RESULTS OF NON-FINANCIAL CORPORATIONS IN 2007 AND IN THE FIRST THREE QUARTERS OF 2008

Results of non-financial corporations in 2007 and in the first three quarters of 2008

Overview[1]

Following the practice of previous years, the January edition of the *Economic Bulletin* gives the results for 2007 of the non-financial corporations contributing to the Central Balance Sheet Data Office Annual Survey (CBA) and those for 2008 Q1-Q3 of the corporations contributing to the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter are a preliminary indicator of the results for the full year, which the CBQ will release in March 2009, and that will subsequently be completed with the presentation of the CBA results in November of that year. It is worth bearing in mind that the CBQ is a sample which mainly includes the results of large Spanish non-financial corporations. In contrast, sectors in which activity is highly fragmented are covered better by CBA samples. For this reason, the two databases may provide different but complementary results, especially at certain times. Specifically, the lower coverage of construction and real estate corporations in the quarterly survey accounts for why in some of its variables —for example, productive activity and employment— CBQ data show less sharply than other sources the slowdown in certain sectors recorded in 2008 Q1-Q3.

The CBA data for 2007 (see Table 1 and Chart 1) generally confirm the data previously anticipated by the CBQ for 2007. Thus, the slowdown in productive activity in 2007 as a whole resulted in a decline of just under 3 pp in the rate of change of gross value added (GVA), which grew by 5.1% in comparison with 8% in 2006. These developments did not have the same impact on the various production sectors; in practice, those whose activity fell with respect to 2006 are linked to private consumption (the wholesale and retail sector) and construction (real estate firms, construction supply industries and construction firms themselves). The performance of these sectors contrasts with the positive performance of other industries and of transport and communications corporations in a setting of stable oil prices for 2007 as a whole.

The data provided by the CBQ for 2008 Q1-Q3 underline the sharp slowdown in productive activity, which has affected a growing number of corporations and sectors of activity: in 2008 Q1-Q3, GVA grew 1% in nominal terms, considerably lower than the rate for the same period in 2007 (4.6%). Further, the quarterly profile of the series shows the gradual worsening of this variable, which has pushed the sample aggregate into negative figures in 2008 Q3. Noteworthy in this context is the decline posted in wholesale and retail and industrial sectors (see Box 1), which have been highly affected by less buoyant private consumption and investment and also, in the case of industry, by the hike in energy costs which resulted in strong declines in the GVA of the aggregates for the two sectors (–4.4% and –6%, respectively). Conversely, the GVA of the energy sector rose in 2008 Q1-Q3.

The performance of personnel costs was mixed in 2007 and in 2008 Q1-Q3. In 2007 personnel costs slowed slightly (their rate of change decreased from 6.9% in 2006 to 6.1% in 2007), due to the slowdown in job creation and average compensation. However, in 2008 Q1-Q3, the higher growth in personnel costs (up from 4.4% in 2007 to 5% to September 2008) is

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1. This article provides information on the results obtained by the non-financial corporations reporting to the annual database (CBA) to 2007 and the quarterly database to 2008 Q3. The annual information used is a summary of that included in the Banco de España publication *Central de Balances. Resultados anuales de las empresas no financieras, 2007,* which was released to the press on 28 November 2008. The annual survey, to which 6,766 corporations reported in 2007, represents 27.4% of the total activity of the non-financial corporations sector, while the quarterly survey, which contains information on the 720 corporations that, on average, have reported their data to 2008 Q3, account in terms of GVA for 12.8% of the sectoral total.

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

DATABASES	CBA STRUCTURE	CBA		CBQ (a)		
	2007	2006	2007	07 Q1-Q4/ 06 Q1-Q4	74 Q1-Q3/ 06 Q1-Q3	08 Q1-Q3/ 07 Q1-Q3
Number of corporations		9,217	6,766	834	850	720
Total national coverage		33.5%	27.4%	14.3%	14.6%	12.8%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	*100.0*	*9.6*	*7.3*	*5.9*	*4.2*	*9.7*
Of which:						
— Net amount of turnover and other operating income	138.6	9.7	5.3	4.1	1.7	8.7
2. INPUTS (including taxes)	69.2	10.3	8.3	6.1	4.0	14.3
Of which:						
— Net purchases	*41.0*	*12.5*	*7.9*	*3.5*	*2.6*	*19.7*
— Other operating costs	*28.0*	*8.0*	*5.1*	*8.1*	*8.5*	*6.5*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	30.8	8.0	5.1	5.4	4.6	1.0
3. Personnel costs	15.6	6.9	6.1	4.7	4.4	5.0
S.2. GROSS OPERATING PROFIT [S.1 – 3]	15.2	9.3	4.2	5.9	4.7	-1.8
4. Financial revenue	4.4	17.5	31.5	32.4	13.6	26.9
5. Financial costs	4.2	34.9	38.7	35.1	37.4	28.7
6. Depreciation and operating provisions	5.6	9.5	-1.0	-1.2	-0.4	-1.4
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.8	5.2	5.9	10.5	0.2	-3.6
7. Extraordinary revenue and expenses	4.8	-23.7	75.9	77.4	-24.5	107.1
8. Other (net provisioning and income tax)	6.1	46.5	43.8	58.6	-11.4	-11.9
S.4. NET PROFIT [S.3 + 7-8]	8.4	18.5	9.8	13.4	-2.8	25.7
NET PROFIT/GVA (S.4/S.1)		24.9	27.5	38.5	34.5	43.1
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	9.0	8.9	8.9	7.8	7.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	4.0	4.8	4.5	4.4	5.1
R.3 Ordinary return on equity (before taxes)	S.3/E	13.2	12.5	13.2	11.0	9.7
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	5.0	4.1	4.4	3.4	2.5

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. The items 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 (which is not specified in the table and is numbered as 5.1) and not commissions or cash discounts.
Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 8.

almost exclusively due to the gradual rise in average compensation. Thus, while average compensation grew 3.2% in 2007, a very similar rate to that for 2006, the CBQ data to September 2008 indicate that this variable has increased 0.6 pp to 4.2% with respect to the same period in 2007. The quickening of wage costs in 2008 can be seen in practically all sectors of activity, which could be due to the application of indexation clauses, against a backdrop of rising prices. Employment data provided by reporting firms show a slight slowdown in 2007 (when CBA workforces grew 2.8%, 0.5 pp less than in the previous year) and tended to flag in 2008 Q1-Q3 (0.8%). These developments in employment in the CBQ during 2008 do not reflect the decline included in other statistical sources, since the CBQ provides lower coverage of medium and small corporations and sectors which, like construction and real estate, have been recording a poorer performance for this variable in recent quarters.[2]

2. The completion of restructuring processes undertaken during 2007 by certain large CBQ corporations also contributes to the developments in employment in this database.

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

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,139	9,217	6,766	—
	CBQ	837	830	811	830	834	720
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.8	33.5	27.4	—
	CBQ	15.0	15.0	14.6	14.5	14.3	12.8

SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 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 2008 relative to the same period in 2007.

As a result of the slowdown in activity, which was only partially offset by that in personnel costs, gross operating profit (GOP) decelerated sharply in 2007 and grew by 4.2%, as against 9.3% in 2006. This trend intensified in 2008 Q1-Q3, when the rate of change of GOP turned negative and stood at –1.8%. Financial revenue and costs continued to grow in a setting of higher interest rates, greater borrowing by companies and strong dividends received by large Spanish multinational groups from their foreign subsidiaries. This growth was sharper in 2007 (38.7% and 31.5%, respectively, in the CBA) than in 2008 (28.7% and 26.9%). In 2007, due to the trend in financial revenue and costs, together with lower depreciation and operating provisions, ordinary net profit improved notably and grew 5.9% (0.7 pp up on the previous year). In contrast, in

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

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SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 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 for the first three quarters of 2008 in relation to the same period in 2007.

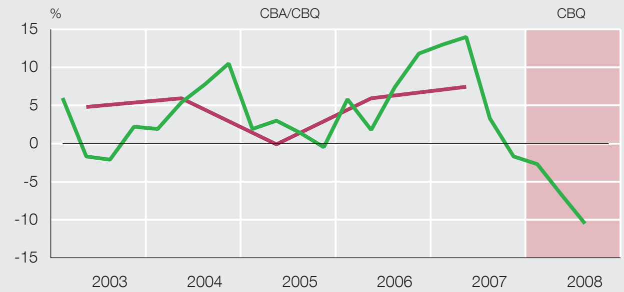
2008 Q1-Q3 the pace of growth of financial revenue was lower than that of financial costs and did not offset the slowdown in productive activity, whereby ONP posted a decline of –3.6%.

Return on investment and return on equity were high in 2007, although they showed a slight slowing profile with respect to 2006 (8.9% in comparison with 9%, and 12.5% in comparison with 13.2%, respectively). This trend continued and stepped up in 2008: return on investment stood at 7.6%, 0.2 pp lower than in 2007, and return on equity deteriorated to a greater extent, dropping from 11% in 2007 to 9.7% in 2008, due to the 0.7 pp rise in the cost of borrowing. This trend in profit ratios, coupled with higher financial costs, is reflected in a gradual re-

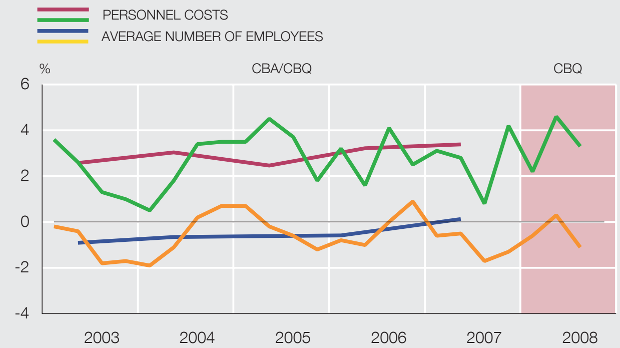
There was a sharp change of trend in the productive activity of industrial firms in the two periods analysed in this article. Following 2007, a clearly expansionary year, in which GVA increased by 7.5%, the first three quarters of 2008 saw a fall in industrial activity, with GVA down 6%. This far-reaching adjustment was reflected in practically all the sub-sectors that make up the aggregate, affected by the reduced buoyancy of investment in capital goods, the increase in energy costs and the impact of the crisis in construction on related industrial sub-sectors, such as glass, ceramic and metal products, whose GVA fell by 17.8%. At the other extreme, the electrical, electronic and optical equipment sector is the only one that managed to achieve high GVA growth during 2008 Q1-Q3 (16.6%) and higher growth than in the previous year. As regards the aggregate as a whole, net external demand (exports less imports) had a positive impact in 2008 (see Table 3), mainly as a consequence of the sharp deceleration in imports in this period. For their part, the personnel costs of industrial firms increased by 3.4% in 2007, a rate that remained unchanged in the first three quarters of 2008, mainly on account of the acceleration in average compensation, to 3.8%, up half a percentage point from 2007, against a background of falling employment in both the periods analysed. The behaviour of productive activity described above was passed through to the ordinary surpluses, so that these displayed a positive trend in 2007 and a contractionary one in 2008. In the first nine months of 2008 significant declines were recorded in both gross operating profit (–16.1%) and ordinary net profit (–40.7%), the latter also being affected by the strong growth in the net financial burden (financial costs less financial revenue) in 2008. The trend in ordinary net profit combined with that in financial costs resulted in an increase in the return on investment in 2007, to 9.8%, almost one percentage point higher than in the previous year. On the other hand, during the first three quarters of 2008, this ratio fell significantly, to 5.9%, well below the 9% level recorded in the same period of the previous year. Meanwhile, financial costs, as measured by the ratio that approximates the cost of borrowing, continued to grow without interruption during the two periods in question, to stand at 5% in 2008 Q3. The spread between the return on investment and financial costs summarises the situation of the industrial sector: while it held steady in 2007, thanks to the positive performance of activity (4.8 in 2007, as against 4.7 the previous year), during the first nine months of 2008, in parallel with the slowdown in industrial activity, the spread fell to 0.9, a value not recorded since 1996. The outlook for industrial firms is thus marked by a loss of momentum in investment and a slowdown, that is affecting the world economy as a whole, with a significant reduction in surpluses and profitability in 2008 Q1-Q3.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

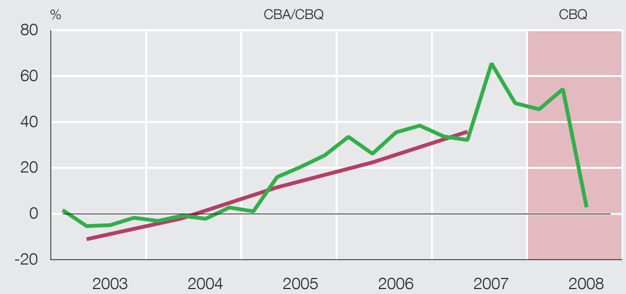
GROSS VALUE ADDED AT FACTOR COST
Rate of change



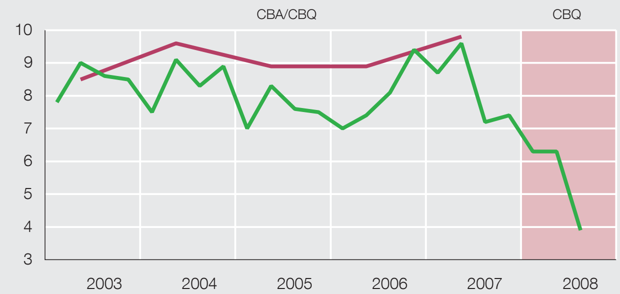
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2003				2004				2005				2006				2007				2008			
Number of corporations	CBA	2,624				2,530				2,475				2,458				1,835				—			
	CBQ	367	362	354	346	353	343	336	334	325	313	306	298	321	305	292	283	315	302	285	277	280	257	195	—
% of GDP of the sub-sector industrial corporations	CBA	28.5				29.9				30.8				29.8				24.2				—			
	CBQ	18.8	19.1	17.1	17.8	20.0	20.3	18.3	19.7	19.5	20.2	17.2	17.7	18.9	17.9	16.4	17.6	19.7	19.7	15.7	16.3	16.4	15.3	8.8	—

SOURCE: Banco de España.

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)		
	2007	07 Q1-Q4	07 Q1-Q3	08 Q1-Q3	2007	07 Q1-Q4	07 Q1-Q3	08 Q1-Q3	2007	07 Q1-Q4	07 Q1-Q3	08 Q1-Q3	2007	07 Q1-Q4	07 Q1-Q3	08 Q1-Q3
Total	5.1	5.4	4.6	1.0	2.8	0.7	0.8	0.8	6.1	4.7	4.4	5.0	3.2	4.0	3.6	4.2
SIZE																
Small	3.9	—	—	—	-1.1	—	—	—	4.8	—	—	—	6.0	—	—	—
Medium	7.1	6.6	5.0	2.5	2.0	1.6	1.4	-0.6	7.2	5.3	4.8	4.9	5.1	3.6	3.4	5.5
Large	5.0	5.3	4.6	0.9	3.1	0.7	0.7	0.9	6.0	4.7	4.4	5.0	2.8	4.0	3.7	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	1.3	2.4	-0.9	10.1	0.6	-0.3	-0.5	1.7	5.1	4.1	2.7	5.5	4.5	4.4	3.2	3.7
Industry	7.5	7.3	10.3	-6.0	0.1	-1.0	-0.9	-0.4	3.4	2.8	2.3	3.4	3.3	3.8	3.2	3.8
Wholesale and retail trade	5.9	2.8	1.6	-4.4	2.9	0.4	0.4	2.1	6.5	1.3	1.7	5.5	3.6	0.9	1.3	3.3
Transport and communications	7.0	5.8	5.6	-0.1	1.2	-0.2	-0.1	-0.9	5.4	5.4	5.1	3.6	4.1	5.6	5.2	4.5

SOURCE: Banco deEspaña.

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

duction of the differential between the two ratios which fell from 5 in 2006 to 4.1 in 2007 and to 2.5 in 2008 Q1-Q3.

Lastly, the items making up extraordinary results had a positive influence on corporations' final result in the two periods under analysis in this article. As for 2007, growth of extraordinary revenue, mainly due to the gains generated on disposals of essentially financial assets, triggered a 9.8% rise in net profit which reached a high of 27.5% of GVA. In 2008 Q1-Q3, extraordinary transactions, as indicated in the article on Q2 data, continued and even had a greater effect, although they are highly influenced by the transactions of certain large Spanish multinational groups which cannot be extrapolated to the sample as a whole. These exceptionally high results have offset the negative trend in ordinary activity (reflected in the deceleration of GVA and the drop in ONP) and spurred 25.7% growth in net profit, with the result that its weight in GVA stood at 43.1%. If gains on extraordinary transactions were stripped out, net profit in 2008 Q1-Q3 would have tended to stagnate, which is more representative of the current business climate.

In short, the CBQ data to September 2008 confirm a sharp deceleration in productive activity which began to emerge over the course of the previous year and which has spread, affecting various sectors of activity. These developments, which are more pronounced in 2008, have been accompanied by a rise in average compensation and have resulted in a worsening of ordinary profit and lower job creation. Nevertheless, as a result of sizable gains from asset disposals, final profit increased in 2007 and remained at very high positive levels in 2008 Q1-Q3.

Activity

The data compiled by the CBSO show the gradual deceleration of corporate productive activity since 2006 which has stepped up in recent quarters. Consequently, growth in GVA, the main measurement of business activity, dropped from 8% in 2006 to 5.1% in 2007 and only 1% in 2008 Q1-Q3 (see Table 1 and Chart 1).

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 2008 Q1 - Q3	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		720	412	308
PERSONNEL COSTS				
Initial situation 07 Q1-Q3 (€m)		19,420.0	10,220.7	9,199.2
Rate 08 Q1-Q3/ 07 Q1-Q3		5.0	9.2	0.4
AVERAGE COMPENSATION				
Initial situation 07 Q1-Q3 (€)		33,481.7	33,406.2	33,566.1
Rate 08 Q1-Q3/ 07 Q1-Q3		4.2	3.8	4.6
NUMBER OF EMPLOYEES				
Initial situation 07 Q1-Q3 (000s)		580	306	274
Rate 08 Q1-Q3/ 07 Q1-Q3		0.8	5.2	-4.1
Permanent	Initial situation 07 Q1-Q3 (000s)	484	250	234
	Rate 08 Q1-Q3/ 07 Q1-Q3	0.8	4.1	-2.7
Non-permanent	Initial situation 07 Q1-Q3 (000s)	96	56	40
	Rate 08 Q1-Q3/ 07 Q1-Q3	1.1	10.5	-12.0

SOURCE: Banco de España.

The strong deterioration in activity has spread to a growing number of firms, affecting nearly all sectors in 2008 (see Table 2.A), although it has been particularly sharp in the retail and wholesale trade and industry, sectors which have been particularly hit by weaker consumption and investment. This trend was evident in the wholesale and retail sector as early as 2007, with the slowdown in the growth of its GVA to 5.9%, 2 pp less than in 2006. A steeper decline was then evident in 2008 Q1-Q3, with GVA falling at a rate of –4.4%. As a result of the contraction of activity in the industrial sector in 2008 Q1-Q3, its GVA posted a rate of –6%, in contrast with 2007, when it expanded by 7.5%. These developments were mainly due to the diminished buoyancy of investment in capital goods, the adverse impact of the crisis in the construction sector on the industrial sectors most closely related to it, and the effect on profit of higher oil and oil derivative prices in 2008. The foregoing occurred despite net external activity (exports net of imports, see Table 3) improving in 2008, due to the deceleration in imports which had a positive impact on GDP growth. The transport and communications sector, which also recorded positive growth in 2007 (up 7% in comparison with 3.8% in 2006), saw its GVA turn negative with a decline of –0.1% for 2008 Q1-Q3. The reasons for these developments include, in addition to the above-mentioned deterioration of private consumption, the negative impact of high fuel prices on transport corporations' costs. Lastly, in the two periods under consideration the performance of the energy sector was contrary to that of the other productive sectors; its GVA grew more moderately in 2007 (1.3%) and then expanded sharply in 2008 Q1-Q3 (by 10.1%), which is mainly accounted for by the behaviour of prices in its various constituent subsectors. Thus, the GVA of oil refining companies has shown exceptional growth in 2008 (24.4%), due especially to the strong impact of the upward trend in oil prices on its activity (see Chart 2). Also, electricity, gas and water utilities made a positive contribution to the growth of the energy sector in 2008, with increases in GVA of nearly 8%, which were not as sharp as for refining companies but were considerably higher than the 3.4% rise recorded in the same period of 2007 and the increase of 5% for 2007 as a whole. These developments were the result of the positive trend experienced by firms in the gas subsector and in the electricity sector, bolstered by lower production costs in recent quarters and the moderate growth in demand for electricity (2%, according to data from Red Eléctrica).

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

TABLE 3

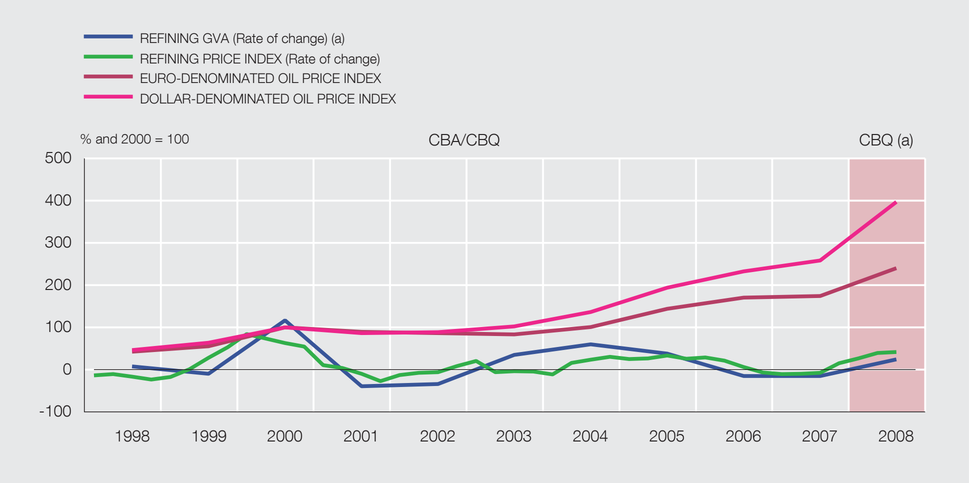
		CBA		CBQ (a)	
		2006	2007	07 Q1-Q3	08 Q1-Q3
Total corporations		6,766	6,766	720	720
Corporations reporting source/destination		6,766	6,766	674	674
Percentage of net purchases according to source	Spain	68.1	67.4	78.4	79.3
	Total abroad	31.9	32.6	21.6	20.7
	EU countries	*17.1*	*18.1*	*15.4*	*14.9*
	Third countries	*14.7*	*14.6*	*6.2*	*5.8*
Percentage of net turnover according to destination	Spain	84.6	85.0	91.3	90.9
	Total abroad	15.4	15.0	8.7	9.1
	EU countries	*10.1*	*10.0*	*6.4*	*6.8*
	Third countries	*5.3*	*5.0*	*2.3*	*2.3*
Change in net external demand (exports less imports), rate of change	Industry	-9.8	-17.0	-18.8	58.4
	Other corporations	-4.2	-6.7	-2.9	9.3

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



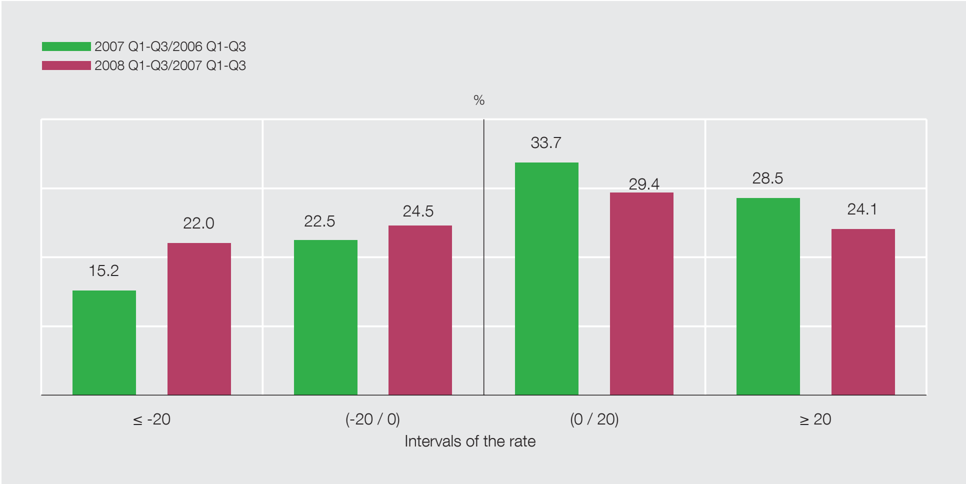
SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2008 data relate to the CBQ.

Finally, Chart 3 shows the distribution of corporations according to the rate of change of GVA, irrespective of their size or economic sector. The main conclusion to emerge is a sharp reduction in the percentage of corporations posting growth in this variable. Thus, while 62.2% of corporations recorded GVA growth in the first three quarters of 2007, the percentage fell to 53.5% in the same period in 2008. Furthermore, the segment which experienced the largest change was that including corporations with a decline of more than 20% in their GVA; this group comprised 22% of the corporations in 2008 Q1-Q3 in comparison with 15.2% in the same period of 2007. The foregoing confirms the deterioration of productive activity affecting most corporations in 2008.

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

CHART 3



SOURCE: Banco de España.

Employment and personnel costs

In 2007 the rate of change in personnel costs was slightly lower than in the previous year (6.1%, in comparison with 6.9% in 2006) due to the slowdown in job creation and average compensation. In fact, employment at CBA sample firms grew by 2.8% in 2007, as opposed to 3.4% in 2006, and average compensation rose by 3.2%, slightly down on 3.4% in 2006. Conversely, personnel costs in the CBQ data to September 2008 have quickened by 0.6 pp to 5% with respect to the first three quarters of 2007. This increase is due to the rise in average compensation, against a backdrop of less buoyant staff levels at the corporations making up the CBQ sample, which grew 0.8% in 2008 Q1-Q3, as occurred in the same period of the previous year. As discussed in the section on productive activity, it should be pointed out that the sectoral breakdown of the sample of CBQ firms is different to that of the total population. In fact, the lower representation of construction and real estate activities in the CBQ sample, because they are more fragmented sectors, is reflected in a less negative trend in employment than that in other statistics (see Box 2 on developments at small corporations). Table 2.A, which provides a breakdown of variables by size, type and sector of activity, shows a fall in employment at small CBA sample firms in 2007 and in medium firms in 2008. However, this decline was not reflected in the data of Q1-Q3 of large CBQ firms.[3] Average compensation began to quicken during 2008, posting a 4.2% increase after the first three quarters and was 0.6 pp up on the same period in 2007.

At the level of sectoral analysis, it should be pointed out that in both years the wholesale and retail sector, despite the greater slowdown in job creation, remained more dynamic, due essentially to the positive impact of new store openings by large retail outlets. As a result, employment grew 2.9% in this aggregate in 2007, and 2.1% in 2008 Q1-Q3. The energy sector has also shown positive job creation since 2007, reflected in rates of increase of 0.6% in 2007 and 1.7% in 2008. That was mainly due to the change in trend experienced by electricity, gas and water utilities, which seem to have completed or notably eased off the staff restructuring of previous years due to the reorganisation and deregulation of this sector. Conversely, the industry and transport and communications sectors performed worse as regards job creation. Industry cut its workforce in 2008 Q1-Q3 by –0.4%; the transport and

3. Applications by some of these corporations for sizeable staffing adjustments help explain this result.

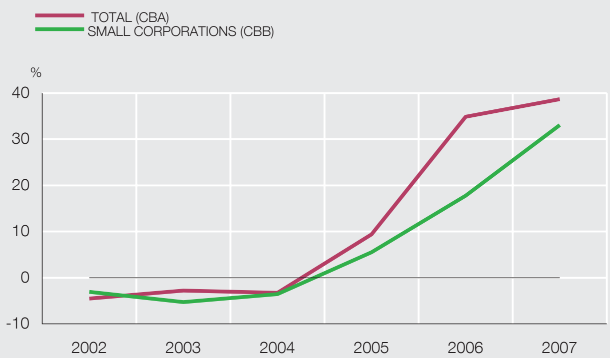
Large Spanish non-financial corporations are readily studied using the CBA and CBQ databases, since they are a segment of the population that is well represented in their samples. In order to make it easier to study small corporations (fewer than 50 employees) and the most disaggregated sectors of activity in which this size segment is predominant (services and construction for instance), the Central Balance Sheet Data Office has an agreement with the mercantile registries that enables it to maintain a database (CBBE/RM or CBB) using the accounts lodged with them. This box provides a summary of the annex to the annual report of the Central Balance Sheet Data Office (published at the same time as this article), which addresses the scope of this agreement and the overall results of Spanish SMEs. The information on this aggregate refers to a large number of corporations (see adjoining chart; almost 560,000 in 2006 and somewhat more than 100,000 in 2007, with data still being received for the latter period), which helps make up for the lag with which this information is obtained. The two annual databases (CBA and CBB) complement one another, since they relate to different segments of the population, giving rise to good coverage of the population as a whole. In 2006 they covered more than 52% of total GVA (33.5% in the case of the CBA and 19.4% in that of the CBB).

According to the results of the CBB, there was a clear slowdown in the activity of small Spanish corporations in 2007, since their GVA growth fell to 6.6%, almost two percentage points down from 2006 (8.4%). This loss of momentum, similar to that recorded by the CBA for the same period, was apparent across all sectors of activity, although the greatest losses were seen in construction, real estate and

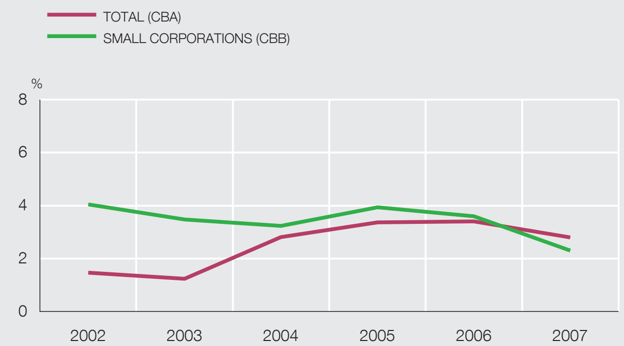
RESULTS OF SMALL CORPORATIONS

GROSS VALUE ADDED AT FACTOR COST
(Rate of change)

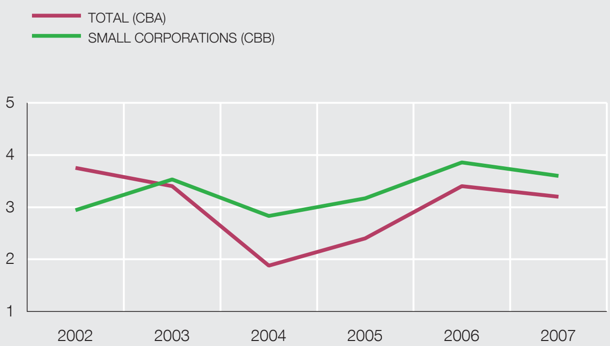
FINANCIAL COSTS
(Rate of change)



EMPLOYMENT
(Rate of change)



PERSONNEL COSTS PER EMPLOYEE
(Rate of change)



		2002	2003	2004	2005	2006	2007
Number of corporations	CBA	8,420	8,834	9,063	9,139	9,217	6,766
	CBB (a)	319,881	375,055	441,851	522,143	558,770	102,444
% of GDP of the sector non-financial corporations	CBA	29.0	29.9	32.3	32.8	33.5	27.4
	CBB (a)	13.8	14.8	16.4	18.8	19.4	3.6

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).

hotels and restaurants. For their part, personnel costs rose by 6.5%, a significantly lower rate than in 2006 (8.3%), basically on account of the slowdown in the employment data, from 3.6% to 2.3% in 2007, against a background of moderate growth in average compensation (3.8%), which was slightly lower than in the previous year. By sector, construction, real estate and hotels and restaurants recorded the sharpest slowdowns in employment creation in 2007, in line with the trend in activity in these sectors. As a consequence of the deceleration of productive activity, gross operating profit also posted smaller increases in 2007 than in the previous year (6.9%, as against 8.7%). Meanwhile, the financial costs of small corporations surged in 2007, by 33.1%, partly as result of interest rate rises being passed through to them. This, along with the increase in depreciation and operating provisions, which grew by 8.6% primarily as a consequence of the sharp increase in variations in operating provisions, explains why net ordinary profit posted a negative rate of -2.6% in 2007, in contrast to the rise of 10% the previous year. The ordinary return on equity (the only ratio that can be calculated using CBB information) stood at 8.1%, only 0.1 pp less than in 2006. In most sectors the trend was similar, with returns holding steady or even rising slightly, except in construction and real estate, the only ones in which this ratio was lower in 2007, as a consequence of the worsening that began to be displayed by activity in these productive sectors during that year.

In short, there was a slowdown in 2007 in the productive activity of the aggregate of small corporations that make up the CBB, which reduced their capacity to generate surpluses and create new jobs, in comparison with 2006. This negative performance, which occurred in most sectors, was especially marked in construction and real estate.

communications sector destroyed employment in 2008 (–0.9%), mainly due to the sizeable staff reductions which certain large firms in this sector have been forced to make in recent years.

The analysis of average compensation for the various sectors of activity in 2007 indicates that the behaviour of practically all sectors remained uniform, with moderate growth similar to that recorded the previous year. The transport and communications sector, however, was an exception since in 2007 its wage costs increased by 4.1%, exceeding the 3.6% growth of the previous year, owing to the impact of variable compensation on certain large corporations in the industry. The CBQ data for 2008 Q1-Q3 show a quickening of personnel costs per employee in nearly all sectors of activity, which is probably related to the existence of wage indexation clauses, against a backdrop of rising prices. Table 2.B, which provides a breakdown of corporations creating and destroying employment, confirms once again that at corporations reducing staff levels, wage costs have grown more sharply, by 4.6%, in comparison with the 3.8% rise in the aggregate of corporations increasing (or not changing) staff levels in 2008.

Profits, rates of return and debt

The deceleration of productive activity, together with the increase posted by personnel costs, led to slower growth in gross operating profit in 2007 and to its turning negative in 2008, compared with the immediately preceding periods (it fell from 9.3% in 2006 to 4.2% in 2007, and to –1.8% in 2008 Q1-Q3). In this setting, financial items continued to be significant in corporations' income statements, although in the most recent quarters analysed they have grown more moderately. Thus, financial costs and revenue rose in 2007 by 38.7% and 31.5%, respectively, while in 2008 Q1-Q3 their rates of change stood at 28.7% and 26.9%. The explanation for these developments is, firstly, the upward trend in interest rates, which has been passed through in the form of higher interest paid and received. An additional contributing factor, in the case of revenue, has been the dividends received from mainly foreign subsidiaries, which account for approximately half of the rise in financial revenue in the two periods analysed. Lastly, additional borrowing also influenced financial costs to a greater extent than in 2007, which is evident in the following table showing the impact of each of the causes mentioned on the growth of financial costs:

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

TABLE 4

	CBA		CBQ (a)			
	2006	2007	06 Q1 - Q4	07 Q1 - Q4	07 Q1 - Q3	08 Q1 - Q3
Number of corporations	9,217	6,766	830	834	850	720
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.5	26.2	27.0	27.6	27.4	27.7
Constant or rising	74.5	73.8	73.0	72.4	72.6	72.3
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	31.6	39.4	37.2	37.0	42.6
Constant or rising	69.1	68.4	60.6	62.8	63.0	57.4
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	42.6	39.2	48.0	46.0	44.4	50.5
Higher or same growth (b)	57.4	60.8	52.0	54.0	55.6	49.5

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 change in the CPI for the CBQ.

	2007/2006	*08 Q1-Q3/07 Q1-Q3*
Change in financial costs	**38.7%**	**28.7%**
A. Interest on borrowed funds	*41.9%*	*28.0%*
1. Due to the cost (interest rate)	+18.3%	+16.9%
2. Due to the amount of interest-bearing debt	+23.6%	+11.1%
B. Commissions and cash discounts	*–3.2%*	*–0.7%*

The above table confirms that growth of financial costs was due to the impact on financial costs of interest rate rises and additional borrowing. However, in the case of the latter, its importance has decreased since, while in 2007 this factor accounted for practically half of the increase, in 2008 Q1-Q3 its weight has fallen due to smaller inflows of borrowing at sample firms.

To supplement this analysis, Chart 4 provides the debt ratios. E1 (the ratio of interest-bearing borrowing to net assets) shows a very stable performance for 2007 and a slight decline in 2008 Q1-Q3. Furthermore, larger-scale financing transactions in 2007, linked to the taking of equity interests in other resident and non-resident non-financial corporations, were funded without upsetting the balance between borrowed funds and equity, which contributed to the debt level of corporations holding at very similar values throughout the period analysed. E2 (interest-bearing borrowing/GVA) shows a clear upward trend which is more obvious in recent quarters in 2008 and is accounted for to a greater extent by the decrease in GVA (the denominator of this ratio) than by growth in borrowing.

As a result of sharp growth in financial revenue in 2007 (31.5%), which was considerably higher than that of the previous year, and a decrease of depreciation and operating provisions, ordinary net profit (ONP) performed more positively in the period than gross operating profit (GOP) and grew by 5.9%, up 0.7 pp on 2006. In 2008, however, the increase in financial revenue moderated (26.9%) and was lower than that in financial costs, which accentuated the fall of GOP, causing ONP to contract by –3.6%.

The change in ONP and financial costs (which make up the numerator of the return on investment ratio) has meant a reduction in profitability levels both in 2007 and in 2008 Q1-Q3. Spe-

STRUCTURE OF THE PROFIT AND LOSS ACCOUNT

BOX 3

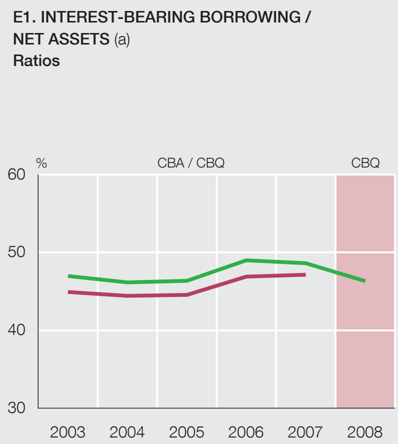
The Central Balance Sheet Data Office Quarterly Survey (CBQ) is a leading indicator of the main trends in train in the non-financial corporations sector, offering conjunctural information that enables developments in the activity, costs, surpluses and profitability of these corporations to be analysed. The Central Balance Sheet Data Office Annual Survey (CBA) offers more detailed information, providing for more in-depth and diverse analyses, but the drawback here is the greater lag with which its information is available compared with the CBQ. In any event, the two surveys pursue different but complementary ends, and they share a common basis. Indeed, it is possible to link the two databases constructing a uniform profit and loss account that is compatible with the two approaches (specifically, the format used in Table 1 of the present article). Evidently, this link requires that the details in the CBA be reduced to draw the sample closer to the details in the CBQ. However, not having these details does not entail any significant reduction in the conclusions that may be drawn from the key headings, and affects solely the items of a residual nature. This is confirmed by the adjoining table, which gives the structure of the profit and loss account for 2007, obtained drawing on all the items existing in the CBA. Those headings not available in the quarterly survey have been emphasised with a letter placed in front of them. As evidenced, all these headings are of rather insignificant quantitative importance compared with the other revenue and expenses items, which can be obtained both in the CBA and in the CBQ.

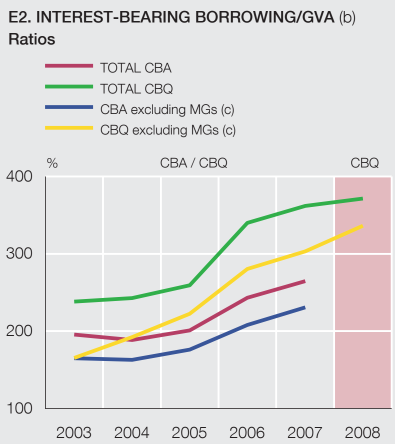
DATABASES	CBA 2007
Number of corporations	6,766
Total national coverage	27.4%
PROFIT AND LOSS ACCOUNT	
1. VALUE OF OUTPUT (including subsidies)	100.0
Of which:	
1.1 Net amount of turnover and other operating income	138.6
1.2 (–) Consumption (wholesale and retail trade and real estate sectors)	41.2
1.a Other items (not available in CBQ)	2.5
2. INPUTS (including taxes)	69.2
Of which:	
2.1 Net purchases	41.0
2.2 Other operating costs	27.4
2.b Other items (not available in CBQ)	0.8
S.1. GROSS VALUE ADDED AT FACTOR COST (1 – 2)	30.8
3. Personnel costs	15.6
S.2. GROSS OPERATING PROFIT (S.1– 3)	15.2
4. Financial revenue	4.4
5. Financial costs	4.2
6. Depreciation and provisions	5.6
S.3. ORDINARY NET PROFIT (S.2 + 4 – 5 – 6)	9.8
7. Extraordinary revenue and expenses	4.8
8. Other (provisions and taxes)	6.1
S.4. NET PROFIT (S.3 + 7 – 8)	8.4

SOURCE: Banco de España.

cifically, return on investment (R.1) stood at 8.9% in 2007 (down 0.1 pp on the previous year) and at 7.6% in 2008 Q1-Q3, a 0.2 pp decline in comparison with its level a year earlier. Since, at the same time, the cost of borrowing (approximated by the ratio of interest on borrowed funds to interest-bearing borrowing) rose in 2007 and in 2008, the ordinary return on equity (R.3) showed a decrease, which was slightly milder in 2007 (down from 13.2% to 12.5%) and clearer and more pronounced in 2008, when it fell from 11% to 9.7%. By sector, for 2008 only the energy sector increased its rates of return, for the reasons mentioned above on analysing productive activity, while in all other aggregates the same downward trend can be seen as in the sample total. The ratio that measures the cost of external financing (R.2) held on the same

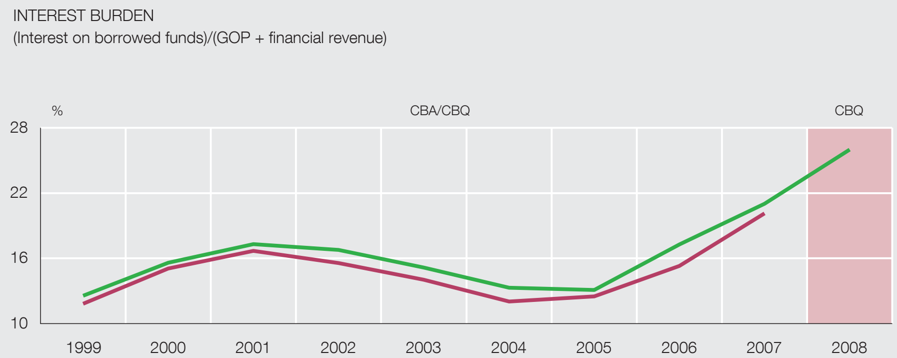
DEBT RATIOS





	2003	2004	2005	2006	2007	2008
CBA	44.9	44.4	44.5	46.9	47.1	
CBQ	47.0	46.1	46.3	49.0	48.6	46.3

	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	200.9	243.3	264.8	
CBQ	238.2	242.9	259.5	339.8	362.0	371.6
CBA excl. MGs	165.0	163.0	176.0	208.0	230.7	
CBQ excl. MGs	165.3	192.2	222.3	280.4	303.0	336.1



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CBA	11.8	15.1	16.7	15.6	14.0	12.0	12.5	15.3	20.1	
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.3	21.0	26.0

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)		
	2007	07 Q1 - Q4	07 Q1 - Q3	08 Q1 - Q3	2007	07 Q1 - Q4	07 Q1 - Q3	08 Q1 - Q3	2007	07 Q1 - Q4	07 Q1 - Q3	08 Q1 - Q3	2007	07 Q1 - Q4	07 Q1 - Q3	08 Q1 - Q3
Total	4.2	5.9	4.7	-1.8	5.9	10.5	0.2	-3.6	8.9	8.9	7.8	7.6	4.1	4.4	3.4	2.5
SIZE																
Small	2.2	—	—	—	0.5	—	—	—	6.8	—	—	—	2.0	—	—	—
Medium	7.0	8.2	5.2	-0.3	0.5	2.6	-0.8	4.2	8.2	7.8	7.7	7.4	3.4	3.4	3.6	2.5
Large	4.0	5.8	4.7	-1.8	6.5	10.7	0.2	-3.8	8.9	8.9	7.8	7.6	4.1	4.4	3.4	2.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	0.3	1.9	-1.8	11.3	-0.9	1.4	-5.0	10.3	8.7	9.0	8.4	8.5	4.4	4.8	4.3	4.0
Industry	12.7	12.5	19.8	-16.1	11.0	7.0	28.8	-40.7	9.8	8.8	9.0	5.9	4.8	4.3	4.5	0.9
Wholesale and retail trade	5.1	4.9	1.4	-18.2	1.9	0.1	-1.5	-6.7	10.7	7.2	7.0	5.9	5.9	2.5	2.5	1.7
Transport and communications	8.0	6.1	5.9	-2.6	28.1	12.5	10.6	-1.2	10.0	12.1	12.4	11.7	5.5	7.8	8.1	7.1

SOURCE: Banco de España.

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

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)	
		07 Q1 - Q3	08 Q1 - Q3	07 Q1 - Q3	08 Q1 - Q3
Number of corporations		850	720	850	720
Percentage of corporations by range of returns	R <= 0%	22.3	25.2	27.4	33.0
	0% < R <= 5%	20.2	22.6	13.9	14.5
	5% < R <= 10%	17.8	16.7	13.3	12.0
	10% < R <= 15%	10.9	9.7	9.3	8.4
	15% < R	28.8	25.7	36.1	32.1
MEMORANDUM ITEM: Average return		7.8	7.6	11.0	9.7

SOURCE: Banco de España.

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

path of continuous growth since 2004, as a result of the pass-through to corporations of the successive interest rate hikes. This led R.2 to rise to 5.1% in 2008 Q3, more than 0.5 pp higher than a year earlier, reaching pre-2002 levels. Consequently, the differential between the return on investment and financial costs narrowed by nearly 1 pp in 2007 to 4.1 and by nearly a further percentage point in the CBQ data for January-September 2008, when it fell from 3.4 in 2007 to 2.5. By sector of activity, the highest contraction in this profitability margin was centred in 2008 on industrial corporations (0.9) and on wholesale and retail corporations (1.7), which is indicative of how sharply the differential has deteriorated (see Table 5).

Finally, the performance of extraordinary results has helped improve that of net profit, thanks essentially to the positive contribution of certain sizable capital gains generated on (chiefly financial) asset sale transactions and to the favourable impact that lower extraordinary portfolio provisions has had on the final surplus. In 2007, the effect of the various extraordinary revenue and expenditure items allow profit to grow by 9.8%, outpacing ONP (5.9%), but below the increase in net final profit in 2006 (18.5%). In 2008, the existence of sizable capital gains on financial asset sales, generated above all in Q2, prompted an exceptional increase in net final profit, leading it to grow by almost 25.7%, which is in contrast to the performance of ordinary activity, measured by ONP, and once again confirms the high volatility of this surplus. If the two main operations transacted by Spanish multinational groups bearing on the period were stripped out, the rate of change of net profit would stand at 3.7%. If the final profit is expressed as a percentage of GVA, a similar trend can be seen, since the overall performance of both items (the increase in net profit and the slowdown in GVA) lead this ratio to stand in 2008 at 43.1%, the highest value recorded in the entire quarterly series but one which cannot be considered representative, since it is affected by the above-mentioned operations by some of the major multinational corporations in the sample.

15.11.2008.