RESULTS OF NON-FINANCIAL CORPORATIONS IN 2007 Q1

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Overview[1]

The data compiled by the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2007 Q1 show that the nominal growth in the GVA of the reporting non-financial corporations was 8.4%, compared with 6.2% in the same period a year earlier (see Table 1 and Chart 1). This rise, consistent with that shown by alternative indicators, means that the buoyancy of reporting companies in the most recent period continued and spread to practically all sectors of activity. Notable among these was the industrial sector, whose recovery firmed, highly favoured by the ongoing strong investment in capital goods and by the reporting corporations' net positive contribution in respect of the foreign sector against a backdrop of continued momentum in exports and a slight slowdown in imports. Other sectors such as wholesale and retail trade, and transport and communications also recorded substantial growth in 2007 Q1, mainly thanks to the sound performance of private consumption. Conversely, oil refining GVA dropped 31.6% due both to the fall in oil prices, which began in the second half of 2006 (after reaching a high mid-2006), and to the lower prices applied by these industries to their customers, which is favourably impacting the intermediate consumption of most of the productive sectors and, consequently, their GVA (see Chart 2).

The 4.7% increase in personnel costs in 2007 Q1 was 0.7 pp lower than the previous year. This slowdown arose due to the moderation in average compensation (3.2%, in comparison with 3.6% in 2006) and to employment growing at a slightly lower pace than a year ago (1.4%, as opposed to 1.7% in 2006 Q1). The analysis by sector confirmed, once again, that the wholesale and retail firms and other services firms boosted aggregate employment growth. Staff levels decreased in other sectors of activity mainly due to structural changes affecting the sectors under reorganisation (most particularly electricity) and due to the special labour force adjustments at certain large transport, communications and automotive firms. If the two largest cases affected by the above-mentioned processes were stripped out, the rate of change in employment in 2007 Q1 would increase to 2.1% of the sample total, which is practically the same as the 2.2% rate for 2006 Q1 calculated on a like-for-like basis.

As a result of the behaviour of activity and personnel costs, gross operating profit climbed to 11.2% in the first three months of 2007 in comparison with 6.8% in the same period of the previous year. Financial costs increased by 37%, the joint result of the higher cost of debt (interest rate) and firms having greater recourse to external financing. As for the cost of debt, in 2007 Q1 interest rate rises accounted for up to almost 22 pp of the increase in financial costs. Also, the ratio of interest on borrowed funds to interest-bearing borrowing was 4.3% (0.6 pp up on 2006 Q1), meaning it resumed its 2001 level. The increased resort to external sources of financing accounts for the remaining 15 pp of growth in financial costs arising from the financing received by companies over the previous year, mainly at year-end. These funds were earmarked to finance sizeable buyouts and takeovers. There was also considerable growth in financial revenue in 2007 Q1 (at a rate of 85.1%) as a result of the strong inflow of dividends from certain foreign subsidiaries which were distributed earlier than in previous years. Despite the expansion in financial costs, the strong growth in the gross surplus and in financial revenue led ordinary net profit (ONP) to be clearly expansive (25.1%) and it amply exceeded the rise recorded a year earlier (2.6%). The

1. The information used as the basis for this article is from the 703 corporations which to 14 June collaborated with the Central Balance Sheet Data Office by sending in their quarterly data. The GVA of these corporations represents 13.4% of the GVA of the total for the non-financial corporations sector.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS TABLE 1
Growth rates of the same corporations on the same period a year earlier

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2005	2004	2005	04 Q1-Q4/ 03 Q1-Q4	04 Q1/ 03 Q1	05 Q1/ 04 Q1
Number of corporations		8.984	7.877	801	868	703
Total national coverage		32,4%	28,7%	14,1%	15,2%	13,4%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	8.3	10.7	10.9	16.6	3.8
Of which:						
Net amount of turnover and other operating income	137.2	8.8	12.0	9.8	17.9	0.9
2. INPUTS (including taxes)	68.4	8.6	13.7	12.9	22.1	1.6
Of which:						
Net purchases	40.8	11.9	15.4	13.5	22.7	-1.6
Other operating costs	27.6	4.9	12.3	6.6	11.1	6.0
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.6	7.5	4.7	7.0	6.2	8.4
3. Personnel costs	16.5	4.7	5.7	4.9	5.4	4.7
S.2. GROSS OPERATING PROFIT [S.1 – 3]	15.1	10.8	3.6	8.6	6.8	11.2
4. Financial revenue	3.4	14.5	26.4	48.0	0.9	85.1
5. Financial costs	2.6	-3.7	9.4	36.5	22.4	37.3
6. Depreciation and operating provisions	6.0	2.7	-0.1	2.1	4.1	-0.8
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.9	23.0	11.2	19.0	2.6	25.1
7. Capital gains and extraordinary revenue	4.4	-31.1	32.7	54.1	69.6	-35.1
8. Capital losses and extraordinary expenses	3.9	-2.3	32.9	-21.0	8.7	-40.7
9. Other (net provisioning and income tax)	3.1	-16.3	-6.9	67.2	43.4	46.8
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	7.3	18.9	22.8	34.7	13.3	9.5
NET PROFIT/GVA (S.4/S.1)		19.8	23.0	42.3	30.3	31.8
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/AN	8.2	8.7	9.5	6.6	6.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/RAC	3.6	3.7	4.0	3.7	4.3
R.3 Ordinary return on equity (before taxes)	S.3/RP	11.9	12.7	14.8	9.2	8.8
R.4 ROI - cost of debt (R.1 - R.2)	R.1–R.2	4.5	4.9	5.5	2.9	2.3

SOURCE: Banco de España.

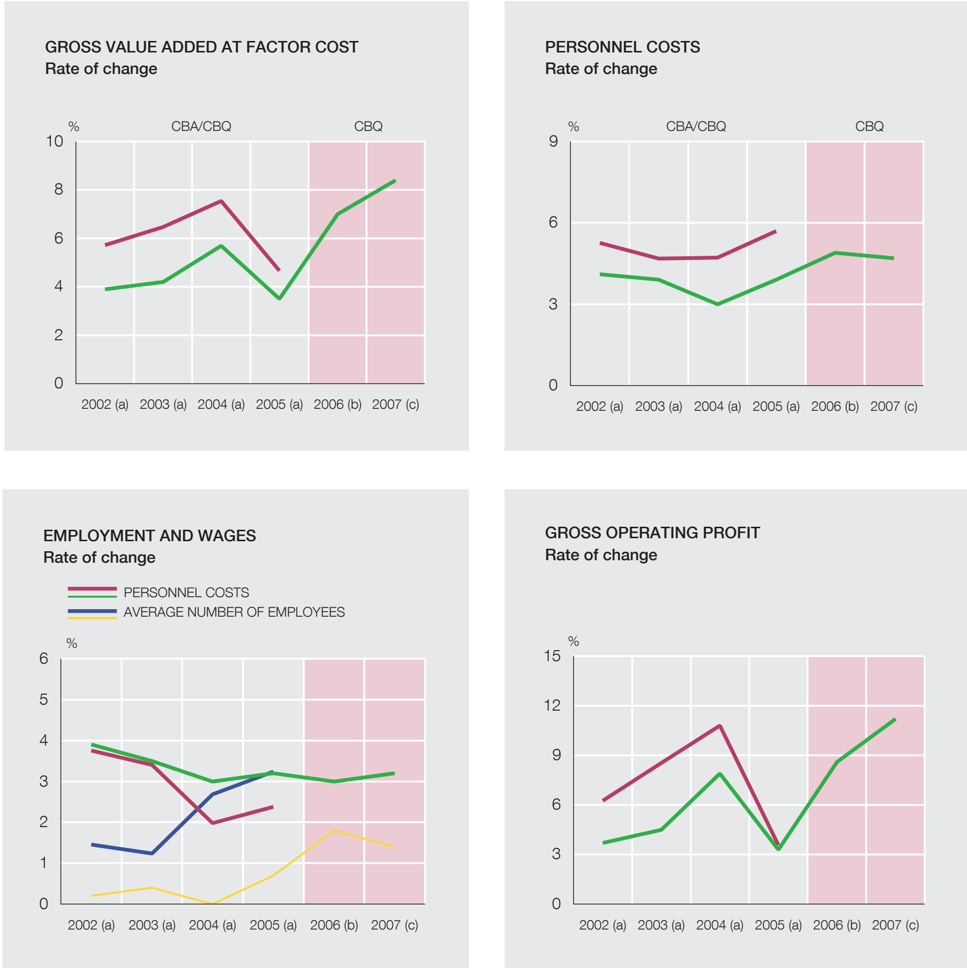
a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. The variables in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = Equity; IBB = interest-bearing borrowing); NA = E + IBB. The financial costs 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.

combined trend in ONP and financial costs (the numerator used to calculate ROI) underpinned continued high profit ratios since these flows grew in parallel with the assets in which the increase in borrowed funds (the denominator of the above-mentioned ratio) was invested. The increase in the cost of debt in 2007 Q1 narrowed slightly the ROI-cost of debt spread, but did not prevent it from showing clearly positive values for the period analysed (2.3), and it continues to be a good indicator of the current strength of the firms represented in the sample.

As for final net profit which is determined on the basis of ONP and extraordinary results, capital gains and losses fell considerably since there were many such transactions in 2006 Q1. However, the “Other” caption in Table 1 increased substantially due to the extraordinary portfolio provisions recorded by certain large companies to reflect the decline in market value of their investments abroad. This diminished the strength of growth in final net profit, but did not curtail its ongoing positive trend of 9.5% (although lower than the figure of 13.3% for the same

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

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		2002	2003	2004	2005	2006	2007
Number of corporations	CBA	8,418	8,834	8,984	7,877	—	—
	CBQ	843	832	819	799	801	703
% of GDP of the sector non-financial corporations	CBA	29.5	30.4	32.4	28.7	—	—
	CBQ	15.4	14.9	14.8	14.3	14.1	13.4

SOURCE: Banco de España.

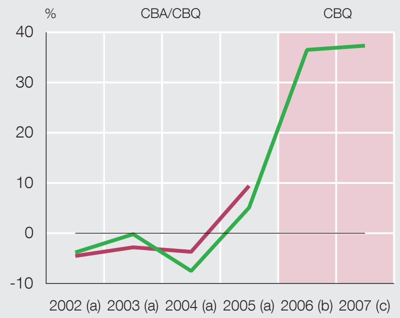
a. The 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2006 relative to the same period in 2005.
c. Data for 2007 Q1 relative to the same period in 2006.

period a year earlier) and this growth peaked, as a percentage of GVA, in comparison with earlier quarters of the quarterly series.

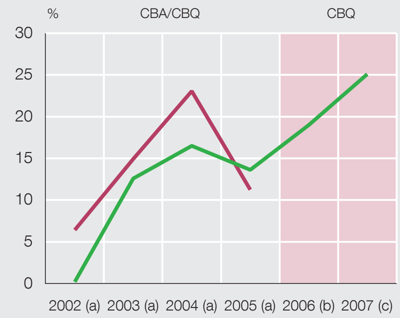
In short, the CBSO data show that in the first three months of 2007 non-financial corporations continued to expand as they had done at the end of 2006, thanks to the strength both of private consumption and, in particular, of investment in capital goods, which entrenched the recovery in industrial activity. Employment continued to grow, although some staffing adjustments at big companies demonstrated that this increase was less strong than in 2006, in a

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

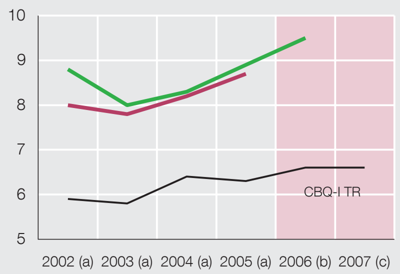
FINANCIAL COSTS
Rate of change



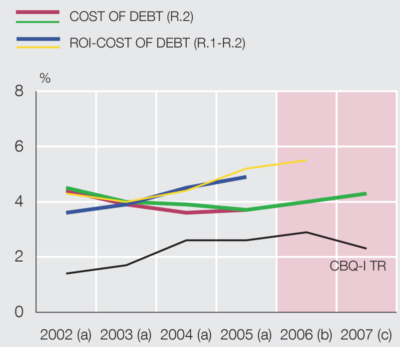
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



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



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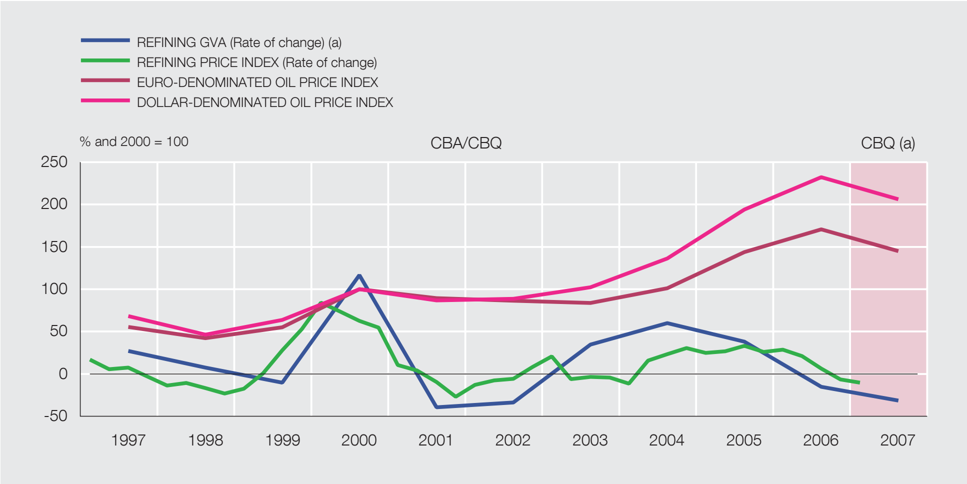
SOURCE: Banco de España.

a. The 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reportig to the annual survey (CBA).
b. Average of the four quarters of 2006 relative to the same period in 2005.
c. Data for 2007 Q1 relative to the same period in 2006.

scenario of continued moderate wage growth. Sizable dividends offset the strong increase in financial costs, which were essentially driven by higher interest rates and higher debt levels at the end of 2006. From the aggregate information available on the CBQ companies, it can be confirmed that Spanish firms generated surpluses at a pace sufficient for the rate of return on their assets to exceed rising financial costs. This occurred against a backdrop of a considerable increase in the volume of assets as result of sizeable financial investments made in 2006. The sound progress in the ROI-cost of debt ratio is the best indication of the favourable position of the non-financial corporations in the sample.

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly price report).

a. The 2005 data relate to the CBQ.

Activity

The expansion of non-financial corporations at 2006 year-end continued in 2007 Q1. Gross value added (GVA) grew 8.4% in 2007 Q1, compared with 6.2% in the same period the previous year (see Table 1 and Chart 1). This coincided with lower rates of change in production and inputs due to the drop in sales and purchases of the refining sector. If energy utilities (which include refining companies) were excluded, the value of the production of the other CBQ firms in 2007 Q1 would increase by 11.2% (3.8% including the energy sector) and inputs would increase by 11.9% (1.6% including the energy sector). Underpinning more buoyant activity were ongoing strong private consumption, which provided for continued high growth in the wholesale and retail trade and transport and communications sectors, and considerably higher investment in capital equipment, which gave a particular boost to the industrial sector. External activity also held on an expansionary trend in a setting of stable exports and a slight slowdown in imports, especially those of industrial firms and, consequently, in 2007 Q1 the contribution of net external demand to this sector was positive (exports net of imports grew by 7.1%).

By sector, growth in activity affected practically all the principal aggregates, except for energy utilities where growth in GVA in 2007 Q1 was weaker than a year earlier (4%, in comparison with 9.4% in 2006) due to a 31.6% decline in the GVA of refining companies resulting from falling oil prices after their all-time high mid-2006 (see Chart 2). Conversely, electric utilities (which make up the other large energy sub-sector) continued to grow at high rates (their GVA was up 10.4% in 2007 Q1) similar to those in 2006 Q1 thanks to the favourable performance of electricity demand (which, according to data from Red Eléctrica Española, rose by just under 2%) and higher rainfall, which significantly cut hydroelectric generation costs.[2] Noteworthy among the other sectors is the industrial sector, which posted a 12.1% increase in GVA in 2007 Q1, more than double the increase in the same period the previous year (5.6%). This is mainly explained by the strong increase in investment in capital goods, in a setting in which external activity also made a positive contribution thanks, in particular, to the slowdown in

2. In 2007 Q1, 55.3% more electricity was produced than the previous year using lower-cost hydroelectric power stations.

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		
	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1
Total	4.7	7.0	6.2	8.4	3.2	1.8	1.7	1.4	5.7	4.9	5.4	4.7	2.4	3.0	3.6	3.2
SIZE																
Small	4.3	—	—	—	-0.6	—	—	—	4.1	—	—	—	4.7	—	—	—
Medium	4.5	6.6	10.8	7.6	2.2	1.4	1.6	2.4	6.1	5.4	6.1	5.9	3.8	3.9	4.4	3.4
Large	4.7	7.0	6.0	8.5	3.5	1.8	1.7	1.4	5.7	4.9	5.4	4.6	2.1	3.0	3.6	3.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	13.0	8.9	9.4	4.0	-0.7	-1.5	-1.4	-1.6	4.5	3.2	3.8	2.6	5.2	4.8	5.2	4.3
Industry	0.6	8.6	5.6	12.1	-0.6	-0.6	-0.9	-0.5	2.7	2.3	3.1	2.8	3.3	2.9	4.0	3.4
Wholesale and retail trade	5.3	6.0	7.4	7.4	5.4	3.6	4.5	1.2	7.0	7.0	7.9	2.8	1.5	3.3	3.2	1.6
Transport and communications	0.7	4.5	4.3	6.7	0.5	-0.2	-0.2	0.0	4.0	3.9	3.6	3.9	3.5	4.1	3.8	4.0

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 05 Q1-Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		703	458	245
PERSONNEL COSTS				
Initial situation 04 Q1 (€m)		6,053.9	3,371.7	2,682.2
Rate 05 Q1 / 04 Q1		4.7	9.1	-0.9
AVERAGE COMPENSATION				
Initial situation 04 Q1 (€)		10,747.3	9,848.4	12,140.1
Rate 05 Q1 / 04 Q1		3.2	3.5	4.0
NUMBER OF EMPLOYEES				
Initial situation 04 Q1 (000s)		563	342	221
Rate 05 Q1 / 04 Q1		1.4	5.4	-4.7
Permanent	Initial situation 04 Q1 (000s)	472	271	201
	Rate 05 Q1 / 04 Q1	1.9	6.1	-3.8
Non-permanent	Initial situation 04 Q1 (000s)	91	71	20
	Rate 05 Q1 / 04 Q1	-0.8	2.7	-13.6

SOURCE: Banco de España.

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

TABLE 3

		CBA	CBQ		
		2005	04 Q1-Q4	04 Q1	05 Q1
Total corporations		7,877	801	703	703
Corporations reporting source/destination		7,877	767	674	674
Percentage of net purchases according to source	Spain	69.5	79.3	85.2	82.8
	Total abroad	30.5	20.7	14.8	17.2
	EU countries	15.3	13.5	10.7	12.4
	Third countries	15.2	7.2	4.2	4.8
Percentage of net turnover according to destination	Spain	86.3	89.1	92.9	92.1
	Total abroad	13.7	10.9	7.1	7.9
	EU countries	10.0	8.1	5.0	5.3
	Third countries	3.7	2.8	2.1	2.6
Change in net external demand (exports less imports), rate of change	Industry	-16.3	-22.2	-10.7	7.1
	Other corporations	-37.3	-5.5	-16.8	-1.5

SOURCE: Banco de España.

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

imports. This is confirmed by Table 3, which shows the positive trend of 7.1% recorded in the net external demand of industrial companies (calculated as exports less imports).

Lastly, the GVA of both the wholesale and retail trade sector and the transport and communications sector continued to rise substantially in 2007 Q1 by 7.4% and 6.7%, respectively. These increases were similar or slightly higher than those in 2006 Q1 (7.4% for wholesale and retail trade, and 4.3% for transport and communications) and highlighted the fact that private consumption has continued to underpin a large share of economic growth.

Finally, Chart 3 shows the distribution of firms according to the rate of change in their GVA, irrespective of their size and sector of activity. Although there are no significant changes across the various segments, a slight shift can be seen in the percentage of companies with GVA increases of between 0% and 20% towards segments with falls in this surplus. This information shows that the higher growth recorded by GVA in 2007 Q1 was supported by the improved performance of large firms, which is also illustrated in the breakdown of GVA growth by size of corporations as shown in Table 2.a.

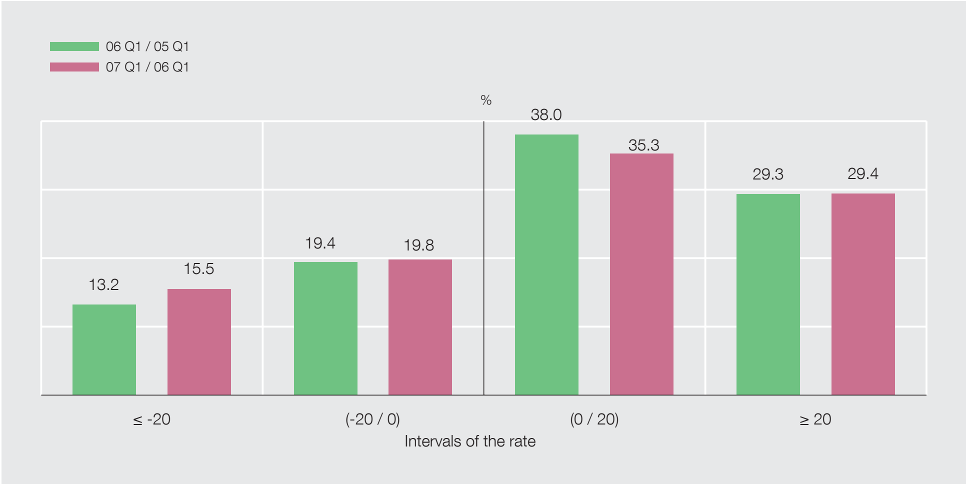
Employment and personnel costs

In 2007 Q1 personnel costs rose 4.7%, 0.7 pp down on 2006 Q1. This decrease was due both to more moderate growth in average compensation (3.2% in 2007, against 3.6% in 2006 Q1) and lower employment growth. Although employment continued to rise, it slowed slightly in comparison with 2006 Q1 as a result of specific staff restructuring processes.

The opening months of 2007 saw an apparent slowdown in the pace of growth in the average number of employees to 1.4%, slightly down on 1.7% a year earlier. This arose from staff restructuring at large car assembly firms, electric utilities, and transport and communications

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

CHART 3



SOURCE: Banco de España.

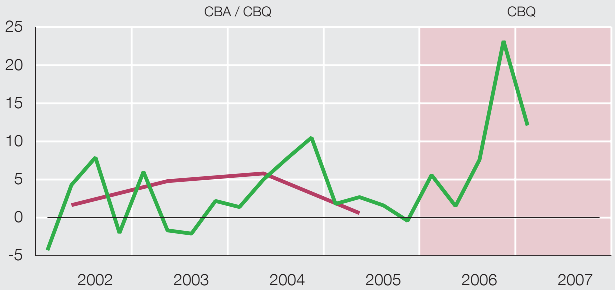
firms. Just by excluding the impact of the two major transport and communications firms, the rate of change grew substantially to 2.1% in 2007 Q1, practically unchanged on the previous year (2.2%). By type of employment (see Table 2.b), the conversion of non-permanent jobs into permanent ones explains why the increase in staff levels focused on permanent employment (which grew 1.9% in 2007 Q1 and 0.4% in 2006), at the expense of non-permanent employment which dropped 0.8% in the first three months of 2007. The trend in employment by sector confirms uneven behaviour across the various aggregates. As usual, the most positive trend was in wholesale and retail firms, the only ones to record net increases in employment during the period (+1.2%). There was no increase in employment in the other sectors included in Table 2.a due to different reasons in each case. The energy and water sector continued to record negative rates of change (–1.6%) for 2007 Q1, similar to previous quarters, resulting from the reorganisation and adaptation of electric utilities for operating in a deregulated market. Finally, the rates of change in employment of transport and communications firms and industrial companies were practically flat or slightly negative, despite the expansion of their productive activity. This is accounted for by the strong influence on employment of the above-mentioned workforce restructuring processes currently under way at certain large corporations in these sectors, which have pulled the aggregate total down. Nevertheless, in both sectors the trend in employment is less negative than a year earlier and would be more obvious without the aforementioned cases. Lastly, the data in Table 4 show that while 61.4% of firms recorded an increase in the average number of employees in 2006 Q1, this percentage rose to just over 65% in the first few months of 2007.

Average compensation remained moderate as in previous periods and grew 3.2% in 2007 Q1, which is even marginally down on the rate for 2006 (3.6%). Greater restraint shown by inflation to date in 2007, assisted by lower oil prices, contributed to this positive trend. By sector, industry performed similarly to the sample total with a 3.4% rate of change in line with the above-mentioned moderation. The rates of change of the energy and the transport and communications sectors in 2007 Q1 were slightly higher (4.3% and 4%, respectively) due, among other reasons, to the increase in variable compensation and to the wage costs associated with workforce restructuring. Conversely, compensation at wholesale and retail firms showed a very slight, below-average increase (1.6%), typical for this type of aggregate, which usually shows stronger increases in employment. Table 2.B, which distinguishes between those firms creat-

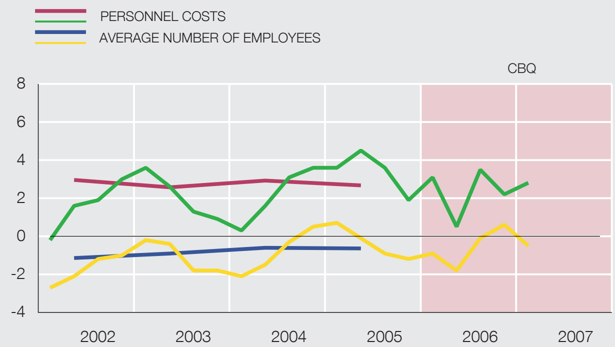
The GVA of CBQ industrial firms grew by 12.1% in 2007 Q1, as against 5.6% in 2006 Q1. The firming of this trend, which began the previous year, was based on the excellent performance of certain sub-sectors, including most notably the manufacture of glass, ceramics and metals (+29.1%) and of chemicals (6%). These sub-sectors benefited from the upturn in investment in capital goods. Firms manufacturing glass, ceramics and metals also contributed to the rise in net external demand (exports less imports). Conversely, in other sub-sectors, such as manufacture of electrical and optical equipment or other manufacturing industries, it was not possible to maintain a similar pace of growth in productive activity as in 2006. The GVA of both of these sub-sectors posted very moderate increases in 2007 Q1 (2.8% and 1.1%, respectively) which were clearly lower than in 2006 Q1. The rise in the GVA of the manufacture of transport equipment sector was also more restrained (3.7% in 2007 Q1 in comparison with 6.1% in 2006), as a result of production cutbacks affecting certain large firms in this aggregate faced with strong market competition. Personnel costs climbed 2.8% in 2007 Q1, 3 pp down on the same period the previous year, due to more moderate growth in average compensation, which stood at 3.4% compared with 4% in 2006, against the backdrop of the continued absence of net increases in employment at the firms in this sector as a whole. Accordingly, there was a slightly negative trend of –0.5% in the data on the average number of employees in 2007 Q1 (see accompanying chart), which is largely explained by certain workforce reductions, mainly focused on large firms in the chemical industries or tobacco sub-sectors and, especially, manufacture of transport equipment, in which employment fell by 2.4%. This figure, however, is a slight improvement on that of –0.9% recorded a year earlier, although it highlights the fragile job creation in this aggregate of industrial firms. The favourable trend in activity together with moderate personnel costs explains the 24.2% growth rate in gross operating profit in 2007 Q1.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

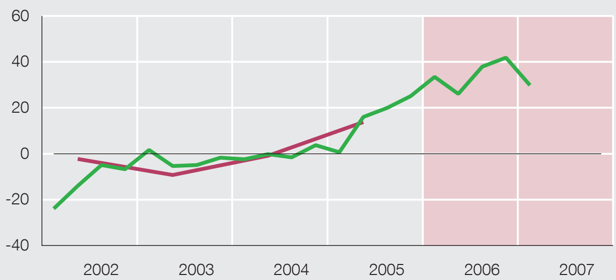
GROSS VALUE ADDED AT FACTOR COST
Rate of change



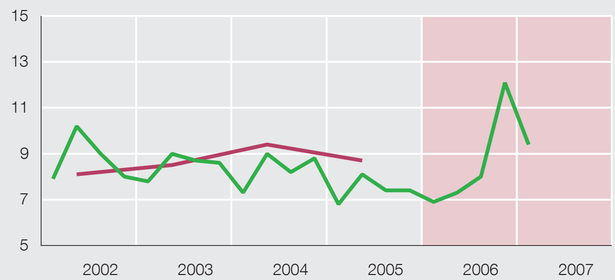
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2002				2003				2004				2005				2006				2007			
Number of corporations	CBA	2,715				2,624				2,517				2,153				—				—			
	CBQ	391	376	366	354	366	361	353	345	351	341	334	332	319	307	299	291	324	309	290	251	251	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	27.9				28.5				28.6				24.5				—				—			
	CBQ	19.7	20.6	18.7	18.5	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.5	16.6	17.6	18.8	18.1	16.1	16.0	14.3	—	—	—

SOURCE: Banco de España.

The notable growth in financial costs and revenue was similar to that in the total sample and was also for identical reasons (the pass-through of interest rates rises and higher debt, in the case of costs, and a large inflow of dividends, in the case of revenue). This prompted a clear and continued increase in ordinary net profit, reflected in a rate of change of 43.3% for the first three months of 2007 which, together with the notable rise in financial costs, had as a direct consequence an increase of more than 2 pp in return on investment, which stood at 9.4% for 2007 Q1. The ratio that approximates the cost of debt remained at low levels (3.8%) and was practically unchanged on the previous year, as a result of which the spread between ROI and the cost of debt was clearly positive (5.6) and higher than a year earlier (3.1). The outlook for Spanish industry is very positive, as manifest in the growing dynamism in productive activity, which has resulted in strong generation of surpluses and high returns against a backdrop of wage moderation.

ing employment and those destroying it, confirms the findings of the sectoral analysis and, therefore, the firms that destroyed jobs in 2007 Q1 were those that increased average compensation most (4%), whereas at those firms which left their average staff levels unchanged or increased them, average compensation rose by 3.5%.

Profits, rates of return and debt

The expansion of productive activity in 2007 Q1 enabled firms to withstand higher personnel costs and, at the same time, to increase gross operating profit, which grew 11.2%, more than 4 pp up on 2006 Q1 (6.8%). As in the case of productive activity discussed above, this rise affected most sectors in the sample. Financial revenue and financial costs rose considerably in the first three months of 2007 with rates of change of 85.1% and 37.3%, respectively. Growth in financial revenue is explained by the inflow of dividends generated abroad by some of the large Spanish groups. The rise in financial costs prolongs a trend which began the previous year, although during 2007 Q1 it was, for the first time, the cost of borrowing that was principally responsible for this development. Strong growth in financial costs in the first three months of 2007 boosted their relative share in total expenses and revenue in the profit and loss accounts of CBQ non-financial corporations from 3.7% of total production in 2006 Q1 to 4.9% in 2007 Q1.[3] The reasons for this change are set out in the following table:

	07 Q1/06 Q1-Q4
Change in financial costs	**37.3%**
A. Interest on borrowed funds (1 + 2)	*37.0%*
1. Due to the cost (interest rate)	21.9%
2. Due to the amount of interest-bearing debt	15.1%
B. Commissions and cash discounts	*0.3%*

The above data highlight the fact that, unlike 2006, the effect of interest rates accounts for more than half of the growth in this caption in the profit and loss account. The increase in indebtedness is largely due to the impact of sizable acquisitions by certain large companies (mainly holding companies in the construction sector) in the last few months of 2006, but which affect the financial expenses incurred in 2007.[4] The contribution of the increase in borrowed funds between 2006 Q1 and 2007 Q2 to the rate of change in financial costs is in keeping with the stabilisation of the relative levels of indebtedness in 2007 Q1 in relation to the period immediately preceding it (December 2006). This is confirmed by ratio E1 (of

3. These expenses represented 2.6% of total production in 2005 according to the latest CBQ data (see column 1 of Table 1). **4.** In effect, the increase in financial costs between 2006 Q1 and 2007 Q1 arose from the trend in the cost of borrowing and the increase in debt during the intervening year.

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION

Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ			
	2004	2005	03 Q1-Q4 (a)	04 Q1-Q4 (a)	04 Q1	05 Q1
Number of corporations	8,984	7,877	799	801	868	703
PERSONNEL COSTS	100	100	100	100	100	100
Falling	28.0	26.4	28.9	27.4	23.0	26.8
Constant or rising	72.0	73.6	71.1	72.6	77.0	73.2
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.5	30.5	40.7	38.9	38.6	34.9
Constant or rising	68.5	69.5	59.3	61.1	61.4	65.1
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	44.1	43.0	49.4	48.5	48.6	41.4
Higher or same growth (b)	55.9	57.0	50.6	51.5	51.4	58.6

SOURCE: Banco de España.

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

b. Twelve-month percentage change in the CPI for the CBA and quarter-on-quarter percentage change in the CPI for the CBQ

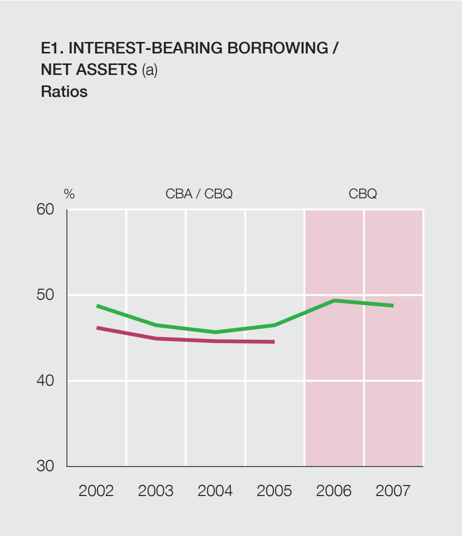
interest-bearing borrowing to net assets) in Chart 4. The ratio E2 is an indicator of the financial position of corporations which analyses their repayment ability and relates their consolidated debt to the value added they generate. In 2006 this ratio increased considerably and in Q1 2007 it remained at similar, and even slightly lower, values than at 2006 year-end.

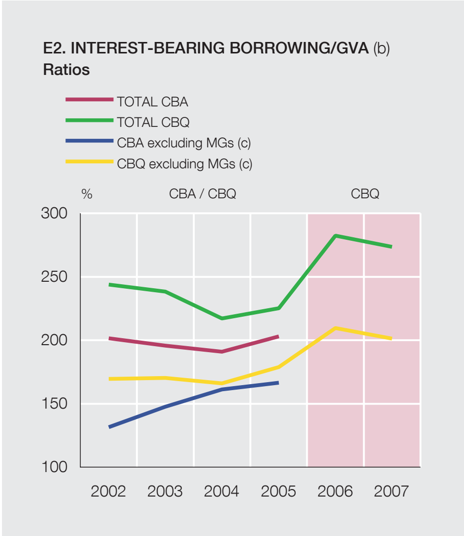
The increase in financial costs in 2007 Q1 was cancelled out by exceptional growth in financial revenue with a rate of change of 85.1% as against 0.9% in 2006 Q1. This increase is explained by the inflow of dividends from foreign subsidiaries which have been distributed earlier than in the previous year. As a result of higher financial costs and revenue in 2007 Q1, ONP grew 25.1%, clearly exceeding the rate for 2006 (2.6%) and demonstrating the profit-generating ability of CBQ corporations (see Table 5). The rise in ONP and financial costs enabled the firms to maintain high rates of return both on investment (6.6%) and on equity (up to 8.8%) which were similar in both cases to the previous year's figures.[5] Table 6 details the distribution of corporations by return on investment and return on equity. In this quarter a slight shift can be seen from the return on investment towards the higher return segments. Lastly, an analysis of ratio R2 (which approximates the cost of borrowing) confirms how interest rate rises are gradually passing through to corporate costs, since this ratio reached 4.3% in 2007 Q1 in comparison with 3.7% in 2006. Continued high rates of return explain why, despite higher financial costs, the difference between both ratios only fell half a percentage point with respect to 2006 Q1. However, this difference remained at positive high levels (2.3%), underscoring the fact that the firms have managed to maintain high rates of return as part of investment strategies focusing on high investment growth (mainly buyouts and takeovers in 2006) with the consequent increase in debt levels and financial costs.

5. The strong increase in the numerator of the return on investment ratio (ONP plus financial costs), was offset by the increase in the investments included in the denominator such as those in non-financial corporations acquired in 2006. The last two panels of Chart 1 show the trend in the ratios which include return on investment (R.1), the cost of debt (R.2) and the difference between both, referring to the aggregate data of the CBA and the CBQ. Both panels also show the trend in R.1 and R1 – R2 of the linked series of the first quarters of the CBQ. As shown, the returns in the first quarters are considerably lower than those recorded as the year elapsed.

DEBT RATIOS

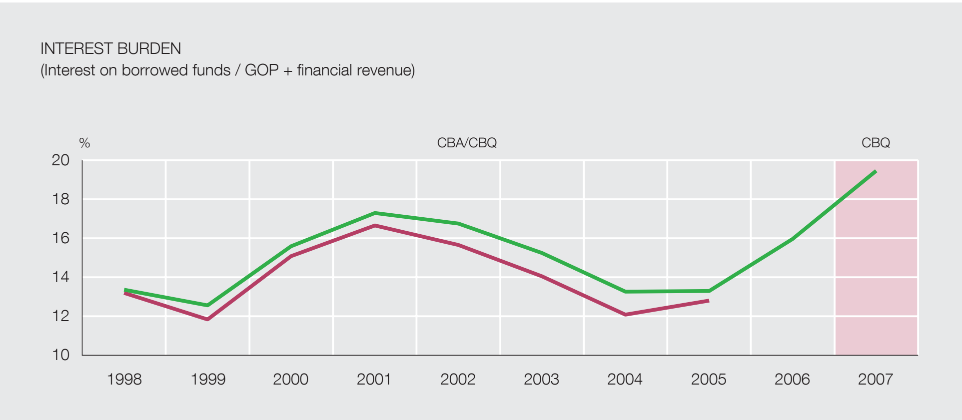
CHART 4





	2002	2003	2004	2005	2006	2007
CBA	46.2	44.9	44.6	44.5		
CBQ	48.8	46.5	45.7	46.5	49.4	48.8

	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	190.8	203.1		
CBQ	243.8	238.4	217.1	225.1	282.3	273.6
CBA excl. MGs	131.5	147.6	161.1	166.5		
CBQ excl. MGs	169.6	170.2	166.1	178.8	209.5	201.2



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.1	12.8		
CBQ	13.4	12.6	15.6	17.3	16.8	15.2	13.3	13.3	16.0	19.5

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. Large construction sector corporations are not included.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2).
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Ratios and growth rates of the same corporations on the same period a year earlier

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI – COST OF DEBT (R.1 – R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1	2005	04 Q1-Q4 (a)	04 Q1	05 Q1
Total	3.6	8.6	6.8	11.2	11.2	19.0	2.6	25.1	8.7	9.5	6.6	6.6	4.9	5.5	2.9	2.3
SIZE																
Small	4.6	—	—	—	9.1	—	—	—	6.9	—	—	—	3.2	—	—	—
Medium	2.4	8.0	17.3	9.7	1.0	17.0	44.2	6.7	7.5	7.7	7.8	7.3	4.0	4.1	4.7	3.5
Large	3.6	8.6	6.4	11.2	12.3	19.1	1.4	25.7	8.8	9.6	6.6	6.5	5.1	5.6	2.9	2.2
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	15.8	10.4	10.8	4.4	41.6	7.7	-2.6	5.8	9.8	10.7	8.4	9.0	6.4	7.1	5.0	5.0
Industry	-2.1	17.0	8.9	24.2	2.4	36.7	41.5	43.3	8.7	9.3	6.9	9.4	5.1	5.3	3.1	5.6
Wholesale and retail trade	2.9	4.7	6.7	13.4	4.1	10.2	7.5	13.8	10.8	8.0	9.7	9.4	7.4	4.2	6.2	4.4
Transport and communications	-1.6	4.9	4.8	8.6	0.0	8.4	6.2	14.6	8.5	12.2	10.8	11.6	4.5	8.0	6.8	7.3

SOURCE: Banco de España.

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

In 2007 Q1 capital gains and losses fell considerably because, unlike in 2006, there were few significant transactions of this kind. There was a sizeable increase in the “Other” caption, as a result of extraordinary provisioning of the share portfolio, which certain large holding companies had to record to show the decrease in market value of their investments abroad. These provisions pushed growth in final net profit lower which, nonetheless, rose 9.5%, slightly below the figure for 2006 Q1. This final result accounts for 31.8% of GVA for the period, representing a new all-time high in comparison with the values obtained in Q1 throughout the series.

Caution is warranted when estimating a variable as volatile as investment in tangible assets based on the CBQ data, and, in particular, on this occasion when the data refer to just one quarter. Notwithstanding these remarks, the information available points to a slackening of investment by CBQ firms as a whole. Consequently, from the approximation to gross fixed capital formation in tangible assets made drawing on the accounting data in 2007 Q1, it can be concluded that this aggregate grew 1.3% in nominal terms, below the figure of 2.7% in 2006 Q1. By sector, this trend is explained by the lower investment reported by electric utilities in the first three months of 2007. The other sectoral aggregates analysed are showing higher growth in investment than in 2006.

In short, Spanish firms began 2007 in a similar way to how they had ended the previous year, consolidating and even building on a clearly expansive trend in productive activity. Underpinning this development, which covers practically all sectors of activity, were highly buoyant investment in capital goods and the ongoing strength of private consumption, in a setting in which the net external demand of industrial companies (exports less imports) also contributed to growth in activity. Employment continued to increase in line with the favourable course of activity, and was not affected by the wage moderation of recent years. The upward trend in financial costs, due to interest rate rises and the debt

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)	
		04 Q1	05 Q1	04 Q1	05 Q1
Number of corporations		868	703	868	703
Percentage of corporations by profitability bracket	R ≤ 0%	23.4	24.4	26.7	29.3
	0% < R ≤ 5%	22.5	19.8	15.4	14.0
	5% < R ≤ 10%	15.1	17.4	13.0	10.8
	10% < R ≤ 15%	12.4	12.4	8.5	10.7
	15% < R	26.6	26.1	36.4	35.2
MEMORANDUM ITEM: Average return		6.6	6.6	9.2	8.8

SOURCE: Banco de España.

levels in place since the end of 2006, has become a factor to be monitored, given its weight in the profit and loss account. Nevertheless, the high pace of profit generation and high returns have offset the upward trend in financial costs and, in sum, have boosted corporate earnings and, consequently, fostered a climate of relative optimism with a view to future quarters.

14.6.2007.