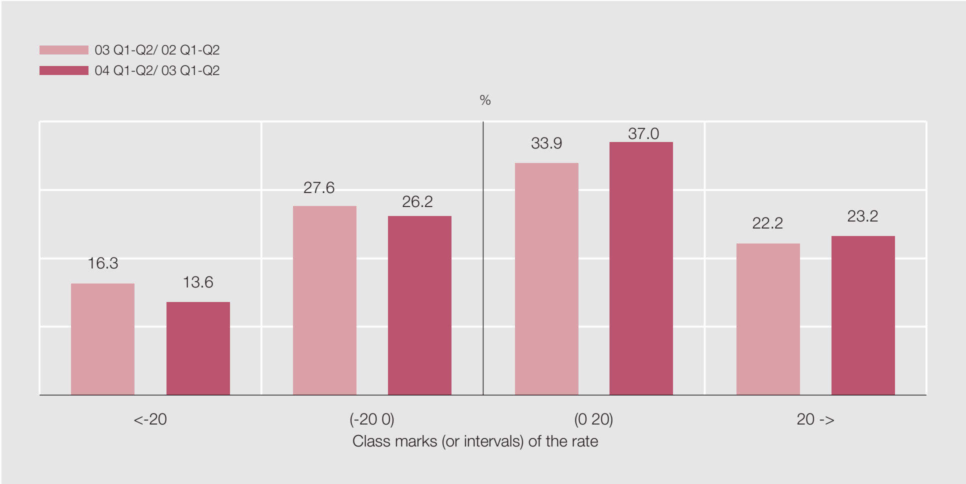
SOURCE: Banco de España.

ing out. Transport and communications corporations also moved on an expansionary path with GVA growth at 5.4%, somewhat over 1 pp higher than in 2003. This was a continuation of the good performance seen in this sector in recent years, and was particularly the case in the mobile telephony sub-sector and, more recently, in air transport-related companies. At a somewhat lower level is the improvement witnessed in industrial companies, at which there were also higher increases in activity than the previous year, with rises in GVA totalling 3.9% in the first half of 2004, compared with 2.6% in the first half of the previous year. Undoubtedly, the improvement in investment in capital goods has been conducive to the greater buoyancy of the industrial sector which, however, has not benefited from the momentum of external activity, as indicated. Finally, the behaviour of energy corporations was more subdued than the other aggregates. Their GVA grew by 1.2% during the first half of 2004, clearly below the figure of 11% in the same period a year earlier. The behaviour of the two main sub-sectors making up the energy aggregate explains the limited increase in activity. First, the decline in GVA in oil refining came about, especially in Q1, further to the strong contraction in the output-inputs margin, associated with the high volatility of crude oil prices. That led GVA here to grow by only 5% in 2004, following the extraordinary growth recorded in 2003 (98.1%). Second, the electricity, gas and water production sector showed an increase of 0.6% in GVA, 5 pp down on a year earlier. This decline is due, on one hand, to the reduction in sale prices recorded at gas companies, which are immersed in a process of liberalisation, and, on the other (albeit to a lesser extent), to the higher costs borne by electricity generation companies, which appreciably cut the amount of electricity produced through hydroelectric plants (which have lower generating costs), the result bearing adversely on these companies' GVA.

Lastly, Chart 2 shows the distribution of GVA growth across the aggregate of corporations, irrespective of their size. GVA at 60.2% of the corporations increased in the first six months of 2004, the related figure in the first half of 2003 standing at 56.1%, signifying a generalised improvement in the activity of the reporting corporations.

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

CHART 2



SOURCE: Banco de España.

Employment and personnel costs

Personnel costs rose by 2.4% in the first half of 2004 at the CBQ corporations, entailing growth 2 pp below that of the same period a year earlier. The greater moderation in the growth of this item is due both to the course of employment, which fell slightly (–0.5%), and to average compensation, which increased by 2.9%, below the rate obtained a year earlier.

The reduction in employment reflected in the quarterly sample in this period was influenced, as discussed in previous quarterly reports, by the heavy staffing adjustment at a major corporation in the telecommunications sector. That accounts for the deterioration in this variable to date in 2004, and in the coming quarters it will continue affecting the year-on-year rate. If this corporation is stripped out of the calculation, employment growth of 0.6% is obtained for the other corporations. If, moreover, it is borne in mind that there is an over-representation in the CBQ sample of large corporations belonging to certain sectors that have been reducing staff numbers (such as energy, and transport and communications, which are undergoing restructuring and a progressive opening up to competition), the above-mentioned rate of 0.6% takes on additional significance. Regarding the other sectors, that of wholesale and retail trade is, as usual, to the fore, and continues to offer the most favourable figures in respect of employment. During the first half of 2004, the average number of employees in corporations in this sector increased by 4.3%, an identical rate to the same period a year earlier. That highlights the resilience of and sound prospects for this sector. Finally, the recent upturn in industrial activity has not led to this sector resuming a path of employment creation. During the first six months of the year the corporations in this aggregate saw a reduction in their average staff levels (–1.5%) which was worse than in the related period in 2003 (–0.1%). However, the quarterly profile of industry shows a reduction in job destruction in 2004 Q2, in step with the improvement in recent months in productive activity. Foreseeably, then, to the extent that the recovery firms, it might be accompanied by positive rates of employment at industrial corporations.

Average compensation grew by 2.9% during the first half of 2004, an appreciably lower rate than that recorded a year earlier (3.8%). This moderation is essentially due to the course followed in 2004 Q1, in which period average compensation grew by 2.4%, since during 2004 Q2 the rate has risen to 3.5% compared with the same period a year earlier, a trend no doubt affected by the upward pressure on oil prices. In all sectors, similar behaviour to that discussed for the aggregate of all corporations, excepting the wholesale and retail trade sector, was ob-

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

TABLE 3

		CBA	CBQ (a)	
		2002	03 Q1-Q2	04 Q2-Q1
Total corporations		7,695	721	721
Corporations reporting source/destination		7,695	700	700
Percentage of net purchases according to source	Spain	68.3	75.5	74.4
	Total abroad	31.7	24.5	25.6
	EU countries	19.4	19.4	20.5
	Third countries	12.3	5.1	5.1
Percentage of net turnover according to destination	Spain	82.7	83.3	83.6
	Total abroad	17.3	16.7	16.4
	EU countries	12.8	12.9	12.6
	Third countries	4.5	3.8	3.9

SOURCE: Banco de España.

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

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

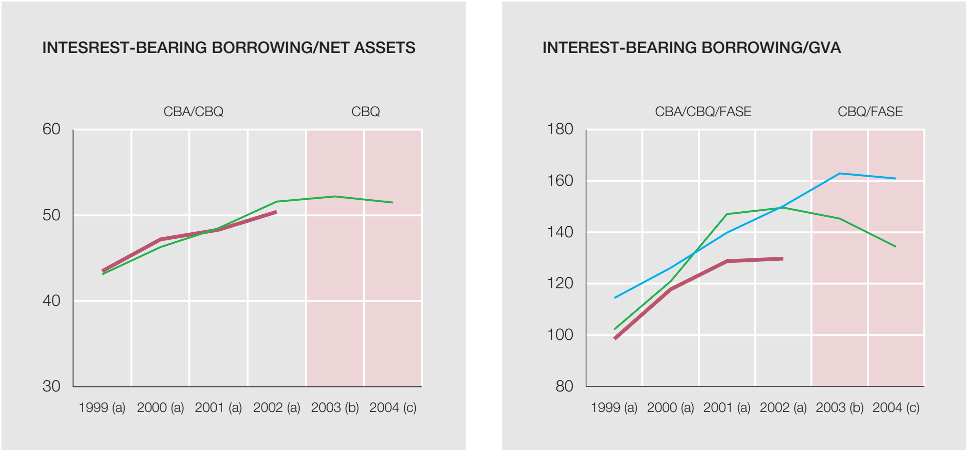
TABLE 4

	CBA		CBQ (a)			
	2001	2002	02 Q1 - Q4	03 Q1 - Q4	03 Q1 - Q2	04 Q1 - Q2
Number of corporations	8,438	7,695	852	827	854	721
PERSONNEL COSTS	100	100	100	100	100	100
Falling	21.8	27.7	32.9	30.5	28.0	32.5
Constant or rising	78.2	72.3	67.1	69.5	72.0	67.5
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	27.9	30.5	42.9	45.2	43.6	45.2
Constant or rising	72.1	69.5	57.1	54.8	56.4	54.8
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	39.2	47.5	49.6	43.1	42.4	45.9
Higher or same growth (b)	60.8	52.5	50.4	56.9	57.6	54.1

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Twelve-month percentage change in the CPI.

ALTERNATIVE DEBT RATIOS CHART 3



SOURCE: Banco de España.

a. 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).
b. Average of the four quarters of 2003.
d. Projection based on the information of the first two quarters of 2004.
Note: The data for the aggregate of non-financial corporations (FASE) are the sum of securities other than shares and loans.

servable, with lower growth in average compensation than the average for the six-month period as a whole (0.4%). The greater moderation in this sector is associated with its employment-creating capacity since, as Table 2.B shows, the average compensation of the aggregate of corporations that created employment grew, on average, by 2.8%, while the aggregate of firms that cut their staff levels saw their wage costs increase by 4.6% on average.

Finally, Table 4 shows a slight increase in the proportion of firms destroying employment (45%) in 2004 and a decline in the percentage of firms increasing their average wages by a lower rate than that of inflation. That said, at more than 54% of corporations average wages are growing above the rate of inflation.

Profits, margins and rates of return

The growth of productive activity and the moderate increases in personnel costs led the gross operating profit to grow by 7.2% in the first half of 2004, a very similar rate to the previous year (7.4%). Net ordinary profit (Table 5) grew by 22.5% (compared with 12.1% in the first half of 2003), assisted by the reduction in financial costs and, in particular, by financial revenue (dividends) from subsidiaries abroad. Influencing the rate of change of financial costs (-5.4%) were the following factors:

	04 Q1-Q2/03 Q1-Q2
Change in financial costs	**–5.4%**
A. Interest on borrowed funds (1+2)	*–5.9%*
1. Due to the cost (interest rate)	–7.1%
2. Due to the amount of interest-bearing debt	+1.2%
B. Commissions and cash discounts	*+0.5%*

It is apparent from this that the lower financial costs borne by corporations were due exclusively to interest rate cuts, while the effect derived from the net inflow of financing was limited. The increase in interest-bearing debt is compatible with a reduction in the debt ratio featured in Table 1. Indeed, Chart 3 presents two debt ratios, both of which show a slowdown in 2004.

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 (a)			CBA	CBT (a)			CBA	CBT (a)			CBA	CBT (a)		
	2002	03 Q1 - Q4	03 Q1 - Q2	04 Q1 - Q2	2002	03 Q1 - Q4	03 Q1 - Q2	04 Q1 - Q2	2002	03 Q1 - Q4	03 Q1 - Q2	04 Q1 - Q2	2002	03 Q1 - Q4	03 Q1 - Q2	04 Q1 - Q2
Total	4.8	7.3	7.4	7.2	3.8	20.8	12.1	22.5	7.8	7.8	6.7	7.6	3.5	3.6	2.5	3.7
SIZE																
Small	2.0	—	—	—	4.4	—	—	—	8.2	—	—	—	2.8	—	—	—
Medium	8.4	1.2	-4.7	10.9	5.5	1.8	-7.8	39.9	8.5	8.7	8.4	9.6	4.1	4.7	4.4	5.9
Large	4.5	7.5	8.0	7.0	3.6	21.8	13.2	21.8	7.8	7.8	6.7	7.6	3.4	3.6	2.5	3.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	-6.7	10.5	13.4	0.9	-9.4	16.0	6.3	5.9	9.1	8.4	7.5	8.3	5.3	4.8	3.9	4.7
Industry	1.5	-0.1	1.1	6.9	-2.0	0.7	2.5	21.1	8.3	8.5	8.7	9.0	3.6	4.4	4.5	5.2
Wholesale and retail trade	14.5	12.8	11.7	9.6	16.8	13.4	18.0	6.5	12.5	11.8	11.3	10.2	7.7	7.7	7.1	6.4
Transport and communications	13.0	4.6	4.6	8.5	38.3	9.7	9.1	16.7	8.9	11.6	10.3	13.9	4.2	7.0	5.5	9.6

SOURCE: Banco de España.

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

The first measures debt as a proportion of total assets (see bottom of Table 1 and the left-hand panel of Chart 3). Its course is influenced both by the change in interest-bearing financing borrowed on the market (slightly positive in the first half of 2004, as indicated above), which is included in the numerator, and by the total financial funds available (own and interest-bearing borrowed funds). The fall in debt is compatible with the slight increase in interest-bearing borrowed funds, as occurs in the period under study, since the ratio denominator grew proportionately more than the numerator owing to the positive trend of ordinary profit and to the increase in net capital issues for the period. The alternative ratio in Chart 3 (interest-bearing borrowed funds to GVA) relates a stock (the level of debt) and a flow (GVA), and it also allows CBA and CBQ data to be compared with those available for the sector non-financial corporations in the *Financial Accounts of the Spanish Economy* compiled by the Banco de España. This ratio also shows that, during the first half of 2004, there was a mild slowdown in debt.

As a result of the increase in ordinary net profit during the first half of 2004, the return on investment (7.6%) was higher than in the same period in 2003. And this, combined with the fact that the interest on borrowed funds/interest-bearing borrowing ratio underwent a further reduction to 3.9% (owing to the above-mentioned reduction in interest rates), meant that the ROI – cost of debt ratio once again stood at a high value (3.7), more than 1 pp up on the first half of 2003 (2.5). Lastly, net profit fell by 9.3%. Behind this result are the lower capital gains and extraordinary revenue shown by corporations in 2004, after significant operations of this type being recorded in the first half of 2003. Notwithstanding, the amount of net profit obtained during the first half of 2004 remains very positive, accounting for 27% of the GVA of the total aggregate of corporations, which is an additional indicator of the soundness of the firms in the sample.

In sum, during the first half of 2004 Spanish corporations have enjoyed sustained growth, in line with that in the preceding half-year period. Services are confirmed to be performing well, especially wholesale and retail trade. Moreover, industry appears to be taking off to some ex-

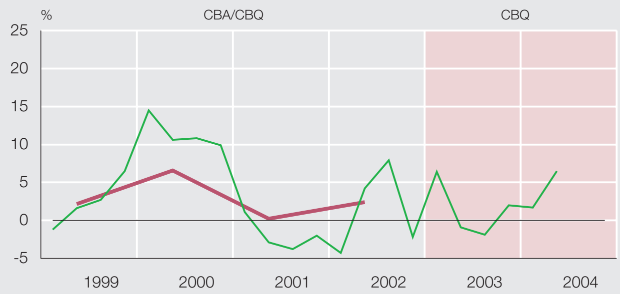
The productive activity of Spanish industry grew significantly in the first six months of 2004. GVA in this period increased by 3.9%, clearly up on the figure of 2.6% posted in the first half of 2003, although it was in Q2 that the sharpest growth was recorded. The more expansionary behaviour of investment in capital goods largely explains the greater buoyancy of industrial activity. Against this background, the sub-sectors benefiting most from the industrial recovery have been “glass, ceramics and metals”, “electrical, electronic and optical material and equipment”, with respective increases in GVA of 5.9% and 6%, and “other manufacturing” which, after several consecutive years of declines in GVA, grew by 4.6% in the first half of 2004.

Industrial corporations’ personnel costs increased by 1.4%, against 3.8% the previous year. As with the other firms in the sample, this was a more moderate trend, and the result of a fall in employment of –1.5% and of an increase in average compensation of 2.9%. Despite the reduction in average employment, the result for Q2 (–0.8%) shows a turnaround in relation to developments in the preceding quarters. The expansion of industrial activity, along with the moderate rise in personnel costs, meant that ordinary profits grew sharply. The gross operating profit posted a rate of 6.9%, while the ordinary net profit, boosted by the inflow of dividends and the reduction in financial costs, showed an increase of 21.1%. This favourable trend led to high ordinary returns and to a reduction in the ratio measuring the cost of borrowed funds, meaning that the ROI-cost of debt spread widened to 5.2, exceeding the figure for the first half of 2003 by 0.7 pp.

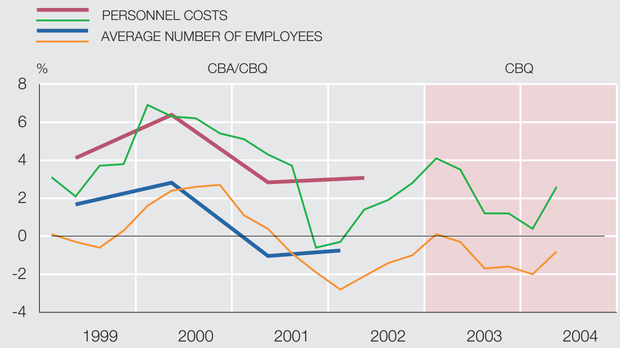
Overall, industrial corporations trended favourably in the first half of 2004, driven by the greater vigour of investment in capital goods, which has made for sharp growth in their activity, especially in Q2, generating sizable surpluses and high returns. The employment figures, though not yet positive, have also improved as the year has unfolded. If this trend firms, job creation is likely to be resumed in the coming months. The consolidation of the improvement in the international situation and, accompanying this, greater dynamism in world trade should contribute positively to employment in the coming months. In any event, some risks remain. These stem from the entry of new competitors, from international pressures and from developments in crude oil prices, which may affect growth in the industrial sector in view of its greater exposure and sensitivity to the international economic situation.

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

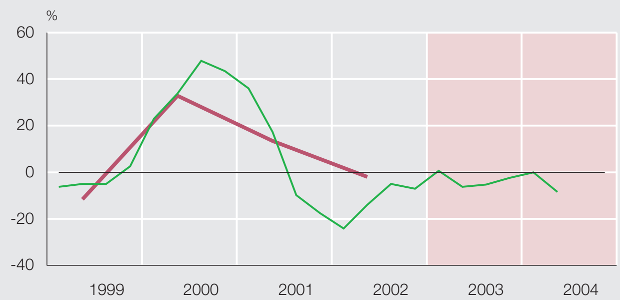
GROSS VALUE ADDED AT FACTOR COST
Rate of change



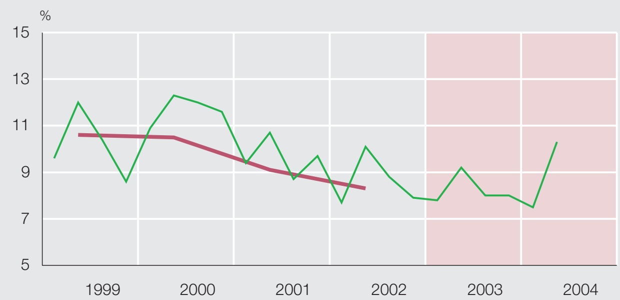
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		1999	2000	2001	2002	2003	2004
Number of corporations	CBA	3,038	2,974	2,814	2,464	—	—
	CBQ	422 406 397 387	433 413 391 377	402 392 381 364	389 375 364 352	370 362 350 330	331 251 — —
% of GDP of the sub-sector industrial corporations	CBA	31.2	31.4	28.2	24.9		
	CBQ	28.4 29.0 27.1 27.1	26.6 26.7 25.3 25.4	21.9 23.2 21.7 23.1	20.9 24.2 22.7 20.7	20.7 24.6 21.8 21.3	20.6 18.2 — —

SOURCE: Banco de España.

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 Q2 - Q1	04 Q2 - Q1	03 Q2 - Q1	04 Q2 - Q1
Number of corporations		854	721	854	721
Percentage of corporations by profitability bracket	R <= 0%	24.5	23.5	27.5	25.8
	0% < R <= 5%	19.3	20.9	15.2	15.6
	5% < R <= 10%	15.2	14.2	10.8	10.4
	10% < R <= 15%	11.6	12.1	10.0	9.5
	15% < R	29.5	29.2	36.5	38.6
Memorandum item: Average return		6.7	7.6	9.0	10.7

SOURCE: Banco de España.

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

tent, wage costs are moderating somewhat and employment is trending favourably, although staff adjustments persist in certain sectors. There have also been significant increases in financial revenue, while financial costs continue to decline, which has contributed to the highly favourable trend of ordinary net profit. All these factors explain why Spanish corporations continue to record high returns which, combined with the generous financing conditions on the markets, will enable new investment plans to be undertaken if the favourable outlook firms.

20.9.2004.