

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2005 Q2

Introduction

In the first half of 2005, the activity of the non-financial corporations reporting to the Central Balance Sheet Data Office grew slightly more slowly than in the previous years. As Table 1 and Chart 1 show, the gross value added (GVA) of these corporations as a whole grew by 4.7% in nominal terms in the first half of the current year, a rate slightly lower than that in the first half of 2004 (5%). This picture is affected by the comparatively high weight in the Central Balance Sheet Data Office quarterly survey (CBQ) of certain activities whose GVA is linked to oil price movements. Thus, if oil refining and marketing corporations – whose overall GVA growth outstripped the average rise in euro-denominated oil prices (which rose by 44.7% in the period) – are excluded, the resulting overall growth rate for the other corporations was 2.7% in the first half of 2005, compared with 5.5% in the first half of 2004. It should be borne in mind, however, that the rates of this sub-aggregate are also affected, albeit in the opposite direction, by the impact of the higher oil prices on those activities for which oil is an input, as in the case of electric utilities and transport corporations. Finally, it should be noted that construction and “other services” (the activities currently showing the fastest growth rates, according to alternative indicators) have a very low weight within the CBQ, and that the slight slowdown in value added in the first half took place against a background of strong growth in turnover (16.8%, against 5.8% in the first half of 2004), indicating a high outflow of finished products.

Most noteworthy in the sectoral breakdown of activity, apart from what has been remarked on above, was that the energy sector reported growth of 10.2% (well above the 1.9% of the previous year), a rate which reflects the aforementioned opposite effect of the oil price rise on refining corporations and on electric utilities. Industrial corporations as a whole recorded a GVA increase in the first half of 3.1%, equal to that in the same period a year earlier and much less than that in 2004 (6.2%). Wholesale and retail trade again put in the second most favourable performance after energy, which was consistent with the behaviour of private consumption. Nevertheless, the sector showed a certain slowdown. The activity of transport and communications also slowed, with GVA growth of 1.6% in the first half of 2005, against 5.1% in the same period a year earlier, due to higher fuel costs and the sharp increase in advertising expenses of the major telecommunications corporations. Against this background it was noteworthy that employment performed well, its recent movements confirming the upward trend initiated in mid-2004. The average number of workers increased by 0.8%, as against the decrease of 0.5% in the first half of 2004, and permanent employment, which grew by 1.2%, was that which saw the largest rise, while temporary employment fell by 1.3%, due to some extent to the conversion of temporary contracts into permanent ones. Once again it should be pointed out that the behaviour of employment in the CBQ is affected by the staff reduction at a large telecommunications corporation. Despite this, it is the best employment figure posted by CBQ sample corporations since 2000. Meanwhile, average compensation again grew by 2.8%, down half a percentage point on the rate in the first half of 2004.

The employment growth explains why personnel costs of the corporations reporting to the CBQ increased by 3.6%, nearly half a percentage point more than they did a year earlier, re-

1. This article is based on the data provided to 15 September 2005 by the 710 corporations that reported information to the quarterly survey of the Central Balance Sheet Data Office (CBQ). These corporations account for 12.1% of the gross value added at basic prices of the total sector non-financial corporations.

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)		
	2003	2002	2003	04 Q1-Q4/ 03 Q1-Q4	04 Q1-Q2/ 03 Q1-Q2	05 Q1-Q2/ 04 Q1-Q2
DATABASES						
Number of corporations		8,419	8,525	809	831	710
Total national coverage		30.1%	30.2%	14.9%	15.5%	12.1%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	2.8	6.2	7.7	4.8	13.4
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	131.3	3.8	5.9	8.2	5.8	16.8
2. INPUTS (including taxes)	67.2	1.5	6.0	8.6	4.7	18.6
<i>Of which:</i>						
<i>Net purchases</i>	38.8	-1.1	4.3	9.8	3.6	24.1
<i>Other operating costs</i>	28.1	6.4	8.0	7.0	7.7	8.7
S.1. GROSS VALUE ADDED AT FACTOR COST [1-2]	32.8	5.6	6.6	6.1	5.0	4.7
3. Personnel costs	17.1	5.3	4.7	3.0	2.7	3.6
S.2. GROSS OPERATING PROFIT [S.1-3]	15.7	5.9	8.7	8.6	6.9	5.4
4. Financial revenue	2.8	-6.0	10.0	6.9	15.3	11.0
5. Financial costs	2.8	-3.6	-2.0	-5.4	-6.4	6.8
6. Depreciation and operating provisions	6.9	3.2	4.9	-1.0	-2.7	-1.9
S.3. ORDINARY NET PROFIT [S.2 + 4-5-6]	8.8	7.7	16.4	19.2	21.2	10.7
7. Capital gains and extraordinary revenue	5.4	51.2	5.3	-38.9	-65.4	76.6
8. Capital losses and extraordinary expenses	3.4	34.1	-28.6	-17.6	-44.4	89.0
9. Other (net provisioning and income tax)	4.9	105.6	-34.5	-3.2	-0.5	-37.7
S.4. NET PROFIT [S.3 + 7-8-9]	5.9	-81.3	(b)	3.7	-8.2	31.9
NET PROFIT/GVA (S.4/S.1)		2.0	17.9	23.4	25.6	33.8
PROFIT RATIOS						
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.9	7.7	8.5	7.4	8.2
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	4.4	3.9	4.0	4.0	4.0
R.3 Ordinary return on equity (before taxes)	S.3/E	11.0	10.9	12.4	10.3	12.0
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	3.6	3.8	4.5	3.4	4.2

SOURCE: Banco de España.

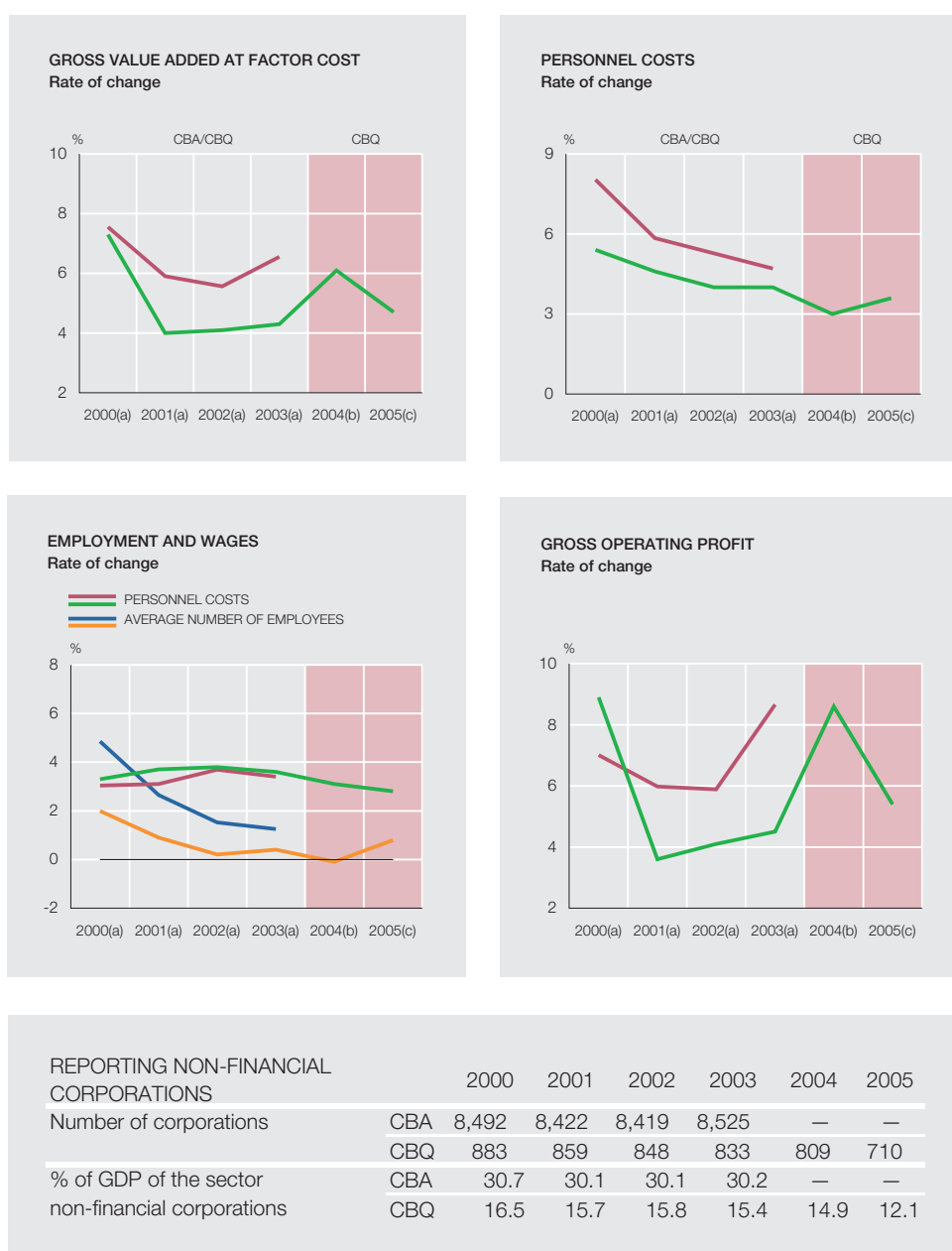
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

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

c. The variables in the formulas are expressed 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.

sulting in gross operating profit growth of 5.4%, which was higher than that of GVA although one and half percentage points lower than in the same period a year earlier. This behaviour was apparent in all economic sectors except refining, for the reasons given above. Financial costs grew by 6.8%, basically because corporations took advantage of the favourable interest rates to borrow fresh funds. Financial revenue grew by 11% in the first half of 2005, reflecting the inflow of dividends into the parents of multinational groups due to the favourable earnings performance of their subsidiaries in Latin America. All this enabled the growth rate of ordinary net profit (ONP) to quicken to 10.7% in the first half of 2005. This increase, although lower than the 21.2% recorded in the previous year, was sufficient to maintain – and even improve – profit ratios (due, among other things, to the behaviour of financial costs in the two periods), as evidenced by the difference of 4.2 percentage points between the ROI and the cost of debt. The favourable performance of extraordinary results (on the one hand, gains on one-off real estate sales and exchange gains and, on the other, sharp falls in net impairment losses on the

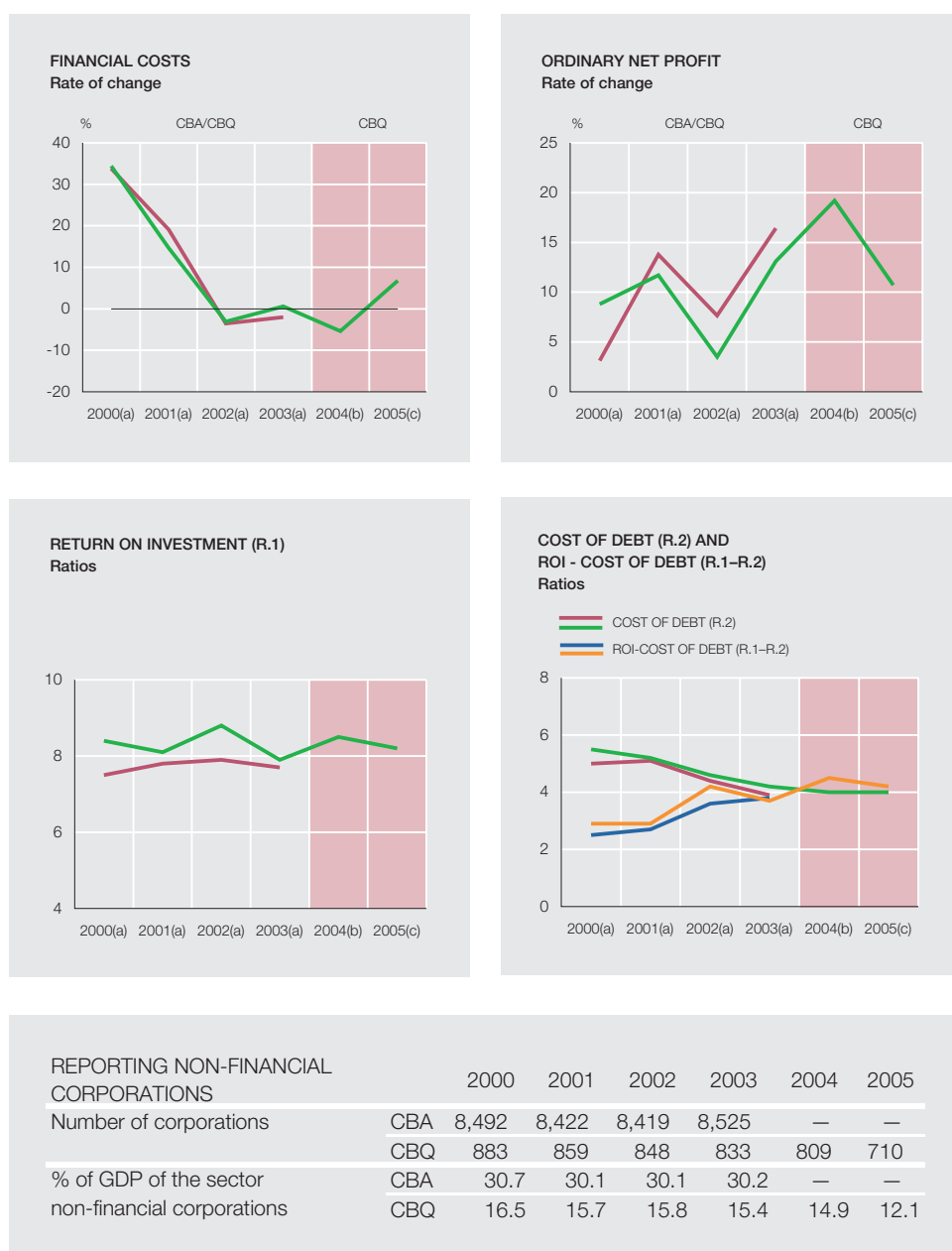


SOURCE: Banco de España.

- a. 2000, 2001, 2002 and 2003 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 2004 relative to the same period in 2003.
c. Average of the first two quarters of 2005 relative to the same period in 2004.

control portfolio, reflecting the improvement in the Latin American economies) helped total net profit to grow by 31.9% and account for 33.8% of GVA.

In short, in the first half of 2005 the business activity reflected by the CBQ (in which neither construction nor services other than wholesale and retail trade and transport are well represented) held at sustained moderate growth rates similar to those recorded in the early months of the year, albeit slightly down on those in the same period a year earlier. This mild slowdown was seen in most sectors, although basically in those affected by the higher prices of oil inputs. Also apparent was the expansionary course of turnover. Other noteworthy developments were



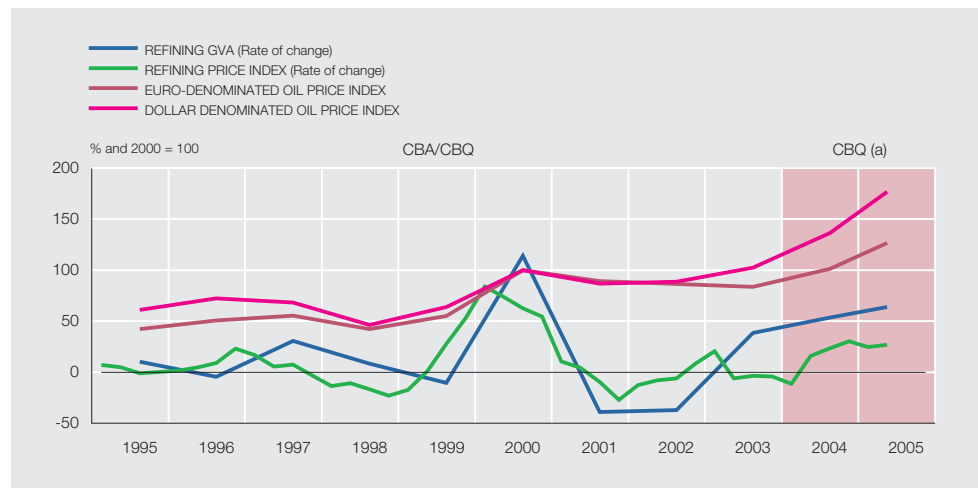
SOURCE: Banco de España.

- a. 2000, 2001, 2002 and 2003 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 2004 in relation to the same period in 2003.
 c. Average for the first two quarters of 2005 in relation to the same period in 2004.

the healthy trend in employment, which in the CBQ sample corporations grew for the fourth quarter running, the moderate behaviour of average compensation and the favourable performance of financial revenue and costs, all of which explain the continued high profit ratios.

Activity

The CBDO data show that in the first half of 2005 business activity grew moderately, in line with that recorded in 2005 Q1. GVA grew at a nominal rate of 4.7%, reflecting a slight slowdown compared with the rate of 5% in the first half of 2004. This slowdown becomes more marked upon deducting the effect exerted on this rate by the growth in the GVA of refining and



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (*Informe mensual de precios*).

a. 2004 and 2005 data relate to the CBQ.

fuel marketing corporations, which rose by 53% with respect to the first half of 2004, basically due to the average growth of euro denominated oil prices, estimated at 44.7% in the first half of 2005 with respect to the same period of the previous year (see Chart 2)². In short, if refining and fuel marketing corporations are excluded from the aggregate “total corporations” of the sample in the first half of 2005, the GVA of this subtotal grows by 2.7% in the first half of 2005, against 5.5% in the same period a year earlier, which clearly shows how the oil price fluctuations are significantly affecting the sample corporations as well as refining and fuel marketing corporations, electric utilities and transport corporations. Also, it should be kept in mind that, unlike in the annual survey of the Central Balance Sheet Data Office (CBA), the corporations making up the CBQ are not a very representative sample of the sectors that, according to alternative indicators, are growing most robustly, i.e. construction and services. The CBQ data on construction are classified in the grouping “activities with low coverage”, which is taken into account on calculating the aggregate “total corporations”, but which, given its low weight, is not expressly listed in the sectoral breakdowns in Tables 2A and 5, and which has been growing faster than the average of the aggregate. Services, leaving aside wholesale and retail trade and transport, are not well represented in the CBQ either. As in the case of construction, there is a third services grouping (called “other services”) which, although obviously taken into account in calculating the aggregate “total corporations”, is not listed in the aforementioned tables, for the same reasons as in the previous case. These “other services” have also been growing at higher rates than wholesale and retail trade and the aggregate “total corporations”, so if they had had a higher weight in the sample, the rate of aggregate GVA growth would have been higher than stated here. As can be seen in Table 1, turnover is showing strong growth (16.8%) which is not fully reflected in the rate of production growth (13.4%), since the base information shows that there is an outflow of stocks of merchandise and finished products. Purchases (growth of 24.1%) also trended favourably, which can also be interpreted as reflecting favourable business expectations. This rate is higher than that of inputs (18.6%), in this case because other operating costs grew moderately (8.7%) in the period. The

2. In the first half of 2004, the GVA of refining and fuel marketing corporations changed at a rate of -5.4%. This implies that, possibly due to lags between production and marketing, the oil price rises (estimated at 28.9% in that period) were not passed through to production in that 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	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2003	04 Q1-04 Q1-05 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	2003	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	2003	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	2003	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-	04 Q1-04 Q1-05 Q1-
Total	6.6	6.1	5.0	4.7	1.3	-0.1	-0.5	0.8	4.7	3.0	2.7	3.6	3.4	3.1	3.2	2.8
SIZE																
Small	5.0	—	—	—	0.9	—	—	—	6.1	—	—	—	5.1	—	—	—
Medium	6.0	3.9	4.7	2.4	2.0	-0.4	-0.8	0.8	6.8	3.5	2.9	4.9	4.7	3.9	3.7	4.1
Large	6.7	6.2	5.1	4.8	1.2	0.0	-0.5	0.8	4.4	2.9	2.7	3.5	3.2	2.9	3.2	2.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	2.6	5.6	1.9	10.2	-1.7	-1.1	-1.3	-0.7	1.5	2.9	2.9	3.1	3.3	4.0	4.3	3.8
Industry	5.3	6.2	3.1	3.1	-0.7	-1.0	-1.8	0.9	2.8	1.6	0.4	3.8	3.5	2.6	2.2	2.9
Wholesale and retail trade	8.4	7.9	7.3	4.8	5.3	4.3	4.4	2.2	8.6	6.5	5.9	4.6	3.1	2.1	1.4	2.3
Transport and communications	6.7	4.6	5.1	1.6	-0.7	-1.7	-2.0	-0.4	2.9	1.7	2.3	2.5	3.6	3.5	4.4	2.9

SOURCE: Banco de España.

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

scant information available on the source of purchases and the destination of sales indicates (see Table 3) that the weight of exchanges with other EU countries declined in the second half of 2005. On CBA data, this trend started in 1999, which in the case of purchases (imports) is explained by a shift towards other, possibly Asian, suppliers of purchases previously made in the EU and, in the case of sales (exports), by an increase in relative terms in those to the Spanish market, to the detriment of those to the EU. Both developments are consistent with the alternative indicators of competitiveness and exports.

The sectoral breakdown (see Table 2.A) shows that the GVA of the energy sector increased sharply in the first half of 2005 (10.2%), well above the rate in the same period of 2004 (1.9%), as a result of the performance of the refining corporations referred to above. The electricity sector – the other large aggregate that, together with refining corporations, makes up the energy sector – saw a slight decrease in its GVA growth rate to 1.5% in the first half of 2005, as compared with a 1.7% rise a year earlier. The contraction in the margins of electricity generating corporations is explained by the poor weather conditions, which favoured the generation of thermal electricity to the detriment of hydroelectricity. Since the fuel used by thermal power stations is affected by the oil price rises, production costs increase. Regarding this sector, it should be kept in mind that the cost of acquiring gas emission allowances additional to those initially granted to each corporation under the Kyoto Protocol do not affect the measurement of the sector's GVA³. In the whole of the first half, the GVA of industrial corporations increased

3. The current regulations (Law 1/2005 of 9 March 2005) stipulate a greenhouse gas emission limit based on the allowances previously assigned to each economic sector. Companies exceeding these limits must acquire supplementary allowances in the market. In compliance with these regulations, the electric utilities reporting to the CBSO recorded as an input the purchase of emission allowances additional to those initially assigned to them (a cost of €116 million in the first half). If this entry had been included in preparing this report, it would have affected the determination of the GVA of the corporations in the sector, which would have been reduced by the amount of this input. The approach taken in preparing this article was to record these costs as extraordinary expenses, which is more consistent with the way transactions of this type are treated in the National Accounts (acquisition of intangible assets), and, as a result, the determination of the GVA generated by these corporations is not affected.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 05 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	710	416	294
PERSONNEL COSTS			
Initial situation 04 Q1-Q2 (€m)	10,566.0	5,947.5	4,618.5
Rate 05 Q1-Q2/ 04 Q1-Q2	3.6	7.5	-1.3
AVERAGE COMPENSATION			
Initial situation 04 Q1-Q2 (€)	20,207.3	17,980.9	24,040.6
Rate 05 Q1-Q2/ 04 Q1-Q2	2.8	3.4	3.4
NUMBER OF EMPLOYEES			
Initial situation 04 Q1-Q2 (000s)	523	331	192
Rate 05 Q1-Q2/ 04 Q1-Q2	0.8	3.9	-4.6
Permanent	Initial situation 04 Q1-Q2 (000s)	437	270
	Rate 05 Q1-Q2/ 04 Q1-Q2	1.2	4.3
Non-permanent	Initial situation 04 Q1-Q2 (000s)	86	61
	Rate 05 Q1-Q2/ 04 Q1-Q2	-1.3	2.4

SOURCE: Banco de España.

by 3.1%, the same as in the corresponding period of the previous year and much less than in 2004 (6.2%). In any event, the quarterly figures for the first half point to a mild acceleration (in 2005 Q1 GVA increased by 1.9%, and in 2005 Q2 it was up by 4.9%), probably because the improvement in capital goods investment has had a positive impact on this aggregate in 2005 to date (Box 1 looks in greater detail at the performance of the industrial sector). Wholesale and retail trade was again responsible for the next most favourable performance after the energy sector, with growth of 4.8% (consistent with the continued strength of private consumption). However, comparison of this performance with that a year earlier (7.3%) discloses a certain slowdown, which persists after the fuel marketing corporations are eliminated from the calculation (growth of 6% against 10.7% in the first half of 2004). The activity of transport and communications again slowed, since GVA grew by 1.6% in the first half of 2005, against 5.1% in the same period a year earlier. This moderation is explained by the higher fuel costs borne by transport corporations, along with a sharp increase in advertising costs of the major telecommunication corporations.

Finally, Chart 3 shows the distribution of corporations by GVA growth, disregarding size and economic sector. It can be seen that in the second half of 2005 the percentage of corporations with GVA growth decreased to around three and a half percentage points (the percentage of corporations with GVA declines rose by around three and a half percentage points). These figures confirm that the moderate growth of the value added of the sample corporations was fairly widespread, i.e. it was shared by most of them, regardless of size or activity, with the particularly significant exceptions mentioned above (basically refining corporations and, for different reasons, those using oil as an input).

**Employment and
personnel costs**

In the first half of 2005 personnel costs increased by 3.6%, one percentage point more than the rise a year earlier. This greater growth is basically due to the favourable performance of employment, which grew by 9.8% (against -0.5% in the first half of 2004 with respect to the first half of 2003), while average compensation, although growing somewhat

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

TABLE 3

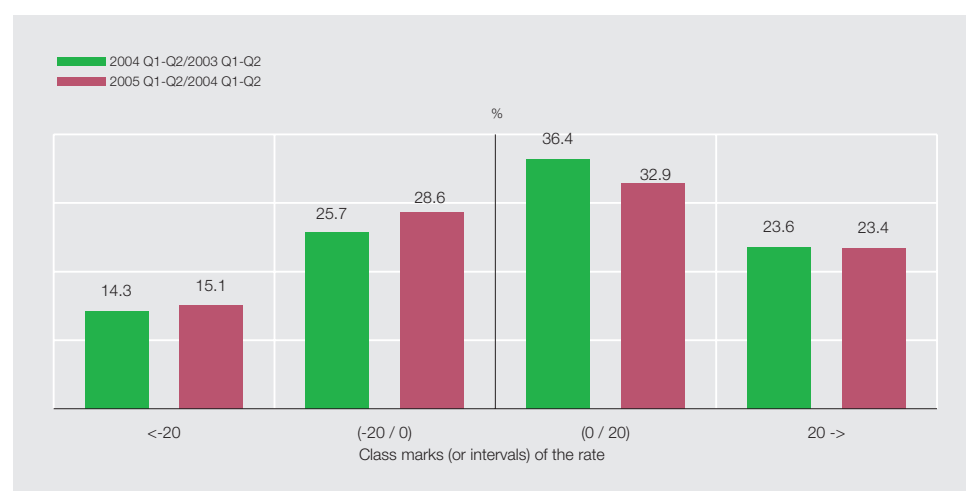
		CBA	CBQ (a)	
		2003	04 Q1-Q2	05 Q2-Q1
Total corporations		8,525	710	710
Corporations reporting source/destination		8,525	687	687
Percentage of net purchases according to source	Spain	69.3	79.5	81.1
	Total abroad	30.7	20.5	18.9
	<i>EU countries</i>	18.9	14.9	12.8
	<i>Third countries</i>	11.8	5.6	6.1
Percentage of net turnover according to destination	Spain	83.1	88.7	89.0
	Total abroad	16.9	11.3	11.0
	<i>EU countries</i>	12.6	8.2	7.5
	<i>Third countries</i>	4.3	3.1	3.5

SOURCE: Banco de España.

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

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

CHART 3



SOURCE: Banco de España.

less than in the first half of 2004, held at rates of change around 3% for the two periods under comparison.

The performance of employment is a significant statistic, because this is the fourth quarter running in which the rate has been positive. Moreover, as explained in previous articles, the rate of change of employment for the half (0.8%) has been affected by an extraordinary staff reduction at a large telecommunications corporation. Permanent employment grew by 1.2%, while temporary employment showed a negative rate of -1.3%, partially explained by the conversion of temporary contracts into permanent ones. All sectors saw favourable employment behaviour, particularly, once again, wholesale and retail trade, which recorded the highest rise in average staff (2.2%), although, as pointed out in the previous section, there was a certain slowdown

The industrial corporations reporting to the CBQ grew at a rate of 3.1% in the first half of 2005, equal to that in the previous year although notably less than that in 2004 as a whole (6.2%), and this, owing to the favourable performance of investment in capital goods in the second half of that year, spurred activity in the sector. Against this background, mention should be made of the poor performance in the first half of 2005 by the food, beverages and tobacco sub-sector (the GVA of which fell by 3.8%) and the transport equipment manufacturing sub-sector, whose GVA fell by 8.7% as a result of highly aggressive price cutting policies which mainly affected the 2005 Q1 figures although they continue causing a substantial decrease in the GVA of the half as a whole. Excluding both these sub-sectors, the other industrial corporations posted a notably more expansionary increase, in line with the performance in the second half of 2004. This positive trend was also apparent in the healthy employment figures for the third consecutive quarter, where the increase of 0.9% in the first half of 2005 seems to confirm the resumption of job creation in this aggregate, albeit still mildly. Average compensation – like that of the total sample corporations, as mentioned above – held on a moderate course, growing at a rate

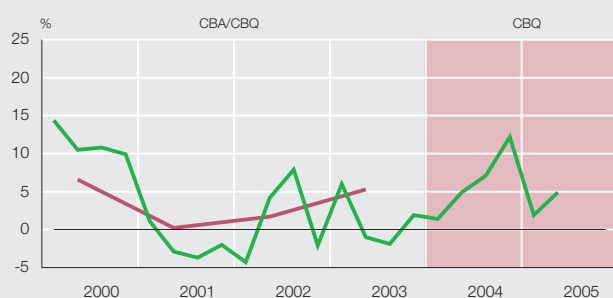
of 2.9% in 2005 to date. Also, as in the total sample, there was a certain pick-up in the growth rate of average compensation in Q2 (the rate was 3.3% in Q2, while it was 2.6% in Q1), very likely associated with the pass-through of inflationary pressures generated as result of the sharp oil price rises. As a consequence of the overall behaviour of activity and personnel costs, the gross operating profit of industry rose by 2.2%, while ONP was up by 1.9%. These results enabled industrial corporations to continue posting notable ROI levels (8.2%), albeit slightly lower than those reported a year earlier (8.7%). Given all the foregoing, the resulting value of the ratio measuring the cost of borrowed funds in the first half of 2005 (3.7%) enabled the spread between ROI and the cost of debt to remain at high values (4.5 pp).

In short, industrial corporations continued to move towards steadier growth, albeit more moderate than in the preceding phase, and resumed job creation while maintaining high rates of return. Signs of weakness persisted, and these might intensify if the risks threatening this aggregate (basically lack of buoyancy of foreign demand and low productivity) are not overcome.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

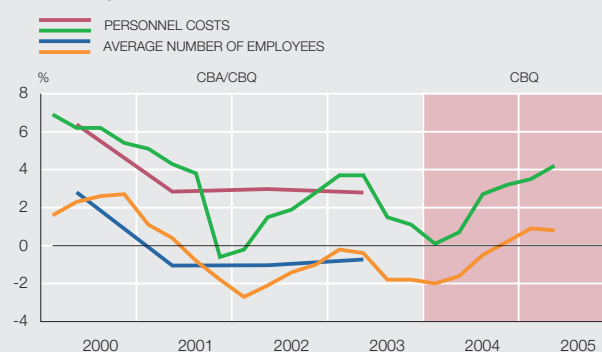
GROSS VALUE ADDED AT FACTOR COST

Rate of change



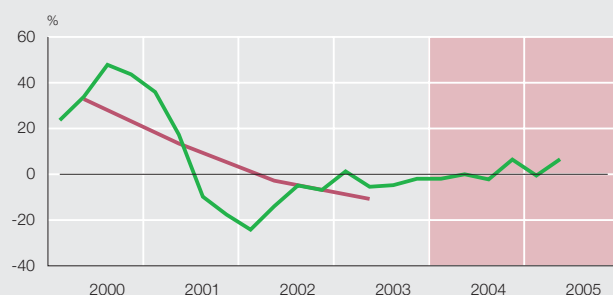
EMPLOYMENT AND WAGES

Rate of change



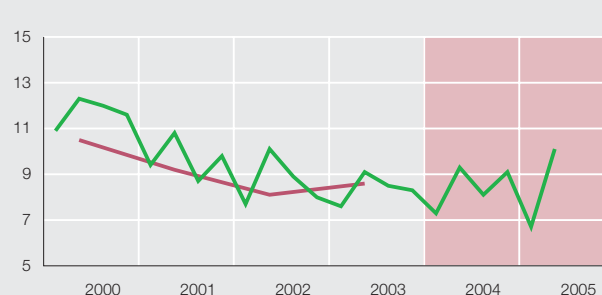
FINANCIAL COSTS

Rate of change



RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2000				2001				2002				2003				2004				2005			
Number of corporations	CBA	2,974				2,814				2,715				2,527				—				—			
	CBQ	431	411	390	378	402	392	380	363	389	375	365	354	367	361	352	345	350	340	332	318	312	240	—	—
% of GDP of the sub-sector industrial corporations	CBA	31.4				28.2				27.9				27.6				—				—			
	CBQ	26.6	26.6	25.2	25.4	22.2	21.7	20.6	21.0	21.0	21.1	20.3	19.3	20.3	20.1	18.7	18.6	20.7	20.9	19.0	19.4	18.6	13.4	—	—

SOURCE: Banco de España.

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

TABLE 4

	CBA		CBQ (a)			
	2002	2003	03 Q1 - Q4	04 Q1 - Q4	04 Q1 - Q2	05 Q1 - Q2
Number of corporations	8,419	8,525	833	809	831	710
PERSONNEL COSTS	100	100	100	100	100	100
Falling	27.8	25.4	31.2	32.3	33.1	29.3
Constant or rising	72.2	74.6	68.8	67.7	66.9	70.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.2	31.4	45.2	44.5	45.5	41.4
Constant or rising	68.8	68.6	54.8	55.5	54.5	58.6
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	47.1	37.2	43.7	46.8	45.6	49.6
Higher or same growth (b)	52.9	62.8	56.3	53.2	54.4	50.4

SOURCE: Banco de España.

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

b. Twelve-month percentage change in the CPI.

compared with the rate in the same period a year earlier (4.4%). After the effect of the aforementioned staff reduction has been eliminated, the transport and communications sector shows an increase in employment of 1.2%, very similar to that in the previous year. The industrial sector again reported net rises in employment in the half (0.9%), and any assessment of this must take into account that in the last few years the employment rates of this CBQ sector have been negative. Finally, yet another quarter, the energy sector was again the only one that continued to report net declines in employment, with a change of -0.7% as a result of the staff reduction processes associated with the progressive deregulation of electricity sector corporations which, as mentioned in previous articles, exhibits a progressive mild downward trend.

Average compensation held on a moderate path, with growth of 2.8% for the first half of 2005, half a percentage point less than the increase in the same period of 2004. Nevertheless, the quarterly profile of the series showed a certain acceleration in 2005 Q2 (average compensation rose by 3%, against 2.6% in Q1). As is becoming customary in the CBQ sectoral analyses, mention must be made of the wholesale and retail trade, where personnel costs per worker grew at a rate of 2.3%, in line with its status as the most dynamic aggregate as regards job creation. Table 2.B shows, among other things, that corporations that reduce staff pay higher average compensation than corporations that increase staff, which reflects, inter alia, the lower cost of new employees. In the first half of 2005, however, for the first time the growth of average compensation at corporations that reduce staff was equal to that at corporations whose staff increases, whereas hitherto average compensation at the former had been growing at a notably higher rate than at the latter. This development will have to be confirmed before any inferences can be drawn as to its significance.

Finally, Table 4 completes what has been said so far on developments in employment. If the situation in the first half of 2005 is compared with that in the same period a year earlier, a significant increase is seen in the percentage of corporations that held unchanged or increased their average staff numbers, while, at the same time, an appreciable rise is apparent in the percentage of corporations at which average compensation grew more slowly than inflation. Both these developments corroborate the healthy trend in the employment and wage cost figures for the total sample.

**Profits, rates of return
and debt**

Since the growth of personnel costs (3.6%) trailed behind that of productive activity (4.7%), gross operating profit grew by more than GVA (5.4%), the rate of which was two and half per-



SOURCE: Banco de España.

- a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
 b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).
 c. MGs Sample corporations belonging to the main reporting multinational groups.

centage points less than a year earlier. The rate of change of financial costs was positive for the second consecutive quarter, reflecting an increase of 6.8% in whole of the half. The reasons for this are:

	05 Q1-Q2/04 Q1-Q2
Change in financial costs	+6.8%
A. Interest on borrowed funds (1 + 2)	+6.4%
1. Due to the cost (interest rate)	+0.6%
2. Due to the amount of interest-bearing debt	+5.8%
B. Commissions and cash discounts	+0.4%

The above table shows that the increase in financial costs was mainly due to the inflow of fresh borrowed funds, since the effect of interest-rate fluctuations on this heading was practically nil for the second quarter running, which seems to indicate that interest rates have reached a very low level. Also, taking advantage of the easy financing conditions offered by markets, the corporations reporting to the CBQ have continued to have increasing recourse to additional funds, although they have done so more moderately. The debt figures shown in the table are complemented by those in Chart 4. The ratio E1 (interest-bearing borrowing/net assets) confirms the slight upward trend in 2005 to date. The ratio E2 (consolidated interest-bearing borrowing⁴/

4. The item Consolidated interest-bearing borrowed funds is obtained by eliminating intra-group debt between companies of the same group reporting in the quarterly survey.

**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	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2003	04 Q1 - Q4	04 Q1 - Q2	05 Q1 - Q2	2003	04 Q1 - Q4	04 Q1 - Q2	05 Q1 - Q2	2003	04 Q1 - Q4	04 Q1 - Q2	05 Q1 - Q2	2003	04 Q1 - Q4	04 Q1 - Q2	05 Q1 - Q2
Total	8.7	8.6	6.9	5.4	16.4	19.2	21.2	10.7	7.7	8.5	7.4	8.2	3.8	4.5	3.4	4.2
SIZE																
Small	3.3	—	—	—	6.0	—	—	—	7.2	—	—	—	2.8	—	—	—
Medium	4.9	4.5	7.2	-0.6	10.3	7.4	16.5	-2.9	7.8	8.3	9.0	8.3	4.0	4.6	5.4	5.0
Large	9.3	8.7	6.9	5.7	17.5	19.7	21.4	11.3	7.8	8.5	7.3	8.2	3.8	4.5	3.3	4.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	2.9	6.4	1.6	12.1	4.9	8.4	5.5	22.2	8.2	9.2	8.3	9.3	4.7	5.7	4.8	5.8
Industry	9.1	12.1	6.5	2.2	19.5	30.3	9.9	1.9	8.6	9.6	8.7	8.2	4.8	5.8	4.9	4.5
Wholesale and retail trade	8.3	9.6	9.3	5.1	9.5	9.5	7.3	4.2	10.9	10.6	9.6	8.7	7.1	6.5	5.6	4.7
Transport and communications	9.4	6.5	7.0	1.1	25.6	15.9	18.4	6.4	9.4	14.5	12.6	15.6	5.3	10.1	8.2	11.1

SOURCE: Banco de España.

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

GVA), which shows a more moderate increase, evidences the unchanged relationship between debt and the ability to generate income from ordinary activity. In addition, analysis of the sample corporations excluding those belonging to some of the main multinational groups (MG) shows that this aggregate, characterised by a lower level of debt relative to its GVA, has held on a slightly downward trend in 2005 to date.

As regards financial revenue, the inflow of dividends from foreign subsidiaries meant that this caption increased by 11% and therefore showed notable growth, although not as high as in the same period a year earlier, when it was 15.3%. The favourable performance in recent years of certain areas, basically Latin America, has enabled the large Spanish multinationals to improve the return on their substantial investments in these areas. This improvement, along with the slight fall in depreciation and provisioning, meant that ONP grew by 10.7% in the first half of 2005. This growth, albeit appreciably lower than in the first half of 2004 when ONP grew by 21.2%, was sufficient to enable corporations to report further increases on top of their already high profit levels. Thus ROI and ROE stood at 8.2% and 4%, respectively, for the first half of 2005, against 7.4% and 10.3% a year earlier. The ratio measuring the cost of borrowed funds held practically unchanged at minimal levels (4%), which enabled the ratio measuring the difference between ROI and the cost of debt to stand, yet another period, at the clearly favourable level of 4.2 in the first half of 2005, in line with the behaviour of ROI. Finally, analysis of final net profit, which is the bottom line, revealed significant growth in the first half of 2005 (31.9%). This was due, on the one hand, to the behaviour of extraordinary results – gains on the sale of tangible assets and financial assets (sale of group company shares) as well as extraordinary income from exchange differences – and, on the other, to the sharp decrease in provisioning, which reflects the recovery in the value of investments abroad, particularly in Latin America, owing to the favourable performance shown by the economies of the area in recent years. All this explains how the ONP growth of 10.7% gives rise to total net profit growth of 31.9%, representing 33.8% of GVA, the highest percentage reported for a similar period in the whole quarterly series.

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

TABLE 6

	CBQ (a)				
	RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)		
	04 Q2 - Q1	05 Q2 - Q1	04 Q2 - Q1	05 Q2 - Q1	
Number of corporations	831	710	831	710	
Percentage of corporations by R <= 0% profitability bracket	23.4	23.2	25.9	26.0	
	0% < R <= 5%	20.9	21.3	15.5	16.1
	5% < R <= 10%	14.8	16.7	10.8	12.0
	10% < R <= 15%	11.7	10.9	9.0	10.6
	15% < R	29.2	27.9	38.8	35.3
MEMORANDUM ITEM: Average return	7.4	8.2	10.3	12.0	

SOURCE: Banco de España.

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

In all, there has been a slight slowdown in the activity of the sample corporations, measured in terms of GVA, although it should be kept in mind that, according to alternative indicators, the activities experiencing the most buoyant growth (construction and other services) are not well represented in the CBQ sample. Despite this, there are certain positive features, such as the growth of turnover, rising employment, moderation of average compensation, moderate growth of financial costs and favourable performance of financial revenue (basically due to the inflow of dividends from foreign subsidiaries), that account for the continuing high returns and that are linked to the favourable performance of extraordinary results and of total net profit. The oil price rise significantly affected the performance of the energy sector, both favourably (refining corporations) and adversely (electric utilities and the transport sector, among others). The available information also shows a decrease in relative terms in exchanges with the EU, in favour of other suppliers (in the case of purchases/imports) and of the domestic market, to which sales previously made to the EU have been redirected (in the case of sales/exports). These developments may reflect problems of competitiveness.

19.9.2005.