RESULTS OF NON-FINANCIAL CORPORATIONS TO 2005 Q4 AND SUMMARY YEAR-END DATA

Introduction[1]

The quarterly articles compiled regularly on the basis of the information available in the database of the Central Balance Sheet Data Office Quarterly Survey (CBQ) reflect the developments in the accounts of non-financial corporations with a lag of three months from the quarter to which the latest information analysed relates. This information is usually assessed by summing the results of the approximately 800 corporations that report to the CBQ on the past quarters of each year and comparing this aggregate with the equivalent one for the same period of the previous year. This edition of the article therefore analyses the figures for the four quarters of 2005, which provide a first indication of the results of the Central Balance Sheet Data Office Annual Survey (based on the data of some 8,000 corporations and due to be disseminated in the January 2007 issue of the *Economic Bulletin*). Experience shows, as seen in Table 1 and Chart 1, these two databases usually display a similar profile for activity, as measured by nominal gross value added (GVA), but the rates obtained by the CBA always exceed those indicated by the CBQ for the same period. At the same time, the profile and the level of the path of the activity of non-financial corporations, according to the CBA, are usually similar to those recorded by the CNE, while the CBQ shows lower rates of activity than the Quarterly National Accounts (QNA), with a profile that is not always similar, owing to the low level of representation of small and medium-sized enterprises in the CBQ and to certain biases in the composition of the sample. However, besides the information that the Central Balance Sheet Data Office databases supply on developments in activity, they are also useful as they enable the factors that influence the cost of borrowing for companies, ordinary profit, returns and debt, as well as the influence of the extraordinary results on the total or net profit, which are those that explain the distribution of dividends, to be analysed.

Against this background, the information compiled by the CBQ to 2005 Q4 confirms that the productive activity of companies tended to grow moderately during the year, with a certain slowdown from the growth recorded a year earlier, confirming the developments indicated in the January 2006 issue of the *Economic Bulletin* on the basis of data for the first three quarters of the year. Thus, gross value added (GVA) rose by 4.6% in 2005, somewhat more than one percentage point less than a year previously (5.8%). This performance is, in principle, very different from that implied by the quarterly accounts data for non-financial corporations, provided by the QNA, which, on data to 2005 Q3, show a more positive performance in 2005 than in 2004[2]. Apart from the peculiarities of the sample referred to above, in this specific period the differences can be explained by the low level of representation in the CBQ of firms belonging to the sectors that have recently displayed most buoyancy, such as construction and other services, which are not well represented in the CBQ. On the other hand, the behaviour of the nominal GVA of large firms in industry, the wholesale and retail trade and transport and communications, those best represented in the sample of the Central Balance Sheet Data Office, was less favourable. The growth of activity recorded by the CBQ firms in 2005 again originated in the behaviour of energy and, to a lesser extent, the wholesale and retail trade, the latter stimulated by the solid growth of private consumption. As regards energy, the rise in oil prices in 2005 had a positive effect on the sector as a whole, owing to its impact on firms in the oil

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1. This article is based on the data provided by the 728 corporations which, on average, reported information to the Central Balance Sheet Data Office on a voluntary basis to 16 March 2005. According to the Spanish National Accounts (CNE), the GVA of this aggregate of firms amounts to 12.9% of the GVA of the sector non-financial corporations. **2.** The INE published quarterly accounts for the sector non-financial corporations, for the first time, at the end of December 2005. These accounts, which are disseminated together with the quarterly accounts for the other institutional sectors, will be very useful for analysts and provide a point of comparison for the work of the Central Balance Sheet Data Office.

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

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2004	2005	2006	03 Q1-Q4/ 02 Q1-Q4	04 Q1-Q4/ 03 Q1-Q4	05 Q1-Q4/ 04 Q1-Q4
Number of corporations		8,772	7,969	831	817	728
Total national coverage		30.0%	28.2%	14.9%	14.9%	12.9%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	6.0	7.8	3.7	7.8	12.9
Of which:						
— Net amount of turnover and other operating income	134.3	5.9	8.6	4.0	8.1	16.3
2. INPUTS (including taxes)	67.0	5.9	8.2	3.3	9.0	17.6
Of which:						
— Net purchases	39.5	4.2	12.3	2.6	10.0	20.3
— Other operating costs	27.2	7.9	3.4	6.2	7.2	9.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.0	6.3	7.1	4.3	5.8	4.6
3. Personnel costs	16.8	4.6	4.5	3.9	3.0	3.8
S.2. GROSS OPERATING PROFIT [S.1 – 3]	16.2	8.3	10.0	4.5	8.0	5.2
4. Financial revenue	3.1	4.3	13.9	18.8	2.9	22.6
5. Financial costs	2.6	-2.0	-3.9	-0.2	-7.4	7.8
6. Depreciation and operating provisions	6.5	4.1	2.5	1.6	-0.8	-0.4
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.1	14.5	21.5	12.7	17.7	12.5
7. Capital gains and extraordinary revenue	3.5	8.3	-32.3	0.6	-33.9	62.3
8. Capital losses and extraordinary expenses	3.1	-28.3	-5.4	-34.6	-27.4	69.8
9. Other (provisions and taxes)	3.9	-35.9	-14.7	-44.7	1.1	-18.0
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.6	(b)	17.1	(b)	8.0	26.2
NET PROFIT/GVA (S.4/S.1)		17.8	20.1	24.8	24.0	33.2
PROFIT RATIOS	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.8	8.1	8.0	8.3	9.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.9	3.6	4.1	3.9	3.8
R.3 Ordinary return on equity (before taxes)	S.3/E	11.1	11.8	11.6	12.1	14.6
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	3.9	4.5	3.9	4.4	5.7

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 p ortion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).
Note: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 9.

refining business, but had an adverse effect on the rest of the sectors and, especially, on firms in the transport and communications and electricity sectors, which suffered a rise in their input costs and, consequently, a slowdown in the growth of their GVA. Finally, after a positive start to 2005, the results of industrial firms progressively worsened during the year, owing to the narrowing of their margins and the weakness of demand in the euro area countries, to which most Spanish industrial exports are sold. In the sample as a whole, external activity is seen to have maintained its negative contribution to output growth, in a year in which both imports and exports slowed significantly.

Meanwhile, personnel costs, which as a percentage of output fell by 7 percentage points between 1995 and 2005, increased by 3.8% in 2005, slightly more than in the previous year (3%). This was mainly a result of the improved behaviour of employment, which rose by 0.8% in 2005 (as compared with nil growth in 2004), against a background of steady growth in aver-

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND PERSONNEL COSTS 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				PERSONEL COSTS PER EMPLOYEE			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2003	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4
Total	6.3	7.1	5.8	4.6	1.2	2.3	0.0	0.8	4.6	4.5	3.0	3.8	3.4	2.2	3.0	3.0
SIZE																
Small	4.9	8.1	—	—	0.9	0.6	—	—	6.0	4.0	—	—	5.1	3.3	—	—
Medium	5.6	7.2	3.4	2.2	2.0	2.4	-0.6	1.2	6.7	5.2	3.1	5.2	4.7	2.7	3.7	4.0
Large	6.5	7.1	5.9	4.7	1.1	2.4	0.1	0.8	4.2	4.5	3.0	3.7	3.1	2.0	2.9	2.9
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	2.6	6.3	5.9	9.7	-1.7	-1.2	-1.1	-0.9	1.5	2.1	2.9	3.0	3.2	3.4	4.0	3.9
Industry	4.9	4.6	5.9	0.9	-0.8	-0.2	-0.7	-0.1	2.6	2.9	2.3	3.4	3.4	3.0	3.0	3.5
Wholesale and retail trade	8.6	10.5	6.9	3.9	5.2	5.7	4.3	2.6	8.5	8.5	6.7	4.1	3.1	2.6	2.3	1.5
Transport and communications	6.3	5.8	4.3	2.7	-0.8	-0.9	-1.8	-0.6	2.9	2.3	1.1	2.7	3.7	3.3	3.0	3.3

SOURCE: Banco de España.

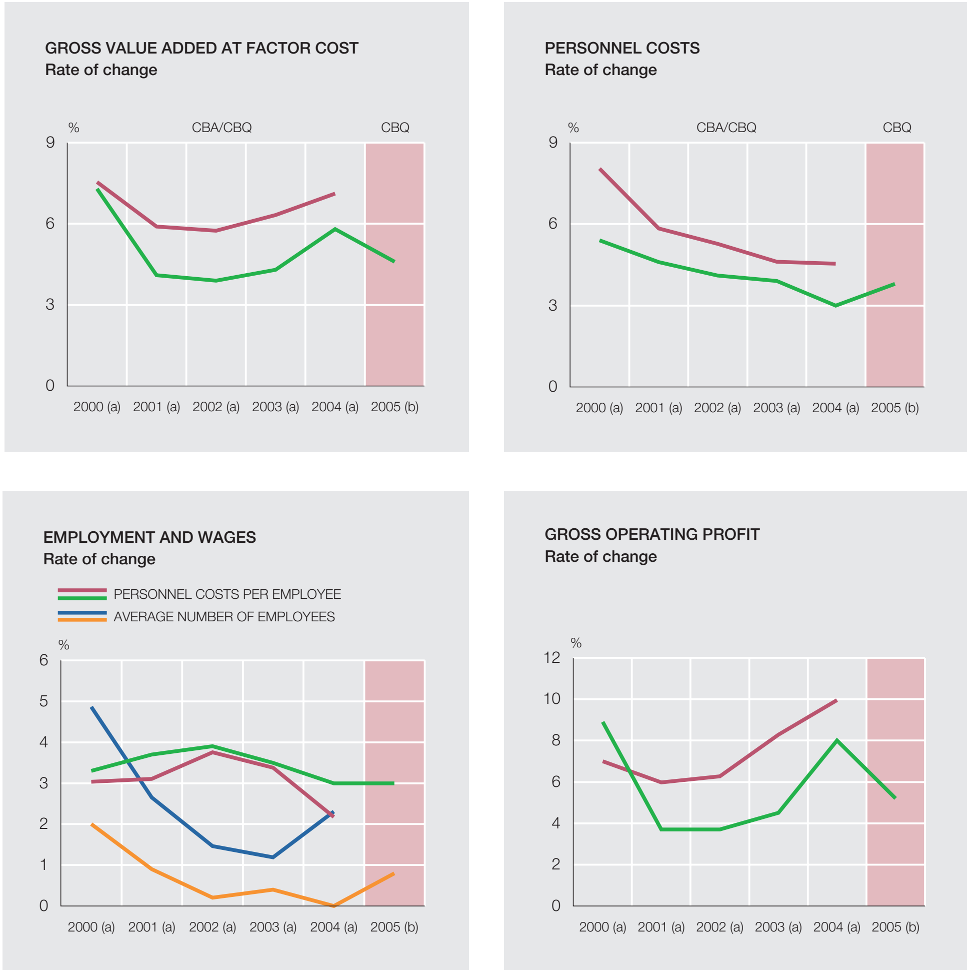
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

age compensation of 3%, which was higher than according to the CNE. In 2005, once again, the sector in which employment was most buoyant was the wholesale and retail trade, although its growth rates in this sector were significantly lower than in the preceding periods, in line with the slower rate of growth of activity. As a result of the slowdown in productive activity in 2005, gross operating profit increased by 5.2%, almost three percentage points down from the previous year. Financial costs, for their part, displayed a change of trend, growing by 7.8% in the year as a whole, having fallen in every year since 2000, when they rose. This increase was the result of a fall of 1.6% in the cost component (i.e. the interest rates charged on loans), which was notably smaller than the declines recorded in the preceding years, and a rise of 9.4% in the level of debt. This increase in financial costs was offset by a 22.6% increase in financial revenues, as a consequence of the significant inflow of dividends from foreign subsidiaries. Both developments, along with the virtual stagnation of depreciation and operating provisions enabled ordinary net profit (ONP) to grow by 12.5% in 2005, although this rate was lower than in 2004. The contribution of extraordinary revenues and expenses to the final result was very positive, as a result of the significant reversals of provisions made in previous years that continued to be recorded and the capital gains generated on certain sales of shares, which enabled the final net profit to rise to 26.2%. The growth in ONP and in other variables that affect the calculation of returns enabled the CBQ firms to achieve a slightly higher level of profitability in 2005 than in 2004, as shown by the spread of 5.7 percentage points (pp) between ROI and the cost of debt, which was higher than in previous years. Finally, the E1 ratio (see Chart 4), which measures the level of the companies' debt relative to their net assets, showed a slight upward trend in 2005. This, together with the 8.1% increase in the gross fixed capital formation of the sample companies, seems to indicate a greater propensity on the part of firms to undertake new investment projects using external sources of financing, given the favourable market conditions.

To sum up, in general, the developments in the activity of the CBQ firms were similar to those in the activity of all Spanish non-financial corporations, according to the CNE/QNA.

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

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		2000	2001	2002	2003	2004	2005
Number of corporations	CBA	8,489	8,417	8,420	8,772	7,969	—
	CBQ	883	859	848	831	817	728
% of GDP of the sector non-financial corporations	CBA	30.4	29.6	29.5	30.0	28.2	—
	CBQ	16.3	15.4	15.4	14.9	14.9	12.9

SOURCE: Banco de España.

a. 2000, 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the first four quarters of 2005 relative to the same period in 2004.

However, unlike in the case of the latter, the GVA of the CBQ firms slowed slightly in 2005 relative to 2004. This difference can be explained by the low level of representation in the sample of the most buoyant sectors in 2005 (such as construction and certain services). However, this moderation in activity was not fully passed through to employment creation, against a background of stability in the growth of personnel costs per employee. The slower growth in operating profit and the higher financial costs (which brought to an end the continuous decline that began in 2001), were offset by a larger inflow of dividends from foreign subsidiaries. This led to a favourable trend in ONP and, in short, to a high level of profitability for the firms, while debt ratios were increasing. The growth in net extraordinary earnings

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd) CHART 1

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SOURCE: Banco de España.

a. 2000, 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average for the first four quarters of 2005 in relation to the same period in 2004.

also contributed to a more positive trend in final net profit, which grew by 26.2% with respect to 2004.

Activity

In 2005, the activity of the CBQ firms grew moderately, although more slowly than in 2004. GVA increased at a rate of 4.6% (see Table 1), which was below the 2004 rate (5.8%). This slowdown in activity occurred against a background in which domestic demand continued to be the main engine of growth. The relative importance of the external component fell again, as seen in Table 3, which shows the decline in the importance of sales to foreign markets, and also in purchases from abroad. This behaviour, which affects industry in particular (the sector

EMPLOYMENT AND PERSONNEL COSTS TABLE 2.B

Details based on changes in staff levels

		TOTAL CBQ CORPORATIONS 2005 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		728	430	298
PERSONNEL COSTS				
Initial situation 04 Q1-Q4 (€m)		21,727.6	12,192.4	9,535.1
Rate 05 Q1-Q4/ 04 Q1-Q4		3.8	7.4	-0.8
AVERAGE COMPENSATION				
Initial situation 04 Q1-Q4 (€)		40,795.9	36,749.3	47,481.3
Rate 05 Q1-Q4/ 04 Q1-Q4		3.0	3.1	4.1
NUMBER OF EMPLOYEES				
Initial situation 04 Q1-Q4 (000s)		533	332	201
Rate 05 Q1-Q4/ 04 Q1-Q4		0.8	4.2	-4.7
Permanent	Initial situation 04 Q1-Q4 (000s)	444	270	174
	Rate 05 Q1-Q4/ 04 Q1-Q4	0.5	3.3	-3.9
Non-permanent	Initial situation 04 Q1-Q4 (000s)	89	62	27
	Rate 05 Q1-Q4/ 04 Q1-Q4	2.3	7.8	-10.2

SOURCE: Banco de España.

most dependent on developments in foreign markets), is explained by the absence of any clear pick-up in the main euro area countries. As for the net contribution of external demand to output (exports less imports), it remained negative, although the slowdown in imports in 2005 avoided any increase in its magnitude.

By sector, the growth of energy was notable, its GVA growing at a rate of 9.7% in 2005. This sharp increase is basically explained by the behaviour of oil refining, whose GVA increased by 33.2%, as a consequence of oil price developments, as discussed in previous articles (see Chart 2). Also in the energy sector, the GVA of electricity, gas and water utilities rose by 5% in 2005, owing to the strong expansion of the gas utilities and the favourable behaviour of the demand for electricity which grew by 3.3%, according to *Red Eléctrica Nacional* (the national electricity network), despite the increase in their production costs caused by greater generation of electricity by thermal power stations. Of the other sectors, after oil refining, wholesale and retail distribution recorded the highest growth in GVA in 2005 (3.9%), in line with the growth of private consumption. However, comparing with the previous year (the GVA of the wholesale and retail distribution firms rose by 6.9% in 2004), a slowdown is apparent, which is consistent with alternative indicators. Transport and communications meanwhile recorded a nominal increase in GVA of 2.7% in 2005, almost two percentage points down from the previous year. This rate was affected by the higher costs faced by both telecommunications firms (with significant advertising campaigns in 2005) and air transport firms (that suffered the severe impact of higher fuel prices), which led to a considerable reduction in their mark-ups. Finally, industry gradually lost buoyancy over the year, at a rate that stepped up in the final quarter. For the year as a whole, industrial GVA grew at a rate of 0.9%, well below the 2004 rate (5.9%). This slower rate of growth was apparent across practically all the sub-sectors that make up this aggregate (see Box 1). Lastly, Chart 3 shows that, when each of the sample firms are categorised according to the growth rate of their GVA, no significant changes are appreciated with respect to the 2004 situation. This shows that the fall in GVA in 2005, with respect to 2004, for the aggregate of all firms is

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rate of change

TABLE 3

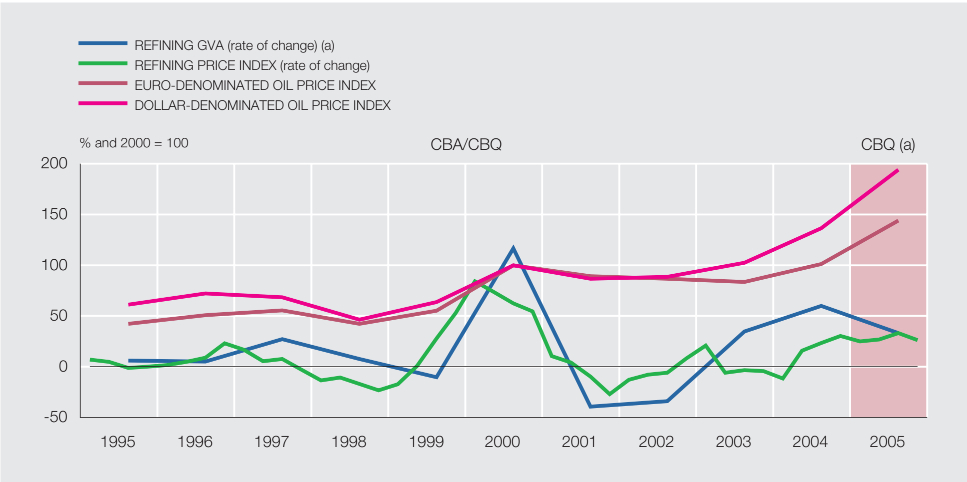
		CBA		CBQ (a)	
		2003	2004	04 Q1-Q4	05 Q1-Q4
Total corporations		7,969	7,969	728	728
Corporations reporting source/destination		7,969	7,969	702	702
Percentage of net purchases according to source	Spain	70.0	69.2	77.5	80.0
	Total abroad	30.0	30.8	22.5	20.0
	EU countries	17.4	17.2	15.6	13.8
	Third countries	12.6	13.6	6.9	6.2
Percentage of net turnover according to destination	Spain	83.9	84.4	87.8	88.7
	Total abroad	16.1	15.6	12.2	11.3
	EU countries	11.7	11.3	9.0	8.0
	Third countries	4.4	4.3	3.2	3.3
Change in net external demand (exports less imports), rate of change (b)	Industry	9.5	-4.4	3.6	-1.0
	Other corporations	-9.5	-32.2	-38.3	-4.4

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarterly data.
b. The rates of change for 2003 refer to the 8,772 corporations reporting to the CBA that year.

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



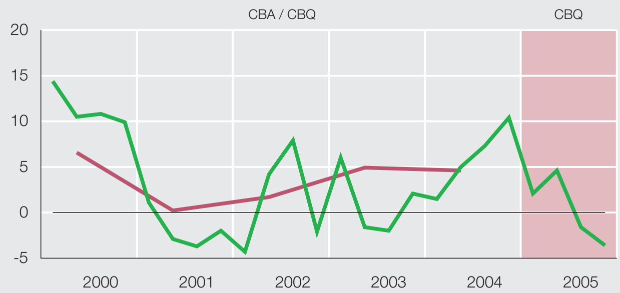
SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio *(Informe Mensual de Precios).*

a. The 2005 data relate to the CBQ.

According to the CBQ, the productive activity of industrial corporations grew very moderately in 2005 (0.9% in relation to 2004), compared with almost 6% in 2004. This performance is the outcome of a progressive slowdown in activity as the year unfolded. Hence, while in the first half of the year GVA held at an average increase of close to 3%, the deterioration became increasingly clearer in the second half, as evidenced by the fact that the rate for Q4 was –3.6%. This lesser buoyancy was across the board in all sub-sectors of industry, the result of lower sale prices and squeezed margins, and also of the reduction in exports, which remain affected by the continuing sluggishness of some of the main euro area economies. Among the industrial sectors for which information is available, those performing worst were glass, ceramics and metals, and the manufacture of electric, electronic and optical equipment; after posting increases in GVA of close to 10% in 2004, these showed rates of change of 1.7% and 0.1%, respectively. The same was the case for the manufacture of transport equipment, whose GVA fell by 4.8%, due in part to the adoption of price-cutting strategic decisions by certain major manufacturers. The employment data for 2005 show a change of –0.1%, something of an improvement on the rate for the previous year (–0.7%). The quarterly profile also reveals a deterioration in employment as the year progressed, in step with the developments in productive activity. Average compensation rose by 3.5%, a higher rate than that for the sample as a whole. A deterioration was also discernible in average compensation as the year unfolded, as wage costs grew by 3.7% in Q4 following growth of 2.7% in Q1–Q3. As a result, personnel costs grew by 3.4%, slightly over 1 pp up on the previous year. Combined with the slowdown in activity, this meant that the industrial corporations reporting to the CBQ did not attain the ordinary net profit levels of the previous year. Both the gross operating profit and the ordinary net profit fell in 2005, by –1.9% and –6.1%, respectively. Accordingly, industrial corporations were unable to maintain the level of profitability of the previous years, prompting the return on investment to dip from 9.4% in 2004 to 8.6% in 2005.

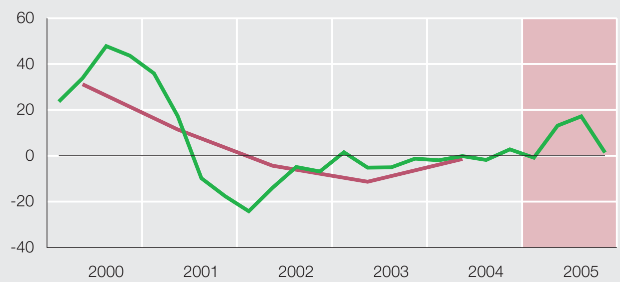
PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

GROSS VALUE ADDED AT FACTOR COST
Rate of change

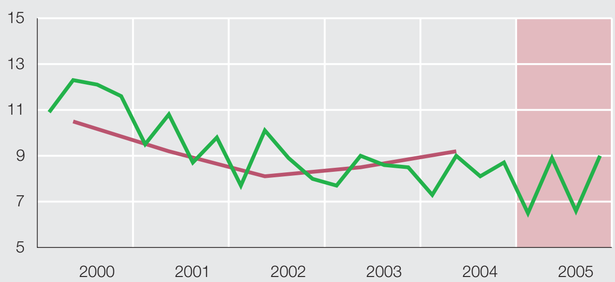


EMPLOYMENT AND WAGES
Rate of change

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	2,612	2,267	—
	CBQ	431 411 390 378	402 392 380 363	389 375 365 354	366 361 352 345	353 344 336 326	322 306 290 198
% of GDP of the sub-sector industrial corporations	CBA	31.4	28.2	27.9	28.1	24.6	
	CBQ	26.3 26.7 23.4 24.0	21.5 21.2 18.8 20.1	19.6 20.6 18.6 18.5	18.8 19.1 17.1 17.8	19.8 20.2 17.7 18.9	18.9 19.2 15.7 10.1

SOURCE: Banco de España.

Nonetheless, with financial costs holding at minimum levels (the ratio measuring the cost of borrowed funds stood at 3.7% in 2005, virtually unchanged on the previous year), the spread between ROI and the cost of debt remained positive in 2005 (4.9) for the aggregate of industrial corporations, although clearly down on the previous year (5.6) and on the spread for the overall aggregate of corporations (5.7). In sum, the greater buoyancy of activity and employment in the industrial sector at the outset of 2005 has changed as the year has progressed, giving way to a scenario marked by great uncertainty. The competitiveness in markets has led margins to narrow, and this has been compounded by the continuing sluggishness of external demand, owing to the above-mentioned situation in the euro area countries. Consequently, how these corporations fare in the short and medium term will largely depend on their capacity to adapt their productive structure to the new circumstances of the globalised market.

affected by the lower growth rates, with respect to the preceding period, of certain large firms.

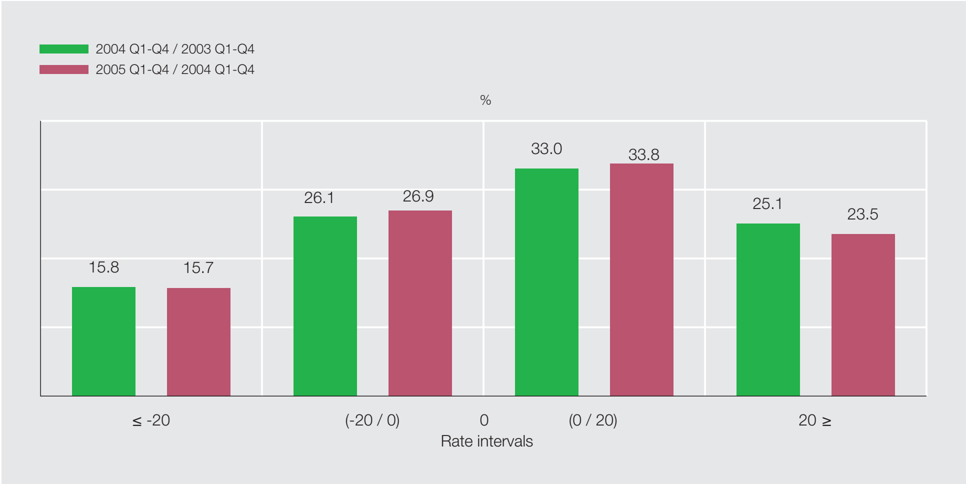
Employment and personnel costs

Personnel costs at the corporations reporting to the CBQ increased by 3.8% in 2005, compared with 3% in 2004. This growth is due to staffing increases, since average compensation at the corporations in the sample held at 2004 levels. In both cases the figures are higher than those shown by National Accounts for the economy as a whole. Specifically, employment grew by 0.8%, compared with zero growth during 2004. Previous CBSO reports have drawn attention to the fact that even a small increase in employment at the CBQ corporations should be viewed very favourably, given the particularities of the group of corporations making up this sample (large corporations and industrial and services companies predominate, some subject to employment regularisation processes). The increase is discernible in all sectors, though it should be specified that the highest growth in employment took place in the wholesale and retail sector (as has habitually been the case in recent years), with a 2.6% rise in the number of workers in 2005, a notably smaller rate than a year earlier (4.3%). The decline in employment in transport and communications experienced in previous periods eased off, with the related rate of reduction falling from 1.8% in 2004 to only 0.6% in 2005, this being influenced by the process of adjustment in a major corporation in the sector, outlined in previous articles, without which this aggregate would show net increases in employment of around 1%, both in 2004 and in 2005. As in 2004, there was no positive change in staff numbers in energy corporations in 2005, since the rate was –0.9%, although this marked an improvement on the previous period (–1.1% in 2004 and –1.7% in 2003). This would seem to indicate that the reorganisation processes at the electric utilities are coming to a close. Finally, industrial corporations continue to shed labour at a lesser rate than in 2004, although the quarterly profile highlights a worsening trend, with a progressive deterioration as 2005 unfolded (see Box 1).

Average compensation increased by 3% in 2005 (unchanged on 2004), which is in the lower band for this variable in recent years according to CBQ data and which, along with employment developments, is contributing to the continuing decline in personnel costs relative to output. This reduction dates back considerably since, on CBQ figures, this percentage, which stood at 20.1% in 1995, was 13.3% in 2005. It should also be borne in mind that the average compensation at CBQ corporations is moving at a higher rate than that which the National Accounts show for the economy as a whole. This trend in average compensation has been more markedly perceptible in the wholesale and retail sector which, moreover, was that which showed the lowest rate of change (1.5%), confirming that the sectors with the most moderate rises in average compensation are those most active in job creation. This is also illustrated in Table 2.B, where the level of average compensation is shown to be one of the variables that

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

CHART 3



SOURCE: Banco de España.

PERSONNEL COSTS, EMPLOYEES AND PERSONEL COSTS PER EMPLOYEE
Percentage of corporations in specific situations

TABLE 4

	CBA			CBQ (a)		
	2002	2003	2004	03 Q1-Q4	04 Q1-Q4	05 Q1-Q4
Number of corporations	8,420	8,772	7,969	831	817	728
PERSONNEL COSTS	100	100	100	100	100	100
Falling	27.9	25.6	27.9	31.5	32.3	28.4
Constant or rising	72.1	74.4	72.1	68.5	67.7	71.6
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.3	31.6	30.6	45.1	44.4	40.7
Constant or rising	68.7	68.4	69.4	54.9	55.6	59.3
PERSONNEL COSTS PER EMPLOYEE	100	100	100	100	100	100
Lower growth (b)	44.6	38.9	44.4	44.5	46.5	48.6
Higher or same growth (b)	55.4	61.1	55.6	55.5	53.5	51.4

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Year-on-year change in the CPI.

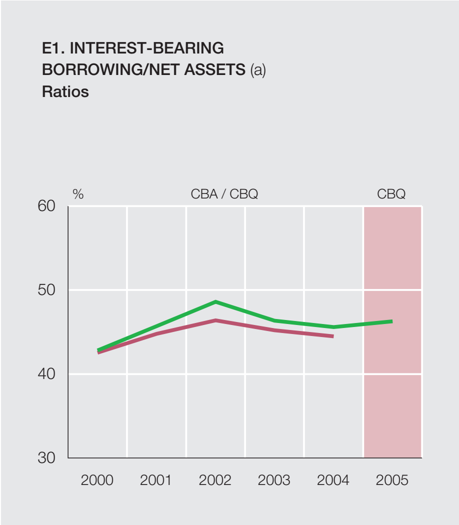
explains the trend of employment. The remaining sectors in the sample maintained a similar pattern of growth in average wages in 2005 of around 3.5%, with relatively negligible changes on the rate recorded the previous year. Lastly, Table 4 shows how the proportion of corporations whose personnel costs outgrew inflation continued to be in the majority, although the percentage is falling (from 53.5% in 2004 to 51.4% in 2005). The table likewise reveals how the proportion of corporations in which employment is holding or rising is increasing; on CBQ data for 2005, this percentage amounts to approximately 60%.

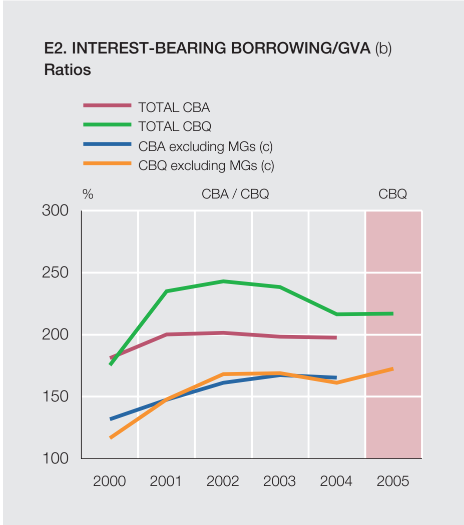
Profits, rates of return and debt

The slight slowdown in the activity of the CBQ corporations in 2005, along with the moderate growth of personnel costs, meant that the gross operating profit, or surplus, grew by 5.2%, almost 3 pp down on the previous year. To this increase in resources from the production process must be added those from revenue less financial costs in order to determine ordinary profit, which are relevant for the calculation of rates of return. The former grew at a rate of

DEBT RATIOS

CHART 4





	2000	2001	2002	2003	2004	2005
CBA	42.5	44.8	46.4	45.2	44.5	
CBQ	42.8	45.7	48.6	46.4	45.6	46.3

	2000	2001	2002	2003	2004	2005
CBA	180.9	200.0	201.4	198.2	197.6	
CBQ	175.3	234.9	242.8	238.4	216.4	216.9
CBA excl. MGs	131.6	147.6	161.0	167.3	165.2	
CBQ excl. MGs	116.6	147.6	168.2	168.9	161.1	172.4

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Equity includes 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.

22.6%, due essentially to inflows of dividends from subsidiaries abroad, and the latter increased by 7.8%, indicating a turnaround after four years of continuous reductions under this heading. The following breakdown of financial costs helps analyse the causes behind recent changes therein:

	05 Q1-Q4/04 Q1-Q4
Change in financial costs	**+7.8%**
A. Interest on borrowed funds (1 + 2)	*+7.8%*
1. Due to the cost (interest rate)	–1.6%
2. Due to the amount of interest-bearing debt	+9.4%
B. Commissions and cash discounts	*+0.0%*

As the table shows, the change due to the cost (interest rates applied) slightly cushioned the growth of financial costs, since the cuts in interest rates were of a lesser amount than those in previous years, owing among other things to the lower level they had reached. Greater resort to sources of borrowed funds is also apparent, which alone explains the increase in financial costs of over 9 pp, this being the main cause of the growth of this heading. The increase in the change due to the amount of interest-bearing debt, brought about by the generous market conditions, can also be seen in connection with the E1 and E2 ratios (see Chart 4). In E1 (interest-bearing borrowing/net assets), a mild rising trend is perceptible, confirming that corporations have resorted to a greater extent to borrowed funds in order to cover their needs. This

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	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4	2003	2004	04 Q1-Q4	05 Q1-Q4
Total	8.3	10.0	8.0	5.2	14.5	21.5	17.7	12.5	7.8	8.1	8.3	9.5	3.9	4.5	4.4	5.7
SIZE																
Small	3.3	14.9	—	—	7.1	23.0	—	—	7.2	7.1	—	—	2.9	3.4	—	—
Medium	4.1	10.1	3.9	-1.6	9.1	13.8	8.6	-6.2	7.8	8.2	8.3	7.6	3.9	4.8	4.7	4.4
Large	8.9	9.8	8.2	5.4	15.4	22.3	18.0	13.2	7.8	8.1	8.3	9.5	3.9	4.5	4.4	5.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	2.9	7.8	6.8	11.5	1.1	9.0	10.2	25.4	7.9	8.0	9.0	10.1	4.5	4.7	5.5	6.6
Industry	8.5	7.0	10.5	-1.9	14.9	10.5	27.5	-6.1	8.5	9.2	9.4	8.6	4.7	5.7	5.6	4.9
Wholesale and retail trade	8.7	13.2	7.1	3.6	9.7	19.6	7.1	7.8	10.9	12.3	10.0	9.5	7.1	8.7	5.8	5.4
Transport and communications	8.8	8.3	6.6	2.7	25.4	26.2	17.0	7.7	9.2	9.5	13.8	14.5	5.2	5.3	9.3	10.3

SOURCE: Banco de España.

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

trend is also consistent with that of the sampled corporations' gross fixed capital formation during the period, which stands at 8.1%[3]. The E2 ratio ([consolidated] interest-bearing borrowing/GVA) held in 2005 at a very similar value to that of previous years, which confirms that greater debt has not significantly affected either corporations' level of risk or their repayment capacity.

The course of financial revenue and costs enabled the CBQ aggregate of corporations to increase ordinary net profit to a rate of 12.5%, down on that in 2004 (17.7%). However, this growth allowed high rates of return to be maintained, which even exceeded those attained the previous year, owing to the trends in the other factors bearing on the calculation of the ratios (greater cash flow to cover financial costs and a better relative position of the balance sheet items in the ratio denominators, as indicated at the bottom of Table 1). The return on investment stood at 9.5% for 2005 (more than 1 pp up on the previous year), while the return on equity rose to 14.6% (compared with 12.1% in 2004). Sector by sector (see Table 5), it can be seen how these same high rates of return were maintained practically across the board. The exception was the industrial sector, where a strong decline was seen in 2005 as a result of the slowdown in activity. Conversely, the sector in which rates of return rose most clearly was "other market services" (a grouping which is not explicitly shown in the tables illustrating this report), which includes – inter alia – holding companies, the biggest beneficiaries of the strong inflows of dividends from the rest of the world in 2005. The ratio measuring the cost of borrowed funds held at a minimum level of around 3.8%, meaning that the spread between the return on investment and the cost of debt held, for another year, at a clearly positive value, that was higher than in previous years. Finally, as regards extraordinary profit, many of the provisions set aside in previous years were reversed in 2005 as a result of the pick-up in the value of the investments made, principally in Latin America. Combined with the capital gains

3. To approximate the trend of gross fixed capital formation, the CBQ questionnaire has begun to require additional information on tangible fixed assets operations (essentially depreciation provisions and gains/losses on the disposal of tangible fixed assets)

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 Q1-Q4	05 Q1-Q4	04 Q1-Q4	05 Q1-Q4
Number of corporations		817	728	817	728
Percentage of corporations by profitability bracket	R ≤ 0%	24.2	23.6	27.0	26.3
	0% < R ≤ 5%	21.3	21.1	16.0	16.4
	5% < R ≤ 10%	15.5	17.6	11.0	13.0
	10% < R ≤ 15%	10.6	10.7	9.1	10.1
	15% < R	28.5	27.0	36.9	34.2
MEMORANDUM ITEM: Average return		8.3	9.5	12.1	14.6

SOURCE: Banco de España.

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

arising on equity-sale transactions, this meant that net final profit grew at a rate of 26.2% for 2005.

In sum, the activity of the CBQ corporations – among which the most dynamic sectors at present, such as construction and services other than wholesale and retail distribution, transport and communications, are not well represented – held at a moderate growth rate during 2005, down on the previous year. This performance is affected not only by the characteristics of the sample, but by the persistence of sluggish external demand in the euro area countries and by higher oil costs, which has narrowed margins in certain sectors and reduced the generation of operating surpluses. That has not affected job creation, which has held on a slightly rising course, with average compensation stable at the previous year's levels. Further, the inflow of dividends from abroad has made for a rise in ordinary profit which, along with the performance of the other variables determining rates of return, has allowed the latter to continue at high levels, up on those of the previous year. This was so to the extent that the spread between the return on investment and the cost of debt for the total aggregate of corporations was 5.7 pp. During 2005 the reporting corporations saw productive investment trend favourably, as was deduced from the alternative indicators for the economy as a whole, which is conducive to the maintenance and creation of employment.

17.3.2006