

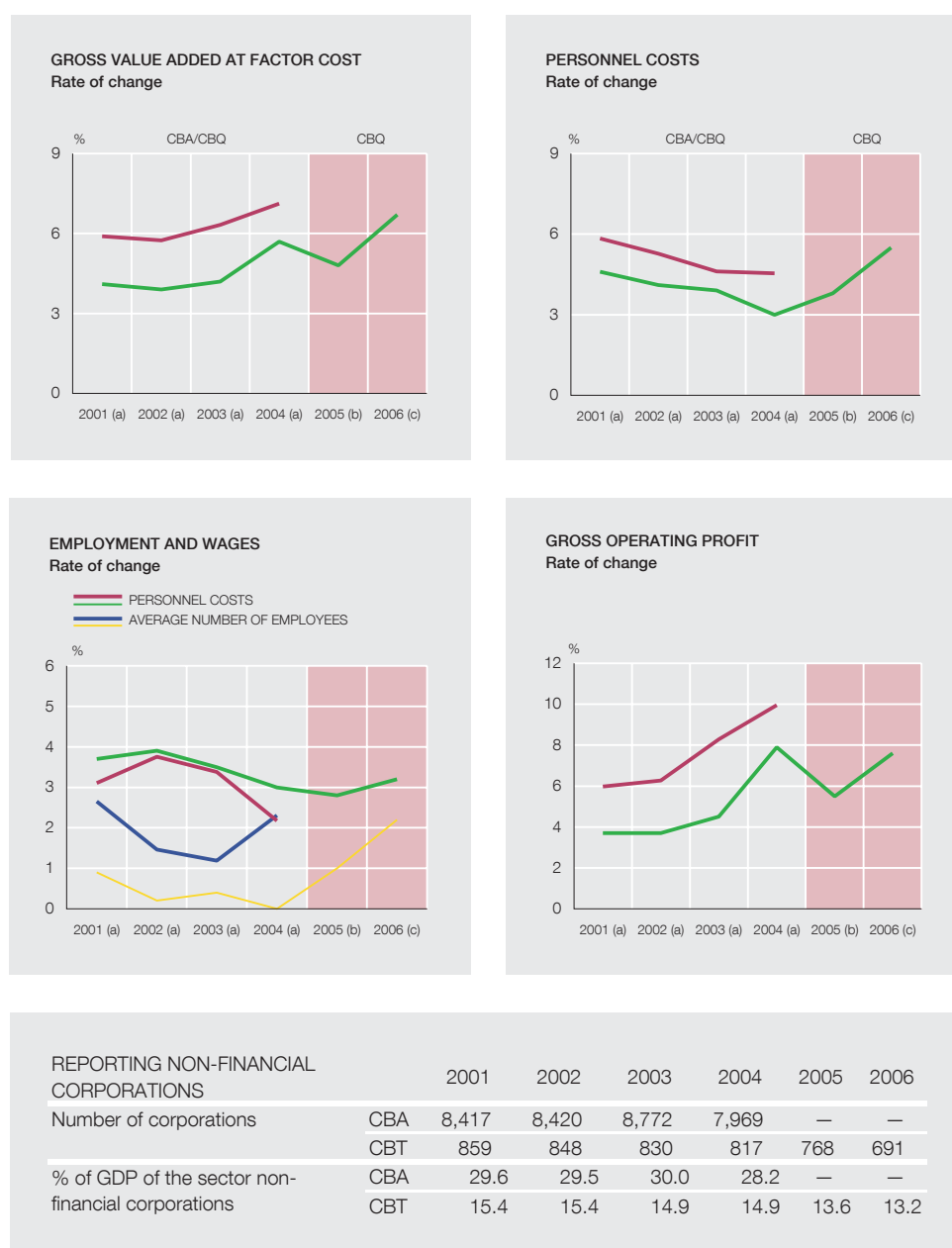
RESULTS OF NON-FINANCIAL CORPORATIONS IN 2006 Q1

Introduction¹

The information available in the Central Balance Sheet Data Office Quarterly Survey (CBQ) for the first three months of 2006 shows that the productive activity of the sample corporations grew notably in the first quarter of the year. This growth was apparent both in the corporations as a whole and in practically all the sectoral and size-based groupings. Thus nominal gross value added (GVA) grew by 6.7% in this period, nearly two percentage points more than the growth reported a year earlier (see Table 1 and Chart 1). A sectoral breakdown shows that the positive performance of wholesale and retail trade and of transport and communications faithfully reflects the ongoing soundness of domestic demand (see Table 2.A). Among industrial corporations, there was a significant recovery of productive activity in 2006 Q1, linked to the trend in capital goods production and driven by the greater buoyancy of foreign trade, the latter influenced by the recovery of the euro area economies. For its part, unlike the other sectoral aggregates, the energy sector saw its GVA growth rate decline as a result of the appreciable contraction of the margins of oil refineries, which, on this occasion, did not pass through all the oil price growth to fuel marketing corporations. In any event the value added of energy companies continued to grow faster than that of all corporations taken together.

In line with the positive performance of activity, employment grew at a rate of 2.2% in 2006 Q1 with respect to the same period of 2005, this rate constituting a high in the quarterly series. Average compensation increased by 3.2% in an across-the-board rise in the corporations of all activity groupings, although it was greater in the industrial and energy sectors. Job creation and the behaviour of average compensation explain the rise in personnel costs of 5.5% in 2006 Q1, a rate clearly above that of the same period a year earlier (3.6%). However, since GVA increased at a higher rate, gross operating profit grew by somewhat more than two percentage points faster than the 2005 Q1 rate (7.6% against 5.3%). Financial costs rose by 19%, which was higher than the rates seen since mid-2002 and reflects both the increased indebtedness generally prevalent in the sample corporations (the latest interest rate adjustments took place after the end of 2006 Q1) and, in particular, the impact of the debt taken on by a major telecommunications corporation in order to acquire a foreign company in the same sector. If the effect of this transaction is excluded, financial costs grew by 5.9%. The ratio that measures the cost of debt borne by corporations held steady, with no substantial changes relative to previous periods. Financial revenues grew notably less than they did a year earlier, due to the slower inflow of dividends from foreign subsidiaries. The strong increase in financial costs, which, as noted, was affected by one specific transaction, caused ordinary net income (ONP) to moderate with respect to previous periods, showing an increase of 4.9% in 2006 Q1 (9.7% if the effect of this transaction is disregarded), compared with 14.4% in the same quarter of the previous year, or with 13.3% in 2005 as a whole. However, the total increase in ONP plus financial costs (the numerator of the return on investment ratio) meant that, in 2006 to date, the net return on investment remained at high values, even slightly above those in the same period of 2005. Also, the ratio approximating the cost of borrowed funds held steady and, accordingly, yet another quarter the spread between ROI and the cost of debt stood at a positive value (3.3) and was higher than in the same period of 2005 (2.8), thereby pushing up the return on equity². Finally, as regards extraordinary results, the item explaining the step

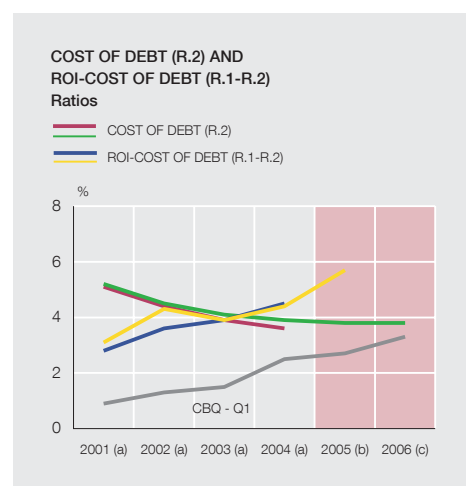
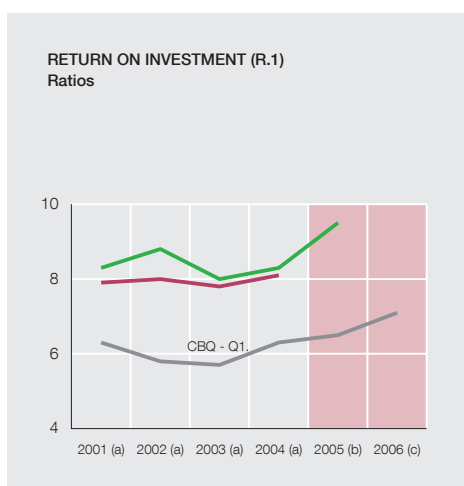
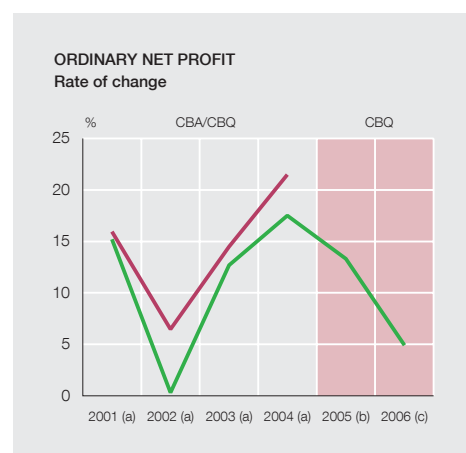
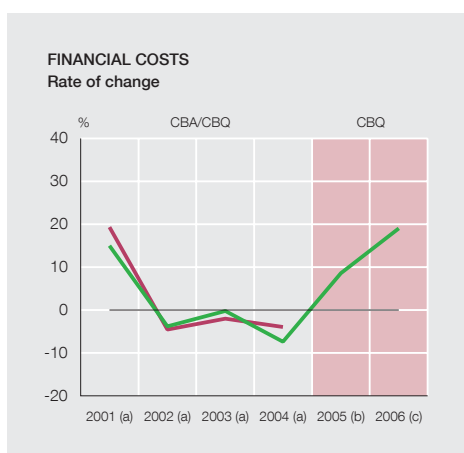
1. This article is based on the data provided to 14 June 2006 by the approximately 700 corporations which reported information to the Central Balance Sheet Data Office. The GVA of these corporations amounts to 13.2% of the GVA of the total sector non-financial corporations. 2. The methodological note in the Central Balance Sheet Data Office annual monograph explains the relationship between these ratios. Briefly, return on equity (R.3) is higher than return on investment (R.1) when the cost of debt (R.2) is lower than return on investment.



SOURCE: Banco de España.

- a. 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 four quarters of 2005 relative to the same period of 2004.
c. Data for 2006 Q1 relative to the same period of 2005.

from ordinary net profit to final net profit (the amount of which determines distributable profit), mention should be made of certain tangible and financial asset sale transactions that generated significant gains and others that gave rise to exchange gains, as a result of which net profit grew by 24.9%. The high profits being generated by Spanish firms become plain if net profit is expressed as a percentage of gross value added. In 2006 Q1 this percentage stood at 32.4%, a figure which, in addition to being five percentage points higher than in the same period of the previous year, is the highest reported in a first quarter since 1994, the year when the CBQ series commenced.



REPORTING NON-FINANCIAL CORPORATIONS		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,772	7,969	—	—
	CBQ	859	848	830	817	768	691
% of GDP of the sector non-financial corporations	CBA	29.6	29.5	30.0	28.2	—	—
	CBQ	15.4	15.4	14.9	14.9	13.6	13.2

SOURCE: Banco de España.

a. 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 four quarters of 2005 relative to the same period of 2004.

c. Data for 2006 Q1 relative to the same period of 2005.

In sum, the CBQ corporations started 2006 with more buoyant productive activity than in previous quarters. This expansionary behaviour is influenced by the recovery in industrial activity, which performed weakly in 2005 Q1 and is overrepresented in this group of corporations. Nevertheless, this trend was reported in practically all sectors, which were favoured by continuing strong domestic demand and by greater export buoyancy, in line with the improvement in the euro area economies. Employment also showed stronger growth than in previous quarters. As a result of all this, the main variables used to calculate profitability behaved well, while the financial costs of most firms increased moderately due to the greater debt taken on to fund

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		
	2004	2003	2004	05 Q1-Q4/ 04 Q1-Q4 (a)	05 Q1/ 04 Q1	06 Q1/ 05 Q1
DATABASES						
Number of corporations		8.772	7.969	768	825	691
Total national coverage		30.0%	28.2%	13.6%	15.2%	13.2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	6.0	7.8	12.9	11.4	19.5
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	134.3	5.9	8.6	16.2	14.2	20.3
2. INPUTS (including taxes)	67.0	5.9	8.2	17.5	15.4	26.4
<i>Of which:</i>						
<i>Net purchases</i>	39.5	4.2	12.3	20.0	21.3	29.0
<i>Other operating costs</i>	27.2	7.9	3.4	9.9	6.8	10.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.0	6.3	7.1	4.8	4.6	6.7
3. Personnel costs	16.8	4.6	4.5	3.8	3.6	5.5
S.2. GROSS OPERATING PROFIT [S.1 – 3]	16.2	8.3	10.0	5.5	5.3	7.6
4. Financial revenue	3.1	4.3	13.9	23.8	26.9	3.1
5. Financial costs	2.6	-2.0	-3.9	8.6	5.3	19.0
6. Depreciation and operating provisions	6.5	4.1	2.5	-0.4	-2.4	5.3
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.1	14.5	21.5	13.3	14.4	4.9
7. Capital gains and extraordinary revenue	3.5	8.3	-32.3	59.2	6.0	79.6
8. Capital losses and extraordinary expenses	3.1	-28.3	-5.4	69.1	35.6	17.8
9. Other (net provisioning and income tax)	3.9	-35.9	-14.7	-20.9	-5.2	10.8
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.6	(b)	17.1	28.6	11.3	24.9
NET PROFIT/GVA (S.4/S.1)		17.8	20.1	33.1	27.5	32.4
PROFIT RATIOS						
	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.8	8.1	9.5	6.5	7.1
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.9	3.6	3.8	3.7	3.8
R.3 Ordinary return on equity (before taxes)	S.3/E	11.1	11.8	14.5	8.9	10.8
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	3.9	4.5	5.7	2.8	3.3

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 or cash discounts (5.2).

Note: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 9.

productive investment. However, the high oil prices constitute a factor of risk that may affect the future performance of Spanish firms.

Activity

The information compiled by the CBQ for 2006 Q1, based on data furnished by the reporting corporations, shows a notable expansion of productive activity. Thus in this period GVA increased by 6.7%, more than in 2005 Q1 (4.6%) and than in 2005 as a whole (4.8%). Contributing to this were both the persistent strong growth of purchases and sales in Spain, confirming the continued vigour of domestic demand, and the recovery of a more buoyant tone in external activity. In this respect, Table 3 shows how imports and exports have gained relative weight with respect to the total purchases and sales of firms, although, except in the case of industrial corporations, the net domestic demand (exports minus imports) of the other sectors continues to show negative rates of change. Nonetheless, in 2006 Q1 Spanish industrial cor-

**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		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	2004	05	05	Q1 06 Q1	2004	05	05	Q1 06 Q1	2004	05	05	Q1 06 Q1	2004	05	05	Q1 06 Q1
	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Total	7.1	4.8	4.6	6.7	2.3	1.0	0.7	2.2	4.5	3.8	3.6	5.5	2.2	2.8	2.9	3.2
SIZE																
Small	8.1	—	—	—	0.6	—	—	—	4.0	—	—	—	3.3	—	—	—
Medium	7.2	3.7	-1.7	9.7	2.4	2.9	0.4	2.5	5.2	4.9	3.6	7.0	2.7	1.9	3.3	4.4
Large	7.1	4.9	4.9	6.6	2.4	0.8	0.8	2.2	4.5	3.7	3.6	5.4	2.0	2.9	2.8	3.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	6.3	9.9	10.5	8.1	-1.2	-0.9	-0.7	-1.1	2.1	2.9	3.7	2.8	3.4	3.8	4.5	3.9
Industry	4.6	1.6	1.8	6.5	-0.2	0.2	0.6	0.7	2.9	3.2	3.6	4.4	3.0	3.0	3.0	3.7
Wholesale and retail trade	10.5	4.0	0.8	10.8	5.7	2.6	2.1	5.1	8.5	4.2	3.9	7.7	2.6	1.6	1.8	2.5
Transport and communications	5.8	2.8	4.0	4.2	-0.9	-0.3	-0.5	-0.5	2.3	2.8	2.8	3.1	3.3	3.1	3.3	3.6

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 06 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	691	418	273
PERSONNEL COSTS			
Initial situation 05 Q1 (€m)	5,612.4	3,262.2	2,350.2
Rate 06 Q1 / 05 Q1	5.5	9.4	0.1
AVERAGE COMPENSATION			
Initial situation 05 Q1 (€)	10,289.7	9,131.6	12,488.2
Rate 06 Q1 / 05 Q1	3.2	3.5	4.8
NUMBER OF EMPLOYEES			
Initial situation 05 Q1 (000s)	545	357	188
Rate 06 Q1 / 05 Q1	2.2	5.7	-4.5
Permanent			
Initial situation 05 Q1 (000s)	457	287	170
Rate 06 Q1 / 05 Q1	0.4	2.7	-3.6
Non-permanent			
Initial situation 05 Q1 (000s)	88	70	18
Rate 06 Q1 / 05 Q1	11.1	18.6	-13.5

SOURCE: Banco de España.

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

TABLE 3

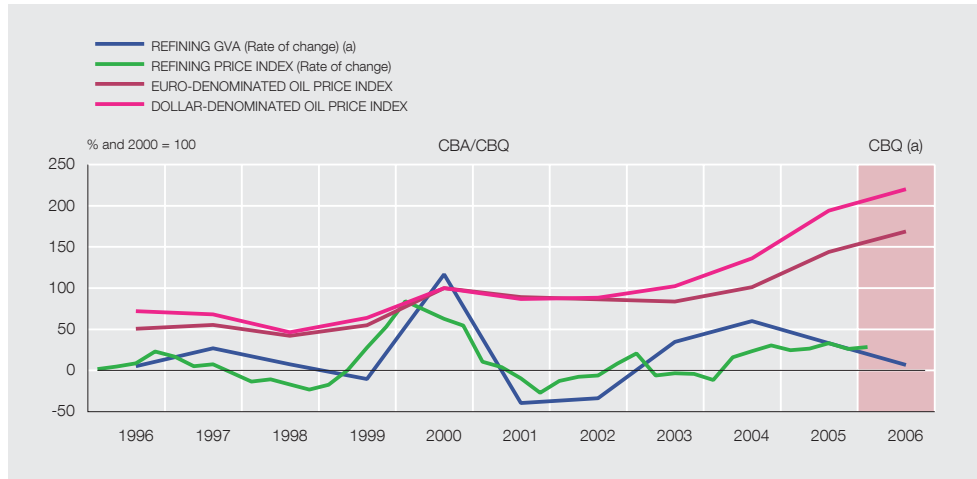
		CBA	CBQ (a)		
		2004	05 Q1-Q4	05 Q1	06 Q1
Total corporations		7,969	768	691	691
Corporations reporting source/destination		7,969	739	667	667
Percentage of net purchases according to source	Spain	69.2	80.0	79.8	78.9
	Total abroad	30.8	20.0	20.2	21.1
	<i>EU countries</i>	17.2	13.7	11.6	11.0
	<i>Third countries</i>	13.6	6.3	8.7	10.1
Percentage of net turnover according to destination	Spain	84.4	89.6	90.4	89.8
	Total abroad	15.6	10.4	9.6	10.2
	<i>EU countries</i>	11.3	8.0	5.9	6.1
	<i>Third countries</i>	4.3	2.4	3.7	4.1
Change in net external demand (exports less imports), rate of change	Industry	-4.4	0.5	5.2	17.5
	Other corporations	-32.2	-14.4	-17.9	-36.6

SOURCE: Banco de España.

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

corporations recorded strong growth in their net external balance. Against this background, the main factor of risk continues to be the behaviour of oil prices, which is particularly affecting the firms and sectors that use this input and its derivatives.

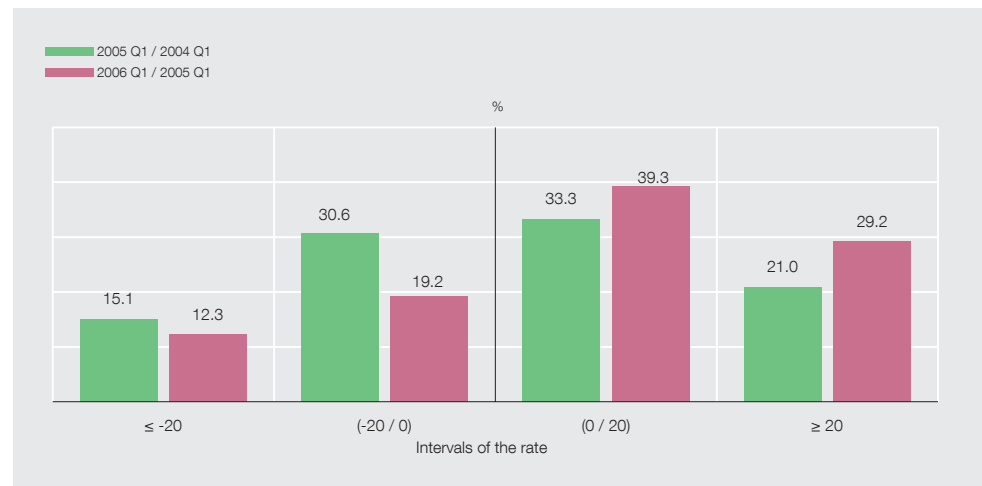
Nearly all sectors improved their pace of GVA generation in comparison with 2005 Q1. An exception was the energy sector, whose GVA slowed in 2006 Q1, with a growth rate of 8.1%, two percentage points less than in 2005 Q1. The reason for this lies in the sharp slowdown of the GVA of the oil refining sub-sector in this period, with growth well below that a year earlier, since it was unable to fully pass through the rise in oil prices in recent quarters. Chart 2 shows the changes in oil and refining prices in the last few years, as well as the impact that these rates have on the GVA of oil refining corporations. In the corporations of the electricity, gas and water sub-sector, which is the other broad aggregate that, together with oil refining corporations, makes up the energy sector, GVA increased by 8.7%, due to the sound performance of gas corporations, in which prices rose significantly, and to the healthy trend of electric utilities, favoured by the growing electricity demand (up 2.3%, according to information furnished by Red Eléctrica de España) and by the lower production costs resulting from the greater use of hydroelectric power stations compared with the same period a year earlier. Most notable among the other sectors was wholesale and retail trade, which once again posted the fastest growth of all sectoral aggregates, with a rate of change of GVA of 10.8% in 2006 Q1, which agrees with the figure resulting from the indicators of private consumption. The transport and communications sector also posted a significant increase in GVA (4.2%), slightly higher than in the same period a year earlier, due to the expansion in the telecommunications sector, and in spite of the impact that the fuel price rises have had on the GVA of air transport corporations. Meriting special mention is the industrial sector, which, after a certain stagnation of activity in 2005, seems to have commenced 2006 more firmly and vigorously, buoyed by the recovery of external activity and of capital goods



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

a. The 2005 data relate to the CBQ.

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



SOURCE: Banco de España.

production, thanks to which a rate of change of GVA of 6.5% was posted in Q1 of the current year. This performance was achieved in most industrial sub-sectors, except food and chemicals. Additional details of the performance of industrial corporations are given in Box 1.

Lastly, Chart 3, which sets out the distribution of firms by increase in GVA irrespective of size and sector of activity, shows that the percentage of firms with increases in GVA has grown significantly. Thus, while in 2005 Q1, 54.3% of firms recorded increases in GVA, in 2006 Q1 this percentage rose to 68.5%. In sum, there is evidence that the growth of GVA in 2006 Q1 is not confined to a particular group of firms based on activity or size, but rather is fairly widespread.

Employment and personnel costs

In 2006 the personnel costs of CBQ corporations increased by 5.5%, nearly two percentage points more than in 2005 Q1. This growth was mainly due to the strong growth of employ-

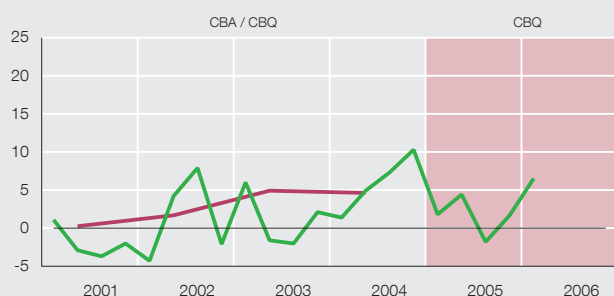
The information available in the CBQ on industrial firms shows that their GVA growth of 6.5% in 2006 Q1 was much higher than in the previous year (1.8%). This growth was reflected in nearly all industrial sub-sectors, although the groupings "electrical and optical equipment" and "transport equipment" were those with the highest GVA growth, at 31.3% and 18.8%, respectively. This behaviour is largely explained by the rebound in the buoyancy of export activity owing to the reactivation of the euro area countries. Quite a different performance was shown by the groupings "chemicals, chemical products and man-made fibres" (with GVA growth of -3.9%) and, above all, "food products, beverages and tobacco", which, with a GVA growth rate of -16.9%, reflected the decline in the production of tobacco companies in this quarter. The sector's personnel costs increased by 4.4% as a result of the combined behaviour of both employment and average compensation. The employment data showed, for the second quarter running, a net increase in the number of employees, although it was very small (0.7%). A glance at the sub-sectors shows that, in line with the behaviour of activity, the grouping "electrical and optical equipment" posted the highest increases in employment, with a rate of 5.1%, while the grouping "food products, beverages and tobacco" exhib-

ited a clear downward trend in the number of average employees (-3.2%). Average compensation in the sector grew by 3.7% in 2006 Q1, half a percentage point higher than the average growth posted by the total CBQ firms (3.2%), and also above the rate reported by the industrial sector in 2005 (3%). These developments may indicate a certain pass-through of inflationary pressure to wage costs through indexation clauses. The ordinary surpluses reflected the effect of the behaviour of activity, since gross operating profit and ordinary net profit grew at high rates exceeding those of the previous year, which enabled industrial firms to appreciably raise their levels of return. Thus the return on investment stood at 7.4% for 2006 Q1, somewhat more than one percentage point above that in the same period of 2005. Since the cost of debt held at 3.4%, practically the same as in the previous year, the spread between ROI and cost of debt showed, yet another quarter, values that were positive, and growing in comparison with those seen in 2005 Q1. In sum, the industrial sector began 2006 with a clear expansion of its activity, spurred by greater export buoyancy. There was some increase in wage costs, which, added to the risks associated with oil prices, might hamper the ongoing positive performance of industrial activity.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

GROSS VALUE ADDED AT FACTOR COST

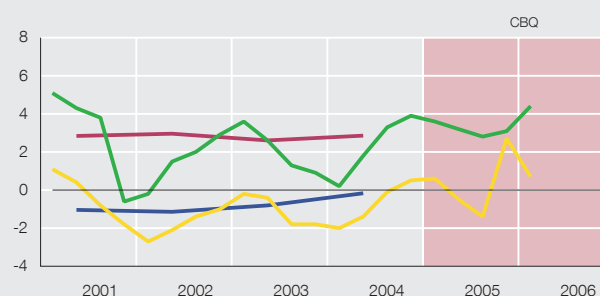
Rate of change



EMPLOYMENT AND WAGES

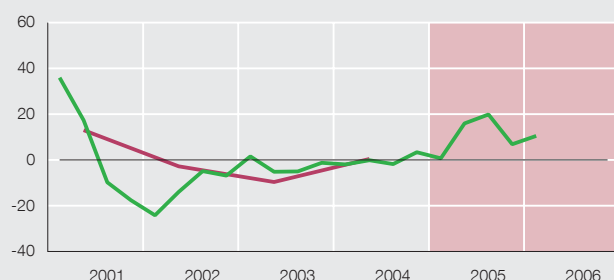
Rate of change

PERSONNEL COSTS
AVERAGE NUMBER OF EMPLOYEES



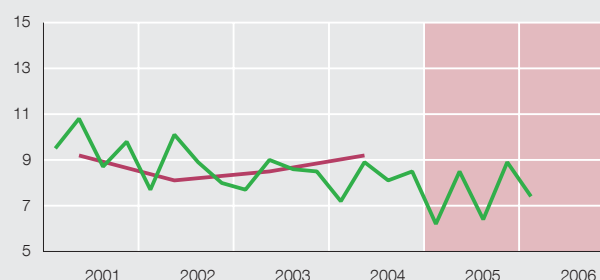
FINANCIAL COSTS

Rate of change



RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2001				2002				2003				2004				2005				2006			
Number of corporations	CBA	2,814				2,715				2,612				2,267				—				—			
	CBQ	402	392	380	363	389	375	365	354	366	361	352	345	352	343	336	333	322	307	295	263	261	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.2				27.9				28.1				24.6				—				—			
	CBQ	21.5	21.2	18.8	20.1	19.6	20.6	18.6	18.5	18.8	19.1	17.1	17.8	19.5	20.0	17.7	19.0	18.3	18.8	15.5	13.7	14.2	—	—	—

SOURCE: Banco de España.

	CBA		CBQ			
	2003	2004	04 Q1 - Q4 (a)	05 Q1 - Q4 (a)	05 Q1	06 Q1
Number of corporations	8,772	7,969	817	768	825	691
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.6	27.9	32.3	28.6	28.6	23.1
Constant or rising	74.4	72.1	67.7	71.4	71.4	76.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.6	30.6	44.5	41.1	40.5	39.3
Constant or rising	68.4	69.4	55.5	58.9	59.5	60.7
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	38.9	44.4	46.3	48.7	49.8	48.8
Higher or same growth (b)	61.1	55.6	53.7	51.3	50.2	51.2

SOURCE: Banco de España.

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

b. Annual percentage change in the CPI, for CBA, and quarterly percentage change for CBQ.

ment, which rose from a rate of 0.7% in 2005 Q1 to 2.2%, which is a record high in the series of 50 quarters available in the CBQ. In 2006 Q1 the change in average compensation also contributed to explaining the sharp increase in personnel costs, since it grew by 3.2%, slightly more than in the same period year a year earlier and in 2005 as a whole.

The generation of employment in non-financial CBQ corporations in 2006 Q1 confirmed the trend of the last few years, since this was the sixth consecutive quarter with net increases in employment. As has been frequently indicated in these articles, any interpretation of this behaviour should take into account the special characteristics of the corporations making up the quarterly sample (large corporations with a significant presence of sectors in processes of restructuring and staff reduction). In any event, it should be noted that the absolute value of the CBQ employment rates understates the actual figure, given the particular characteristics of this "sample", which consisted of approximately 800 corporations at the final date for inclusion of data in the databases. This becomes evident on examination of the behaviour of the EPA (Spanish Labour Force Survey), and even of the employment rates of the approximately 8,000 corporations composing the CBA, the 2004 data of which are included in Table 2.A.

By sector, wholesale and retail trade, in line with the expansion of its activity, showed yet another quarter the highest increases in staff numbers at 5.1%, this figure being up on that of the previous year (2.1% in 2005 Q1 and 2.6% in the year as a whole). The CBQ transport and communications corporations, for their part, again failed to report net employment growth (rate of change of -0.5%). Excluding the effect derived from the staff reduction at a large corporation in this sector, the resulting rate shows an increase of 0.6%, which is a change more consistent with the expansion of activity of the aggregate. The industrial sector also saw a rise in average staff numbers, in this case of 0.7%, a similar figure to that reported by most of the industrial sub-sectors, as indicated in Box 1. Finally, the energy sector was the only one to post a negative change in employment in 2006 Q1 (the rate was -1.1%), it being worse than a year earlier, which coincided with a period of job destruction (rate of -0.7%). This decrease in staff numbers is due to the electric utilities, which continue with staff reductions, although in recent years these falls have tended to stabilise.



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 to consolidated debt).
 c. MG = Corporations in the sample that belong to the main reporting multinational groups.

As indicated above, average compensation in the sample corporations grew in the sample as a whole by 3.2% in 2006 Q1, compared with 2.9% in the same period of 2005 and 2.8% in 2005. This was an across-the-board development in all sectors except wholesale and retail trade, where the largest staff increases took place and in which compensation rose by 2.5%. All the other aggregates showed growth of more than 3.5%. Average compensation in the industrial sector increased by 3.7%, although perhaps more significant is the fact that half of the sub-sectors composing it (chemicals, electrical equipment, transport equipment) showed growth between 4% and 5.5%. Table 2.B classifies corporations according to whether their employee numbers have increased or decreased. As has become usual, obviously the corporations with a net increase in employment were those that simultaneously posted the smallest growth in average compensation (3.5%), while those that reduced staff showed increases in wage costs of 4.8% in the period under consideration. Finally, Table 4 compares the movement in wage costs and the inflation rate. Of the corporations comprising the quarterly sample in 2006 Q1, 51.2% reported that compensation rose faster than the rate of inflation, against 50.2% in 2005 Q1.

Profits, rates of return and debt

The higher growth of GVA than of personnel costs led gross operating profit to increase by 7.6% in 2006 Q1, up more than two percentage points on the previous year. As noted in the section on the analysis of activity, most of this increase was located in the main CBQ sectors, except for the oil refining sub-sector, where margins decreased in the first quarter of the current year with respect to the same period a year earlier. For their part, financial costs increased

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 - R.2).

TABLE 5

BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Ratios and growth rates of the same corporations on the same period a year earlier

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	2004	05 Q1-Q4 (a)	05 Q1	06 Q1	2004	05 Q1-Q4 (a)	05 Q1	06 Q1	2004	05 Q1-Q4 (a)	05 Q1	06 Q1	2004	05 Q1-Q4 (a)	05 Q1	06 Q1
Total	10.0	5.5	5.3	7.6	21.5	13.3	14.4	4.9	8.1	9.5	6.5	7.1	4.5	5.7	2.8	3.3
SIZE																
Small	14.9	—	—	—	23.0	—	—	—	7.1	—	—	—	3.4	—	—	—
Medium	10.1	2.1	-8.5	13.4	13.8	-1.5	-15.0	42.3	8.2	7.6	6.3	7.7	4.8	4.4	3.2	4.3
Large	9.8	5.6	5.8	7.4	22.3	13.8	15.7	3.8	8.1	9.5	6.5	7.0	4.5	5.7	2.8	3.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.8	11.9	12.3	9.4	9.0	26.5	25.2	4.4	8.0	10.0	8.9	8.8	4.7	6.6	5.4	5.5
Industry	7.0	-0.3	-0.5	9.2	10.5	-3.8	1.1	22.0	9.2	8.4	6.2	7.4	5.7	4.6	2.7	4.0
Wholesale and retail trade	13.2	3.9	-2.7	14.6	19.6	7.5	-0.7	11.5	12.3	10.0	11.0	11.0	8.7	5.7	6.8	6.9
Transport and communications	8.3	2.8	4.7	5.0	26.2	6.5	11.1	8.0	9.5	14.1	11.7	15.1	5.3	9.9	7.7	10.6

SOURCE: Banco de España.

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

by 19% in 2006 Q1, although, as mentioned earlier, this high rate is strongly influenced by a specific transaction which, if disregarded, would leave the rate at 5.9%. The following table shows a breakdown of these changes:

	<u>06 Q1/05 Q1</u>
Change in financial costs	19.0%
A. <i>Interest on borrowed funds (1 + 2)</i>	19.3%
1. Due to the cost (interest rate)	-0.5%
2. Due to the amount of interest-bearing debt	19.8%
B. <i>Commissions and cash discounts</i>	+0.3%

As the table shows, the increases in financial costs in 2006 Q1 are explained by the inflow of fresh financing, given that the change due to the interest rate had practically no effect on the behaviour of this caption. That is to say, the increases in interest rates taking place in 2006 have not yet passed through to non-financial corporations in the first quarter of the year, and the financing conditions in the markets are holding at favourable levels for the corporations that can gain access to additional funds as a means of financing new investments. It is precisely the greater buoyancy of investment that lies behind the increases in corporate debt in 2006 Q1. Thus the indicators available to the Central Balance Sheet Data Office on the behaviour of gross fixed capital formation showed a rise in this item in 2006 Q1, with a rate of change of 19.2% (against 4.7% in 2005), which was particularly marked in certain sectors such as electricity, gas and water (16.1%), and, above all, in transport and communications (38.7%). However, the aforementioned debt taken on by a large telecommunications corporation to acquire control over a European telecommunications operator influences the total aggregate of the sample and its level of debt. This effect is clearly seen in the behaviour of the alternative corporate debt ratios in Chart 4. Hence ratio E1, which

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)		
	05 Q1	06 Q1	05 Q1	06 Q1	
Number of corporations	825	691	825	691	
Percentage of corporations by R ≤ 0%	26.2	22.6	29.0	26.7	
profitability bracket	0% < R ≤ 5%	23.4	21.2	18.2	15.1
	5% < R ≤ 10%	16.5	16.1	11.7	11.6
	10% < R ≤ 15%	10.3	11.5	10.9	8.6
	15% < R	23.5	28.6	30.2	38.0
MEMORANDUM ITEM: Average return	6.5	7.1	8.9	10.8	

SOURCE: Banco de España.

measures the proportion between interest-bearing borrowing and net assets, has taken an upward path in 2006 to date to stand at 50.5%. The ratio E2, which consists of interest-bearing borrowing³ relative to gross value added, also showed a very significant increase in 2006 Q1. However, the sharpest rise was concentrated in the aggregate of firms forming part of the large Spanish multinational groups (MGs), since the firm that carried out the aforementioned transaction is classified in this segment. As shown in Chart 4, the debt of firms excluding MGs, the relative level of which is appreciably lower than that of the sample as a whole (270% for the latter, 174.4% for the total sample excluding MGs), also shows a profile of slow growth, indicating that the processes of financing and of investment are having an across-the-board effect on all firms.

This sharp increase in financial costs could not be offset by the growth of financial revenues, which showed a rate of change of 3.1% in 2006 Q1, due to the slowdown, with respect to the preceding period, of dividend inflows from foreign subsidiaries. As a result, ONP grew by 4.9% in 2006 Q1, well below the rate in 2005 Q1 (14.4%). This fall does not affect the determination of returns, since the return on investment ratio uses the sum of ONP and financial costs in its numerator. Therefore, owing to the positive performance of the spread between return and cost of debt, non-financial corporations recorded slightly higher profitabilities in 2006 Q1 than in the same quarter a year earlier. Thus, in the reporting period ROI was 7.1% and ROE was 10.8%, both above the previous year's figures of 6.5% and 8.9%, respectively. Table 6 confirms the positive profitability performance of the sample as a whole, since in 2006 to date there has been a greater percentage of companies in the higher profitability segments than there was in 2006 Q1. Moreover, the ratio that approximates the cost of debt stood at 3.8%, the same as in 2005 as a whole, meaning that the spread between return and cost of debt continued at clearly positive values in 2006 Q1 (3.3), higher even than in the previous year. Finally, examination of the change in net profit shows that, in contrast to the growth rate of ONP (4.9%), it rebounded much more strongly (rate of 24.9%) in the first quarter of the year, due to the inflow of considerable capital gains on tangible and financial asset sales and to exchange gains. Furthermore, as a percentage of GVA, net profit rose from 27.5% in 2005 Q1 to 32.4% in 2006 Q1, which confirms and sums up the favourable position of the sample companies.

3. Consolidated, i.e. adjusted to eliminate cross-financing between group companies.

In conclusion, the data published by the CBQ showed that the firms began the year with a notable expansion of activity, creating employment and generating surpluses, and with a slight rise in average compensation. Against this background, there were signs of more buoyant investment activity, encouraged by the ongoing favourable financing conditions. Forming a backdrop to all this was a more favourable international situation, with a progressive recovery of the euro area countries, albeit with persistently high oil prices.

20.6.2006