RESULTS OF NON-FINANCIAL CORPORATIONS IN 2006 AND IN THE FIRST THREE QUARTERS OF 2007

Results of non-financial corporations in 2006 and in the first three quarters of 2007

Overview[1]

Following the practice of previous years, the January *Economic Bulletin* of the Banco de España gives the results for 2006 of the non-financial corporations contributing to the Central Balance Sheet Data Office Annual Survey (CBA) and those for the first three quarters of 2007 of the corporations contributing to the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter are a preliminary indicator of the 2007 results, which will be completed in March 2008, when the information for Q4 will be released and, subsequently in November 2008, with the annual presentation of the CBA results for 2007.

The data collected by the CBA for 2006 (see Table 1 and Chart 1) are consistent with those released earlier by the CBQ. As for productive activity, in 2006 the corporations reporting to the CBA regained momentum in the growth rate of their gross value added (GVA), overcoming the slowdown recorded in 2005[2] (GVA increased by 7.4% in 2006, up on the 4.7% posted in 2005 and practically identical to the 7.5% recorded in 2004). This expansionary trend was apparent in almost all the sample sectors. The most notable developments were the increases posted by wholesale and retail trading firms and by transport and communications firms. To this was added the higher buoyancy of industrial firms from the beginning of 2006. The performance of the latter sectoral aggregate is related to the positive trend in investment in capital goods and the rebound of external activity, resulting largely from the recovery of the major euro area economies.

The CBQ data confirm that in the first three quarters of 2007 activity continued to grow, albeit more moderately as the year passed. In the first three quarters, the rate of change in GVA was just over 2 pp lower than a year earlier (5.4% vs. 7.5% in the same period of 2006). The forces behind these developments include most notably the declining trend of activity in the wholesale and retail sector, affected by weaker private consumption. By contrast, the industrial sector made the most positive contribution to growth in productive activity in 2007, underpinned, as in 2006, by strong investment in capital goods and the expansion of exports. These two factors led the GVA of industrial companies reporting to the Central Balance Sheet Data Office to rise 12.9% in 2007 Q1-Q3, considerably higher than the 4.8% growth in the same period in 2006.

The average number of employees of CBA firms increased by 3.1% in 2006, a similar rate to 2005 (3.4%). This rise was mainly due to the performance of wholesale and retail trade and, to a lesser extent, to that of transport and communications, a sector which was affected by a specific restructuring process. However, industrial and, in particular, energy firms performed negatively. In 2007 Q1-Q3, the employment generated by CBQ corporations (whose perform-

1. This article provides information on the results obtained by the non-financial corporations reporting to the annual database (CBA) to 2006 and the quarterly database (CBQ) to 2007 Q3. As for the 2006 data, the article provides a summary of the information included in the publication *Banco de España. Central de Balances. Resultados anuales de las empresas no financieras 2006,* which was released on 28 November 2007 and includes the information provided by the 6,690 corporations which, to the end of October 2007, completed the Central Balance Sheet Data Office's annual questionnaire. This sample represents 25.9% of total activity of the non-financial corporations sector. The quarterly information of 2007 which was complied by the CBQ is from the 765 corporations which, on average, had sent their data by mid-November. Its coverage of the total GVA of non-financial corporations is 13.1%. **2.** As noted in the article presenting the results for 2005 and for 2006 Q1-Q3 (*Economic Bulletin,* January 2007), the change in the GVA of corporations reporting to the CBA during 2005 did not match that in the annual/quarterly National Accounts for the reasons given (buoyancy of the worst-represented sectors in the quarterly sample and impact of energy inputs on corporations' profit and loss accounts). In 2006 some of the reasons giving rise to this discrepancy ceased to exist and triggered another discrepancy in the opposite direction in the change in GVA for 2006 with respect to 2005 in the CBQ (the above-mentioned 7.4%) and in the annual/quarterly National Accounts (6%).

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)		
BASES	2006	2005	2006	06 Q1-Q4/ 05 Q1-Q4	06 Q1-Q3/ 05 Q1-Q3	07 Q1-Q3/ 06 Q1-Q3
Number of corporations		8,997	6,690	831	847	765
Total national coverage		32.0%	25.9%	14.6%	15.0%	13.1%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.9	10.0	10.4	12.5	4.3
Of which:						
— Net amount of turnover and other operating income	*141.7*	*12.0*	*9.9*	*9.8*	*12.5*	*1.8*
2. INPUTS (including taxes)	69.2	12.6	11.1	12.4	15.2	3.8
Of which:						
— Net purchases	*42.0*	*13.5*	*13.1*	*14.4*	*15.3*	*2.1*
— Other operating costs	*27.2*	*12.4*	*7.9*	*5.8*	*7.2*	*7.9*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	30.8	4.7	7.4	6.5	7.5	5.4
3. Personnel costs	15.7	5.7	6.6	5.3	5.5	4.3
S.2. GROSS OPERATING PROFIT [S.1 – 3]	15.1	3.6	8.3	7.5	9.1	6.2
4. Financial revenue	3.8	23.8	27.6	12.9	21.0	18.6
5. Financial costs	3.3	9.5	35.8	39.7	34.1	35.8
6. Depreciation and operating provisions	6.0	0.1	7.3	2.2	1.9	-0.2
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	10.3	7.9	3.8	10.0	4.5
7. Capital gains and extraordinary revenue	7.5	35.7	70.8	52.3	31.4	-13.3
8. Capital losses and extraordinary expenses	2.7	35.7	-28.0	-27.4	-39.8	7.4
9. Other (provisions and taxes)	5.0	-5.0	76.0	62.1	130.9	-15.0
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	9.4	20.6	39.8	18.2	11.5	3.0
NET PROFIT/GVA (S.4/S.1)		22.2	30.6	35.0	39.5	35.7
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	9.0	8.6	7.9	7.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.1	3.9	3.8	4.4
R.3 Ordinary return on equity (before taxes)	S.3/E	12.7	13.2	13.0	11.7	11.3
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	5.0	4.9	4.7	4.1	3.5

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.

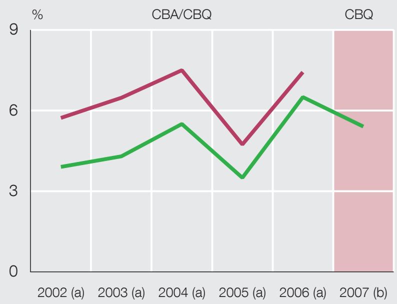
ance is usually more moderate than that of the CBA firms because of the lower impact of small and medium-sized firms in the CBQ) grew 0.9% which, although still positive, represents a slight deceleration in comparison with the same period of the previous year (1.7%). The performance of the wholesale and retail sector, which is consistent with the slowdown in its activity, accounts for this deceleration since the other sectors performed slightly more favourably. Average compensation rose in 2006 and in the first three quarters of 2007 by 3.4% and salary growth thus remained moderate, although slightly higher than in previous years. Personnel costs, which are the result of the combined variation in employment and compensation, grew by 6.6% in 2006 in comparison with 5.7% in 2005 and by 4.3% in 2007 Q1-Q3 (more than 1 pp less than in the same period of the previous year).

As a result of the trend in activity and personnel costs in 2006, growth in gross operating profit (GOP) climbed to 8.3%, more than double the figure for the previous year. In the first three quarters of 2007 of the CBQ sample, GOP growth slowed to 6.2%, almost 3 pp lower than in 2006 (9.1%).

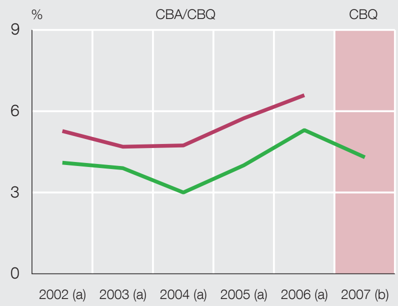
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

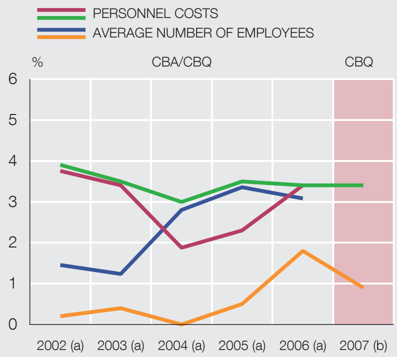
GROSS VALUE ADDED AT FACTOR COST
Rate of change



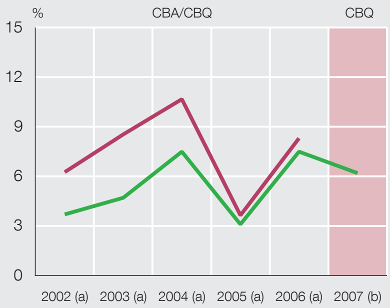
PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change



REPORTING NON-FINANCIAL CORPORATIONS		2002	2001	2002	2003	2004	2005
Number of corporations	CBA	8,420	8,834	9,063	8,997	6,690	—
	CBQ	851	838	826	810	831	765
% of GDP of the sector non-financial corporations	CBA	29.0	29.9	32.3	32.0	25.9	—
	CBQ	15.4	15.1	15.0	14.6	14.6	13.1

SOURCE: Banco de España.

a. The 2002, 2003, 2004, 2005 and 2006 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 first three quarters of 2007 in relation to the same period in 2006.

Analysis of financial revenue and costs in the two periods under consideration shows similar behaviour in each, although the combined figure (the net debt burden) had a different impact on the profit and loss account. In 2006 financial costs embarked on a clear growth path which extended into 2007 and is the result of interest rate rises and, in particular, of new borrowing largely to enable sizeable share purchase transactions by large Spanish multinationals (in Spain and in other countries). However, the increasing weight of the debt burden in the business cost structure was partly absorbed by strong growth in financial revenue in the two periods analysed. This was due to the inflow of dividends from foreign subsidiaries and the growth of interest received in 2006, and solely to interest received in 2007. The net balance of financial

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

CHART 1

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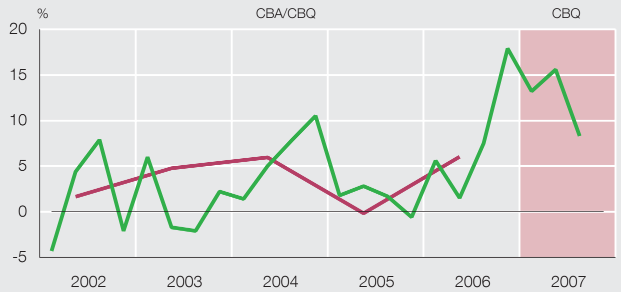
b. Average of the first three quarters of 2007 in relation to the same period in 2006.

revenue and expenses had a positive impact on ordinary net profit (ONP) in 2006 and a slightly negative impact in 2007. Nevertheless, this variable continued to rise both in 2006 (7.9%) and in the first three quarters of 2007 (4.5%), although in both cases the increases were lower than those posted in the immediately preceding periods. In any event, the combined growth of ONP and financial costs (the numerator used to calculate the return on investment) was sufficient to ensure that firms' rates of return on investment remained high. These rates were similar in 2006 to those of the previous year (9% vs. 8.7%) and identical in 2007 Q1-Q3 to those of the same period in 2006 (7.9%). At the same time, the ratio which measures the cost of borrowed funds increased slightly due to the impact of interest rate rises on corporate costs

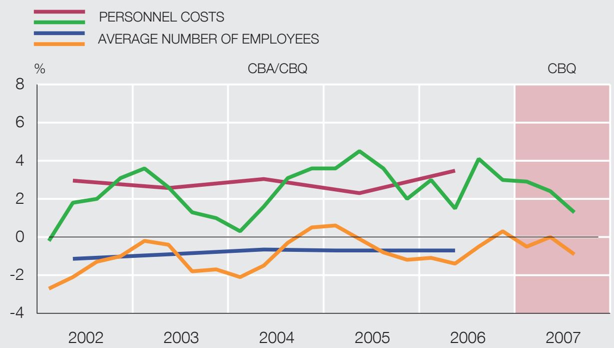
The data gathered by the Central Balance Sheet Data Office for the industrial sector show strong dynamism of productive activity in 2006, when GVA grew 6% (as against –0.2% in 2005), and in 2007 Q1-Q3, when this growth rose to 12.9%. The reasons for this positive trend are higher investment in capital goods together with more buoyant exports. Analysis by sub-sector shows that in 2006 the strongest growth was in the “glass, ceramics and metals” and “manufacture of electrical and optical equipment” sub-sectors (13.1% and 12.2%, respectively), whereas the “food products, beverages and tobacco” aggregate (affected by the impact on demand of the entry into force of the law restricting tobacco consumption) and the “manufacture of chemicals” aggregate performed more negatively and their GVA slipped slightly. However, the cumulative data to September 2007 confirm that these two sectors have picked up and resumed notable GVA growth (7.9% in food, beverages and tobacco and 16.1% in the manufacture of chemicals) against a backdrop of widespread increases in the other industrial sub-sectors. Net increases in employment were again absent, with slightly negative rates in 2006 (–0.7%) and in 2007 Q1-Q3 (–0.4%). Both rates were strongly affected by staffing adjustments centred on certain sub-sectors, especially “manufacture of transport equipment”, an aggregate which in 2006 and 2007 Q1-Q3 recorded the highest staff reductions (–2.5% and –3.4%, respectively) in the whole industrial sector. Average compensation in industry grew 4.2% in 2006 and 2.7% in 2007 Q1-Q3, continuing to increase moderately in line with the behaviour described for the sample corporation total. The combined effect of employment and compensation led to increased personnel costs (up by 3.5% in 2006) and a slightly more moderate rise (2.3%) in the figure to September 2007. In any event, the expansion of productive activity, together with growth in net financial revenue, was the main reason behind the strong rise in ordinary net profit, which posted rates of change of 33.6% in 2006 and 45.6% in 2007 Q1-Q3, clearly exceeding those of previous periods. This enabled profit ratios in both years

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

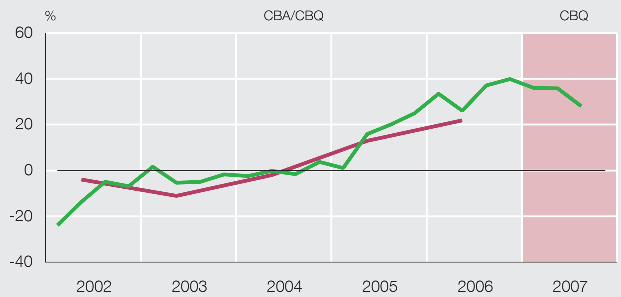
GROSS VALUE ADDED AT FACTOR COST
Rate of change



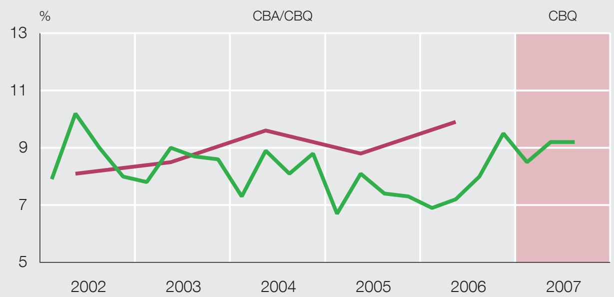
EMPLOYMENT AND WAGES
Rate of change



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				2,530				2,434				1,841				—			
	CBQ	391	378	369	357	367	362	354	346	352	342	335	333	323	311	304	296	322	306	293	279	314	291	221	—
% of GDP of the sub-sector industrial corporations	CBA	27.9				28.5				29.9				30.0				20.5				—			
	CBQ	19.7	20.7	18.8	18.5	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.6	16.7	17.2	18.5	17.5	16.1	16.7	18.7	18.2	11.6	—

SOURCE: Banco de España.

to continue on an upward trend that put the return on investment at 9.9% in 2006 (1 pp higher than in 2005) and at 9.6% in the first three quarters of 2007, an increase of just under 2 pp compared with the previous year's figure. This expansionary behaviour of profits enabled the growth of financial costs to be absorbed and, consequently, the difference between ROI and the cost of debt was clearly positive and rising in the periods analysed. Therefore, the outlook for the industrial sector is positive, helped by the healthy investment in capital goods and external activity, although positive employment rates have not reappeared.

and, consequently, the difference between ROI and the cost of debt remained positive, although lower than in previous periods: in 2006 it fell 10 bp with respect to 2005 and in 2007 it dropped from 4.1% to 3.5%.

The items which make up extraordinary results strengthened the growth of final net profit in 2006, mainly due to strong capital gains on sales of assets and controlling ownership stakes, some of them particularly significant. As a result of these operations, extraordinary revenue grew 70.8%, reaching a high in the available time series and final net profit for the year increased 39.8% and stood at 30.6% of gross value added, which also represents a record high for the CBA series. In 2007 Q1-Q3 extraordinary results were much less significant than in 2006 and, consequently, the slowdown in ONP grew in terms of final net profit, which did not include the substantial capital gains from 2006. Nevertheless, there was a positive rate of change in this variable in the first three quarters of 2007 at CBQ corporations as a whole. The volatility introduced by these atypical operations means that the analysis of total net profit in proportion to GVA is more significant. This ratio reached 35.7% in 2007, one of the highest percentages in the quarterly series. It is worth noting that the behaviour of the results of non-financial corporations reporting to the CBQ is consistent with the statistics disseminated by the CNMV on the results of listed companies, when the figures are expressed in comparable terms, i.e. for the same firms and the same scope of operations. It should be kept in mind that the CNMV disseminates the results of listed consolidated corporate groups, i.e. including firms resident abroad that have a financial and non-financial activity, and calculates their performance without excluding the firms first consolidated in the previous year due to their having been acquired in that period. In addition, the number of listed non-financial corporate groups in the CNMV statistics is slightly less than 150, whereas the CBQ includes more than 800 individual firms.

To sum up, in 2006 growth in the productive activity and results of non-financial corporations reporting to the CBSO was strong and across-the-board. In the first three quarters of 2007, there were signs of a slowdown in certain sectors, with lower growth in GVA and gross operating profit. In this setting of a slowdown in 2007, job creation was also subdued. In 2006 and in 2007 Q1-Q3 sizeable corporate acquisitions pushed corporate debt levels considerably higher, which has coincided with interest rate rises and raised the corporate debt burden. However, this rise was amply offset in 2006, and alleviated in 2007, by higher financial revenue (dividends from subsidiaries and interest) with the result that ONP grew in both periods, albeit less strongly in 2007. This slowdown is larger in terms of final net profit, which was boosted in 2006 by capital gains and other extraordinary revenue that had a lower impact in 2007. In any event, in 2007 the profit ratios of non-financial sample corporations reporting to the CBQ remained positive and high, albeit lower than in 2006.

Activity

Productive activity, as measured by GVA growth, increased strongly in 2006 by 7.4% (see Table 1 and Chart 1), a clearly higher rate than the 4.7% of 2005, and marked the return to

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Growth rate of the same corporations on the same period a year earlier

TABLE 2.A

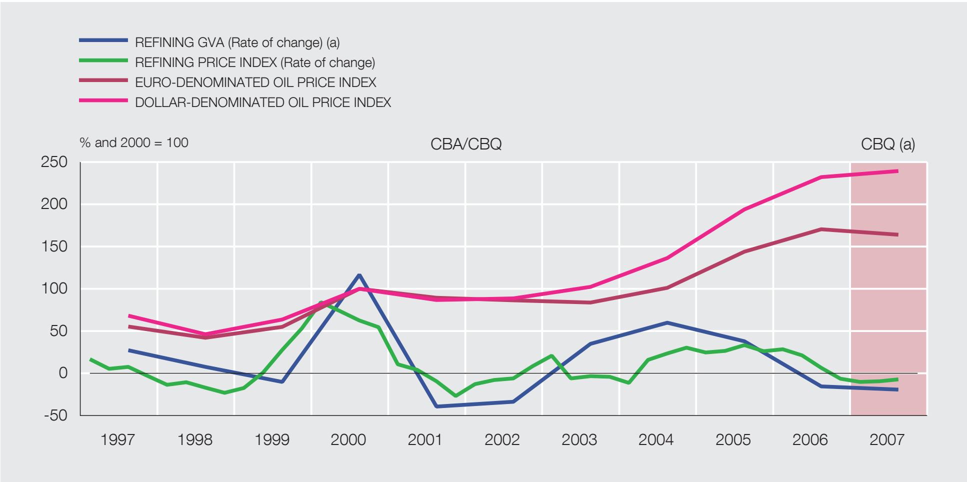
	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2006	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3	2006	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3	2006	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3	2006	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3
Total	7.4	6.5	7.5	5.4	3.1	1.8	1.7	0.9	6.6	5.3	5.5	4.3	3.4	3.4	3.7	3.4
SIZE																
Small	3.6	—	—	—	-0.1	—	—	—	4.6	—	—	—	4.6	—	—	—
Medium	9.1	6.0	7.4	4.6	2.0	1.1	1.1	2.4	6.3	5.2	5.4	4.8	4.2	4.1	4.3	2.3
Large	7.4	6.6	7.5	5.4	3.3	1.8	1.7	0.8	6.7	5.3	5.5	4.3	3.3	3.4	3.7	3.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	5.2	4.3	9.1	-0.3	-2.0	-1.4	-1.6	-0.7	3.2	4.1	4.4	3.2	5.3	5.6	6.1	3.9
Industry	6.0	7.8	4.8	12.9	-0.7	-0.7	-1.0	-0.4	3.5	2.9	2.8	2.3	4.2	3.6	3.8	2.7
Wholesale and retail trade	7.6	6.0	7.7	1.1	2.5	3.0	3.5	0.0	7.8	7.2	7.6	1.1	5.2	4.1	4.0	1.1
Transport and communications	3.8	4.7	4.9	5.6	0.7	-0.2	-0.3	-0.1	4.5	4.2	4.0	5.2	3.7	4.4	4.3	5.3

SOURCE: Banco de España.

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

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 2007 data relate to the CBQ.

growth rates similar to those of 2004 (7.5%). This greater dynamism affected practically all the sectors analysed, in particular the wholesale and retail, industrial and transport and communications sectors, which were underpinned by buoyant consumption, the expansion of investment in capital goods and external activity, acting as the drivers of productive activity. In 2007 Q1-Q3 GVA slowed slightly and increased 5.4%, just over 2 pp less than in the same period in 2006 (7.5%), a trend which has become apparent as the year has passed.

Sectoral analysis of activity (see Table 2.A) shows that in 2006 all corporate groupings except energy posted higher GVA increases than in the preceding period, in line with the results

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 2007 Q1 - Q3	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		765	490	275
PERSONNEL COSTS				
Initial situation 06 Q1-Q3 (€m)		18,979.2	9,686.4	9,292.8
Rate 07 Q1-Q3/ 06 Q1-Q3		4.3	9.7	-1.4
AVERAGE COMPENSATION				
Initial situation 06 Q1-Q3 (€)		31,911.4	29,685.3	34,628.1
Rate 07 Q1-Q3/ 06 Q1-Q3		3.4	4.0	3.5
NUMBER OF EMPLOYEES				
Initial situation 06 Q1-Q3 (000s)		595	326	269
Rate 07 Q1-Q3/ 06 Q1-Q3		0.9	5.5	-4.7
Permanent	Initial situation 06 Q1-Q3 (000s)	490	255	235
	Rate 07 Q1-Q3/ 06 Q1-Q3	2.1	6.7	-2.8
Non-permanent	Initial situation 06 Q1-Q3 (000s)	105	71	34
	Rate 07 Q1-Q3/ 06 Q1-Q3	-4.8	1.4	-17.8

SOURCE: Banco de España.

obtained for the total sample. By contrast, in the first three quarters of 2007, a more mixed performance can be discerned and the slowdown in the wholesale and retail sector is significant. This aggregate, which in 2006 had shown GVA growth of 7.6%, recorded a weaker rise (in 2007 Q1-Q3 GVA increased 1.1% in comparison with 7.7% in the same period a year earlier), reflecting lower private consumption. Conversely, the industrial sector showed progressively higher growth in its activity in 2006 and in 2007 Q1-Q3, with GVA growth rates of 6% and 12.9%, respectively. The positive influence of the expansion of investment in capital goods and more buoyant exports was manifest in both periods. Transport and communications firms continued to expand slightly in 2006 (GVA grew 3.8%, up on 2% posted in 2005) and in the first three quarters of 2007 (in this period GVA increased 5.6%, as against 4.9% a year earlier), thanks mainly to the continued buoyancy of telecommunications firms in conjunction with certain large transport companies. Lastly, there has been a clear slowdown in the energy sector in the last two years. Growth in GVA fell from 12.2% in 2005 to 5.2% in 2006 and the rate of change stood at –0.3% in the first three quarters of 2007. This performance is highly affected by the oil refining sub-sector, which following several years of robust rises in GVA (between 2003 and 2005 its GVA climbed 34.2%, 59.3% and 37.7%, respectively) and against a backdrop of strong fluctuations in oil prices (see Chart 2), has recorded narrower margins in the last two years which have reduced GVA in 2006 and in 2007 Q1-Q3 by –19.3% and –19%, respectively. The other large energy sub-sector, comprising electricity, gas and water utilities, showed strong growth in GVA in 2006 (12.2%), based on the lower production costs of electricity utilities and the expansion of the gas sector in that year. In 2007 Q1-Q3 the GVA of this sub-sector continued to grow by 5.2%, albeit more moderately than in the previous year.

Lastly, analysis of Chart 3, which shows the distribution of corporations by rate of change in GVA, independently of their size or sector of activity, leads to the main conclusion that there are no significant changes. This indicates that the slowdown in activity seen in 2007 is not having an important impact on most sample firms but is centred, as discussed above, on certain sectors of activity. The above-mentioned chart shows slight growth in the per-

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

TABLE 3

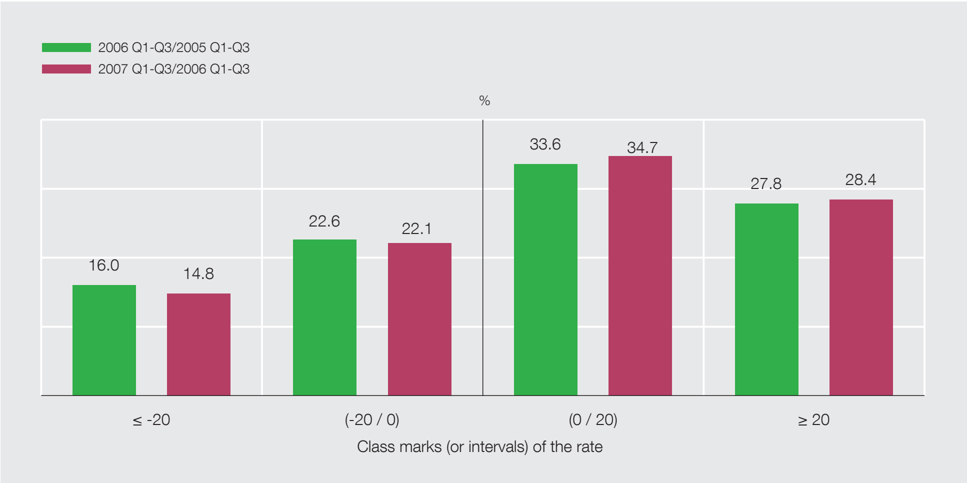
		CBA		CBQ (a)	
		2005	2006	06 Q1-Q3	07 Q1-Q3
Total corporations		6,690	6,690	765	765
Corporations reporting source/destination		6,690	6,690	725	725
Percentage of net purchases according to source	Spain	69.2	68.8	81.9	80.0
	Total abroad	30.8	31.2	18.1	20.0
	EU countries	*16.6*	*16.3*	*13.5*	*14.6*
	Third countries	*14.2*	*14.9*	*4.6*	*5.4*
Percentage of net turnover according to destination	Spain	84.7	84.4	89.5	89.3
	Total abroad	15.3	15.6	10.5	10.7
	EU countries	*10.7*	*10.3*	*7.1*	*7.2*
	Third countries	*4.5*	*5.3*	*3.4*	*3.5*
Change in net external demand (exports less imports), rate of change	Industry	-8.2	-2.0	-6.8	-4.1
	Other corporations	-32.7	-7.0	-13.0	-35.3

SOURCE: Banco de España.

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

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

CHART 3



SOURCE: Banco de España.

centage of corporations which in 2007 Q1-Q3 increased their GVA (63.1%), as against 61.4% in 2006.

Employment and personnel costs

The performance of personnel costs was mixed in the two periods analysed. Whereas in 2006 personnel costs increased by 6.6% (almost 1 pp higher than the previous year), in 2007 Q1-Q3 they grew more moderately than in the reference period (down from 5.5% recorded in the CBQ in 2006 to 4.3% in 2007). This different trend is mainly explained by the more expansionary performance of employment in 2006 than in 2007 Q1-Q3, against a backdrop in which average compensation remained very stable and similar in the two periods.

As on previous occasions, and taking advantage of the publication of the monograph containing the 2006 information, this box briefly analyses the performance of small corporations, based on the data drawn from the database that the Central Balance Sheet Data Office has constructed from information on the accounts lodged with the Mercantile Registries (CBBE/RM or CBB). The tables containing this information are published as an annex to the annual monograph and provide a knowledge of the behaviour of a segment of non-financial corporations that is difficult to study using other databases in the Central Balance Sheet Data Office, with the advantage that the CBB offers a very large sample (nearly 520,000 in 2005, the latest database to reach its data cut-off date, and more than 100,000 in 2006 with data still being received). This large sample to some extent makes up for the lag with which these data are received (the CBB is an annual database) and for the smaller amount of detail than the CBA and the CBQ. The aggregate analysed in this database is, moreover, complementary to the annual database, since the CBB excludes any corporation that may have sent its data directly as a CBA reporting corporation. It should also be kept in mind that, despite their high number, the CBB coverage in 2005 and 2006 accounted for 18.7% and 3.5%, respectively, of the GVA of the non-financial corporations sector since this database only includes small corporations (with less than 50 employees).

According to the CBB, in 2006 there was strong growth in the activity of small corporations which led GVA to post a rate of increase of 8%, 1.5 pp more than in 2005. This increased buoyancy, which is in keeping with the expansion also shown by CBA corporations for the

RESULTS OF SMALL CORPORATIONS

GROSS VALUE ADDED AT FACTOR COST
(Rate of change)

FINANCIAL COSTS
(Rate of change)

EMPLOYMENT
(Rate of change)

PERSONNEL COSTS PER EMPLOYEE
(Rate of change)

		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,834	9,063	8,997	6,690
	CBB (a)	245,806	320,188	375,056	441,841	522,019	100,369
% of GDP of the sector non-financial corporations	CBA	29.2	29.0	29.9	32.3	32.0	25.9
	CBB (a)	10.7	12.9	14.8	16.4	18.7	3.5

SOURCE: Banco de España.

a. In the case of the "Employment" and "Personnel Costs per Employee" charts, the data relate to the sub-set of corporations with consistent employment figures (65% of the CBB total).

same year, affected practically all sectors of activity. These include most notably industrial firms and, within market service firms, those of the wholesale and retail trade and transport and communications sectors since the step-up of productive activity was more evident in these areas. Personnel costs rose by 7.9% in 2006, a very similar rate to 2005 (7.8%), as a result of the combined effect of slightly more moderate increases in employment and a marginally upward trend in wage costs, whose growth accelerated to 4% in 2006, 0.8 pp more than in 2005. At the sectoral level, the slowdown in job creation and the increase in wage costs had a mild yet widespread effect on all the sectors of activity analysed.

Due to the expansion of productive activity at small corporations, gross operating profit grew 8% in 2006, well above the 3% rate of increase in 2005. The high growth in financial costs in 2006 (17.6%) was partially offset by similar growth in financial revenue (19%), against a backdrop of interest rate rises which largely account for both increases. However, the increased weight of financial costs pushed the net debt burden (financial costs less financial revenue) higher by 15.3%, well above the 3.5% rise in this item in 2005. As a result of this and of the increase in depreciation and operating provisions (7.2%), growth in ONP (7.7%) slackened slightly in comparison with previous results, although it remained higher than the change posted in 2005 (–0.2%). The increases in ONP account for the upward trend in rates of return in 2006 in comparison with the previous year. Thus, return on equity (the only profit ratio that can be calculated from the information available in the CBB) stood at 8.2% in 2006, 0.5 pp higher than in 2005, and recovered its level of 2004. By sector, as with the analysis of productive activity, widespread growth in returns can be seen in practically all the sectors analysed.

In sum, the productive activity of the small corporations included in the Central Balance Sheet Data Office's CBB database returned to an expansionary trend, overcoming the slowdown recorded in 2005. These positive developments affected practically all sectors of activity and resulted in a high rate of profit generation and a recovery in rates of return. In this setting, the more restrained performance of employment and the slight rise in wage costs are the only features clouding the picture of greater buoyancy and widespread expansion.

The CBA employment data in 2006 showed a very positive rate of 3.1% which was similar to, albeit slightly lower than, that of 2005 (3.4%), thus confirming the continued dynamism of employment. If, furthermore, the breakdown by type of contract is analysed, it can be seen that permanent employment grew more than temporary employment (3.3% against 2.6%), possibly as a result of the impact of policies to encourage permanent job creation on companies' recruitment decisions. According to the CBQ, in 2007 Q1-Q3 employment grew (0.9%), although more moderately than in the previous year (1.8%), which is consistent with the trend shown by productive activity for this period. This greater restraint in job creation in 2007 is largely attributable to the change in trend at large wholesale and retail corporations reporting to the CBQ. Following several years of high dynamism, in 2007 this sector experienced a gradual slowdown in job creation in line with the more moderate activity and, as a result, did not create employment in this period. In other sectors there was a slight improvement in comparison with 2006, although the rates of change remained very moderate or practically flat, also partly due to the impact on them (especially in the quarterly sample) of some staffing adjustments at big companies belonging to these aggregates, a development which has already been discussed in previous articles. In 2006 and in 2007 Q1-Q3, firms in the other services sector (for which the tables in this article do not provide specific data), increased their workforces more sharply and made a decisive contribution to employment growth in the business aggregate. Lastly, Table 4 shows an increase in the percentage of corporations which created jobs in 2007 Q1-Q3 (63.9%) in comparison with the previous year (60.6%). This would confirm, as discussed above, that the aggregate CBA data are being affected by the staff restructuring centred on a small number of large firms, which is offset by growth in the workforces of the vast majority of sample firms.

The change in average compensation was identical in 2006 and in 2007 Q1-Q3 (3.4%) and remained on a moderate growth path, although it was slightly above that of previous periods (the CBQ data show increases of 1.9% and 2.3% in 2003 and 2004, respectively). By sector,

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

TABLE 4

	CBA		CBQ (a)			
	2005	2006	05 Q1-Q4	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3
Number of corporations	8,997	6,690	810	831	847	765
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.5	25.6	29.0	26.9	25.5	27.2
Constant or rising	73.5	74.4	71.0	73.1	74.5	72.8
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.3	41.1	39.2	39.4	36.1
Constant or rising	69.1	69.7	58.9	60.8	60.6	63.9
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	43.2	41.9	49.1	48.2	48.5	44.3
Higher or same growth (b)	56.8	58.1	50.9	51.8	51.5	55.7

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.

in 2006 there were slightly higher increases in the main aggregates analysed than in those for the total sample. This is because in that year the other services sector recorded lower rates of change in average compensation linked to its greater buoyancy in job creation. In 2007, the quarterly data showed greater wage cost restraint in the industrial sector (2.7%) and, in particular, in the wholesale and retail sector (1.1%), in comparison with above-average rises in the energy and transport and communications aggregates (3.9% and 5.3%, respectively). Lastly, the data in Table 4 make it possible to analyse the growth of average compensation in relation to inflation. In 2007 Q1-Q3, the percentage of firms whose wage costs grew by more than the rate of inflation increased to 55.7%, 4 pp more than in the same period of the previous year.

Profits, rates of return and debt

The change in activity fed through to gross operating profit, pushing it 8.3% higher in 2006 (a sizeable increase on the 3.6% posted in the previous year) and 6.2% higher in 2007 Q1-Q3 (less than the 9.1% recorded in the same period in 2006), and showed the same slightly decelerating trend as gross value added. The above-mentioned growth in GOP was reinforced in 2006 and in 2007 Q1-Q3 by the sharp increases in financial revenue as a result of the inflow of dividends from foreign subsidiaries in 2006 and the higher interest received by firms in the two periods analysed. Conversely, strong growth was also recorded in financial costs (35.8%) in 2006 and 2007 Q1-Q3, resulting in an increase of this item's weight in the business cost structure. The interest burden (see Chart 4) (financial costs to GOP plus financial revenue) confirms the upward trend in these costs in recent years and the consequent decrease in firms' ability to meet them with income generated by their productive activity. Consequently, the interest burden stands at levels that are even marginally above its highs of 2001. The marked growth in financial costs underlines the importance of ascertaining the main reasons for this behaviour, which can be analysed in the following table:

	2006/2005	*07 Q1-Q3/06 Q1-Q3*
Change in financial costs	**35.8%**	**35.8%**
A. Interest on borrowed funds	*35.8%*	*37.0%*
1. Due to the cost (interest rate)	+9.0%	+17.0%
2. Due to the amount of interest-bearing debt	+26.8%	+20.0%
B. Commissions and cash discounts	*+0.0%*	*–1.2%*

STRUCTURE OF THE PROFIT AND LOSS ACCOUNT

BOX 3

The Central Balance Sheet Data Office Quarterly Survey (CBQ) provides valuable information for gaining a better knowledge of the activity of firms and analysing developments in their main costs and in their profits, margins and profitability. For its part, the Central Balance Sheet Data Office Annual Survey (CBA) allows more varied and deeper analyses, but with the drawback of a greater time lag in the availability of data than the CBQ. Therefore, these two databases can be considered complementary, to the point that a link can be established between them by constructing a standard profit and loss account that is compatible with the two approaches (precisely the format used in Table 1 of this article). Obviously, this link requires the detail in the CBA to be reduced to the level of that available in the quarterly survey. However, foregoing this detail does not significantly detract from the conclusions that can be drawn from the main captions and only affects certain items of a residual nature. This is confirmed in the following table, which sets out the structure of the 2006 profit and loss account with all the CBA headings. The captions not available in the quarterly survey had been signalled by preceding them with a letter. As can be seen, all these captions are quantitatively very minor compared with the other expenses and revenues, which are available in both the CBA and the CBQ.

DATABASES	CBA 2006
Number of corporations	6,690
Total national coverage	25.9%
PROFIT AND LOSS ACCOUNT	
1. VALUE OF OUTPUT (including subsidies)	100.0
Of which:	
1.1 Net amount of turnover and other operating income	141.7
1.2 (–) Consumption (wholesale and retail trade and real estate sectors)	44.1
1.a Other items (not available in CBQ)	2.4
2. INPUTS (including taxes)	69.2
Of which:	
2.1 Net purchases	42.0
2.2 Other operating costs	26.6
2.b Other items (not available in CBQ)	0.6
S.1. GROSS VALUE ADDED AT FACTOR COST (1 – 2)	30.8
3. Personnel costs	15.7
S.2. GROSS OPERATING PROFIT (S.1– 3)	15.1
4. Financial revenue	3.8
5. Financial costs	3.3
6. Depreciation and provisions	6.0
S.3. ORDINARY NET PROFIT (S.2 + 4 – 5 – 6)	9.6
7. Capital gains and extraordinary income	7.5
8. Capital losses and extraordinary expenses	2.7
9. Other (provisions and taxes)	5.0
S.4. NET PROFIT (S.3 + 7 – 8 – 9 – 10)	9.4

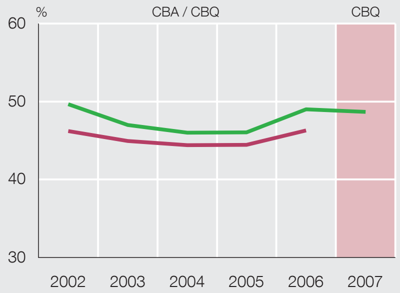
SOURCE: Banco de España.

As can be seen, in 2006 and in the first three quarters of 2007, growth of financial costs was due to the inflow of new financing and the impact of successive interest rate rises on the financial costs borne by corporations (which are approximated by the R.2 ratio), this impact becoming more significant in the first three quarters of 2007. The first effect (the demand for external sources of financing) stems from sizeable share purchase transactions undertaken by large multinationals in 2006 and 2007 Q1-Q3 (the figure for the latter period, since it is compared with 2006 Q1-Q3, also includes the impact of certain substantial transactions undertaken in 2006 Q4). These acquisitions, which were undertaken as part of global strategies to take control of companies and diversify into other sectors of activity (in Spain and abroad), required substantial additional borrowing and consequently resulted in higher debt levels. The ratio E1 (interest-bearing borrowing to total net assets - see Chart 4) confirms this upward

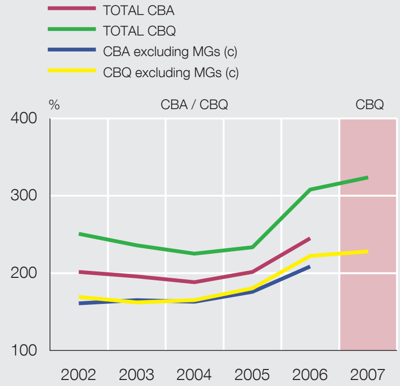
DEBT RATIOS

CHART 4

E1. INTEREST – BEARING BORROWING / NET ASSETS (a)
Ratios



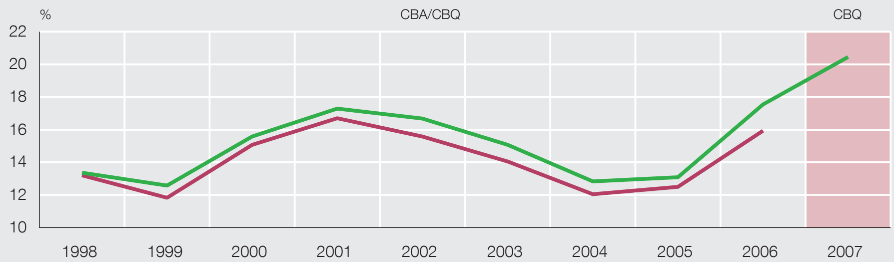
E2. INTEREST – BEARING BORROWING/GVA (b)
Ratios



	2002	2003	2004	2005	2006	2007
CBA	46.2	44.9	44.4	44.4	46.3	
CBQ	49.7	47.0	46.0	46.0	49.0	48.7

	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	188.4	201.4	244.9	
CBQ	250.7	235.9	225.0	233.3	308.0	323.8
CBA excl. MGs	161.1	165.0	163.0	175.7	208.4	
CBQ excl. MGs	169.3	162.2	164.8	180.2	222.0	227.9

INTEREST BURDEN
(Interest on borrowed funds) / (GOP + financial revenue)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.0	12.5	15.9	
CBQ	13.4	12.6	15.6	17.3	16.7	15.1	12.8	13.1	17.5	20.4

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. Excluding large corporations in the construction sector.

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)		
	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3
Total	8.3	7.5	9.1	6.2	7.9	3.8	10.0	4.5	9.0	8.6	7.9	7.9	4.9	4.7	4.1	3.5
SIZE																
Small	2.1	—	—	—	4.8	—	—	—	6.8	—	—	—	2.7	—	—	—
Medium	13.1	7.1	10.1	4.5	22.3	18.0	20.1	-2.6	8.0	7.1	7.1	7.5	4.2	3.5	3.7	3.3
Large	8.1	7.5	9.0	6.3	7.0	3.4	9.8	4.8	9.1	8.8	8.0	7.9	5.0	4.9	4.2	3.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	5.8	4.4	10.4	-1.2	-3.1	-1.9	3.5	-4.4	9.7	9.7	9.4	8.1	6.0	6.1	5.8	4.0
Industry	9.7	14.2	7.2	26.0	33.6	32.5	17.3	45.6	9.9	8.9	7.8	9.6	5.8	4.9	3.9	5.5
Wholesale and retail trade	7.5	4.5	7.8	1.1	12.6	7.6	11.0	0.0	10.9	8.1	7.9	7.4	6.5	4.4	4.3	3.1
Transport and communications	3.4	5.1	5.5	5.9	-3.7	8.3	9.5	10.9	7.4	11.8	12.2	13.3	3.3	7.6	8.1	8.9

SOURCE: Banco de España.

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

trend in 2006, whereas in 2007 there are no noticeable changes since the most important acquisition in 2007 was financed equally by borrowed funds and by a share issue and, consequently, did not significantly alter the proportion between equity and borrowed funds. However, the ratio E2, which analyses the capacity of firms to meet debt repayments with ordinary surpluses generated by their operating activity (GVA was selected in this ratio), was not affected by the above-mentioned phenomenon and showed a clear upward trend in 2006 and in 2007. In any event, these developments do not seem to have affected corporate investment decisions (especially those of the companies directly involved in the above-mentioned investments), since the available data seem to show a stepping up of investment processes. Accordingly, the approximation used by the CBQ to gauge the change in gross fixed capital formation at sample firms shows a positive trend; investment in tangible fixed assets increased by 10.4% in 2007 Q1-Q3. This means a higher pace of investment has been recouped following the moderate rises recorded in 2006, both in the quarterly data (3.4%) and in the data obtained from the broader sample used by the CBA for the same year (in this database gross fixed capital formation grew 1.8%).

There was pronounced growth in financial costs and revenues in the two periods considered, although their combined effect was different in each. In 2006 revenue exceeded costs because of the strong growth in dividends received, mainly from foreign subsidiaries. By contrast, in 2007, although dividend receipts continued to grow, it was at a slacker pace than growth in costs and the latter exceeded revenue. Lastly, the rates of change in ordinary net profit remained positive in the two periods (7.9% in 2006 and 4.5% in 2007), although they tended to slow in both cases with respect to previous periods. In any event, it should be noted that the growth of ONP, described above, together with that of financial costs (the numerator used to calculate the return on investment), was sufficient to ensure that profit levels remained high. In 2006 they were slightly higher than those of the previous year (9% as against 8.7%). However, the quarterly data underlined that the return on investment was contained at 7.9% in 2007 Q1-Q3, the same as in the corresponding period of the previous year. The ratio approximating

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)	
		06 Q1 - Q3	07 Q1 - Q3	06 Q1 - Q3	07 Q1 - Q3
Number of corporations		847	765	847	765
Percentage of corporations by profitability bracket	R <= 0%	23.2	23.1	27.1	27.7
	0% < R <= 5%	22.8	19.5	16.8	13.8
	5% < R <= 10%	15.8	17.5	11.9	12.8
	10% < R <= 15%	11.4	11.2	8.5	8.9
	15% < R	26.9	28.7	35.8	36.8
MEMORANDUM ITEM: Average return		8.0	7.9	12.0	11.3

SOURCE: Banco de España.

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

the cost of debt (R.2) continued the upward path it commenced in 2005 and climbed to 4.1% in 2006 (on CBA data) and to 4.4% in the period to September 2007 as a direct consequence of interest rate rises in these years. Nevertheless, the difference between ROI and financial costs held at high positive levels in 2006 (4.9) and in 2007 Q1-Q3 (3.5). However, the figure for 2007 is lower than that for the same period in 2006 (4.1), showing the slowdown in productive activity and the rise in financial costs.

Lastly, the main conclusion to be drawn from an analysis of extraordinary items is that in 2006 substantial gains were recorded on fixed-asset sales (mainly shares), which caused the growth rate of final net profit to rise to 39.8% and final net profit as a percentage of GVA to reach 30.6% (the highest level in the entire annual series). However, in 2007 there was a widespread decline in these items in comparison with the exceptional extraordinary results generated the previous year. Therefore, the rate of change in net profit for 2007 (which is lower than in 2006, albeit still slightly positive) would seem to be in line with the change in other periodic and recurring variables in the profit and loss account which were discussed above. In any event, net profit as a percentage of value added shows the ongoing positive position of non-financial corporations and stood at 35.7% in the first three quarters of 2007, one of the highest levels in the quarterly series (it rose to 39.5% in the same period in 2006).

In conclusion, following a clearly expansionary year in 2006, in 2007 Q1-Q3 Spanish firms experienced a slight slowdown in their activity which is affecting wholesale and retail firms more directly as a result of slacker private consumption. These developments seem to have passed through to other surpluses, marginally slowing down job creation in a setting of continued moderate wage growth. Additionally, there is the rise in debt levels associated with sizeable share purchase transactions against a backdrop of gradual increases in financial costs. All this did not prevent firms from continuing to show generally high buoyancy, of which the industrial sector is the principal example, generating high profits and notable rates of return.

19.11.2007